中国建设银行
China Construction Bank

China Construction Bank Corporation

Annual Report 2018

A Better Bank
A Better Living

Corporate introduction

China Construction Bank Corporation, headquartered in Beijing, is a leading joint stock large-scale commercial bank in China. Its predecessor, China Construction Bank, was established in October 1954. It was listed on Hong Kong Stock Exchange in October 2005 (stock code: 939) and the Shanghai Stock Exchange in September 2007 (stock code: 601939). At the end of 2018, the Bank's market capitalisation reached US$207,179 million, ranking fifth among all listed banks in the world. The Group ranks second among global banks in terms of Tier 1 capital.

The Bank provides customers with comprehensive financial services, such as personal banking, corporate banking, investment and wealth management. With 14,977 banking outlets and 345,971 staff members, the Bank serves hundreds of millions of personal and corporate customers. The Bank has commercial banking branches and subsidiaries in 29 countries and regions with nearly 200 commercial banking entities at various levels, and subsidiaries in different industries and sectors, including fund management, financial leasing, trust, insurance, futures, pension and investment banking.

Adhering to the "customer-centric, market-oriented" business philosophy, the Bank is committed to developing itself into a bank with top value creation capability. The Bank strives to achieve the balance between short-term and long-term benefits, and between business goals and social responsibilities, so as to maximise the value for customers, shareholders, society and its associates.

Vision

Build a world class banking group with top value creation capability.

Missions

Provide better services to our customers, create greater value to our shareholders, build up a broader career platform for our associates, and assume full responsibilities as a corporate citizen.

Core Values

Integrity, Impartiality, Prudence, and Creation

Contents

For further information, please visit
www.ccb.com

DEFINITIONS

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"AI"	Artificial intelligence
"AML"	Anti-money laundering
"Bank"	China Construction Bank Corporation
"Baowu Steel Group"	China Baowu Steel Group Corporation Limited
"Basis Point"	A unit that measures the changes of interest and exchange rates, 1% of one percentage point
"Board"	Board of directors
"CBIRC"	China Banking and Insurance Regulatory Commission
"CBRC"	Former China Banking Regulatory Commission
"CCB Asia"	China Construction Bank (Asia) Corporation Limited
"CCB Brasil"	China Construction Bank (Brasil) Banco Múltiplo S/A
"CCB Europe"	China Construction Bank (Europe) S.A.
"CCB Financial Leasing"	CCB Financial Leasing Co., Ltd.
"CCB Futures"	CCB Futures Co., Ltd.
"CCB Indonesia"	PT Bank China Construction Bank Indonesia Tbk
"CCB International"	CCB International (Holdings) Limited
"CCB Investment"	CCB Financial Asset Investment Co., Ltd.
"CCB Life"	CCB Life Insurance Company Limited
"CCB London"	China Construction Bank (London) Limited
"CCB Malaysia"	China Construction Bank (Malaysia) Berhad
"CCB New Zealand"	China Construction Bank (New Zealand) Limited
"CCB Pension"	CCB Pension Management Co., Ltd.
"CCB Principal Asset Management"	CCB Principal Asset Management Co., Ltd.
"CCB Property & Casualty"	CCB Property & Casualty Insurance Co., Ltd.
"CCB Russia"	China Construction Bank (Russia) Limited
"CCB Trust"	CCB Trust Co., Ltd.
"Cloud Pet"	A gamified crowdsourcing application of information collection deployed in the Bank's mobile banking, which organises a simple information collection operation as a gamified challenge and offers the users the opportunity to take the challenge anywhere and anytime they like and get rewards for their participation
"Cloud Tax Loans"	Unsecured loans that the Bank provides to small and micro enterprises fully online with the help of big data technologies based on the borrowers' tax-related information
"Cloud-based customer service"	An umbrella term for enterprise-level remote financial customer services that the Bank provides to customers on a "comprehensive, cost-efficient, AI-assisted, multilingual and around-the-clock" basis through multiple channels and media, including phones, networks, mobile devices
"Company Law"	The Company Law of the People's Republic of China
"CSRC"	China Securities Regulatory Commission
"FITS®"	Financial Total Solutions (FITS®), a comprehensive investment banking brand of the Bank incorporating a host of financial products and tools
"Group", "CCB"	China Construction Bank Corporation and its subsidiaries

"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Huidongni"	A one-stop service platform built by the Bank for small and micro enterprises by using internet, big data and biometric technologies
"Huidouquan"	An innovative card acquiring product of the Bank that combines "all-type payment acceptance" with "scenario creations"
"Huijin"	Central Huijin Investment Ltd.
"Huishibao"	A high-end comprehensive settlement service platform of the Bank designed to meet the treasury management needs of niche markets and core enterprises in the supply chains
"IFRS"	International Financial Reporting Standards
"Jianguanyi"	A corporate treasury supervision service of the Bank designed to meet the needs of customers for monitoring their controlled accounts, including fund receipts and payments as well as balances
"Listing Rules of Hong Kong Stock Exchange"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Long Card Credit (Daiba)"	A credit card service of the Bank where one can apply for a virtual credit card and receive approval instantly through the Bank's mobile banking
"Long Fortune"	A fintech-based wealth management service platform of the Bank designed to deliver asset structuring, AI-assisted investment advisory, retail loans, liquidity management and AI-assisted insurance advisory services
"Long Pay"	A customer-centric and mobile web-based enterprise-level digital payment brand of the Bank, and also an umbrella term that refers to a group of all-inclusive and integrated payment and settlement product and service offerings
"Longyixing"	An AI-assisted mobile marketing and office platform for the Bank's marketing personnel in its outlets
"M&A"	Merger and acquisition
"Mega Asset Manager"	An asset management service platform of the Bank that offers end-to-end coverage, serves all the market segments and all customer types, and incorporates all scenarios.
"MOF"	Ministry of Finance of the People's Republic of China
"NDRC"	National Development and Reform Commission
"New financial instruments standard" or "IFRS 9"	*International Financial Reporting Standard No. 9 – Financial Instruments*, issued by International Accounting Standards Board in July 2014
"PBC"	The People's Bank of China
"PRC GAAP"	*Accounting Standards for Business Enterprises* and other relevant requirements promulgated by the MOF on 15 February 2006 and afterwards
"Public cloud"	A cloud-based model that is open to the public and provides convenient and pay-as-you-need computing resources (including network access, servers, storage, applications and services) through public networks
"RMB"	Renminbi
"SFO"	Securities and Futures Ordinance
"Shanfutong"	A dedicated service zone on e.ccb.com, the Bank's digital corporate mall, that builds on the existing supply chain relationships of the Bank's customers to provide electronic business convergence/collaboration and information sharing services, and also associated financial services, including settlement and reconciliation, to corporate customers and their upstream and downstream business partners
"Sino-German Bausparkasse"	Sino-German Bausparkasse Co., Ltd.
"State Council"	State Council of the People's Republic of China
"State Grid"	State Grid Corporation of China
"WMP"	Wealth Management Product
"Yangtze Power"	China Yangtze Power Co., Limited
"Yunongtong"	A fintech-based, county-level comprehensive service platform, as part of the Bank's inclusive finance strategy, designed to address issues such as lack of financial service in underprivileged county-level rural areas

IMPORTANT NOTICE

The Board and the board of supervisors of the Bank and its directors, supervisors and senior management warrant that the information contained in this report is truthful, accurate and complete and there are no false presentations or misleading statements contained in, or material omissions from, this report, and that they assume severally and jointly legal liability.

This annual report and results announcement have been reviewed and approved at the Board meeting of the Bank held on 27 March 2019. All 13 directors of the Bank attended the meeting in person.

The Board proposed a cash dividend of RMB0.306 per share (including tax) for 2018 to all the shareholders.

The financial statements of the Group prepared in accordance with PRC GAAP for the year of 2018 has been audited by PricewaterhouseCoopers Zhong Tian LLP, and the financial statements of the Group prepared under IFRS has been audited by PricewaterhouseCoopers. Both of them have provided audit report with unqualified audit opinion.

Mr. Tian Guoli, legal representative of the Bank, Mr. Xu Yiming, chief financial officer, and Mr. Fang Qiuyue, general manager of finance & accounting department, hereby warrant the truthfulness, accuracy and completeness of the financial statements in this annual report.

We have included in this report certain forward-looking statements with respect to our financial position, operating results and business development. These statements are based on current plans, estimates and projections. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements do not constitute a substantive commitment to investors. Please be fully aware of the risks and understand the differences between plans, projections and commitments.

The main risks faced by the Group include credit risk, liquidity risk, market risk, operational risk, reputational risk and country risk. We proactively took measures to manage various risks effectively. For more information, please refer to "Risk Management" in the "Management Discussion and Analysis".

This report is prepared in both Chinese and English. In the case of discrepancy between the two versions, the Chinese version shall prevail.

CORPORATE INFORMATION

Legal name and abbreviation in Chinese	中國建設銀行股份有限公司 (abbreviated as "中國建設銀行")
Legal name and abbreviation in English	CHINA CONSTRUCTION BANK CORPORATION (abbreviated as "CCB")
Legal representative	Tian Guoli
Secretary to the Board	Huang Zhiling
Contact address	No. 25, Financial Street, Xicheng District, Beijing
Company secretary	Ma Chan Chi
Principal place of business in Hong Kong	28/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong
Registered address, office address and postcode	No. 25, Financial Street, Xicheng District, Beijing 100033
Website	www.ccb.com
Hotline for customer service and complaints	95533
Contact details for investors	Contact telephone: 86-10-66215533 Facsimile: 86-10-66218888 Email address: ir@ccb.com
Newspapers for information disclosure	*China Securities Journal and Shanghai Securities News*
Website of the Shanghai Stock Exchange for publishing the annual report prepared in accordance with PRC GAAP	www.sse.com.cn
"HKEXnews" website of Hong Kong Exchanges and Clearing Limited for publishing the annual report prepared in accordance with IFRS	www.hkexnews.hk
Place where copies of this annual report are kept	Board of Directors Office of the Bank
Listing stock exchanges, stock abbreviations and stock codes	A-share: Shanghai Stock Exchange Stock abbreviation: 建設銀行 Stock code: 601939 H-share: The Stock Exchange of Hong Kong Limited Stock abbreviation: CCB Stock code: 939 Offshore preference share: The Stock Exchange of Hong Kong Limited Stock abbreviation: CCB 15USDPREF Stock code: 4606 Domestic preference share: Shanghai Stock Exchange Stock abbreviation: 建行優1 Stock code: 360030
Certified public accountants	PricewaterhouseCoopers Zhong Tian LLP Address: 11/F, PricewaterhouseCoopers Centre, Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai Signing accountants: Ye Shaokuan, Li Dan PricewaterhouseCoopers Address: 22/F, Prince's Building, Central, Hong Kong
Legal advisor as to PRC laws	Haiwen & Partners Address: 20/F, Fortune Financial Centre, 5 Dongsanhuan Central Road, Chaoyang District, Beijing
Legal advisor as to Hong Kong laws	Clifford Chance Address: 27/F, Jardine House, One Connaught Place, Central, Hong Kong
A-share registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch Address: 3/F, China Insurance Building, 166 East Lujiazui Road, Pudong New District, Shanghai
H-share registrar	Computershare Hong Kong Investor Services Limited Address: Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

UK magazine *The Banker*

Best Bank in China 2018

Ranked 2^{nd} in the "Top 1000 World Banks" in 2018

Hong Kong magazine *ASIAMONEY*

Best Bank in China 2018

Singapore magazine *THE ASIAN BANKER*

Best Large Retail Bank in China 2018

Achievement in Comprehensive Risk Management Award 2018

US magazine *GLOBAL FINANCE*

Most Innovative Bank for Trade Finance of the World

THE CHINESE BANKER magazine

Best Financial Innovation Award 2018

21^{ST} CENTURY BUSINESS HERALD

Asian Risk Management Awards for Excellence 2018

FINANCIAL NEWS

Best Bank for Inclusive Finance Service of Golden Dragon Award 2018

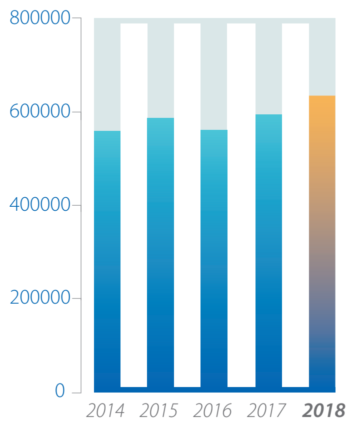
SINA FINANCE

The Bank of the Highest Investment Value

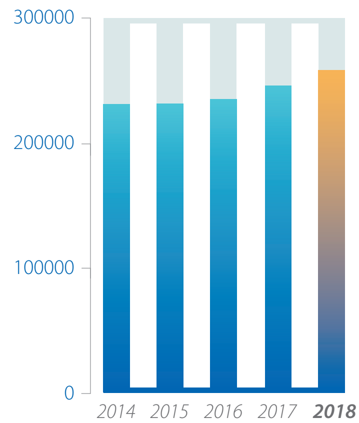
CHINA BANKING ASSOCIATION

Ranked 1^{st} among national commercial banks in "Gyroscope" Assessment in 2018

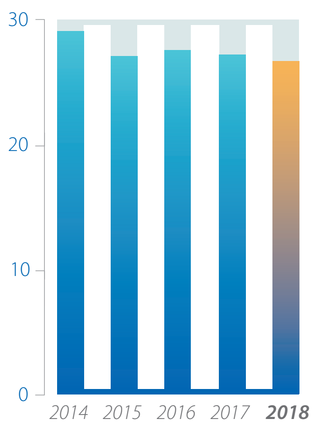
OPERATING INCOME
(millions of RMB)



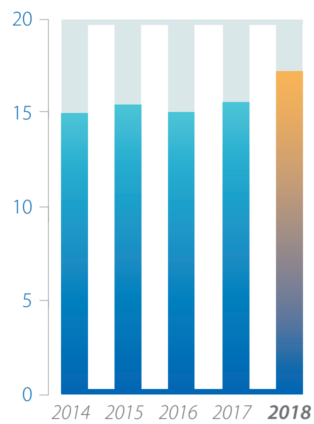
NET PROFIT
(millions of RMB)



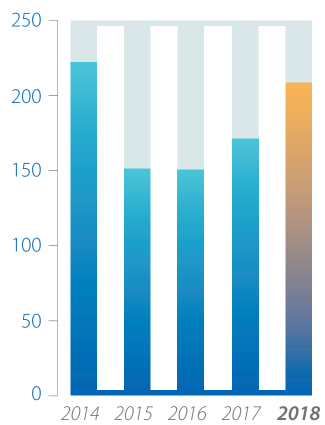
COST-TO-INCOME RATIO
(%)



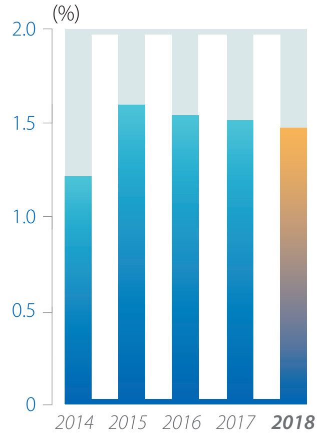
TOTAL CAPITAL RATIO
(%)



ALLOWANCES TO NPLs
(%)



NON-PERFORMING LOAN (NPL) RATIO
(%)



The financial information set forth in this annual report is prepared on a consolidated basis in accordance with the IFRS, and expressed in RMB unless otherwise stated.

(Expressed in millions of RMB unless otherwise stated)	2018	2017	Change (%)	2016	2015	2014
For the year						
Net interest income	486,278	452,456	7.48	417,799	457,752	437,398
Net fee and commission income	123,035	117,798	4.45	118,509	113,530	108,517
Other net non-interest income	24,459	23,777	2.87	23,552	15,405	10,825
Operating income	633,772	594,031	6.69	559,860	586,687	556,740
Operating expenses	(174,764)	(167,043)	4.62	(171,515)	(194,826)	(195,988)
Impairment losses	(150,988)	(127,362)	18.55	(93,204)	(93,639)	(61,911)
Profit before tax	308,160	299,787	2.79	295,210	298,497	299,086
Net profit	255,626	243,615	4.93	232,389	228,886	228,247
Net profit attributable to equity shareholders of the Bank	254,655	242,264	5.11	231,460	228,145	227,830
As at 31 December						
Net loans and advances to customers	13,365,430	12,574,473	6.29	11,488,355	10,234,523	9,222,897
Total assets	23,222,693	22,124,383	4.96	20,963,705	18,349,489	16,744,093
Deposits from customers	17,108,678	16,363,754	4.55	15,402,915	13,668,533	12,899,153
Total liabilities	21,231,099	20,328,556	4.44	19,374,051	16,904,406	15,492,245
Total equity	1,991,594	1,795,827	10.90	1,589,654	1,445,083	1,251,848
Total equity attributable to equity shareholders of the Bank	1,976,463	1,779,760	11.05	1,576,500	1,434,020	1,241,510
Share capital	250,011	250,011	–	250,011	250,011	250,011
Common Equity Tier 1 capital after deduction[1]	1,889,390	1,691,332	11.71	1,549,834	1,408,127	1,236,112
Tier 1 capital after deduction[1]	79,720	79,788	(0.09)	19,741	19,720	37
Tier 2 capital after deduction[1]	379,536	231,952	63.63	214,340	222,326	280,161
Total capital after deduction[1]	2,348,646	2,003,072	17.25	1,783,915	1,650,173	1,516,310
Risk-weighted assets[1]	13,659,497	12,919,980	5.72	11,937,774	10,722,082	10,203,754
Per share (In RMB)						
Basic and diluted earnings per share	1.00	0.96	4.17	0.92	0.91	0.91
Final cash dividend proposed after the reporting period	0.306	0.291	5.15	0.278	0.274	0.301
Net assets per share	7.65	6.86	11.52	6.28	5.78	5.01

1. Calculated in accordance with the relevant regulations of the *Capital Rules for Commercial Banks (Provisional)* and the advanced capital measurement approaches, and the regulations during the transitional period have been applicable.

Financial ratios (%)	2018	2017	Change +/(-)	2016	2015	2014
Profitability indicators						
Return on average assets[1]	1.13	1.13	–	1.18	1.30	1.42
Return on average equity	14.04	14.80	(0.76)	15.44	17.27	19.74
Net interest spread	2.18	2.10	0.08	2.06	2.46	2.61
Net interest margin	2.31	2.21	0.10	2.20	2.63	2.80
Net fee and commission income to operating income	19.41	19.83	(0.42)	21.17	19.35	19.49
Cost-to-income ratio[2]	26.61	27.15	(0.54)	27.51	27.02	28.92
Capital adequacy indicators						
Common Equity Tier 1 ratio[3]	13.83	13.09	0.74	12.98	13.13	12.11
Tier 1 ratio[3]	14.42	13.71	0.71	13.15	13.32	12.11
Total capital ratio[3]	17.19	15.50	1.69	14.94	15.39	14.86
Total equity to total assets	8.58	8.12	0.46	7.58	7.88	7.48
Asset quality indicators						
Non-performing loan (NPL) ratio	1.46	1.49	(0.03)	1.52	1.58	1.19
Allowances to NPLs[4]	208.37	171.08	37.29	150.36	150.99	222.33
Allowances to total loans[4]	3.04	2.55	0.49	2.29	2.39	2.66

1. Calculated by dividing net profit by the average of total assets at the beginning and end of the year.
2. Operating expenses (after deduction of taxes and surcharges) divided by operating income.
3. Calculated in accordance with the relevant regulations of the Capital Rules for Commercial Banks (Provisional) and the advanced capital measurement approaches, and the regulations during the transitional period have been applicable.
4. Allowances for impairment losses on loans include the allowances for impairment losses on discounted bills measured at fair value through other comprehensive income.

CHAIRMAN'S STATEMENT

Tian Guoli
Chairman

Dear shareholders,

Seeing spring blossom and autumn harvest, we have bid farewell to another year of brilliant accomplishment. At this exciting moment in a vibrant season, I am proud to share with you, dear shareholders and friends, CCB's annual results for 2018: the Group recorded total assets and net profit of RMB23.22 trillion and RMB255,626 million respectively, representing a year-on-year increase of 4.96% and 4.93%; return on average assets and return on average equity of 1.13% and 14.04%; and NPL ratio of 1.46%, remaining stable with certain decrease; and total capital ratio of 17.19%, continuing to rank ahead of its peers. Based on the good operating results, the Board proposed a final cash dividend of RMB0.306 per share (including tax), subject to the approval by the shareholders at the 2018 annual general meeting.

2018 was a ground-breaking year in which we put into practice the essence of the 19th National Congress of the Communist Party of China in all areas. Persistently upholding our mission and undertaking the responsibility as a large bank, we progressed ourselves in tandem with the times, grew with our beloved country, and thrived with the industries in which we operated with prosperity. While making the most of our employees' wits and unleashing the power of science and technology, we fully implemented our strategies in three major areas, i.e., house leasing, inclusive finance and fintech, made concerted efforts to serve the real economy, supported the supply-side structural reform, strengthened risk management, internal control and compliance, promoted high-quality development of our businesses, and strived to obtain good economic and social benefits.

We promoted our house leasing strategy in depth by forming new business patterns with a shared platform. Leveraging on our traditional advantages in the housing finance sector, we explored the comprehensive financial solutions to house leasing and implemented the requirement of "Houses are for living in, not for speculation". Specifically, we launched the slogan "If you want to rent a home, come to CCB." as one of the brand-building efforts following the establishment of the largest and most transparent house leasing service platform which has a cumulative number of over 10 million listed properties and registered users. We built "Jianrong Jiayuan" community for long-term house leasing, and explored a new mode for house saving business. We directed social capital to participate in the house leasing business and published the house leasing price indices. We have secured a huge customer base together with new business in consumer finance and other services, besides achieving the goal to reinstate the original purpose of residential properties as shelters.

We extensively rolled out our inclusive finance strategy and achieved rapid development with advanced technologies. We have adhered to our strategy of "There is no rest in serving small business, which is a great undertaking to achieve sustainable growth." With modern technologies integrated, we have forged a new model of inclusive finance featuring "batch customer acquisition, accurate profiling, automated approval, intelligent risk control, and integrated services", with the balance and growth rate of our inclusive financial loans staying ahead in the industry. We promoted new online financing models such as the network-based supply chain, supported the development of small industries and small companies by diverging sources of financing from big industries and big companies, and introduced 26 precise measures to support the private sector and small and micro enterprises. In exploring the new path for deepening the rural financial reform, we rolled out a number of new measures to support the rural areas, such as the "Rapid Loan for Farmers", leveraged the website of e.ccb.com to explore a new channel for poverty alleviation with e-commerce and launched new platforms of inclusive services such as "Mingonghui". We supported our peers and inclusive finance customers with professional technologies and standardised tools to help them improve their management capabilities so as to jointly promote the inclusive financial market.

We focused efforts on implementing our fintech strategy, and inspired new energy with intelligence. We launched a new round of "TOP+" fintech strategy, established CCB Fintech Co., Ltd., and formed seven core business groups through integration. We used big data, blockchain, and AI, etc. to empower product innovation, customer service and risk management, and also extended the coverage of the new generation core banking system to overseas institutions and subsidiaries, resulting in the enhancement of the Group's overall information technology capabilities. We established 17 platforms including public cloud services and smart government services to provide our customers, peers and government departments with customised technical support services. We explored market-oriented talent cultivation and incentive mechanisms. In addition, we cooperated with professional institutions to build open platforms and formed an "ecology of social circles" that integrated cutting-edge technologies, financial scenarios, and innovative business models, which comprehensively enhanced our capabilities to absorb, transform and practice modern technologies.

We focused on the key areas of the real economy and supported the supply-side structural reform. We took an active part in major national strategic initiatives, giving full support to the Belt and Road Initiative, the coordinated development of Beijing-Tianjin-Hebei region, the development of the Yangtze Economic Belt, the development of the Guangdong-Hong Kong-Macau Greater Bay Area and Free Trade Zones; and we were the first bank to issue commercial loan for the development of the Xiongan New Area. We launched a number of financial service brands such as "Shanxingchengjian" to support the construction of urban infrastructure projects relating to smart cities and ecological conservation and environmental protection, and expanded our offering of convenient and easy-to-use financial products tailored to the scenes of consumption such as "Rapid Loan" to meet the needs of residents' consumption upgrading. We actively adjusted our credit structure, reviewed our credit policy, and increased our efforts in developing green finance. We were the first to set up the "debt-for-equity swap investment plan" and advanced ahead of our peers in terms of number of signed contracts and scale of draw-down plans. We joined hands with the NDRC to establish a national strategic development fund to support the emerging industries. We also supported the development of new technologies, new organisational forms, and new industry clusters with diversified debt and equity financing methods such as bonds, equity funds, M&As, asset securitisation, and coordinated investment and lending actions.

We closely focused on customers, accounts and channels, striving for sustainable development on a solid basis. We strengthened big data application and platform building while enhancing our market channel competitiveness and customer experience, which led to satisfactory progress in customer acquisition through our smart platform. The total number of our corporate customers and its growth rate have been at the top tier of the industry; and the increment in the number of personal customers with assets in our bank reached a record high, further consolidating our position as the largest retail credit bank. Our overseas businesses and subsidiaries have been developing steadily toward internationalisation. Synergistic effects between parent and subsidiaries have been enhanced significantly. 121 of our outlets secured their ranking on the "Top 1,000 Outlets with Standardised Services and Excellent Customer Experience in the Banking Industry in 2018". The number of users of our personal online banking, personal mobile banking, WeChat banking and user satisfaction also outperformed our peers in the industry. Furthermore, we joined hands with Haier and the National Supply and Marketing Cooperative in setting up the "village banks" by promoting the construction of rural financial infrastructure.

We took the initiative in risk management and steadily promoted internal control compliance. Leveraging the New Generation System and big data, we continued to deepen our understanding of the rules of evolution and migration of the financial risks under the new financial landscape, and built a modern banking risk control system under the guidelines of comprehensive and active management. We have established an enterprise-level and digital comprehensive risk monitoring and early warning platform, set up the first risk measurement centre in China, and expanded and developed our risk management technology system and "toolbox", improving our expertise in terms of digital and intelligent risk control with modern technologies. We continuously improved our compliance management system, enhanced the level of standardised management of overseas businesses and foreign exchange compliance management. We saw a more efficient operation of compliance management mechanism, and a more consolidated foundation for our anti-money laundering management.

We upheld the new concept of opening and sharing and fully assumed our social responsibilities as a large bank. We have set up 14,300 "Workers' Harbours" and opened them to the public, providing places for workers such as couriers, sanitation workers, and taxi drivers to take a rest and have a drink. So far, we have served a total of approximately 30 million workers, making it our iconic public service brand. We invited partners to join us in building CCB University, integrated the fragmented training resources available in the industry, linked up well-known universities at home and abroad to launch the "Alliance with Integrated Production and Education for New Financial Talents", building an open platform of education and training. We launched the "Jinzhihuimin" project to disseminate the modern financial concept among the public. We explored ahead into financial vocational education in the new era with innovative practices which integrate production, education, research and application.

We constantly improved our corporate governance structure and strengthened the improvement of our corporate governance system. We strictly complied with the relevant laws and regulations and the listing rules of the exchanges on which our shares are listed, and in combination with our corporate governance practices, strove to maintain a high standard of corporate governance. With strong professional background, rich experience and excellent capability, our directors have been duly and diligently performing their duties. During the year, Mr. Pang Xiusheng and Ms. Hao Aiqun resigned due to their ages, and Mr. Kenneth Patrick Chung joined the Board. On behalf of the Board, I would like to take this opportunity to extend our sincere gratitude to the resigned directors for their contributions to the Bank, and also our warm welcome to the new member.

Looking into the future, with the use of internet, blockchain, AI, 5G technology and other technologies in the financial field, we have foreseen that the transformation of banks towards digitised, network-based and intelligent operation will become an inevitable trend. We have kept one step ahead, and we must continue to foster our ability to organise and analyse data, integrate social resources, and solve social problems by financial means. We have endeavoured to embark on the "Second Development Curve" and innovate our future growth engine. We will focus on empowering the Business Side, so as to create an ecology featuring co-existence and co-prosperity, and make ourselves a life-cycle partner of our corporate customers; meanwhile, we will strive to achieve breakthrough at the Customer Side, with our root deeply planted among the general public, and make CCB a "warm and cozy" bank for the ordinary people; we will also strengthen our connection with the Government Side, making our own efforts to strengthen social governance, and striving to become a trusted and effective financial servant of the state.

The greatest theory is always the simplest, and the most important thing is to start doing it right now. 2019 marks the 70th anniversary of the founding of the People's Republic of China and is a crucial year for securing a decisive victory in building a moderately prosperous society in all respects. Against the backdrop of the complex economic situations at home and abroad, opportunities and challenges co-exist. We people of CCB will do our best to achieve our goal of "Serving people, building a pleasant and modern society where they work and live". We also aim to ease economic and social "pains" with patience and perseverance as well as finance, "the gentlest scalpel", further enhance the capabilities of serving the building of the nation, preventing financial risks and participating in international competitions, create greater value for shareholders, assume more responsibilities and roles for society and contribute to the economic and social development in the new era.

Tian Guoli
Chairman
March 2019

Dear shareholders,

Time stops for no one, and the seasons gallop away like water in the river. In 2018, faced with complicated and challenging operating environment, the Group upheld the concept of prudent operations and innovation-driven development, focused on supporting the real economy and launched a series of strategic measures for cultivating development foundation and emerging advantages, so as to deepen operating management reform and modern science and technology empowerment, further stimulate the inner vitality and effectively forestall and defuse risks through comprehensive and proactive management, thereby achieving inspiring results.

Maintaining prudent and coordinated development to make breakthroughs in performance The Group achieved solid and balanced growth of assets and liabilities. At the end of 2018, the Group's total assets were RMB23.22 trillion, up 4.96%, in which gross loans reached RMB13.78 trillion, up 6.82%. The Group's total liabilities stood at RMB21.23 trillion, up 4.44%, in which deposits reached RMB17.11 trillion, up 4.55%. The profitability of the Group was further enhanced. Net profit was RMB255,626 million, an increase of 4.93% over 2017, up 0.1 percentage points year on year. Net interest income increased by 7.48%, net interest margin was 10 basis points higher year on year, and net fee and commission income rose by 4.45%. The core indicators remained balanced with a good momentum. Return on average assets was 1.13%, return on average equity was 14.04%, and total capital ratio was 17.19%, all continuing to maintain the leading position among peers.

Meanwhile, the Group was awarded "Best Bank in China 2018" by the UK magazine The Banker and the Hong Kong magazine Asiamoney and ranked first among national commercial banks in "Gyroscope" assessment by China Banking Association in 2018.

Driving fintech-empowered crossover development and providing accurate support to the real economy through the "CCB Plan" Fintech effectively supported platform-based business expansion and digital operations. The application of new concepts and new technologies promoted the cultivation of the financial ecosystem, and the development model was upgraded from merchant development to platform-based business expansion. The Group built its house leasing ecosystem and established the largest and transparent leasing service platform across China. Platform cooperation agreements were concluded with 326 administrative regions at the prefecture-level and above across the nation. The establishment of a one-stop service platform "Huidongni" enabled the inclusive finance service readily available, playing a leading role as a large bank. Inclusive finance loans rose by RMB212,515 million or 50.78% to RMB631,017 million over 2017, as the Group led the industry in both the loan balance and new loans. The Group innovated a range of products under the "Rapid Loan for Small and Micro Businesses" programme and developed

Wang Zuji
Vice chairman, executive director and president

platform-based business models. Loans issued under the "Rapid Loan for Small and Micro Businesses" programme cumulatively exceeded RMB710 billion, to the benefits of 550,000 small and micro enterprises. A rural inclusive service platform "Yunongtong" was popularised to cover more than 25% of the administrative villages across China. The Group applied modern fintech to launch technology application platforms such as public cloud, open banking and blockchain, made greater efforts to accelerate the building and promotion of comprehensive service platforms for house leasing, Party and masses' affairs, religion, education, smart communities and senior care, and shared fintech capabilities with other financial institutions.

In its daily operations, the Group places top priority on serving the real economy. It provided loans in support of the national strategies and major projects, and maintained its lead in the industry with an infrastructure loan portfolio of RMB3.46 trillion at the end of the year. Through various channels, including bonds, off-balance sheet WMPs and its subsidiaries, the Group endeavoured to meet the diversified financing needs of customers, and the size of its comprehensive investment and financing amounted to RMB4.7 trillion. The Group contributed to the replacement of old growth drivers with new ones for economic development, with the balance of loans to strategic emerging industries amounting to nearly RMB400 billion and that to overcapacity industries continuing to decline. The Group practiced the strategies for ecological improvement and environmental protection with the balance of green loans of RMB1.04 trillion, and successfully issued its first green and sustainable development bonds. In the steady promotion of market-oriented debt-for-equity swaps under the legal framework, the Group maintained its first mover advantage with a total contractual amount of RMB723.3 billion and an actual investment amount of RMB153.4 billion. Furthermore, the Group enriched multi-level consumer credit products to adapt to the upgrading trend of household consumption.

Expanding new retail banking businesses by virtue of digital platform and promoting the value contribution of personal banking business The Group focused on value creation so as to build superior customer relationship. It leveraged the Group's advantages to provide elite services and comprehensive service solutions to personal customers. With the help of AI and big data technologies, it promoted individualised precision marketing and customised services for each and every personal customer. In line with the spirit of opening and sharing concept and applying user-driven thinking, the Group promoted integration of scenario-based platforms for services in relation to the people's livelihood and merchant consumption. The transaction volume of credit card consumption hit RMB2.99 trillion, and core indicators, such as the number of customers, loan balance and asset quality, remained at the top level in the industry. It expanded its mobile payment portfolio and scenario applications, and focused on building the "Long Pay" brand for enterprise-level digital payment. A personal wealth management platform "Long Fortune" was perfected mainly for customers' cash flow management and asset allocation. The Group provided "human touch" banking services in its operating outlets and was committed to building an open intelligent bank. It accelerated the digitalisation of outlets, and launched digital smart banking outlets and digital exhibition halls by integrating modern science and technology. A total of 49,687 smart teller machines were put into use to provide customers with integrated online and offline smart services. The Group endeavoured to improve its digital risk control ability in retail banking to enhance its anti-fraud capability and protect the rights and interests of customers. At the end of 2018, domestic personal loans of the Bank reached RMB5.84 trillion, up 12.44%. The Group further consolidated its position as the largest retail credit bank, and continued to top the market with the largest residential mortgage loan balance. Profit before tax of personal banking reached RMB139,734 million.

Integrating finance and intelligence to foster new advantages in trading business The Group continued to improve its competitive edge in trading business. It vigorously expanded the customer base for settlement accounts, and promoted the innovation of cash management products in the direction of "intelligence, mobility, platform management and internationalisation". Income from new settlement products increased by 23.6% to RMB4.98 billion. It enhanced its investment banking capabilities, including transaction matchmaking, service integration, financing and comprehensive financial solutions, and in return, it maintained its market leadership for eight consecutive years in terms of underwriting revenue, issuance scale and batches of non-financial bonds issued. Income from new financial advisory services increased by 10.41% against the market trend, while income from M&A financial advisor doubled. The Group steadily promoted its asset securitisation business, and issued six batches of securities backed by corporate credit assets, 22 securities backed by residential mortgage loans and six securities backed by non-performing assets. Meanwhile, it reinforced its trading and market-making capabilities in the financial market business, and stayed ahead among peers with regard to the yield on its bond portfolio. The Group innovated custody products and optimised its operation model, with assets under custody amounting to RMB12.22 trillion. The Group promoted the building of blockchain trade finance platform, realising the application in forfeiting, international factoring and domestic letters of credit, with a cumulative transaction amount of exceeding RMB200 billion.

Endeavouring to refined management and reform & innovation to consolidate the foundation for sustainable development The Group continuously promoted its refined management. Aiming for intelligent operation and intelligent management, it gradually established an open, sharing, highly efficient, and collaborative intelligent operation system at the Group level. By improving the management mechanism for the cloud-based production platform, extending the platform functionalities, and expanding industry applications, the Group realised intelligent and accurate matching between operational needs and available resources. The Group deployed smart customer service robots throughout the entire process of customer services, and realised innovation and collaboration across different channels, such as telephone, internet and mobile online. The Group led the market with its efforts in promoting "cloud-based customer service", a remote financial service platform at the enterprise level. The Group strengthened its overarching design, developed and began to implement a detailed Action Plan For Refined Management (2018-2020), with focuses on six major aspects, namely, flat management, resources allocation, risk and compliance, coordination mechanism, system operation and employees motivation, to cultivate a refined management culture.

The Group deepened its operation and management reform to inspire new vitality. It was the first to receive the approval to set up a wealth management subsidiary, and established CCB Housing Services Co., Ltd., the first housing services company in the banking industry to promote the building of the house leasing market. It cooperated with the NDRC to jointly initiate the strategic emerging industry development fund programme to support the development of strategic emerging industries, and established Shanghai Big Data Smart Centre and Risk Measurement Centre to improve its lean production and precise risk control capabilities.

Focusing on grasping the law of risk to improve the comprehensive and active risk management system The Group maintained the independence of risk judgement and the alignment between risk preference and business objectives amid market changes. It promoted the risk-based industry and customer structure adjustments of the credit portfolio to enhance the relevance and sensitivity in risk control measures. The Group made use of big data to improve the quality of comprehensive credit lines and strictly controlled the risk acceptance criteria. It improved the Group's centralised credit risk monitoring system and enhanced intelligent and refined credit management with the help of fintech. It strengthened anticipatory risk management, established an enterprise-level early-warning platform, fostered specialised post-lending management and intensive collateral management, and expanded the channels of market-oriented risk disposals. At the end of 2018, the Group's NPL balance was RMB200,881 million; NPL ratio was 1.46%, representing a decrease of 0.03 percentage points from 2017; allowances to NPLs was 208.37%, representing an increase of 37.29 percentage points over 2017.

The Group strengthened its market risk prevention and direct-operation business management, steadily responded to market fluctuations in the foreign exchange, bond and stock markets and avoided cross risk contagion. It adhered to the prudent approach in its liquidity risk management, made forward-looking judgements in response to internal and external funding profile and changes in fund allocation, so as to ensure secure payment and settlement operations and deliver the Bank as a major force in stabilising the markets. The Group strengthened statistical analysis of losses arising from non-compliant activities and post management, promoted the application of professional technology tools, and improved the efficiency of operational risk management. It continued to refine its reputational risk management system and mechanisms, and focused on enhancing the main body responsibility and post responsibility of compliance management. It established the multi-dimensional management mechanism as a way to live up to regulatory requirements on AML, counter-terrorist financing and anti-tax evasion. The Group also continued to strengthen the role and capability of audit to form a strong third line of defense.

Outlook 2019 will be another year full of new opportunities and changes. The Group will make further breakthroughs on the basis of prudent operations, promote innovation-driven development in virtue of fintech to cultivate new growth drivers and new growth poles, and continue to consolidate and develop the competitive edge in core businesses, to strive to be at the forefront of the new round of financial reform and opening-up.

An excellence-pursuer makes a partner forever. I am so grateful for your company along the way. Finally, on behalf of the management, I would like to take this opportunity to extend my sincere gratitude to the Board and the board of supervisors for their tremendous support, as well as our customers for their trust and our staff members for their excellent work.

Wang Zuji
Vice chairman, executive director and president
March 2019

住房租賃

House Leasing

To rent a house, come to CCB

To implement "Houses are for living in not for speculation"

To establish the largest and most transparent house leasing service platform

To build "Jianrong Jiayuan" community for long-term house leasing

To explore the comprehensive financial solutions to house leasing

The Bank was committed to establish the largest and most transparent house leasing service platform. By signing platform cooperation agreements with 326 administrative districts at prefecture level and above across the nation, the numbers of houses for leasing posted on-line and registered users are both in excess of 10 million.

The Bank promoted "Jianrong Jiayuan" of long-term house leasing community and explored a business model for house savings. We published the house leasing price indices; We have secured a huge customer base together with new business in consumer finance and other services, besides achieving the goal to reinstate the original purpose of residential properties as shelters.

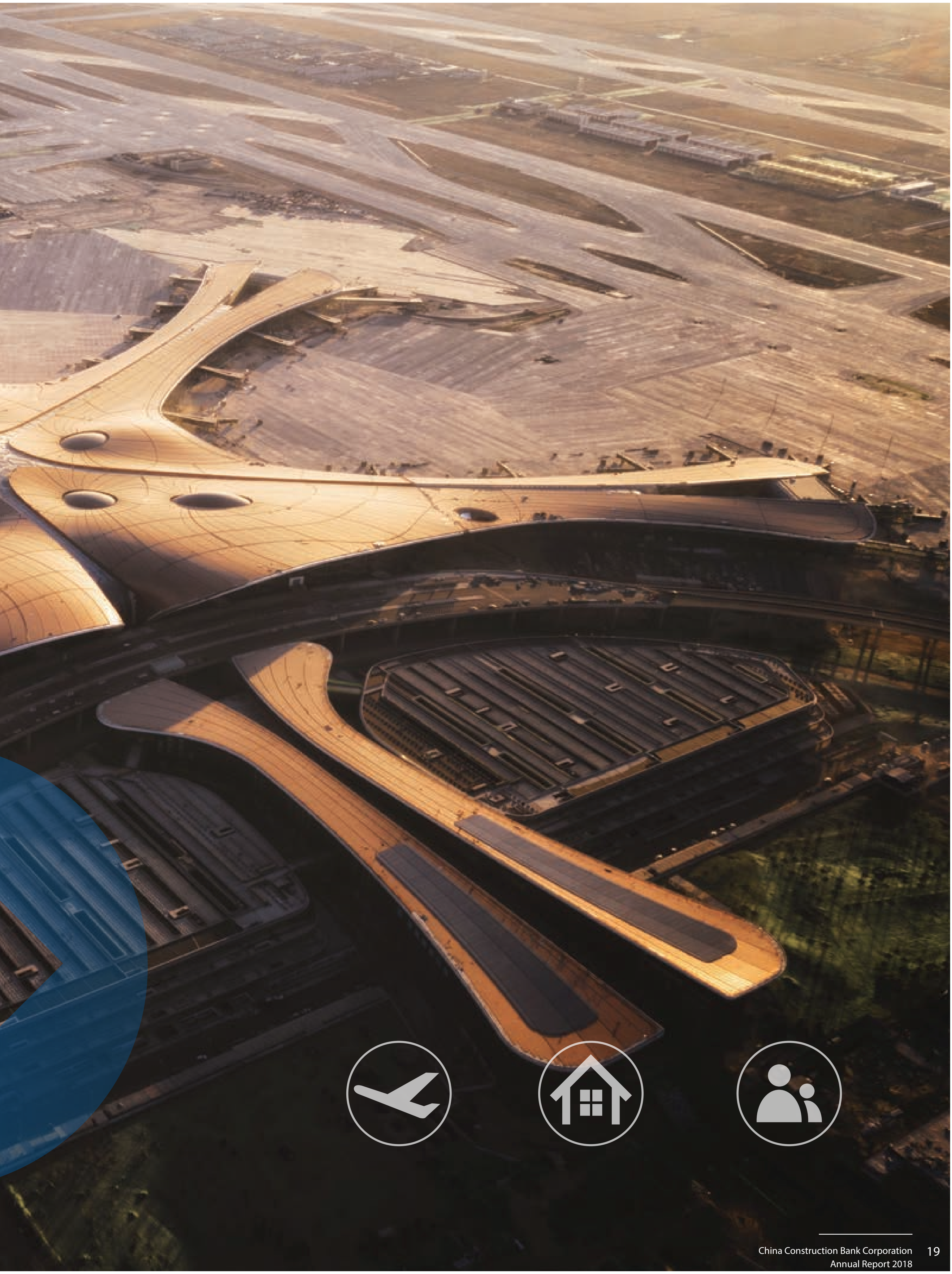
CCB建融家园

Please scan the QR code

Provide house leasing service for Beijing Daxing International Airport

Beijing Daxing International Airport ("Daxing Airport"), which is located between Beijing and Hebei Province, is a super-large scale and integrated international aviation hub under construction. It is expected to be completed and put into operation in 2019. The Bank has proposed the "scattered deposits and whole rent" house leasing model associated with the "CCB Plan" financial service to help solve the problem of "settle-down" in the new aviation city.

In 2018, the Bank commenced the cooperation with Daxing Airport to provide housing leasing services. Recently, with the progress of the new airport construction, the first batch of key airport construction units moved into the housing supply provided by the Bank in January 2019, solving the housing issues of thousands of construction workers.



FINANCIAL REVIEW

In 2018, the global economy maintained its overall growth, but at a slower pace, and became less synchronised. The US economy experienced a strong growth, but began to exhibit signs of slowing down. The growth of the Eurozone continued to level off. The Japanese economy underwent increased fluctuations. The UK economy continued its low growth and face Brexit uncertainties. The performance of emerging economies continued to diverge. The financial markets were experiencing greater volatilities and the economies were subject to greater downside risks, due to global trade frictions and changes in financial environments.

In 2018, China's economy maintained stable development on the whole and the economic structure continued to improve. The service industry continued its stable and moderately fast development; consumptions made greater contributions to the economic growth; imports and exports both maintained relatively fast growth; and the price level remained stable. In 2018, China's GDP reached RMB90.03 trillion, up by 6.6% year on year; the total volume of imports and exports increased by 9.7% year on year; the consumer price index grew by 2.1% year on year; and the producer price index rose by 3.5%.

China's money markets and bond markets maintained overall stable operations, while the stock markets experienced relatively drastic fluctuations. Compared to the previous year, the interest rates in the money market dropped, while the trading volume increased rapidly; the interest rates of bonds issued fell, but volume of issuance increased; the stock indices dipped, and the trading volume and the funds raised decreased; the asset growth rate in the insurance sector levelled off.

In 2018, CBIRC took a series of robust measures to redress market irregularities and internet finance risks, and restore proper order in the financial markets. With the implementation of the *Guiding Opinions on Regulating the Asset Management Business of Financial Institutions* and detailed rules, commercial banks accelerated their pace in setting up wealth management subsidiaries and a new paradigm in the asset management sector began to take shape. The release of policies for promoting capital instrument innovations in the banking sector enabled the banking industry to move forward steadily with more diversified capital replenishment channels. China's banking industry continued to grow in scale, as the overall credit quality remained stable, the overall market liquidity remained solid and the industry's capability to mitigate risks continued to improve.

The Group has stayed committed to prudent operations and innovation-driven development, and its efforts have delivered solid results. It achieved balanced growth in its assets and liabilities and organic growth in capital base during the year, as its asset quality and profitability continued to improve.

STATEMENT OF COMPREHENSIVE INCOME ANALYSIS

In 2018, the profitability of the Group achieved steady growth with profit before tax of RMB308,160 million, an increase of 2.79% over 2017, and net profit of RMB255,626 million, an increase of 4.93% over 2017. Key factors affecting the Group's profitability are as follows. First, net interest income increased by RMB33,822 million, or 7.48% over 2017, mainly thanks to moderate increase in interest-earning assets, deposit reserve ratio cuts, increase in return on assets and structure optimisation, among other factors. Second, net fee and commission income increased by RMB5,237 million, or 4.45% over 2017 despite negative impact from the market environment and regulatory policies, partly due to the fast growth in income from credit card business and electronic finance. Third, the Group continued to improve its cost management and optimise its expenses structure. Operating expenses increased by 4.62% over 2017, matching the growth rate of profitability. Cost-to-income ratio remained solid at 26.61%, down by 0.54 percentage points from 2017. In line with its prudent approach, the Group made sufficient provisions for impairment losses on loans and advances, resulting in an impairment loss charge of RMB150,988 million, an increase of 18.55% over 2017.

The following table sets forth the composition of the Group's statement of comprehensive income and the changes during the respective periods.

(In millions of RMB, except percentages)	2018	2017	Change (%)
Net interest income	486,278	452,456	7.48
Net non-interest income	147,494	141,575	4.18
– Net fee and commission income	123,035	117,798	4.45
Operating income	633,772	594,031	6.69
Operating expenses	(174,764)	(167,043)	4.62
Impairment losses	(150,988)	(127,362)	18.55
Share of profit of associates and joint ventures	140	161	(13.04)
Profit before tax	308,160	299,787	2.79
Income tax expense	(52,534)	(56,172)	(6.48)
Net profit	255,626	243,615	4.93

Net interest income

In 2018, the Group's net interest income amounted to RMB486,278 million, an increase of RMB33,822 million, or 7.48% over 2017. The net interest income accounted for 76.73% of the operating income.

The following table sets forth the Group's average balances of assets and liabilities, related interest income or expense, and average yields or costs during the respective periods.

	2018			2017		
(In millions of RMB, except percentages)	Average balance	Interest income/ expense	Average yield/cost (%)	Average balance	Interest income/ expense	Average yield/cost (%)
Assets						
Gross loans and advances to customers	13,071,979	566,942	4.34	12,332,949	515,427	4.18
Financial investments	4,595,289	172,147	3.75	4,567,181	170,713	3.74
Deposits with central banks	2,543,067	38,892	1.53	2,847,380	43,027	1.51
Deposits and placements with banks and non-bank financial institutions	717,699	23,996	3.34	578,376	15,279	2.64
Financial assets held under resale agreements	316,993	9,049	2.85	191,028	5,708	2.99
Total interest-earning assets	21,245,027	811,026	3.82	20,516,914	750,154	3.66
Total allowances for impairment losses	(384,314)			(304,369)		
Non-interest-earning assets	2,037,521			1,895,179		
Total assets	22,898,234	811,026		22,107,724	750,154	
Liabilities						
Deposits from customers	16,711,441	232,877	1.39	16,037,819	213,313	1.33
Deposits and placements from banks and non-bank financial institutions	1,840,607	50,125	2.72	1,875,668	46,621	2.49
Debt securities issued	682,886	24,735	3.62	539,251	19,887	3.69
Borrowings from central banks	488,340	15,671	3.21	484,099	14,486	2.99
Financial assets sold under repurchase agreements	46,654	1,340	2.87	101,842	3,391	3.33
Total interest-bearing liabilities	19,769,928	324,748	1.64	19,038,679	297,698	1.56
Non-interest-bearing liabilities	1,293,641			1,383,210		
Total liabilities	21,063,569	324,748		20,421,889	297,698	
Net interest income		486,278			452,456	
Net interest spread			2.18			2.10
Net interest margin			2.31			2.21

In 2018, in response to the PBC's targeted cuts in deposit reserve ratio, the Group took measures such as optimising the structure of assets and liabilities, improving the pricing management of assets and liabilities, and increasing its efforts in deposit growth, and the Group's yield on interest-earning assets rose faster than the cost of interest-bearing liabilities. As a result, the net interest spread reached 2.18%, up by 8 basis points over 2017; the net interest margin was 2.31%, up by 10 basis points over 2017.

The following table sets forth the effects of the movement of the average balances and average interest rates of the Group's assets and liabilities on the change in interest income and expense for 2018 versus 2017.

(In millions of RMB)	Volume factor[1]	Interest rate factor[1]	Change in interest income/expense
Assets			
Gross loans and advances to customers	31,435	20,080	51,515
Financial investments	1,000	434	1,434
Deposits with central banks	(4,693)	558	(4,135)
Deposits and placements with banks and non-bank financial institutions	4,150	4,567	8,717
Financial assets held under resale agreements	3,619	(278)	3,341
Change in interest income	35,511	25,361	60,872
Liabilities			
Deposits from customers	9,433	10,131	19,564
Deposits and placements from banks and non-bank financial institutions	(862)	4,366	3,504
Financial assets sold under repurchase agreements	(1,634)	(417)	(2,051)
Debt securities issued	5,230	(382)	4,848
Borrowings from central banks	126	1,059	1,185
Change in interest expense	12,293	14,757	27,050
Change in net interest income	23,218	10,604	33,822

1. Changes caused by both average balances and average interest rates were allocated to the volume factor and interest rate factor respectively based on the respective proportions of absolute values of volume factor and interest rate factor.

Net interest income increased by RMB33,822 million over 2017. In this amount, an increase of RMB23,218 million was due to the movement of average balances of assets and liabilities, and an increase of RMB10,604 million was due to the movements of average yields or costs.

Interest income

In 2018, the Group achieved interest income of RMB811,026 million, an increase of RMB60,872 million or 8.11% over 2017. In this amount, interest income from loans and advances to customers, interest income from financial investments, interest income from deposits with the central bank, interest income from deposits and placements with banks and non-bank financial institutions accounted for 69.90%, 21.23%, 4.80% and 2.96% respectively.

Interest income from loans and advances to customers

The following table sets forth the average balance, interest income and average yield of each component of the Group's loans and advances to customers.

	2018			2017		
(In millions of RMB, except percentages)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans and advances	6,559,434	284,346	4.33	6,291,705	267,676	4.25
Short-term loans	2,165,102	92,314	4.26	2,314,327	95,743	4.14
Medium to long-term loans	4,394,332	192,032	4.37	3,977,378	171,933	4.32
Personal loans and advances	5,167,810	236,588	4.58	4,537,703	202,473	4.46
Short-term loans	472,760	22,724	4.81	378,095	16,927	4.48
Medium to long-term loans	4,695,050	213,864	4.56	4,159,608	185,546	4.46
Discounted bills	137,720	4,972	3.61	214,118	6,894	3.22
Overseas operations and subsidiaries	1,207,015	41,036	3.40	1,289,423	38,384	2.98
Gross loans and advances to customers	13,071,979	566,942	4.34	12,332,949	515,427	4.18

Interest income from loans and advances to customers amounted to RMB566,942 million, an increase of RMB51,515 million or 9.99% over 2017, mainly driven by increases in both the average balances and average yields of loans and advances to both corporate and personal borrowers.

Interest income from financial investments

Interest income from financial investments amounted to RMB172,147 million, an increase of RMB1,434 million over 2017. This was mainly because the average balance of financial investments increased by 0.62% and the average yield of financial investments rose by 1 basis point over 2017.

Interest income from deposits with central banks

Interest income from deposits with central banks amounted to RMB38,892 million, a decrease of RMB4,135 million or 9.61% from 2017, mainly due to a decrease of 10.69% in the average balance of deposits with central banks following deposit reserve ratio cuts.

Interest income from deposits and placements with banks and non-bank financial institutions

Interest income from deposits and placements with banks and non-bank financial institutions amounted to RMB23,996 million, an increase of RMB8,717 million or 57.05% over the previous year. This was mainly because the average balance of deposits and placements with banks and non-bank financial institutions increased by 24.09% and the average yield rose by 70 basis points from the previous year.

Interest income from financial assets held under resale agreements

Interest income from financial assets held under resale agreements amounted to RMB9,049 million, an increase of RMB3,341 million or 58.53% over 2017. This was mainly because the average balance of financial assets held under resale agreements increased by 65.94% from the previous year, offsetting the impact from the decrease in average yield.

Interest expense

In 2018, the Group's interest expense was RMB324,748 million, an increase of RMB27,050 million or 9.09% from the previous year. In this amount, interest expense on deposits from customers accounted for 71.71%, interest expense on deposits and placements from banks and non-bank financial institutions accounted for 15.44%, and interest expense on debt securities issued accounted for 7.62%.

Interest expense on deposits from customers

The following table sets forth the average balance, interest expense and average cost of each component of the Group's deposits from customers during the respective periods.

	2018			2017		
(In millions of RMB, except percentages)	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits	8,728,970	111,300	1.28	8,430,224	104,137	1.24
Demand deposits	5,673,929	39,921	0.70	5,406,626	35,532	0.66
Time deposits	3,055,041	71,379	2.34	3,023,598	68,605	2.27
Personal deposits	7,459,776	111,147	1.49	7,078,489	100,088	1.41
Demand deposits	3,164,811	9,612	0.30	3,063,410	9,298	0.30
Time deposits	4,294,965	101,535	2.36	4,015,079	90,790	2.26
Overseas operations and subsidiaries	522,695	10,430	2.00	529,106	9,088	1.72
Total deposits from customers	16,711,441	232,877	1.39	16,037,819	213,313	1.33

Interest expense on deposits from customers was RMB232,877 million, an increase of RMB19,564 million or 9.17% from the previous year, mainly because the average balance of deposits from customers increased by 4.20% and the average cost rose by 6 basis points over 2017.

Interest expense on deposits and placements from banks and non-bank financial institutions

Interest expense on deposits and placements from banks and non-bank financial institutions increased by RMB3,504 million or 7.52% over 2017 to RMB50,125 million, mainly due to the fact that the increase of 23 basis points in the average cost of deposits and placements from banks and non-bank financial institutions more than offset the effect of the decrease in their average balances.

Interest expense on debt securities issued

Interest expense on debt securities issued was RMB24,735 million, an increase of RMB4,848 million or 24.38% over 2017, mainly because the average balance of debt securities issued, including eligible Tier 2 capital bonds and certificates of deposits, increased by 26.64% over 2017, offsetting the effect of the decrease in average cost.

Interest expenses on borrowings from central banks

Interest expense on borrowings from central banks increased by RMB1,185 million or 8.18% to RMB15,671 million over 2017, mainly because the average cost of borrowings from central banks increased by 22 basis points over 2017.

Interest expense on financial assets sold under repurchase agreements

Interest expense on financial assets sold under repurchase agreements amounted to RMB1,340 million, down by RMB2,051 million or 60.48% from 2017, mainly because the average balance of financial assets sold under repurchase agreements decreased by 54.19% and the average cost dropped by 46 basis points from 2017.

Net non-interest income

The following table sets forth the composition and change of the Group's net non-interest income during the respective periods.

(In millions of RMB, except percentages)	2018	2017	Change (%)
Fee and commission income	138,017	131,322	5.10
Fee and commission expense	(14,982)	(13,524)	10.78
Net fee and commission income	123,035	117,798	4.45
Other net non-interest income	24,459	23,777	2.87
Total other net non-interest income	147,494	141,575	4.18

In 2018, the Group's net non-interest income reached RMB147,494 million, an increase of RMB5,919 million or 4.18% over 2017. Net non-interest income accounted for 23.27% of operating income.

Net fee and commission income

The following table sets forth the composition and change of the Group's net fee and commission income during the respective periods.

(In millions of RMB, except percentages)	2018	2017	Change (%)
Fee and commission income	138,017	131,322	5.10
Bank card fees	46,192	42,242	9.35
Electronic banking service fees	18,585	9,341	98.96
Agency service fees	16,044	16,256	(1.30)
Commission on trust and fiduciary activities	12,748	11,857	7.51
Settlement and clearing fees	12,101	13,211	(8.40)
Wealth management service fees	11,113	20,040	(44.55)
Consultancy and advisory fees	10,441	9,906	5.40
Guarantee fees	3,414	3,330	2.52
Credit commitment fees	1,573	1,525	3.15
Others	5,806	3,614	60.65
Fee and commission expense	(14,982)	(13,524)	10.78
Net fee and commission income	123,035	117,798	4.45

In 2018, thanks to its increased attention to market innovation and service optimisation, and its intensive marketing efforts to attract customers, the Group earned a net fee and commission income of RMB123,035 million, up by 4.45% over 2017. The ratio of net fee and commission income to operating income was 19.41%.

Bank card fees grew by 9.35% to RMB46,192 million, mainly because of the rapid growth of the number of credit cards issued, instalment business and spending over bank cards. The associated fee income grew by more than 15% to over RMB35 billion.

Electronic banking service fees increased significantly by 98.96% to RMB18,585 million, mainly attributed to the continued increase in the number of mobile banking and online banking users and the rapid rise of mobile financial transaction volume, following the Group's intensified efforts in promoting its electronic financial services and applications to meet all-round financial needs of its customers.

Agency service fees decreased by 1.30% to RMB16,044 million, mainly because the income from agency insurance services fell.

Commission on trust and fiduciary activities rose by 7.51% to RMB12,748 million. Custodial income achieved solid growth mainly driven by the continued growth of assets under custody, including assets from funds and insurance sectors. Commission on syndicated loans also achieved rapid growth, as the Group continued to improve its capabilities in organising and arranging syndicated loans as lead bank.

Settlement and clearing fees decreased by 8.40% to RMB12,101 million, mainly due to decreases in income from RMB settlement and international settlement, as a result of reductions and exemptions of base settlement fees and the decline of trade finance business, among other factors.

Wealth management service fees decreased by 44.55% to RMB11,113 million year on year, mainly due to the implementation of new regulations on asset management and the increase in costs of WMPs.

Consultancy and advisory fees increased by 5.40% to RMB10,441 million, mainly due to the sound growth of consultancy and advisory services following the Group's increased efforts in system development and applications in investment consultancy and enhanced capabilities in investment research.

Other net non-interest income

The following table sets forth the composition and change of the Group's other net non-interest income during the respective periods.

(In millions of RMB, except percentages)	2018	2017	Change (%)
Net trading gain	12,614	4,858	159.65
Net gain/(loss) arising from investment securities	3,444	(835)	(512.46)
Dividend income	773	2,195	(64.78)
Net losses on derecognition of financial assets measured at amortised cost	(2,241)	N/A	N/A
Other net operating income	9,869	17,559	(43.80)
Total other net non-interest income	24,459	23,777	2.87

Other net non-interest income of the Group was RMB24,459 million, an increase of RMB682 million, or 2.87% from the previous year. In this amount, net trading gain and net gain arising from investment securities increased by RMB7,756 million and RMB4,279 million respectively over 2017, mainly because the Group reclassified interest income from financial assets measured at fair value through profit or loss; dividend income decreased by RMB1,422 million from 2017 to RMB773 million, mainly because the dividend income of the Group's subsidiaries decreased; net losses on derecognition of financial assets measured at amortised cost was RMB2,241 million, mainly because the Group carried out asset securitisation business in order to optimise its asset structure, and incurred net losses when derecognising the related underlying assets; other net operating income was RMB9,869 million, a decrease of RMB7,690 million from 2017, mainly because the increase in foreign exchange business volume and the gain on valuation of foreign exchange derivative transactions in 2017 led to a higher base.

Operating expenses

The following table sets forth the composition of the Group's operating expenses during respective periods.

(In millions of RMB, except percentages)	2018	2017
Staff costs	102,057	96,274
Premises and equipment expenses	32,390	30,485
Taxes and surcharges	6,132	5,767
Others	34,185	34,517
Total operating expenses	174,764	167,043
Cost-to-income ratio (%)	26.61	27.15

In 2018, the Group continuously strengthened cost management and optimised expenses structure. Cost-to-income ratio decreased by 0.54 percentage points from 2017 to 26.61%. Operating expenses were RMB174,764 million, an increase of RMB7,721 million or 4.62% over 2017. In this amount, staff costs were RMB102,057 million, an increase of RMB5,783 million or 6.01% over 2017; premises and equipment expenses were RMB32,390 million, an increase of RMB1,905 million or 6.25% over 2017; taxes and surcharges were RMB6,132 million, an increase of RMB365 million or 6.33% over previous year.

Impairment losses

The following table sets forth the composition of the Group's impairment losses during respective periods.

(In millions of RMB)	2018	2017
Loans and advances to customers	143,045	123,389
Financial investments measured at amortised cost	1,072	N/A
Financial investments measured at fair value through other comprehensive income	16	N/A
Available-for-sale debt securities	N/A	457
Held-to-maturity investments	N/A	413
Investment classified as receivables	N/A	796
Others	6,855	2,307
Total impairment losses	150,988	127,362

In 2018, the Group's impairment losses were RMB150,988 million, an increase of RMB23,626 million or 18.55% over 2017. This was mainly because impairment losses on loans and advances to customers increased by RMB19,656 million, and other impairment losses increased by RMB4,548 million due to the increase in impairment losses on off-balance sheet items.

Income tax expense

In 2018, income tax expense was RMB52,534 million, a decrease of RMB3,638 million from 2017. The effective income tax rate was 17.05%, lower than the statutory rate of 25%. This was mainly because interest income from the PRC treasury bonds and local government bonds was non-taxable in accordance with the tax law.

STATEMENT OF FINANCIAL POSITION ANALYSIS

Assets

The following table sets forth the composition of the Group's total assets as at the dates indicated.

	31 December 2018		31 December 2017		31 December 2016	
(In millions of RMB, except percentages)	Amount	% of total	Amount	% of total	Amount	% of total
Loans and advances to customers[1]	13,365,430	57.55	12,574,473	56.84	11,488,355	54.80
Loans and advances to customers measured at amortised cost	13,405,030	57.72	12,903,441	58.33	11,757,032	56.08
Allowances for impairment losses on loans	(417,623)	(1.80)	(328,968)	(1.49)	(268,677)	(1.28)
Book values of loans and advances to customers at fair value through other comprehensive income	308,368	1.33	N/A	N/A	N/A	N/A
Book values of loans and advances to customers at fair value through profit or loss	32,857	0.14	N/A	N/A	N/A	N/A
Accrued interest	36,798	0.16	N/A	N/A	N/A	N/A
Financial investments[1]	5,714,909	24.61	5,181,648	23.42	5,068,584	24.18
Financial assets measured at amortised cost	3,272,514	14.09	N/A	N/A	N/A	N/A
Financial assets measured at fair value through other comprehensive income	1,711,178	7.37	N/A	N/A	N/A	N/A
Financial assets measured at fair value through profit or loss	731,217	3.15	578,436	2.61	488,370	2.33
Held-to-maturity investments	N/A	N/A	2,586,722	11.69	2,438,417	11.63
Available-for-sale financial assets	N/A	N/A	1,550,680	7.01	1,633,834	7.80
Investment classified as receivables	N/A	N/A	465,810	2.11	507,963	2.42
Cash and deposits with central banks	2,632,863	11.34	2,988,256	13.51	2,849,261	13.59
Deposits and placements with banks and non-bank financial institutions	836,676	3.60	500,238	2.26	755,288	3.60
Financial assets held under resale agreements	201,845	0.87	208,360	0.94	103,174	0.49
Interest receivable	N/A	N/A	116,993	0.53	101,645	0.49
Others[2]	470,970	2.03	554,415	2.50	597,398	2.85
Total assets	23,222,693	100.00	22,124,383	100.00	20,963,705	100.00

1. Under the new financial instruments standard, these comprise financial assets measured at amortised cost, at fair value through profit or loss, and at fair value through other comprehensive income, in line with their business models and contractual cash flow characteristics. Please refer to Note "Significant accounting policies and accounting estimates – financial instruments" in the financial statements for details.
2. These comprise precious metals, positive fair value of derivatives, long-term equity investments, fixed assets, land use rights, intangible assets, goodwill, deferred tax assets and other assets.
3. In accordance with requirements of the new financial instruments standard for the transitional period, the Group has elected not to restate information of the comparative period. Discrepancies between the book values as at 1 January 2018 and 31 December 2017 are due to the implementation of the new financial instruments standard.

As at 31 December 2018, the Group's total assets stood at RMB23.22 trillion, an increase of RMB1,098,310 million or 4.96% over 2017. To support the real economy, loans and advances to customers increased by RMB790,957 million or 6.29% over 2017. Taking into consideration the adjustments made at the beginning of the period in accordance with requirements of the new financial instruments standard and the inclusion of accrued interest, the actual increase was RMB769,110 million or 6.12%. Financial investments increased by RMB533,261 million or 10.29% over 2017, mainly due to further investment in PRC government bonds. Taking into consideration the adjustments made at the beginning of the period in accordance with requirements of the new financial instruments standard and the inclusion of accrued interest, the actual increase was RMB447,690 million or 8.62%. Due to the PBC's cuts in required reserve ratio, cash and deposits with central banks decreased by RMB355,393 million or 11.89% from 2017. The Group increased its liquidity portfolio at the end of 2018 as planned, and the deposits and placements with banks and non-bank financial institutions increased by RMB336,438 million or 67.26% over 2017. As a result, in the total assets, the proportion of net loans and advances to customers increased by 0.71 percentage points to 57.55%, that of financial investments increased by 1.19 percentage points to 24.61%, that of cash and deposits with central banks decreased by 2.17 percentage points to 11.34%, and that of deposits and placements with banks and non-bank financial institutions increased by 1.34 percentage points to 3.60%.

Loans and advances to customers

The following table sets forth the composition of the Group's gross loans and advances to customers as at the dates indicated.

	31 December 2018		31 December 2017		31 December 2016	
(In millions of RMB, except percentages)	Amount	% of total	Amount	% of total	Amount	% of total
Corporate loans and advances	6,497,678	47.14	6,443,524	49.94	5,864,895	49.89
Short-term loans	2,000,945	14.52	2,050,273	15.89	1,786,442	15.20
Medium to long-term loans	4,496,733	32.62	4,393,251	34.05	4,078,453	34.69
Personal loans and advances	5,839,803	42.37	5,193,853	40.25	4,338,349	36.90
Residential mortgages	4,753,595	34.49	4,213,067	32.65	3,585,647	30.50
Credit card loans	651,389	4.73	563,613	4.37	442,001	3.76
Personal consumer loans	210,125	1.52	192,652	1.49	75,039	0.64
Personal business loans	37,287	0.27	36,376	0.28	46,395	0.39
Other loans[1]	187,407	1.36	188,145	1.46	189,267	1.61
Discounted bills	308,368	2.24	122,495	0.95	495,140	4.21
Overseas operations and subsidiaries	1,100,406	7.98	1,143,569	8.86	1,058,648	9.00
Accrued interest	36,798	0.27	N/A	N/A	N/A	N/A
Gross loans and advances to customers	13,783,053	100.00	12,903,441	100.00	11,757,032	100.00

1. These comprise personal commercial property mortgage loans, home equity loans and educational loans.

As at 31 December 2018, the Group's gross loans and advances to customers stood at RMB13,783,053 million, an increase of RMB879,612 million or 6.82% over 2017, mainly due to the increase in domestic loans.

Corporate loans and advances reached RMB6,497,678 million, an increase of RMB54,154 million or 0.84% over 2017, mainly extended to infrastructure sectors. In this amount, short-term loans dropped by RMB49,328 million, while the medium to long-term loans increased by RMB103,482 million year on year.

Personal loans and advances reached RMB5,839,803 million, an increase of RMB645,950 million or 12.44% over 2017. In this amount, residential mortgages experienced an increase of RMB540,528 million or 12.83% to RMB4,753,595 million; credit card loans were RMB651,389 million, an increase of RMB87,776 million or 15.57%; personal consumer loans rose by RMB17,473 million or 9.07% to RMB210,125 million, mainly due to the increase of "Rapid Loan", the self-service personal loan.

Discounted bills reached RMB308,368 million, an increase of RMB185,873 million or 151.74% over 2017, mainly to meet the short-term funding demand of the corporate customers.

Loans and advances made by overseas operations and subsidiaries were RMB1,100,406 million, a decrease of RMB43,163 million or 3.77% from 2017.

Distribution of loans by type of collateral

The following table sets forth the distribution of loans and advances by type of collateral as at the dates indicated.

	31 December 2018		31 December 2017	
(In millions of RMB, except percentages)	Amount	% of total	Amount	% of total
Unsecured loans	4,301,972	31.21	3,885,329	30.11
Guaranteed loans	2,024,072	14.69	2,123,492	16.46
Loans secured by tangible assets other than monetary assets	6,218,435	45.12	5,539,863	42.93
Loans secured by monetary assets	1,201,776	8.72	1,354,757	10.50
Accrued interest	36,798	0.26	N/A	N/A
Gross loans and advances to customers	13,783,053	100.00	12,903,441	100.00

Allowances for impairment losses on loans and advances to customers

	2018			
(In millions of RMB)	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	149,249	65,887	128,666	343,802
Transfers:				
Transfers in (out) to Stage 1	3,153	(2,578)	(575)	–
Transfers in (out) to Stage 2	(4,241)	5,041	(800)	–
Transfers in (out) to Stage 3	(1,476)	(16,077)	17,553	–
Newly originated or purchased financial assets	88,574	–	–	88,574
Transfer out/repayment	(60,428)	(9,578)	(40,718)	(110,724)
Remeasurements	8,784	50,929	73,514	133,227
Write-off	–	–	(43,879)	(43,879)
Recoveries of loans and advances previously written off	–	–	6,623	6,623
As at 31 December 2018	183,615	93,624	140,384	417,623

The Group made provisions for impaired losses in line with changes in the quality of its credit assets as required by the new financial instruments standard. As at 31 December 2018, the allowances for impairment losses on loans and advances measured at amortised cost were RMB417,623 million. In addition, the allowances for impairment losses on discounted bills at fair value through other comprehensive income were RMB946 million.

Please refer to Note "Loans and advances to customers" in the financial statements for details of allowances for impairment losses on loans.

Financial investments

The following table sets forth the composition of the Group's financial investments by nature as at the dates indicated.

	31 December 2018		31 December 2017	
(In millions of RMB, except percentages)	Amount	% of total	Amount	% of total
Debt securities investments	5,260,061	92.04	4,714,014	90.97
Equity instruments and funds	104,270	1.82	113,244	2.19
Other debt instruments	350,578	6.14	354,390	6.84
Total financial investments	5,714,909	100.00	5,181,648	100.00

In 2018, the Group steadily implemented its investment tactics and risk policies established at the beginning of the year, actively responded to domestic and overseas market fluctuations, and continuously optimised the mix and structure of its products, so as to raise the overall investment income. As at 31 December 2018, the Group's financial investments totalled RMB5,714,909 million, an increase of RMB533,261 million or 10.29% over 2017. In this amount, debt securities investments increased by RMB546,047 million or 11.58% over 2017, and accounted for 92.04% of total financial investments, up by 1.07 percentage points over 2017; equity instruments and funds decreased by RMB8,974 million from 2017, and accounted for 1.82% of total investments, a decrease of 0.37 percentage points from 2017. Other debt instruments, mainly including deposits with banks and non-bank financial institutions, debt securities and credit assets that the Bank held through issuance of on-balance sheet principal-guaranteed WMPs, decreased by RMB3,812 million, with its proportion in total financial investments down to 6.14%.

Debt securities investments

The following table sets forth the composition of the Group's debt instruments by currency as at the dates indicated.

	31 December 2018		31 December 2017	
(In millions of RMB, except percentages)	Amount	% of total	Amount	% of total
RMB	5,008,914	95.22	4,474,161	94.91
USD	147,218	2.80	142,899	3.03
HKD	53,664	1.02	43,256	0.92
Other foreign currencies	50,265	0.96	53,698	1.14
Total debt securities investments	5,260,061	100.00	4,714,014	100.00

As at 31 December 2018, the total investments in RMB debt securities totalled RMB5,008,914 million, an increase of RMB534,753 million or 11.95% over 2017. Total investments in foreign-currency debt securities were RMB251,147 million, an increase of RMB11,294 million or 4.71% over 2017.

The following table sets forth the composition of the Group's debt instruments by issuer as at the dates indicated.

	31 December 2018		31 December 2017	
(In millions of RMB, except percentages)	Amount	% of total	Amount	% of total
Government	3,753,874	71.36	3,254,126	69.03
Central banks	38,852	0.74	37,712	0.80
Policy banks	791,660	15.05	814,909	17.29
Banks and non-bank financial institutions	227,713	4.33	170,730	3.62
Others	447,962	8.52	436,537	9.26
Total debt securities investments	5,260,061	100.00	4,714,014	100.00

Financial debt securities

As at 31 December 2018, the Group held financial debt securities totalling RMB1,019,373 million. In this amount, RMB791,660 million was issued by policy banks and RMB227,713 million was issued by banks and non-bank financial institutions, accounting for 77.66% and 22.34% respectively. Adhering to its prudent and reasonable principle, the Group made provisions for impairment losses on financial debt securities with no significant increase of credit risk in accordance with the new financial instruments standard.

The following table sets forth the top ten financial debt securities held by the Group by par value at the end of the reporting period.

(In millions of RMB, except percentages)	Par value	Annual interest rate (%)	Maturity date	Allowances for impairment losses
Issued by policy banks in 2014	14,320	5.44	8 April 2019	2
Issued by policy banks in 2014	11,560	5.79	14 January 2021	1
Issued by policy banks in 2014	11,540	5.67	8 April 2024	1
Issued by policy banks in 2014	10,630	5.61	8 April 2021	1
Issued by policy banks in 2010	10,000	4.21	13 January 2021	1
Issued by policy banks in 2018	9,940	4.04	6 July 2028	1
Issued by policy banks in 2018	9,200	3.76	14 August 2023	1
Issued by policy banks in 2010	8,280	One-year time deposit interest rate +0.59%	25 February 2020	1
Issued by a commercial bank in 2018	8,000	4.86	5 September 2028	–
Issued by policy banks in 2013	7,600	4.43	10 January 2023	1

1. Financial debt securities refer to negotiable debt securities in market issued by financial institutions including policy banks and bank and non-bank financial institutions.

Interest receivable

In accordance with the 2018 Formats of Financial Statements for Financial Enterprises issued by the Ministry of Finance, interest accrued from financial instruments using the effective interest rate method should be included in the carrying value of corresponding financial instruments and presented as appropriate in the financial statements, and no longer be separately presented as "interest receivable".

Repossessed assets

As part of its effort to recover impaired loans and advances to customers, the Group may obtain the title of the collateral, through legal actions or voluntary transfer from the borrowers, as compensation for the losses on loans and advances and interest receivable. As at 31 December 2018, the Group's repossessed assets were RMB3,110 million, and the impairment allowances for repossessed assets were RMB1,165 million. Please refer to Note "Other Assets" in the financial statements for details.

Liabilities

The following table sets forth the composition of the Group's total liabilities as at the dates indicated.

	31 December 2018		31 December 2017		31 December 2016	
(In millions of RMB, except percentages)	Amount	% of total	Amount	% of total	Amount	% of total
Deposits from customers	17,108,678	80.58	16,363,754	80.50	15,402,915	79.50
Deposits and placements from banks and non-bank financial institutions	1,847,697	8.70	1,720,634	8.46	1,935,541	9.99
Debt securities issued	775,785	3.66	596,526	2.93	451,554	2.33
Borrowings from central banks	554,392	2.61	547,287	2.69	439,339	2.27
Financial assets sold under repurchase agreements	30,765	0.15	74,279	0.37	190,580	0.98
Other liabilities[1]	913,782	4.30	1,026,076	5.05	954,122	4.93
Total liabilities	21,231,099	100.00	20,328,556	100.00	19,374,051	100.00

1. These comprise financial liabilities measured at fair value through profit or loss, negative fair value of derivatives, accrued staff costs, taxes payable, interest payable, provisions, deferred tax liabilities and other liabilities.

As at 31 December 2018, the Group's total liabilities were RMB21.23 trillion, an increase of RMB902,543 million or 4.44% over 2017. In this amount, deposits from customers amounted to RMB17.11 trillion, up by RMB744,924 million or 4.55% over 2017. Taking into consideration the inclusion of accrued interest, the actual increase was RMB567,675 million or 3.47%. Deposits and placements from banks and non-bank financial institutions increased by RMB127,063 million or 7.38% over 2017 to RMB1,847,697 million. Debt securities issued were RMB775,785 million, an increase of RMB179,259 million or 30.05% over 2017, mainly due to issuance of 2 batches of Tier 2 capital bonds totalling RMB83 billion. Borrowings from central banks were RMB554,392 million, an increase of 1.30% over 2017. Accordingly, in the Group's total liabilities, deposits from customers accounted for 80.58% of total liabilities, an increase of 0.08 percentage points over 2017. Deposits and placements from banks and non-bank financial institutions accounted for 8.70% of total liabilities, an increase of 0.24 percentage points over 2017. Debt securities issued accounted for 3.66% of total liabilities, an increase of 0.73 percentage points over 2017. Borrowings from central banks accounted for 2.61% of total liabilities, a decrease of 0.08 percentage points from 2017.

Deposits from customers

The following table sets forth the Group's deposits from customers by product type as at the dates indicated.

	31 December 2018		31 December 2017		31 December 2016	
(In millions of RMB, except percentages)	Amount	% of total	Amount	% of total	Amount	% of total
Corporate deposits	8,667,322	50.66	8,700,872	53.17	8,008,460	51.99
Demand deposits	5,854,542	34.22	5,723,939	34.98	5,145,626	33.41
Time deposits	2,812,780	16.44	2,976,933	18.19	2,862,834	18.58
Personal deposits	7,771,165	45.42	7,105,813	43.43	6,927,182	44.98
Demand deposits	3,271,246	19.12	3,169,395	19.37	2,986,109	19.39
Time deposits	4,499,919	26.30	3,936,418	24.06	3,941,073	25.59
Overseas operations and subsidiaries	492,942	2.88	557,069	3.40	467,273	3.03
Accrued interest	177,249	1.04	N/A	N/A	N/A	N/A
Total deposits from customers	17,108,678	100.00	16,363,754	100.00	15,402,915	100.00

As at 31 December 2018, domestic corporate deposits of the Bank were RMB8,667,322 million, a decrease of 0.39% from 2017, mainly due to the decrease in corporate time deposits as a result of centralised deposits of third-party payment platforms' settlement reserve funds with the PBC. Domestic personal deposits of the Bank were RMB7,771,165 million, an increase of RMB665,352 million or 9.36% over 2017, and accounted for 47.27% of domestic deposits from customers, up by 2.32 percentage points over 2017. Deposits from overseas operations and subsidiaries amounted to RMB492,942 million, a decrease of RMB64,127 million, and accounted for 2.88% of the total deposits from customers. The Bank's domestic demand deposits were RMB9,125,788 million, up by RMB232,454 million or 2.61% over 2017, and accounted for 55.51% of the domestic deposits from customers. The time deposits were RMB7,312,699 million, up by RMB399,348 million or 5.78% over 2017, and accounted for 44.49% of domestic deposits from customers, up by 0.75 percentage points over 2017.

Debt securities issued

The Bank issued no corporate debt securities that were required to be disclosed in accordance with *Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 2 – Contents and Formats of Annual Reports (2017 Revision)* and *Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 38 – Contents and Formats of Annual Reports on Corporate Debt Securities*. Please refer to Note "Debt securities issued" in the financial statements for details.

Shareholder's equity

The following table sets forth the Group's total equity and its composition as at the dates indicated.

(In millions of RMB)	As at 31 December 2018	As at 31 December 2017
Share capital	250,011	250,011
Other equity instruments – preference shares	79,636	79,636
Capital reserve	134,537	135,225
Investment revaluation reserve	N/A	(26,004)
Other comprehensive income	18,451	N/A
Surplus reserve	223,231	198,613
General reserve	279,725	259,680
Retained earnings	990,872	886,921
Exchange reserve	N/A	(4,322)
Total equity attributable to equity shareholders of the Bank	1,976,463	1,779,760
Non-controlling interests	15,131	16,067
Total equity	1,991,594	1,795,827

As at 31 December 2018, the Group's equity was RMB1,991,594 million, an increase of RMB195,767 million or 10.90% over 2017, primarily driven by the increase of RMB103,951 million in retained earnings. Taking into consideration the adjustments made at the beginning of the period in accordance with requirements of the new financial instruments standard, the actual increase was RMB215,218 million or 12.12%. As the growth rate of total equity surpassed that of assets, the ratio of total equity to total assets for the Group reached 8.58%, an increase of 0.46 percentage points over 2017.

Off-balance sheet items

The Group's off-balance sheet items include derivatives, commitments and contingent liabilities. Derivatives include interest rate contracts, exchange rate contracts, precious metal contracts, etc. Please refer to Note "Derivatives and Hedge Accounting" in the financial statements of this annual report for details on the nominal amounts and fair value of derivatives. Commitments and contingent liabilities include credit commitments, operating lease commitments, capital commitments, underwriting obligations, redemption obligations, and outstanding litigation and disputes. Among these, credit commitments were the largest component, including undrawn loan facilities which are approved and contracted, unused credit card limits, financial guarantees, and letters of credit. As at 31 December 2018, credit commitments balance was RMB2,848,724 million, a decrease of RMB180,448 million or 5.96% from 2017. Please refer to Note "Commitments and Contingent Liabilities" in the financial statements in this annual report for details on commitments and contingent liabilities.

ANALYSIS ON CASH FLOW STATEMENTS

Cash from operating activities

Net cash received from operating activities was RMB615,831 million, an increase of RMB536,741 million over 2017, mainly because the net growth of loans and advances to customers saw a decrease from 2017, and the deposits with central banks, banks and non-bank financial institutions decreased more over 2017 as affected by reserve ratio cuts.

Cash used in investing activities

Net cash used in investing activities was RMB369,779 million, an increase of RMB272,323 million over 2017, mainly because of the decrease in cash inflows from investing activities due to less proceeds from sale and redemption of investments.

Cash from financing activities

Net cash from financing activities was RMB28,921 million, an increase of RMB20,129 million over 2017, mainly driven by the increase of proceeds from the issuance of bonds.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS AND CHANGES IN ACCOUNTING POLICIES

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The main items affected by accounting estimates and judgements include classification of financial assets, measurement of expected credit losses, fair value of financial instruments, income taxes, employee retirement benefit obligations and scope of consolidation. Please refer to Note "Significant accounting policies and accounting estimates" in the financial statements for the accounting estimates and judgements of the related items.

As the Bank had transferred out all its equity interests in the 27 rural banks, rural banks were not included in consolidation scope of the financial statements for the year ended 31 December 2018.

The Group has adopted IFRS 9 which was issued by International Accounting Standards Board in July 2014 taking effect from 1 January 2018. This constitutes a change in the accounting policies, and the adjustments of relevant amounts have been recognised in the financial statements. The Group had not chosen early adoption of IFRS 9 during the previous periods. According to the transition requirements of IFRS 9, the Group chose not to restate information in the comparative period.

On 1 January 2018, the Group adopted IFRS 9. Compared to the financial statements as at 31 December 2017 prepared under IAS 39, the Group's total equity decreased by RMB19,451 million.

DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND THOSE PREPARED UNDER IFRS

There is no difference in the net profit for the year ended 31 December 2018 or total equity as at 31 December 2018 between the Group's consolidated financial statements prepared under PRC GAAP and those prepared under IFRS.

普惠金融

Inclusive Finance

Small enterprise, big undertaking, great potential

Connect the last kilometer between finance and enterprises

Connect the last kilometer between finance and farmers

The Bank formulated a three-year plan for the inclusive finance strategy, integrating with modern fintech for constructing and building an inclusive finance strategic system.

The Bank continued to enrich product lines for "Rapid Loan for Small and Micro Businesses", and established service platform "Huidongni" making the inclusive finance service readily available. At the end of the year, inclusive finance loans rose by RMB212,515 million to RMB631,017 million over 2017, as the Group led the industry in both the loan balance and new loans.

To promote the rural inclusive service platform "Yunongtong", the number of Yunongtong service outlets opened amounted to 150,000, which covers more than 25% of the administrative villages across the nation.

The Bank leveraged the website of e.ccb.com to explore a new channel for poverty alleviation with e-commerce, which covers 845 poverty-stricken counties. The annual transaction volume on the poverty alleviation platform reached RMB10,007 million.

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BUSINESS REVIEW

The Group's major business segments are corporate banking, personal banking, treasury business and others including overseas business and subsidiaries.

The following table sets forth, for the periods indicated, the profit before tax of each major business segment:

	2018		2017	
(In millions of RMB, except percentages)	Amount	% of total	Amount	% of total
Corporate banking	74,168	24.07	82,724	27.59
Personal banking	139,734	45.34	137,736	45.95
Treasury business	84,735	27.50	54,617	18.22
Others	9,523	3.09	24,710	8.24
Profit before tax	308,160	100.00	299,787	100.00

In 2018, the profit before tax of the Group's corporate banking business was RMB74,168 million, a decrease of 10.34% from 2017, accounting for 24.07% of the profit before tax of the Group; the profit before tax of personal banking business reached RMB139,734 million, an increase of 1.45% over 2017, accounting for 45.34% of the profit before tax of the Group, a decrease of 0.61 percentage points over 2017; the profit before tax of treasury business reached RMB84,735 million, a year-on-year increase of 55.14%, accounting for 27.50% of the profit before tax of the Group, an increase of 9.28 percentage points over 2017.

CORPORATE BANKING

Corporate deposits

In 2018, the Bank continued to consolidate its customer base and maintained corporate deposits at a stable level. At the end of 2018, domestic corporate deposits of the Bank amounted to RMB8,667,322 million, a decrease of RMB33,550 million or 0.39% from 2017. In this amount, demand deposits increased by 2.28% while time deposits decreased by 5.51%.

Corporate loans

The Bank continued to optimise its credit structure, and maintained steady growth of corporate loans and stable asset quality to vigorously support the development of the real economy. At the end of 2018, domestic corporate loans and advances of the Bank amounted to RMB6,497,678 million, an increase of RMB54,154 million or 0.84% over 2017. The NPL ratio of corporate loans and advances was 2.60%, a slight increase of 0.02 percentage points over 2017.

The balance of loans to infrastructure sectors was RMB3,459,618 million, representing an increase of RMB102,165 million or 3.04% over last year, and accounting for 53.24% of the balance of corporate loans and advances, with the NPL ratio staying at a low level of 0.92%. Agriculture-related loans amounted to RMB1.76 trillion. A cumulative total of RMB538.5 billion of network supply chain financing was distributed to 33,000 enterprises, and the number of network supply chain cooperation platforms reached 1,184. The balance of property development loans was RMB365,654 million, an increase of RMB46,654 million over 2017. The property development loans were mainly extended to high quality real estate developers and general commercial residential housing projects. With list-based management, the loans to overcapacity industries dropped by RMB5,736 million to RMB120,109 million compared to 2017. The Bank strictly controlled the total amount of loans to government financing vehicles. The outstanding balance of loans classified under the regulated category amounted to RMB130,926 million, a decrease of RMB39,899 million from 2017.

Inclusive finance business

The Bank innovated and improved the service model of inclusive finance, and promoted the accelerated business development. At the end of 2018, the inclusive finance loans increased by RMB212,515 million over 2017 to RMB631,017 million; the number of inclusive finance loan borrowers increased by 477,400 over 2017 to 1,191,900. The Bank has established an intelligent risk control system, with digitalised, end-to-end and refined risk management and control capabilities, to safeguard the high-quality development of inclusive finance business.

Feature article: Building an Inclusive Finance Strategy System to Solve the Problems in Serving Small and Micro Enterprises

In 2018, the Bank took the lead in making inclusive finance a bank-wide strategy, made comprehensive arrangements, and formulated a three-year plan for the inclusive finance strategy. Through coordinated efforts both vertically and horizontally, the Bank accurately allocated resources, improved supporting policies and accelerated the improvement of the service organisation system, and created a favourable environment where all employees and all channels across the Bank were fully committed to promoting the development of inclusive finance business. The Bank set up inclusive finance divisions in all tier-one and tier-two branches, and created a cumulative total of 288 small business operating centres. It also built special-purpose outlets by tailoring them to specific local needs, established 784 outlets with dedicated inclusive finance offerings, and improved outlet capacity. The outlets offering small and micro enterprise credit business accounted for 92.08%.

The Bank leveraged fintech to build inclusive finance with "CCB features" while adhering to the innovation-driven development strategy. It promoted "batch customer acquisition, accurate profiling, automated approval, intelligent risk control, and integrated services", created a "positive list" of small and micro enterprises to facilitate their financing, and realised the "three-in-one" customer credit experience to offer "one-minute" financing, "one-stop" services, and "all-in" interest rates. The Bank continued to enrich the "Rapid Loan for Small and Micro Businesses" product lines for small and micro enterprises, and improved its scenario-based and customised innovation capabilities to meet the needs of different customers and provide more matching and convenient services for small and micro enterprises. By the end of 2018, loans of more than RMB710 billion had been granted by the Bank through "Rapid Loan for Small and Micro Businesses" to a cumulative total of 550,000 customers.

The Bank launched the "Huidongni" app as a one-stop service platform for small and micro enterprises. It used internal and external data to accurately align its products and services with the customer needs, formed a new type of bank-enterprise communication mode to realise the bilateral interaction between the Bank and its customers, and enhanced customers' sense of gaining in comprehensive service experience. By the end of 2018, the platform, only over three months after release, had been downloaded more than 2.6 million times, with 6.2 million visits.

The Bank expanded the scope of inclusive financial services and created a new ecology of inclusive finance. It promoted the realisation of the Jinzhihuimin project of CCB University and launched inclusive finance training programmes for start-up entrepreneurs. It also promoted the cross-discipline cooperation among industry sectors, universities and academic institutions, and released China's Blue Paper on Inclusive Finance and "CCB – Xinhua Inclusive Finance – Small and Micro Enterprise Index", building a "barometer" for China's inclusive finance for the first time. The Bank also established the "Workers' Harbour", and offered 14,000 shared spaces among its outlets.

In 2019, the Bank will continue to deepen the implementation of the inclusive finance strategy, improve the operating mechanism and product lines, strengthen intelligent risk control, and promote financial services to benefit a wider customer base.

Institutional business

The Bank took sole lead among peers in launching the "Government Affairs Service Platform for a Smart City", building a bridge from root-level population to government customers, and creating a "prototype" for electronic government affairs services. The platform has been rolled out in 38 provinces and cities. The Bank was the first among peers to initiate the "Integrated Management Platform for Religious Affairs", issued more than 19.3 million religious co-branded cards in total, and set up electronic charity boxes in more than 600 religious sites. In fulfilling the duty of serving the people's livelihood, the Bank supported the fourth "Internet Plus" College Students Innovation and Entrepreneurship Competition in China as the sole sponsor. The Bank had issued a cumulative total of 125 million financial social security cards and took the lead in introducing the "electronic social security cards" in the banking industry. It was the only bank to participate in the "Home of Government Affairs" pilot programme of the MOF, and built an ecosystem for civil servants customers. It won the bid to act as the authorised agent for fiscal payments of the central government, and cooperated exclusively with the Ministry of Industry and Information Technology in the financial shared service centre project. It also participated in the establishment of a national financing guarantee fund to address financing problems for small and micro enterprises, as well as those in relation to "agriculture, farmers and rural areas". The Bank successfully promoted the house leasing project of Beijing Jiaotong University and entered into strategic cooperation with the university. It also signed strategic cooperation agreements with key universities, such as Fudan University, China Agricultural University, Xiamen University and Guizhou University.

International business

The Bank took the lead in establishing a blockchain trade finance platform in the industry, with participation of nearly 40 domestic and overseas institutions in the Group, and signed cooperation agreements with 20 banks and non-bank financial institutions. By the end of 2018, the cumulative transaction amount of the platform had exceeded RMB200 billion. The Bank actively promoted the connection between its "cross-border e+" system and the customs' "single international trade window" to provide end-to-end online financial services for import and export enterprises. Using the big data technology, it released the innovative "Cross-border Rapid Loan" series products, providing purely credit-based and fully online financing services for small and micro import and export enterprises. The AI-assisted documents review project became the first successful application of its kind in the industry, and the phase-one functions had been successfully launched.

Picture above: Inclusive Finance Business Monitoring and Command Centre

The Bank leveraged fintech while adhering to the innovation-driven development strategy, promoted "batch customer acquisition, accurate profiling, automated approval, intelligent risk control, and integrated services", realised the customer credit experience to offer "one-minute" financing, "one-stop" services, and "all-in" interest rates. Loans of more than RMB710 billion had been granted by the Bank through "Rapid Loan for Small and Micro Businesses" to accumulative total of 550,000 customers.

Picture in the middle: Zhu Chao, the customer relationship manager of Xinjiang Uygur Autonomous Region Branch of the Bank is communicating with small and micro enterprise clients

Zhu Chao, who loves to think, summarised work methods including "Eight not to lend, three-in-one, three three three ", which became the entrance guides for employees of local small and micro enterprise credit business. In the past three years, he has granted RMB120 million small and micro enterprise loans and maintained zero balance of non-performing loan.

Picture below: Yang Wanyuan, the customer relationship manager of Hunan Branch of the Bank is teaching farmers to use mobile POS devices

Yang Wanyuan is committed to getting financial services through the last kilometer to farms. He visited 25 villages and towns and 427 natural villages in Cili County of Hunan Province, and set "Jinxiangtong" inclusive finance service outlets in every level.


贷动未来
Benefit Small and Micro Businesses
550,000 customers

Cross-border RMB business also performed well. The Bank's three RMB clearing branches in the UK, Switzerland and Chile showed steady development. Its RMB clearing branch in the UK continued to maintain the largest RMB clearing volume outside Asia, with a cumulative clearing amount of exceeding RMB30 trillion. Thanks to the active expansion of the offshore RMB customer base and further improvement of the RMB market-making and pricing capability in the offshore market, the Bank's position as an RMB market maker in Hong Kong, Taiwan and South Korea was further strengthened. The Bank continued to improve its overseas correspondent bank and clearing service network. By the end of 2018, it had established ties with financial institutions in more than 140 countries and regions, covering basically all countries along the Belt and Road. By opening accounts denominated in 14 minor currencies such as Emirati Dirham of the United Arab Emirates (AED), the Bank facilitated the development of direct trading markets between RMB and minor currencies of the Belt and Road countries.

In 2018, the Bank's international settlement volume amounted to US$1.11 trillion, and the volume of domestic and overseas cross-border RMB settlement was RMB2.76 trillion. The Bank's domestic customers of international payment services amounted to 100,800, including 54,900 customers at its "cross-border e+" platform, an increase of 334.45% over 2017. The cross-border RMB settlement customers reached 27,400, an increase of 20.25% over 2017.

Custody service

The Bank took various measures, including promoting the marketing and development of its custody services, stepping up efforts in custody product innovation, improving its business model, and strengthening the risk control and compliance management. A custody operation centre successfully went into operation, greatly enhancing its operation capabilities. The Bank won the bid as main custodian of the central government occupational pension. It was appointed as the custody and outsourcing service provider of top global asset management companies, and its service capability was highly recognised by customers. The Bank also maintained its market leader position in businesses relating to Mainland-Hong Kong mutual recognition of funds and pension target funds custody. At the end of 2018, assets under custody of the Bank amounted to RMB12.22 trillion, up RMB681,732 million or 5.91% over 2017. In this amount, insurance assets under custody of the Bank reached RMB3.92 trillion, up RMB362,712 million or 10.19% over 2017.

Settlement and cash management business

The settlement and cash management business continued to grow steadily. The Bank launched its innovative "Huishibao – comprehensive service platform for high-end corporate settlement", and built "Jianguanyi", a multi-level fund supervision model, to meet treasury management needs of customers in specialised markets, fund supervision and other areas. The Bank improved the global account information reporting system and expanded the global fund collection and payment function, to provide customers with efficient and convenient global cash management services. Its electronic bill business developed rapidly, and the electronic tax payment service brought more convenience to customers. At the end of 2018, the Bank had 9.45 million corporate RMB settlement accounts, an increase of 1.51 million, while its active cash management customers increased by 0.53 million to 2.16 million.

PERSONAL BANKING

Personal finance

In 2018, the Bank adhered to the customer-oriented philosophy, actively promoted the strategy to set retail business as its priority to accelerate the building of CCB new retail business, and continued to improve customer services to deliver the best customer experience. The Bank actively responded to the interest rate liberalisation trend by reinforcing innovation in personal deposits and strengthening the coordinated planning of on and off-balance sheet funds. The Bank relied on fintech to improve its ability in structuring investment and wealth management assets, and launched the "Long Fortune" personal wealth management platform. It increased the efforts in building its mobile payment portfolio and scenario offerings, and created the "Long Pay" enterprise-level digital payment brand. It also established and refined the "Yunongtong" comprehensive service platform to serve the country's rural revitalisation strategy, and created a new ecology for inclusive finance services at the county level. The personal customer base was further consolidated. At the end of 2018, the number of personal customers with assets placed with the Bank increased by 36 million from 2017, and the financial assets of personal customers increased by RMB1.05 trillion from 2017.

Personal deposits

The Bank strengthened its fintech applications, innovated high quality and efficient products and services, and maintained steady growth in personal deposits. At the end of 2018, domestic personal deposits of the Bank rose by RMB665,352 million or 9.36% over 2017, to RMB7,771,165 million. In this amount, demand deposits increased by 3.21%, and time deposits increased by 14.32%.

Personal loans

The Bank enhanced its leading position in personal loan products through constant innovations. At the end of 2018, domestic personal loans of the Bank increased by RMB645,950 million or 12.44% over 2017, to RMB5,839,803 million. For residential mortgages, in accordance with the macro-control requirements for real estate market, the Bank strictly implemented differentiated credit policies for residential mortgages, mainly supporting the borrowers' housing needs for their own residential purpose. The Bank took the lead in terms of the balance of residential mortgage loans, which increased by RMB540,528 million or 12.83% over 2017, to RMB4,753,595 million. The Bank maintained its top position as an innovative leader in personal consumer loan and business loan and applied internet and big data technologies to drive its business transformation and development. The balance of self-service personal loans through "Rapid Loan" online channels was RMB189,934 million. The balance of offline personal consumer loans, personal business loans and agriculture-related personal loans was RMB20,191 million, RMB37,287 million and RMB2,756 million respectively.

Debit card business

The Bank focused on solidifying the foundation of its debit card business, intensifying innovation in the field of mobile payment, and serving people's livelihood in areas such as food, clothing, housing and transportation. At the end of 2018, the number of active debit cards was 1,041 million, including 559 million financial IC debit cards. The transaction volume of debit cards in 2018 was RMB21.00 trillion, an increase of 36.37% year on year. The Bank continued to upgrade its "Long Pay" business, attracting a cumulative number of 85.02 million users with 316 million transactions conducted in the year, making the Bank a leading presence in brand awareness and business scale.

Credit card business

The Bank continued to improve its credit card business structure and steadily enhance its service capabilities. It actively expanded its young customer base and high-quality customers, made every effort to develop customers for agency salary payment services, and offered a number of new products, such as JOY Card, Bonus Card, MUSE Card and Long Card Credit (Daiba) virtual card, further improving the quality and activeness of customers. The Bank strengthened its payment innovation and mobile payment binding, increased information and fund exchanges between accounts, and established itself as a major player in the payment market. The Bank innovatively created a car consumer finance ecosystem, developed education, studying abroad, medical treatment and other market segments, and built the CCB "Home Improvement Festival" brand. Relying on its "Huidouquan" platform, the Bank promoted more than 180 industry applications, including food and car repair and maintenance, to create value and convenience for the people, and had become an integral part of the people's everyday life. At the end of 2018, the cumulative number of credit cards issued by the Bank increased by 14.47 million over 2017 to 121.40 million. The transaction volume of credit card consumption for the year reached RMB2,992,736 million, a year-on-year increase of RMB373,824 million or 14.27%, and the loan balance was RMB651,389 million. The Bank led the market in terms of multiple core indicators, including the total number of customers, loan balance and asset quality.

Private banking

The Bank's private banking achieved steady growth. Drawing on fintech, the Bank led the market in creating its mobile private bank and launching a mobile version of its private banking services. Also, the Bank built a product system designed to "help customers structure their assets", and vigorously promoted its wealth advisory services. The money under custody of new family trust customers was RMB26.1 billion and the assets under administration were RMB24.8 billion. Moreover, the Bank launched the innovative service of Family Office. At the end of 2018, the assets under management (AUM) of private banking customers amounted to RMB1,348,512 million, up by RMB188,982 million or 16.30% over 2017. The number of private banking customers increased to 127,211, up 17,009 or 15.43% over 2017.

Entrusted housing finance business

In line with the national policy on strengthening the use of provident housing funds, the Bank innovated its service models and improved its business processes and service efficiency to further consolidate its leading position in the entrusted housing finance market. At the end of 2018, housing fund deposits were RMB799,866 million, while personal provident housing fund loans amounted to RMB2,210,306 million. The Bank supported low- and middle-income residents' housing needs for their own residential purpose.

Feature article: Retail Transformation

In recent years, the Bank has given high priority to its retail business and integrated its business resources to strike a mutually beneficial balance between retail banking and corporate banking. Focusing on the idea of "Opening and Sharing, Mutually Beneficial Value Creation, Digital Interconnection and Customer-centric", the Bank has stepped up its efforts in the digitalised, AI-assisted and internet-based transformation of its retail business.

Centring on customer services and customer value enhancement, the Bank endeavours to build superior customer relationships. It has leveraged the Group's advantages to promote star-rated services and comprehensive service solutions for personal customers, manage its customers by segments and categories more efficiently, and improve its capabilities in delivering differentiated services to private banking customers and middle- and high-end customers. Embracing the inclusive finance concept, the Bank launched the personal comprehensive membership point service to benefit the general public, and implemented the innovative "Yunongtong" inclusive finance service model, as the number of Yunongtong service outlets amounted to 150 thousand. The Bank's poverty alleviation initiative through e-commerce was admitted to the "E-Commerce Poverty Alleviation Alliance" initiated by the Ministry of Commerce, expanding to 845 poverty-stricken counties. It also actively contributed to the construction of smart cities, participated in smart government service platforms, and continued to increase its presence in various financial service scenarios, including public services, public transportation, bill payment, consumption, and communities and home life.

The Bank leveraged its traditional advantages to provide comprehensive financial services for personal customers. In line with the trend of interest rate liberalisation, the Bank focused on life scenarios and used its payment and settlement network to absorb low-cost funds. It has strengthened the pooling of on and off-balance sheet capital, made more flexible pricing strategies, and enriched the retail liability product system with personal deposits amounting to RMB7,771,165 million. The Bank has also launched its "Long Fortune" brand to collectively manage the sales of investment and WMPs, including WMPs, insurance, funds and precious metals. In addition, the Bank has consolidated its position as China's largest retail credit bank, with personal loans amounting to RMB5,839,803 million. The Bank explored a new mode of house leasing business, and built a comprehensive service platform for house leasing with a pool of more than 10 million housing units on the platform. Taking advantage of market opportunities in consumer finance, the Bank has played a major role in driving the rapid development of personal consumer credit, and continued to lead the credit card business in the industry.

The Bank has quickened its pace in the transformation towards digital and intelligent business, and promoted the integrated development of on-line and off-line businesses. It launched smart mobile banking with customers exceeding 300 million. It also created the "Long Pay" brand, based on which it released the virtual credit card product "Long Card Credit (Daiba)" to realise rapid loan application and immediate loan use, maintaining its leading position in the core indicators of mobile payment. The Bank has also strengthened the linkage between domestic and overseas retail businesses, and promoted the implementation of the New Generation System for private banking customers across its overseas operations. It launched AI-assisted direct sales to personal customers, promoted the intensified, intelligent, refined and professional development in customer services at enterprise level, and continued to lead the market with its "cloud-based customer service" platform.

TREASURY BUSINESS

Financial market business

In 2018, the Bank steadily pushed forward its financial market operations, and continued to improve its trading capabilities and product mix, strengthen its customer base, build channel platforms, and enhance risk control compliance. With these efforts, it maintained the leading position in terms of key operational indicators and steadily sharpened its competitive edge.

Money market business

The Bank adhered to the business strategy of combining prudence and active operations to maintain adequate RMB and foreign-currency positions and ensure sound liquidity throughout the Bank. With regard to RMB funds, the Bank remained sensitive to market funding fluctuations, and strengthened forward-looking predictions to maintain stable positions and maximise returns on its funds. With regard to foreign currency funds, the Bank closely monitored the liquidity changes in the global markets, especially the impact of trade frictions and the interest rate raises by the Federal Reserve, and made well-informed decisions to maintain the optimal maturity structure for incoming and outgoing funds, so as to ensure its liquidity safety.

Debt securities investments

The Bank proactively responded to internal and external situation changes to achieve a reasonable balance between security, liquidity and returns of the investment portfolio. With regard to investment in RMB debt securities, the Bank adhered to the principle of value investment, intensified market trend analysis, continuously improved the portfolio structure, strengthened the business linkage between the Head Office and branches, and supported the development of the real economy, in order to maximise returns throughout the Bank. With regard to investment in foreign-currency debt securities, the Bank proactively adjusted the portfolio structure based on the interest rate trends in the global markets, as part of its efforts to improve overall returns.

Customer-based trading business

With continued efforts in market-making activities, customer development and compliance management, the Bank achieved sound and steady development of customer-based trading business. The Bank strengthened its self-discipline and compliance with regulatory requirements and was one of the first entities to sign the statements on the FX Global Code and the Guidelines for China's Foreign Exchange Market. It actively expanded its customer base, with the number of customers continuing to grow. In 2018, customer-based trading business amounted to US$425,639 million, with the foreign exchange market-making transaction volume reaching US$3.05 trillion. The Bank maintained the leading position in the comprehensive ranking of interbank foreign exchange market maker.

Precious metals and commodities

The Bank continued to enrich its product line, and realised sound development of the precious metals and commodities business in compliance with regulations. The Bank launched the first platinum lease products in the industry, and innovatively launched the prepayment forward operation, providing customers with comprehensive financial solutions by combining the financing and hedging activities of customers for commodity trading. In 2018, the total trading volume of precious metals of the Bank reached 56,617 tonnes, and the number of personal customers for precious metal and commodity trading reached 39.26 million.

Asset management

The Bank proactively adapted itself to new regulatory policies, accelerated the transformation of its asset management practices, and continuously improved its product structure and asset structure. The Bank achieved rapid growth in net worth products, with 192 net worth products launched throughout the year. At the end of 2018, the balance of net worth products amounted to RMB299,624 million, an increase of RMB297,509 million over 2017. The proportion of product offerings for personal customers rose substantially, with a year-end balance of WMPs to personal customers of RMB1,684,329 million, accounting for 76.96% of the total. The asset structure and maturity matching were improved significantly. The share of standardised assets increased significantly, with a balance of RMB813,810 million, accounting for 36.82% of the total assets, an increase of RMB139,886 million or 20.76% over the previous year. The Bank strengthened the coordinated development of the Group's asset management and launched the building of the "Mega Asset Manager" system. It was the first bank to obtain approval from the CBIRC for the establishment of a wealth management subsidiary. In 2018, the Bank independently issued various WMPs totalling RMB7,519,123 million to effectively meet the investment needs of customers. In this amount, the Bank issued 1,222 principal-guaranteed WMPs totalling RMB785,773 million and 10,075 non-principal-guaranteed WMPs totalling RMB6,733,350 million. A total of 1,641 principal-guaranteed WMPs totalling RMB796,683 million and a total of 8,794 non-principal-guaranteed WMPs totalling RMB6,616,042 million expired in 2018. At the end of 2018, the balance of WMPs was RMB2,188,303 million. In this amount, the balance of the remaining 344 principal-guaranteed WMPs was RMB341,779 million, a decrease of RMB12,657 million from 2017, and the balance of the remaining 4,598 non-principal-guaranteed WMPs was RMB1,846,524 million, an increase of RMB115,703 million over 2017.

Investment banking business

The Bank provided customers with comprehensive financial solutions that combined financing with intelligence through fintech, realising a fee income of RMB5,092 million from transaction services. In 2018, the Bank offered direct financing service totalling RMB1.40 trillion to the real economy, with a total of 622 batches of debt financing instruments for non-financial enterprises totalling RMB426,533 million, an increase of 25.66% and 6.65% respectively over 2017. It intensified its support for private enterprises by adopting the portfolio of Credit Risk Mitigation Warrants (CRMW). The balance of bonds underwritten for private enterprises and the annual underwriting amount were RMB160,367 million and RMB58,310 million respectively, both leading the market. Relying on the intelligent financial advisory service system, the Bank provided services such as customised reports, risk assessment and financial automatic diagnosis for customers, reaping a financial advisory income of RMB3,480 million, an increase of 8.40% over 2017. By virtue of the leading role played by Guangdong and Shanghai M&A centres, the income from M&A and restructuring financial advisory services reached RMB631 million, doubling that of the previous year. The Bank cooperated with the NDRC to jointly initiate a national strategic emerging industry development fund to fully leverage equity financing in support of the development of national strategic emerging industries. The Bank has undertaken a cumulative total of RMB2.3 billion debt financing instruments for innovative and start-up businesses and RMB6 billion bills of poverty alleviation. The Bank helped channel private funds of RMB18.9 billion into the house leasing market, and registered bonds of RMB35.4 billion in house leasing sector. It is the first bank to achieve solid results in the pilot asset-backed securitisation programmes in the Green Financial Reform and Innovation Pilot Zone, and facilitated registered green bond projects for enterprises totaling RMB114.7 billion. It issued over US$40 billion oversea bonds for premium Chinese enterprises in support of their "Going Global" strategy and the Belt and Road Initiative, and issued six batches of corporate loan asset-backed securitisation products, totaling RMB50,855 million, leading the market.

Financial institutional business

The Bank's financial institutional business remained stable. The financial institution cooperation platform was successfully launched, while a number of products became available, including the AI-assisted risk management and control for the retail business. The functions of the financial institutional business system were further improved, with a new mobile banking channel for financial institutions to conduct transactions, while online self-service inquiry and offer functions also became available. At the end of 2018, the Bank's assets placed with domestic financial institutions amounted to RMB765,671 million, a year-on-year increase of RMB307,169 million. The balance of due to other financial institutions (including insurance deposits) amounted to RMB1,279,253 million, a year-on-year increase of RMB81,245 million.

OVERSEAS COMMERCIAL BANKING BUSINESS

The Group steadily expanded its overseas business and institutional network, continuously broadened its service channels, and expanded its financial products, with enhanced globalised customer service capability and international competitiveness. In February 2018, the Bank's New Zealand Branch officially opened for business. By the end of 2018, the Group had established overseas institutions in 29 countries and regions, including Hong Kong, Singapore, Germany, South Africa, Japan, South Korea, the US, the UK, Vietnam, Australia, Russia, Dubai, Taiwan, Luxembourg, Macau, New Zealand, Canada, France, the Netherlands, Spain, Italy, Switzerland, Brazil, Cayman Islands, Ireland, Chile, Indonesia, Malaysia and Poland. The Bank had wholly-owned operating subsidiaries including CCB Asia, CCB London, CCB Russia, CCB Europe, CCB New Zealand, CCB Brasil and CCB Malaysia, and held 60% of the total share capital of CCB Indonesia. Net profit achieved by overseas commercial banking institutions in 2018 was RMB7,999 million, a year-on-year increase of 11.17%.

CCB Asia

China Construction Bank (Asia) Corporation Limited is a licensed bank registered in Hong Kong with an issued and fully paid capital of HK$6,511 million and RMB17,600 million.

CCB Asia holds a license to engage in multiple lines of business, with its core base in Hong Kong and Macau and a wide reach that spreads to Chinese mainland and Southeast Asia. The targeted customers of its wholesale business include local Blue-Chip and large Red-Chip companies, large Chinese conglomerates and multinational corporations, while it also provides top financial services to premium local customers. CCB Asia has rich experience and traditional advantages in providing professional financial services such as overseas syndicated loans and structured finance, and has achieved rapid growth in comprehensive financial services in international settlement, trade finance, financial market trading, large structured deposits and financial advisory service. CCB Asia is the Group's service platform for retail and small and medium-sized enterprises in Hong Kong, and has 47 branches (including wealth management centres and personal loan centres). At the end of 2018, total assets of CCB Asia amounted to RMB395,008 million, and shareholders' equity was RMB54,833 million. Net profit in 2018 was RMB3,018 million.

CCB London

China Construction Bank (London) Limited, established in the UK in 2009, is a wholly-owned subsidiary of the Bank, with a registered capital of US$200 million and RMB1.5 billion.

CCB London is dedicated to serving Chinese institutions in the UK, British companies with investment in China, and enterprises involved in Sino-British bilateral trade. It is mainly engaged in corporate deposits and loans, international settlement and trade finance, RMB and British pound clearing, financial market trading products, etc. At the end of 2018, total assets of CCB London amounted to RMB4,828 million, and shareholders' equity was RMB3,597 million. Net profit in 2018 was RMB12 million.

CCB Russia

China Construction Bank (Russia) Limited, established in Russia in 2013, is a wholly-owned subsidiary of the Bank, with a registered capital of RUB4.2 billion. CCB Russia holds a comprehensive banking license, a precious metal business license and a bond market participant license issued by the Central Bank of Russia.

CCB Russia is dedicated to serving Chinese enterprises in Russian, large Russian enterprises and multinational enterprises involved in Sino-Russia bilateral trade. It is mainly engaged in corporate deposits and loans, international settlement and trade finance, financial market trading, financial institutional business, clearing, etc. At the end of 2018, total assets of CCB Russia amounted to RMB2,544 million, and shareholders' equity was RMB620 million. Net profit in 2018 was RMB37 million.

CCB Europe

China Construction Bank (Europe) S.A., established in Luxembourg in 2013, is a wholly-owned subsidiary of the Bank, with a registered capital of EUR200 million. Based in Luxembourg, CCB Europe has established branches in Paris, Amsterdam, Barcelona, Milan and Warsaw.

CCB Europe mainly provides services to large and medium-sized Chinese enterprises in Europe as well as European multinational enterprises in China. It is mainly engaged in corporate deposits and loans, international settlement and trade finance, cross-border trading, etc. At the end of 2018, total assets of CCB Europe amounted to RMB9,772 million, and shareholders' equity was RMB1,421 million. Net profit in 2018 was RMB35 million.

CCB New Zealand

China Construction Bank (New Zealand) Limited, a wholly-owned subsidiary of the Bank, was established in New Zealand in 2014 with a registered capital of NZD199 million.

CCB New Zealand holds wholesale and retail business license, and offers all-round and high-quality financial services, including corporate loans, trade finance, RMB clearing and cross-border trading. At the end of 2018, total assets of CCB New Zealand amounted to RMB5,250 million, and shareholders' equity was RMB990 million. Net profit in 2018 was RMB51 million.

CCB Brasil

China Construction Bank (Brasil) Banco Múltiplo S/A is a wholly-owned subsidiary acquired by the Bank in Brasil in 2014. Its predecessor, Banco Industrial e Comercial S.A., was delisted and changed to its present name in 2015.

CCB Brasil provides banking services, including corporate loans, trading and personal lending, as well as non-banking financial services such as leasing. CCB Brasil has nine domestic branches and sub-branches in Brazil, one Cayman branch, five wholly-owned subsidiaries, and one joint venture. These subsidiaries provide personal loans, credit cards, equipment leasing and other services, while the joint venture focuses on factoring and forfaiting. At the end of 2018, total assets of CCB Brasil amounted to RMB33,181 million, and shareholders' equity was RMB2,882 million. Net profit in 2018 was negative RMB323 million.

CCB Malaysia

China Construction Bank (Malaysia) Berhad, a wholly-owned subsidiary of the Bank, was established in Malaysia in 2016 with a registered capital of MYR822.6 million. It officially commenced business in June 2017.

As a licensed commercial bank, CCB Malaysia can provide various financial services, including global credit granting, trade finance, supply chain finance, clearing in MYR, RMB and multiple currencies, and cross-border fund transactions, for key projects involved in the Belt and Road Initiative, Sino-Malaysian bilateral trade enterprises, and large local infrastructure projects in Malaysia. At the end of 2018, total assets of CCB Malaysia amounted to RMB7,293 million, and shareholders' equity was RMB1,373 million. Net profit in 2018 was RMB16 million.

CCB Indonesia

PT Bank China Construction Bank Indonesia Tbk is a fully licensed commercial bank listed on the Indonesia Stock Exchange with a registered capital of IDR1.66 trillion. Headquartered in Jakarta, CCB Indonesia has 94 branches and sub-branches across Indonesia, covering all major islands of Indonesia. The Bank completed the acquisition of 60% equity in PT Bank Windu Kentjana International Tbk in September 2016 and renamed it PT Bank China Construction Bank Indonesia Tbk in February 2017.

CCB Indonesia is committed to promoting the bilateral investment and trade between China and Indonesia, including providing major support to the Belt and Road Initiative, promoting local development and serving Blue-Chip companies in Indonesia, and its business priorities include corporate business, small and medium-sized enterprise business, trade finance and infrastructure finance. At the end of 2018, total assets of CCB Indonesia amounted to RMB7,686 million, and shareholders' equity was RMB1,224 million. Net profit in 2018 was RMB51 million.

INTEGRATED OPERATION SUBSIDIARIES

The Group has multiple domestic and overseas subsidiaries, including CCB Principal Asset Management, CCB Financial Leasing, CCB Trust, CCB Life, Sino-German Bausparkasse, CCB Futures, CCB Pension, CCB Property & Casualty, CCB Investment and CCB International. In 2018, the overall business development of integrated operation subsidiaries was robust with steady business expansion. Due to fluctuations in overseas capital markets, the profit slightly declined, but the decline had been foreseen and fell within the expected range. At the end of 2018, total assets of the integrated operation subsidiaries were RMB474,479 million, a year-on-year increase of 7.37%. Net profit reached RMB5,602 million, a decrease of 9.90%.

CCB Principal Asset Management

CCB Principal Asset Management Co., Ltd., established in 2005, has a registered capital of RMB200 million, to which the Bank, Principal Financial Services, Inc. and China Huadian Capital Holdings Company Limited contribute 65%, 25% and 10% respectively. It is engaged in the raising and selling of funds, and assets management.

In 2018, CCB Principal Asset Management achieved record-high operating results in various areas. At the end of 2018, the total assets managed by CCB Principal Asset Management was RMB1.62 trillion. In this amount, mutual funds were RMB633,139 million, the third largest in the industry. The size of its separately managed accounts was RMB464,024 million, the first in the industry. The total assets managed by its subsidiary CCB Principal Capital Management Co., Ltd. reached RMB520,338 million, the first in the industry. At the end of 2018, total assets of CCB Principal Asset Management were RMB5,954 million, and shareholders' equity was RMB4,722 million. Net profit in 2018 was RMB1,146 million.

CCB Financial Leasing

CCB Financial Leasing Co., Ltd., established in 2007, is a wholly-owned subsidiary of the Bank with a registered capital of RMB8 billion. It is mainly engaged in finance leasing, transfer and purchase of finance leasing assets, fixed-income securities investment, collecting security deposits from lessees, interbank lending and placement, borrowing from financial institutions, overseas borrowing, sales and disposal of leased properties, economic consulting, establishing special purpose entities to provide leasing in domestic bonded areas, and providing guarantees for external financing by its subsidiaries and special purpose entities.

In 2018, CCB Financial Leasing increased its efforts in developing innovative products and services in three major lines, namely aircraft leasing, green leasing and livelihood service, and in six areas, including integrated urban infrastructure and high-end equipment manufacturing, to improve its overall competitiveness. It enhanced its international presence by actively and steadily expanding its overseas business, and maintained stable asset quality and achieved high quality business development by adopting active and effective risk prevention and control measures. At the end of 2018, total assets of CCB Financial Leasing were RMB147,386 million, and shareholders' equity was RMB14,472 million. Net profit in 2018 was RMB1,315 million.

CCB Trust

CCB Trust Co., Limited, established in 2009 after restructuring, has a registered capital of RMB1,527 million. The Bank and Hefei Xingtai Financial Holding (Group) Co., Ltd. hold 67% and 33% of its shares respectively. It is mainly engaged in trust business, investment banking and proprietary business. Trust business mainly includes single fund trust, collective fund trust, property trust, equity trust and family trust, and the trust assets are mainly used for loans and investments. Investment banking mainly includes financial advisory service, equity trust and bonds underwriting. Proprietary business mainly includes lending, equity investment and securities investment with the equity funds.

In 2018, CCB Trust stepped up efforts in improving compliance in its operations, actively engaged in innovation-driven development, and delivered strong operating results. At the end of 2018, trust assets under management amounted to RMB1,403,939 million. Total assets of CCB Trust were RMB22,273 million, and shareholders' equity was RMB13,581 million. Net profit in 2018 was RMB2,056 million.

CCB Life

CCB Life Insurance Company Limited was incorporated in 1998 with a registered capital of RMB4,496 million. The Bank, China Life Insurance Co., Ltd. (Taiwan), the National Council for Social Security Fund, China Jianyin Investment Limited, Shanghai Jin Jiang International Investment and Management Company Limited, and Shanghai China-Sunlight Investment Co., Ltd. hold 51%, 19.9%, 14.27%, 5.08%, 4.9% and 4.85% of its shares respectively. CCB Life's scope of business mainly includes personal insurance such as life, health, accidental injury insurance, and reinsurance of the above-mentioned offerings.

In 2018, its business structure was optimised and its financial results continued to improve. Its core indicators such as business size and net profit topped the bank-affiliated insurance companies. At the end of 2018, total assets of CCB Life were RMB132,428 million, and shareholders' equity was RMB10,429 million. Net profit in 2018 was RMB615 million. According to the requirements of accounting standard, CCB Life did not implement the new financial instruments standard in 2018.

Sino-German Bausparkasse

Sino-German Bausparkasse Co., Ltd. was incorporated in 2004 with a registered capital of RMB2 billion. The Bank and Bausparkasse Schwaebisch Hall AG hold 75.10% and 24.90% of its shares respectively. As a specialised commercial bank committed to the housing financing sector, Sino-German Bausparkasse is engaged in taking housing savings deposits, granting housing savings loans, residential mortgages, and real estate development loans for indemnificatory housing supported by state policies.

In 2018, Sino-German Bausparkasse achieved steady business development, and the sales of housing savings products increased to RMB27,950 million. At the end of 2018, the total assets of Sino-German Bausparkasse were RMB25,830 million, and shareholders' equity was RMB2,903 million. Net profit in 2018 was negative RMB14 million.

CCB Futures

CCB Futures Co., Ltd. was established in 2014 after restructuring with a registered capital of RMB561 million. CCB Trust and Shanghai Liangyou (Group) Co., Ltd. hold 80% and 20% of its shares respectively. It is mainly engaged in commodity futures brokerage, financial futures brokerage, asset management and futures investment advisory business. CCB Trading Company Limited, a wholly-owned risk management subsidiary of CCB Futures, is engaged in pilot risk management operations approved by the CSRC, such as warehouse receipt service and pricing service, and general trade business.

In 2018, CCB Futures maintained stable development in all business lines and strengthened its ability to serve the real economy. At the end of 2018, total assets of CCB Futures were RMB6,996 million, and shareholders' equity was RMB677 million. Net profit in 2018 was RMB27 million.

CCB Pension

CCB Pension Management Co., Ltd. was incorporated in 2015 with a registered capital of RMB2.3 billion. The Bank and the National Council for Social Security Fund hold 85% and 15% of its shares respectively. Its business scope mainly includes investment and management of national social security funds, businesses related to the management of enterprise annuity funds, entrusted management of pension funds, and pension advisory service for the above asset management activities.

In 2018, CCB Pension introduced a product model that combined real estate-based wealth management and pension ("House depositing + Pension"), developed "Jian Yi Ren Sheng" APP as a comprehensive pension service platform and gave full play to the advantages of pension finance to address the major concerns and issues in elderly care in China. As the Bank continued to improve its investment management capabilities, it secured a top spot among market players for its investment performance. It also achieved remarkable success in the occupational annuity market, as it won all the public tenders for government-administered occupational annuity plans. Along with the increasing competitiveness and influence in the market, CCB Pension had assets under management reaching RMB442,086 million. At the end of 2018, total assets of CCB Pension were RMB2,760 million, and shareholders' equity was RMB2,275 million. Net profit in 2018 was RMB61 million.

CCB Property & Casualty

CCB Property & Casualty Insurance Co., Ltd. was officially incorporated in 2016 with a registered capital of RMB1 billion. CCB Life, Ningxia Traffic Investment Co., Ltd. and Yinchuan Tonglian Capital Investment Operation Co., Ltd. hold 90.2%, 4.9% and 4.9% of its shares respectively. CCB Property & Casualty's scope of business mainly includes motor vehicle insurance, insurance for business and household property, construction and engineering, liability insurance, hull and cargo insurance, short-term health and accident injury insurance, and reinsurance of the above-mentioned offerings.

In 2018, CCB Property & Casualty witnessed a good momentum of business development. At the end of 2018, total assets of CCB Property & Casualty were RMB1,111 million, and shareholders' equity was RMB641 million. Net profit in 2018 was a negative value of RMB99 million.

CCB Investment

CCB Financial Asset Investment Co., Ltd., a wholly-owned subsidiary of the Bank, was incorporated in 2017, with a registered capital of RMB12 billion. It is mainly engaged in debt-for-equity swaps and relevant supporting businesses, raising funds from qualified social investors for debt-for-equity swaps in pursuant with laws and regulations, issuance of financial debt securities exclusively used for debt-for-equity swaps, and other businesses.

CCB Investment adopted a market-oriented and law-based approach, and made active efforts to explore opportunities with innovations. By the end of 2018, it led the industry with a total of 71 framework agreements on market-oriented debt-for-equity swaps, a total contractual amount of RMB723.3 billion, and an actual investment amount of RMB153.4 billion. At the end of 2018, total assets of CCB Investment were RMB32,760 million, and shareholders' equity was RMB12,268 million. Net profit in 2018 was RMB62 million.

CCB International

CCB International (Holdings) Limited, established in 2004 with a registered capital of US$601 million, is one of the Bank's wholly-owned subsidiaries in Hong Kong. It offers investment banking related services, including sponsoring and underwriting of public offerings, corporate M&A and restructuring, direct investment, asset management, securities brokerage and market research.

In 2018, CCB International maintained stable development in all business lines by continuing to focus on new economic development opportunities, supporting the development of national strategies and providing innovative services to the real economy. It led the industry in terms of the projects it acted as securities sponsor and underwriter as well as M&A financial advisor. At the end of 2018, total assets of CCB International were RMB84,085 million, and shareholders' equity was RMB9,749 million.

Rural banks

With the approval of the Ministry of Finance, the Bank sought to transfer all its equity interests in 27 rural banks by listing them on Beijing Financial Assets Exchange in June 2018. In August 2018, the Bank entered into equity transfer agreements with the transferees, Bank of China Limited and Fullerton Financial Holdings Pte Ltd. With the approval of the CBIRC and local regulators of the 27 rural banks, the equity transfer as a whole was completed in December 2018. The transfer of these equity interests enables the Group to more efficiently manage and allocate its resources, refocus its strengths, and leverage fintech and product and service innovation, to be better positioned to promote the economic development in relation to "agriculture, farmers and rural areas".

ANALYSED BY GEOGRAPHICAL SEGMENT

The following table sets forth, for the periods indicated, the distribution of the Group's profit before tax by geographical segment:

	2018		2017	
(In millions of RMB, except percentages)	Amount	% of total	Amount	% of total
Yangtze River Delta	49,754	16.15	53,279	17.77
Pearl River Delta	48,878	15.86	43,439	14.49
Bohai Rim	33,146	10.76	35,143	11.72
Central	41,131	13.35	48,105	16.05
Western	42,631	13.83	45,837	15.29
Northeastern	782	0.25	2,450	0.82
Head Office	81,572	26.47	59,357	19.80
Overseas	10,266	3.33	12,177	4.06
Profit before tax	308,160	100.00	299,787	100.00

The following table sets forth, as at the dates indicated, the distribution of the Group's assets by geographical segment:

	31 December 2018		31 December 2017	
(In millions of RMB, except percentages)	Amount	% of total	Amount	% of total
Yangtze River Delta	4,552,908	13.78	4,687,993	14.68
Pearl River Delta	3,568,920	10.80	3,479,166	10.89
Bohai Rim	5,294,864	16.03	4,916,680	15.39
Central	4,207,180	12.73	4,063,059	12.72
Western	3,448,750	10.44	3,294,459	10.32
Northeastern	1,179,534	3.57	1,100,318	3.45
Head Office	9,090,812	27.52	8,672,547	27.15
Overseas	1,694,519	5.13	1,726,043	5.40
Total assets[1]	33,037,487	100.00	31,940,265	100.00

1. Total assets exclude elimination and deferred tax assets.

The following table sets forth, as at the dates indicated, the distribution of the Group's loans and NPLs by geographical segment:

	31 December 2018				31 December 2017			
(In millions of RMB, except percentages)	Gross loans and advances	% of total	NPLs	NPL ratio (%)	Gross loans and advances	% of total	NPLs	NPL ratio (%)
Yangtze River Delta	2,386,931	17.31	26,234	1.10	2,288,830	17.74	31,460	1.37
Pearl River Delta	2,085,684	15.13	24,077	1.15	1,941,337	15.05	27,777	1.43
Bohai Rim	2,292,606	16.63	42,331	1.85	2,131,045	16.52	38,302	1.80
Central	2,418,013	17.54	34,087	1.41	2,176,159	16.86	32,154	1.48
Western	2,277,666	16.53	36,092	1.58	2,117,740	16.41	34,973	1.65
Northeastern	712,310	5.17	25,850	3.63	672,309	5.21	18,920	2.81
Head Office	685,733	4.98	8,123	1.18	574,506	4.45	5,867	1.02
Overseas	887,312	6.44	4,087	0.46	1,001,515	7.76	2,838	0.28
Accrued interest	36,798	0.27	–	–	N/A	N/A	N/A	N/A
Gross loans and advances to customers	13,783,053	100.00	200,881	1.46	12,903,441	100.00	192,291	1.49

The following table sets forth, as at the dates indicated, the distribution of the Group's deposits by geographical segment:

	31 December 2018		31 December 2017	
(In millions of RMB, except percentages)	Amount	% of total	Amount	% of total
Yangtze River Delta	2,933,998	17.15	2,951,029	18.03
Pearl River Delta	2,514,306	14.70	2,551,496	15.59
Bohai Rim	3,106,230	18.16	2,896,463	17.70
Central	3,498,480	20.44	3,200,877	19.56
Western	3,262,605	19.07	3,137,692	19.18
Northeastern	1,115,627	6.52	1,044,470	6.38
Head Office	7,241	0.04	24,658	0.15
Overseas	492,942	2.88	557,069	3.41
Accrued interest	177,249	1.04	N/A	N/A
Total deposits from customers	17,108,678	100.00	16,363,754	100.00

金融科技

Fintech

Top+

Technology-driven

Ability release

Ecology platform

Innovation Encouragement

The Bank published its fintech strategic plan, constructed a dual-driven fintech foundation of technology and data, promoted the deep integration of technology and business.

The Bank promoted business innovation through smart finance construction， which becomes a major force in supporting the Group’s business development; the Bank was committed to building a smart ecosystem to create greater social empowerment，created an open and shared multi-industry ecosystem.

The Bank enabled the Group to comprehensively enhance the quality of its financial services provided through innovative financial products and services, open and shared financial platforms, and an inclusive financial development model, and maintain its stable operations and innovation-driven development.

Top+

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A
Artificial intelligence
B
Blockchain
C
Cloud computing
D
Big data
M
Mobile internet
I
Internet of things / IoT
X
Cutting-edge technology
Technology
TOP+
Data
Data mining capability
Data sharing capability
Data governance capability
Data collection capability
Data integration capability


New corporate banking
Inclusive finance
New retail
Group integrative and cooperative operation
Smart channel
Intelligent operating system
An intelligent, accurate and forward-looking risk control system
Smart finance
Modern commercial bank
Smart ecosystem
Intelligent management
Products customization
Cooperative operation
Boundaryless channel
Advanced the house leasing strategy in depth
Serve the real economy
Expand the inclusive finance scenarios
Assist smart government
Enabling financial industry peers

BUILDING OF BRANCH NETWORK AND CHANNELS

The Group provides its customers with convenient and high quality banking services through branches and sub-branches, self-service facilities, specialised service entities across the world as well as electronic banking service platforms. At the end of 2018, the Bank had a total of 14,977 operating outlets, in which the number of domestic institutions was 14,946, including the Head Office, 37 tier-one branches, 351 tier-two branches, 14,110 sub-branches, 446 outlets under the sub-branches and one specialised credit card centre at the Head Office, and the number of overseas institutions was 31. The Bank had 18 subsidiaries with a total of 542 entities, including 358 domestic ones and 184 overseas ones.

Physical channels

In 2018, thanks to ongoing upgrading of its outlet layouts, the Bank continued to expand its overall coverage and made significant improvement to its service delivery. In response to the national inclusive financial strategy, the Bank set up new outlets preferentially in county regions, expanded its reach into 51 new county regions with no prior outlet presence and established 135 outlets to support small and micro enterprises, "agriculture, farmers and rural areas", innovative and start-up businesses, and the tough battle of poverty alleviation in 2018. As part of its efforts to create a network of flagship outlets to serve as hubs for driving the development of surrounding areas, the Bank had built a cumulative total of 203 flagship outlets to provide comprehensive services. The Bank also continued to streamline its self-service network, which comprised of 92,225 ATMs and 28,238 self-service banks, including 13,926 off-premise self-service banks. By the end of 2018 and on a cumulative basis, the Bank had established 320 private banking centres with a total staffing of 2,091, set up 288 small business operating centres, and built over 1,500 personal loan centres.

The Bank actively promoted the AI-assisted transformation of channels. "Longyixing", the Bank's mobile intelligent terminal, can provide a total of 234 business functions in 19 categories, including account-related services and "Rapid Loan for Small and Micro Businesses", and has become a powerful mobile tool for the Bank to serve where it has no or few physical outlets. Biometric technologies, including face recognition and voice recognition, have been applied in nearly 100 business scenarios in 9 categories across all service channels, including payment and settlement, account top-up and bill payments. In the New Generation System, 463 functions, such as portfolio trading and multi-channel reservation and pre-processing, had been added or improved to raise business efficiency and provide customer with better experience. It leveraged internet of Things, AI, and big data to promote AI-assisted vault innovations. It accelerated the digitalisation of outlets by putting into operation eight integrated digital banking outlets and five digital exhibition halls in ten branches, providing customers with integrated multi-channel services, both online and offline.

The Bank continuously deepened its efforts to improve overall cost-effectiveness. CCB Asia, CCB Life, Sino-German Bausparkasse and other institutions had adopted more cost-effective solutions and practices, and achieved centralised processing of 169 types of businesses at the Head Office level in counter services, online channels, middle offices, and subsidiaries and overseas operations, an increase of 21 business types over 2017. The average daily business volume reached 0.95 million, with a peak volume of 1.46 million. The Bank continued to improve the cloud-based production platforms and mechanisms, explore the cloud-based solutions to internal corporate foreign exchange reviews and approvals and other services, and promote the highly-efficient and intensive allocation of operating resources. It also innovatively launched the "Cloud Pet" application, attracting a cumulative total of 3.84 million users and remarkably enhancing the customer stickiness and activeness.

The Bank actively built the "Workers' Harbour" as part of its endeavours to promote the sharing and availability of network service resources, and made dedicated efforts to provide "resting places" and "warm quarters" for outdoor workers, including sanitation workers, taxi drivers, and traffic police. By the end of 2018, the Bank officially set up 14,307 "Workers' Harbour", covering all qualified operating outlets across the country and providing the public with convenient facilities and services, including drinking water, among which 10,552 outlets also provided restroom facilities. The number of registered users of "Workers' Harbour" APP was about 6 million.

Electronic channels

In 2018, the Bank strengthened fintech innovation and application, shifted from channel-based services to customer-focused operations, and built a brand new "online banking". In this regard, the channels' value contribution was comprehensively improved and the capability of customer services was greatly enhanced.

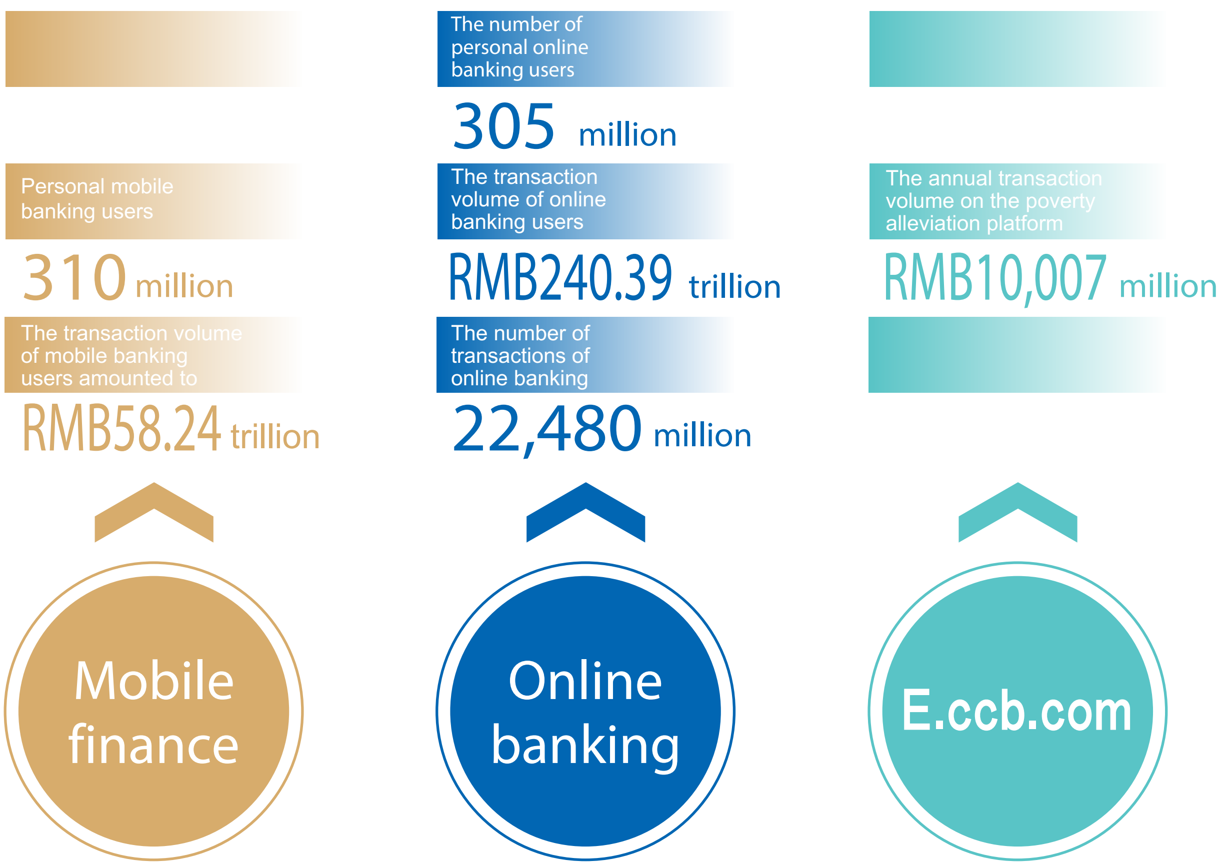
Mobile finance

The Bank introduced voice recognition technology to mobile banking to provide voice menu navigation and intelligent voice interaction, among other services; the facial recognition technology was adopted to add face binding, social network sharing and other functions. The Bank launched "Long Fortune", a personal wealth management platform centring on AI-assisted investment advisory services, to make investment recommendations based on customers' historical trading preferences.

At the end of 2018, the number of personal mobile banking users increased by 16.20% to 310 million over 2017, and the number of corporate mobile banking users reached 1.06 million, an increase of 77.67% over 2017. The transaction volume of mobile banking users amounted to RMB58.24 trillion, and the number of transactions amounted to 21,915 million. The number of SMS financial service users reached 425 million, an increase of 11.61% over 2017. The number of WeChat banking users who followed the Bank's WeChat official account reached 89 million, among which the number of users who bound their bank cards was 64.43 million, an increase of 14.87 million over 2017. The number of daily menu visits exceeded 5 million, and the average readings of mass-distributes single-line messages exceeded 0.5 million times. The AI-assisted "Xiaowei" answered questions from WeChat "fans" more than 1 million times a day.

Online banking

The Bank further expanded it online banking customer base with the addition of a lightweight version for personal online banking, a New Zealand version for overseas personal online banking, a new English version for personal online banking, and a traditional Chinese version for personal online banking. The Bank's overseas version of corporate online banking covered 27 overseas institutions. At the end of 2018, the number of personal online banking users increased by 34.27 million, or 12.66% to 305 million over 2017, and the number of corporate online banking users increased by 1.54 million to 7.57 million, an increase of 25.56% over 2017. The transaction volume of online banking users amounted to RMB240.39 trillion, and the number of transactions amounted to 22,480 million.



Internet website

The visits to the Bank's website remained high, with average daily pageviews of 96.55 million, an increase of 39.40% year on year; the cumulative total of registered members of the website reached 58.76 million, an increase of 10.74 million from 2017. The Group launched a marketing-oriented mobile portal to build a closed loop of full-process online marketing service without login and downloading, which supported flexible deployment of product services and applications in multiple portals and scenarios on the mobile side. The visits to marketing-oriented mobile portal had increased exponentially, with average daily pageviews of 10.11 million, a year-on-year increase of 5.13 times.

E.ccb.com

A new mobile version of the retail mall was launched, with new functions added, including options of payment with bonus points or through WeChat, and loan disbursement without USB Key verification, and new applications offered, such as payment using fingerprint and face recognition technologies, to further improve payment experience. A new touch-screen version of the corporate mall was launched, introducing the payment service of "Rapid Loan for Small and Micro Businesses". A touch-screen version for suppliers was launched in Shanfutong, with a personal mobile banking portal available. At the end of 2018, e.ccb.com had 56,200 merchants and 26.45 million registered members.

The Bank increased its efforts in poverty alleviation through e-commerce, joined the "E-Commerce Poverty Alleviation Alliance" initiated by the Ministry of Commerce, and was recognized as a model for its e-commerce poverty alleviation solutions by the State Council Leading Group Office of Poverty Alleviation and Development. At the end of 2018, the number of participating merchants in the poverty alleviation platform of e.ccb.com increased by 1,938 to 3,878, as the coverage expanded to 845 poverty-stricken counties. The annual transaction volume on the poverty alleviation platform reached RMB10,007 million.

Cloud-based customer service

The Bank actively responded to changes in customer demands, stayed abreast with the fintech development trend, and deployed smart customer service robots for every stage of customer services. It intensified efforts in coordinated multi-channel innovations, such as telephone, network and mobile online, and also led the market with its "cloud-based customer service", an enterprise-level remote financial service platform. In 2018, the number of inquiries processed on the phone was 513 million, and inquiries through online channels totalled 1,288 million, 99.56% of which were responded automatically by the AI robots.

FINTECH AND PRODUCT INNOVATION

Fintech

In 2018, the Bank issued its fintech strategic plan, aiming at promoting the reform of fintech innovation system, implementing fintech to improve the management of operation security, so as to boost business innovation and development.

The Bank promoted the implementation of fintech strategy, constructed a dual-driven fintech foundation of technology and data, and created a fintech business system that promoted the combination of smart finance and smart ecosystem. The Bank strengthened the establishment of platforms and application of business scenarios for new technologies, such as AI, big data and blockchain, built a collaborative integrated R&D platform and an enterprise-level R&D ecosystem, and promoted the transformation of fintech R&D model. Through open banking application programming interfaces (APIs) on CCB Cloud, the Bank embedded its financial services and data services into the third parties in a standardised and highly-efficient way, and extended banking business to all aspects of social life scenarios.

The Bank led the industry in maintaining safe and secure operations. It maintained stable operation of information systems throughout the year and continued to lead the industry in peak transactions, transaction amount, number of transactions, number of customers, and the proportion of fast payments in its key systems, among other indicators. During the "Double Eleven" period, though the peak number of fast payment transactions was as high as 21,751 transactions per second, the Bank's payment channels still remained stable and smooth. In 2018, the Bank discovered and disposed of more than 9,000 phishing websites, took actions to safeguard 90,000 accounts whose passwords had been guessed out, and made 56 thousand interceptions of risk events, and ensured the security of customers' funds throughout the Bank.

Feature article: Commitment to Fintech-driven Development and Establish an Open and Shared Ecosystem

The fintech strategy has become a major force in supporting the Group's business development. It plays a prominent role in reducing transaction costs, improving financial service efficiency, providing diversified financial services to customers, and promoting inclusive finance. In addition, it has become a proven tool for technical empowerment across the Bank and created an open and shared multi-industry ecosystem.

The Bank promotes business innovation through smart finance construction. Based on its internal financial data while using external data including those of the industry and commerce, and taxation, the Bank creates multi-dimensional customer profiles for precise customer identification, marketing, credit granting, pricing and risk management, and analyses customer needs for products in multiple dimensions to provide differentiated, AI-assisted and self-service products and services. The Bank has established a scenario-based data platform for inclusive finance services, and provided a host of scenario-based products, including loans to farmers in reclamation regions and facilities for ex-military personnel. The "Huidongni" can provide one-stop loan service for small and micro businesses. On the overseas front, the Bank is making vigorous efforts to promote the "New Generation" applications, aiming to build a new generation of comprehensive banking system for its overseas operations. As part of its Group integration, the Bank has consolidated Sino-German Bausparkasse's core systems into the "New Generation System".

The Bank is committed to building a smart ecosystem to create greater social empowerment. Anchoring on its house leasing service platform, the Bank has established platforms for smart community services, senior care, and public education, and connected these platforms to empower the public and deliver convenient scenarios combining financial and non-financial services. Centering on intelligent government service platform, the Bank has established platforms for the benevolence religious affairs services, the party and masses work services and the veteran services, to facilitate government affairs and create a public service ecosystem. It has also built an enterprise shared services platform and an enterprise procurement service platform, to empower the enterprises and create a shared service ecosystem which promotes alignment, synergy and cooperation among enterprises in the use of resources. By adopting new methods for customer acquisition in the new ecosystem, the Bank has combined its platforms for house leasing, senior care and intelligent government services to attract more customers.

The Bank continues to build its technology strength to better support business development. Its public cloud platform has 74 tenants, including Yunnan Provincial Government, and 5.76 million indirect users. Its AI platform has been applied in various scenarios, such as customer marketing, digital outlets, smart banking and channel building. The blockchain service platform has been used in trade finance, house leasing, drug supervision, targeted poverty alleviation, and agricultural product traceability, among other scenarios. Its cloud-based big data service platform has enhanced the overall ability in data capturing, integration, mining and sharing. The biometric identification technologies have been widely applied in account opening, withdrawal, customer identification, etc.

The deepening of the fintech strategy and the integration of technology and business enable the Group to comprehensively improve the quality of its financial service delivery through innovative financial products and services, open and shared financial platforms, and an inclusive financial development model, and maintain its stable operations and innovation-driven development.

Product innovation

In 2018, the Bank organised the "Inaugural Innovation Marathon" and increased efforts in innovation to further deepen the three major strategies, namely house leasing, inclusive finance and fintech, while exploring the options for building a long-term CCB-specific innovation and incubation mechanism. In 2018, the Bank completed more than 1,300 product innovations and the deployment of more than 1,800 key products.

The Bank has launched the house leasing cloud platform to increase the supply of long-term housing units from the governments and enterprises. Through the "Benevolence Religious Affairs" comprehensive service platform, the Bank provides one-stop comprehensive services in relation to religious affairs. "Jianrongzhihe", an AI-assisted comprehensive service platform for business matchmaking among enterprises, has created a new model for business development. The blockchain trade finance platform has enabled the online end-to-end processing of domestic letters of credit, forfeiting, international factoring and logistics finance. The end-to-end support system for the underwriting and distribution of FITS® bonds enables the Bank to further strengthen its enterprise-level management and systemic end-to-end management and control of bond underwriting and distribution business.

The Bank has released "CCB – Xinhua Inclusive Finance – Small and Micro Enterprise Index", the first inclusive financial index and evaluation index in the banking industry that has gained national influence. The Bank has launched the "Cloud Tax Loan" to connect with the tax data systems of the State Taxation Administration and provincial tax authorities, enabling the Bank to more accurately match its products and services with the demands of small and micro enterprises and entrepreneurs and more accurately manage their risks. The "Long Fortune" personal wealth management platform has created a new retail model by integrating financial and technological resources. Family offices have been created as part of its private banking business to provide comprehensive services for customers with assets of over RMB500 million, including family wealth management and inheritance, family governance, family business management on a going concern basis and social charity. A young customer service system has been put in place to attract young customers.

建行大學

CCB University

CCB University, a corporate university fostering new finance and new ecosystem for a new era

Specialisation, Sharing-oriented,

Technology-oriented, Internationalisation

In order to better demonstrate its guiding role as a large state-owned bank and enhance financial innovation in vocational education model, the Bank established CCB University in 2018. CCB University is not only a vocational education platform for its employees, but also an education and training platform dedicated to pursuing specialization, sharing, technological excellence, internationalisation, as well as to promote the integration between industries and academia and the social empowerment.

In 2018, the Bank, focusing on its reform and development target areas and work priorities, organized 23,843 on-site training sessions with a total enrolment of 1.31 million. The online training enabled 308,000 persons to complete a total of 5.13 million courses.

CCB University

Regional campuses

North China Campus Northeastern Campus East China Campus
Central China Campus South China Campus Southwest Campus
Northwest Campus Hong Kong Academy London Academy New York Academy

Professional Campuses

Party School of the Head Office Beijing Mingyuan Party School
Jinggangshan Party School Qingdao Inclusive Finance and Retail Business Institute
Shanghai Financial Innovation Institute Shanghai International Finance Institute
Suzhou Financial Technology Institute Suzhou Finance and Insurance Institute
Greater Bay Area Financial Innovation Institute

Bank-University Cooperation Unit

Renmin University of China Central University of Finance and Economics
University of International Business and Economics Nankai University Fudan University
Zhongnan University of Economics and Law South China University of Technology
Southwestern University of Finance and Economics Xi'an Jiaotong University
The Hong Kong University of Science and Technology National University of Singapore

Peking University Tsinghua University Hebei University of Economics and Business
Shanxi University Inner Mongolia University Dongbei University of Finance & Economics
Jilin University Harbin Institute of Technology Shanghai Jiao Tong University
Shanghai University of Finance and Economics Southeast University
Zhejiang University University of Nottingham Ningbo China Anhui University
Xiamen University Jiangxi University of Finance and Economics Shandong University
Henan University of Economics and Law Wuhan University Sun Yat-sen University
Guangxi University Hainan University Chongqing Technology and Business University
Guizhou University Yunnan Normal University Tibet University Lanzhou University
Ningxia University Xinjiang University of Finance & Economics

London School of Economics and Political Science London Business School
Saïd Business School at the University of Oxford The Møller Institute of Churchill
College at the University of Cambridge Harvard Business School Columbia University
The Wharton School at the University of Pennsylvania The Business School for the World
University of Toronto Seoul National University Goethe University Georgetown University
Waseda University


建行大学 CCB University 華北學院 North China Campus
Party School of the Head Office (Beijing)
Beijing Mingyuan Party School
建行大学 CCB University 西北學院 Northwest Campus
Jinggangshan Party School
建行大学 CCB University 西南學院 Southwest Campus
建行大学 CCB University 香港學院 Hong Kong Academy
Greater Bay Area Financial Innovation Institute
建行大学 CCB University 東北學院 Northeastern Campus
建行大学 CCB University 華東學院 East China Campus
Suzhou Financial Technology Institute
Suzhou Finance and Insurance Institute
Qingdao Inclusive Finance and Retail Business Institute
Shanghai Financial Innovation Institute
Shanghai International Finance Institute
建行大学 CCB University 華中學院 Central China Campus
建行大学 CCB University 華南學院 South China Campus

HUMAN RESOURCES

At the end of 2018, the Bank had 345,971 employees, a decrease of 1.89% from 2017 (not including 3,937 workers dispatched by labour leasing companies, a decrease of 17.84% from 2017). The number of employees with academic qualifications of bachelor's degree or above was 234,257 or 67.71%, and the number of local employees in overseas entities was 763. In addition, the Bank assumed the expenses of 72,963 retired employees.

The compositions of the Bank's employees by age, academic qualification and responsibilities are as follows:

Category	Classification	Number of employees	% of total
Age	Below 30	77,033	22.27
	31 to 40	88,190	25.49
	41 to 50	129,481	37.43
	51 to 59	51,076	14.76
	Over 60	191	0.05
Academic qualification	Doctor's degree	469	0.14
	Master's degree	27,849	8.05
	Bachelor's degree	205,939	59.53
	Associate degree	89,551	25.88
	Post-secondary	11,328	3.27
	High school and below	10,835	3.13
Responsibilities	Operating outlets and integrated tellers	179,889	51.99
	Corporate banking	34,242	9.90
	Personal banking	40,844	11.81
	Financial market business	629	0.18
	Finance and accounting	7,267	2.10
	Management	12,060	3.49
	Risk management, internal audit, legal and compliance	20,386	5.89
	Information technology development and operation	26,898	7.77
	Others	23,756	6.87
Total		345,971	100.00

The following table sets forth, as at the date indicated, the geographical distribution of the Bank's branches and staff members:

	31 December 2018			
	Number of branches	% of total	Number of staff	% of total
Yangtze River Delta	2,346	15.66	51,641	14.93
Pearl River Delta	1,921	12.83	43,618	12.61
Bohai Rim	2,493	16.65	57,478	16.61
Central	3,592	23.98	77,865	22.51
Western	3,054	20.39	65,625	18.97
Northeastern	1,537	10.26	35,116	10.15
Head Office	3	0.02	13,643	3.94
Overseas	31	0.21	985	0.28
Total	14,977	100.00	345,971	100.00

Staff remuneration policies

The Bank is committed to maintaining order and harmony in remuneration allocation, and continuously improves the level of performance and remuneration management.

Pursuant to relevant government policies regarding remuneration reform of state-owned enterprise leaders, annual remunerations for the Bank's leaders administered by the Central Committee of the Communist Party of China include three parts, namely the basic annual salary, performance-based annual salary and tenure incentive income. If a material error arises during a leader's tenure and causes a significant loss for the Bank, part or the entirety of the paid-out performance-based annual salary and tenure incentive income may be reclaimed. The Bank's major allocation policies and other significant matters relating to remuneration management need to be reviewed by the nomination and remuneration committee under the Board. Material proposals relating to remuneration allocation are required to be voted and approved by the shareholders' general meeting, or be reported to the competent authority of the state for approval and filing.

The Bank makes full use of remuneration allocation to motivate and constrain its people. It continues to favour sub-branch level, front-line and direct value creation posts in remuneration increase, in order to stimulate the enthusiasm of frontline employees to create greater value and improve the Bank's profitability. The Bank continues to strengthen performance assessment as an incentive to improve the cost-efficiency of its human resources and match remuneration to performance. For employees who face disciplinary sanctions or other penalties due to violation of rules or breach of duties, their remunerations are deducted in accordance with relevant rules and measures.

Staff training

In order to better demonstrate its guiding role as a large state-owned bank and enhance innovation in vocational financial education, the Bank announced the establishment of CCB University in Beijing in 2018. CCB University is not only a vocational education platform for its employees, but also an education and training platform dedicated to pursuing goals of sharing, specialisation, technological excellence and internationalisation, as well as one for promoting the integration between industries and academia and the social empowerment. In 2018, the Bank, focusing on its reform and development target areas and work priorities, organised 23,843 on-site training sessions with a total enrolment of 1.31 million. The on-line training enabled 308,000 people to complete a total of 5.13 million courses.

Staff in subsidiaries

The subsidiaries of the Bank had 21,025 employees (not including 410 workers dispatched by labour leasing companies), an increase of 3,231 over 2017. In this amount, the domestic and overseas employees numbered 15,620 and 5,405 respectively. In addition, the subsidiaries assumed the expenses of 36 retired employees.

RISK MANAGEMENT

In 2018, the Group made further efforts to improve the active and comprehensive risk management system. While strengthening risk management for the current period, it also reinforced anticipatory risk management, so as to boost the digitalised and refined risk management approach. The Group's asset quality remained solid and kept improving while all types of risks continued to be stable, as the Group's comprehensive risk management capability further strengthened, thus safeguarded the Group's prudent operations and innovation-driven development effectively.

Feature article: Tackling Risks in an Active and Comprehensive Manner and Enhancing the Refined Management Capabilities

In recent years, moving toward the objective of being "the best performer in China and a word-class leader" in terms of risk management, the Group made solid steps to build an active and comprehensive risk management system. The year 2018 has seen preliminary results in this regard.

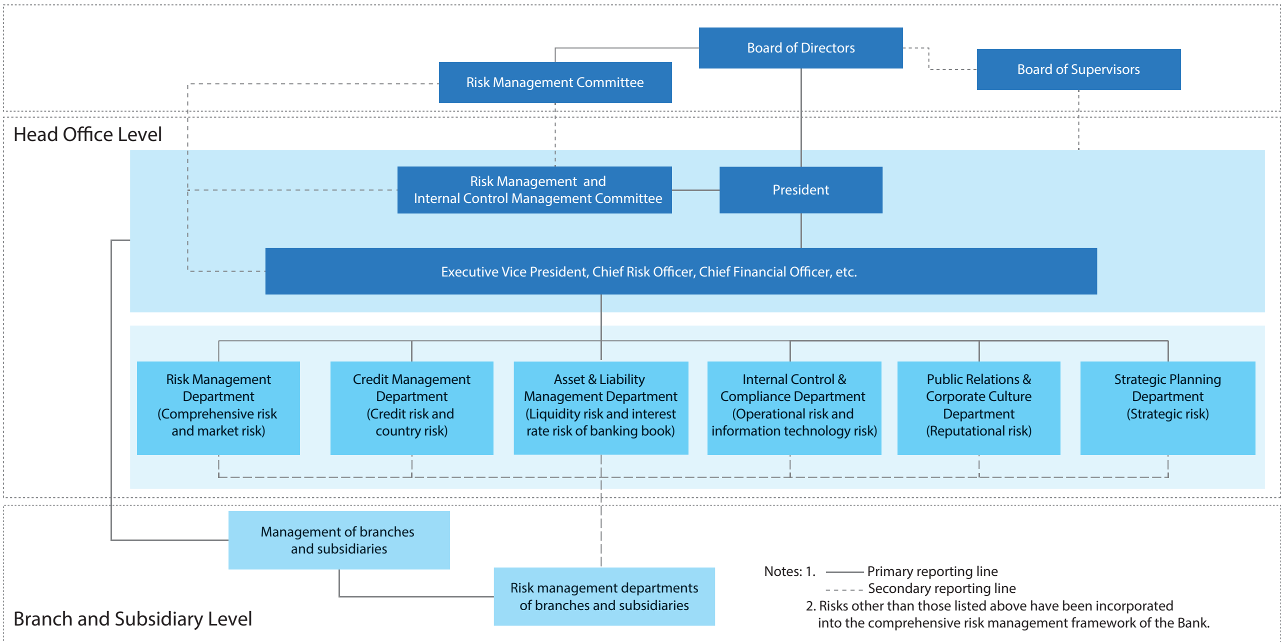
Tackling risks in an active and comprehensive manner. The Group has achieved solid progresses in managing nine major risks such as credit risk, market risk, liquidity risk and operational risk, as well as other types of risks across four areas including institutions directly controlled by the Head Office, domestic branches, overseas institutions and subsidiaries, strengthening the collaborative management and control and differentiated management. The Group actively adjusted the risk appetite setting, improved framework management and implemented the mechanism of risk appetite transmission. It made strong moves in anticipatory risk management and highlighted the long-term balance among key risk indicators. It took active steps to adjust asset structure and strengthen the refined management of asset quality, allowance for impairment losses and economic capital. In addition, the Group actively took measures to improve the ability of operating and decision making in risk management, mitigated risks and fulfilled its responsibilities as a large state-owned bank. It took active steps throughout the whole process management including the stages of pre-event, event dealing and post-event follow up, and reinforced the foresight, expertise and effectiveness of risk management.

Enhancing the refined management capabilities. To put responsibility in place, the Group advanced the accountability system to play the role of responsibility identification in deterring violation of regulations and rules. To put management in place, the Group conducted the supervision over domestic branches and subsidiaries and focused on process management, transforming from "passive control" to "active management". To put supervision in place, the Group stepped up the application of results of external supervision, internal audit supervision and second-line defence supervision to improve its responding and rectification efficiency. To put personnel in place, the Group reinforced checks and balances between different positions and strengthened its efforts to build professional teams for various business lines. To put performance evaluation in place, the Group improved the evaluation system for comprehensive risk management and linked the evaluation results with KPI and other performance evaluation indicators.

Consolidating the foundation of risk management. The Group also developed an enterprise-level risk early-warning system and enriched the risk management toolbox to enhance its risk management capabilities. The Group established a risk measurement centre, improved the efficiency in developing, deploying and applying models, and further contributed to the building of a sound risk measurement system. Besides, refined and practical risk policies and institutional systems were developed to build a global risk reporting mechanism and risk information sharing system within the Group.

RISK MANAGEMENT STRUCTURE

The risk management organisational structure of the Bank comprises the Board and its special committees, the senior management and its special committees, the relevant risk management departments, etc. The basic structure is as follows:



The Board carries out the risk management responsibility pursuant to the Articles of Association of the Bank and other related regulatory requirements. The risk management committee under the Board is responsible for making risk management strategies, monitoring their implementation, and evaluating the overall risk profile on a regular basis. The Board reviews the statements of risk appetite regularly, sets the appetite as the core component in the risk management structure, and incorporates it into and communicates it through relevant capital management policies, risk management policies and business policies, to ensure that the business operations of the Bank adhere to the risk appetite. The board of supervisors oversees the building of the comprehensive risk management system, as well as the performance of the Board and the senior management in delivering their comprehensive risk management responsibilities. The senior management is responsible for carrying out the risk strategies adopted by the Board and organising the implementation of the comprehensive risk management activities across the Group.

Chief Risk Officer of the Bank assists the President with the corresponding risk management work within designated responsibilities. Risk management department is the leading management department responsible for the Group's comprehensive risk management, and its subordinate department, market risk management department takes the lead in market risk management. Credit management department is the leading management department responsible for the overall credit risk management and country risk management. Asset and liability management department is the leading management department responsible for the management of liquidity risk and interest rate risk of banking book. Internal control & compliance department is the leading management department responsible for operational risk and information technology risk management. Public relations & corporate culture department is the leading management department responsible for reputational risk management. Strategic planning department is the leading management department responsible for strategic risk management. Other specialised departments are responsible for other respective risks.

The Bank places high priority on the risk management of subsidiaries, monitors their adherence to the risk appetite and conducts overall risk assessment of subsidiaries on a regular basis. It established a centralised reporting mechanism for risk management of subsidiaries to push subsidiaries to continuously improve their corporate governance mechanisms, thus preventing risks from the root. In compliance with the risk management requirements of the parent bank through their corporate governance mechanisms, the subsidiaries established and improved the comprehensive risk management system to enhance their capabilities in compliant operation and risk management.

CREDIT RISK MANAGEMENT

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group.

In 2018, in face of the complex external operating environment, the Group pushed forward an active and comprehensive risk management approach and strengthened efforts on credit risk prevention and mitigation. Furthermore, it improved the credit asset structure and credit management mechanism. As a result, the asset quality remained solid with steady improvement.

Adhering to promoting credit structural adjustment. By aligning with national strategies and requirements for supply-side structural reform, the Group actively promoted economic transformation and upgrading. It facilitated the optimisation of credit resource allocation, progressed the house leasing business in an all-round manner and continuously boosted the high-quality development of green finance with increasing efforts in supporting inclusive financial services and consumer financial services. With adherence to giving priority to the retail banking, the Group continued to consolidate its traditional advantages in the infrastructure sector. Furthermore, it intensified its efforts to control the substantial risks in key areas and emerging businesses to optimise the credit structure adjustment.

Taking major steps to enhance professional management competence. The Group strengthened risk identification and prevention in pre-lending access, enhanced credit approval and loan review quality in the lending process and fostered post-lending professional management and intensive management of collateral, thus improving its risk disposal efficiency. With more application of fintech, the Group further improved its centralised credit risk monitoring system, to constantly enhance the intelligent and refined credit management.

Strengthening risk control over credit line. Giving full play to the comprehensive credit line management as a platform for resource allocation and structure adjustment, the Group improved the assessment, rating, comprehensive credit line and credit approval process. With continuous efforts to develop intelligent credit approval, the Group strengthened data mining and analysis as well as information system application to intensify support for credit approval decision-making.

Enhancing risk measurement capabilities. The Group upgraded the risk measurement instruments in all respects and developed a new scoring model for loans to small and micro enterprises. With optimisation in rating models of domestic financial institutions and local governments and risk limit model, the Group weighted more supports toward strategic businesses and key risk areas. It set up an enterprise-level comprehensive risk monitoring and early-warning platform integrating the early-warning rules and negative list across the corporate business lines and personnel business lines of the Bank and formulated relevant management rules, with a view to increasing the early-warning and responding quality and efficiency of the Group. The Group developed a new model for preventing and controlling inclusive financial risks and integrated online and offline risk control resources with special focus on risk control online.

Enhancing asset preservation and operating capabilities. Pursing the concept of integrated operation and integrated disposal, the Group intensified the disposal of non-performing assets to fend off and defuse major risks. In line with the national policies, the Group improved the working mechanism of creditors' committee and made further progress in market-oriented debt-for-equity swaps. With more efforts in cash recovery from on and off-balance sheet assets, the Group improved the value contribution and propelled the high-quality development of the asset preservation business.

Distribution of loans by five-category classification

The following table sets forth, as at the dates indicated, the distribution of the Group's loans by the five-category loan classification under which NPLs include substandard, doubtful and loss categories.

	As at 31 December 2018		As at 31 December 2017	
(In millions of RMB, except percentages)	Amount	% of total	Amount	% of total
Normal	13,157,944	95.46	12,345,554	95.67
Special mention	387,430	2.81	365,596	2.83
Substandard	81,432	0.59	72,919	0.57
Doubtful	93,270	0.68	97,522	0.76
Loss	26,179	0.19	21,850	0.17
Accrued interest	36,798	0.27	N/A	N/A
Gross loans and advances to customers	13,783,053	100.00	12,903,441	100.00
NPLs	200,881		192,291	
NPL ratio		1.46		1.49

In 2018, the Group adopted stringent risk management, and proactively enhanced credit risk management. It strived to optimise credit asset structure and improve the credit asset mechanism and process, and consolidated the steady improvement of asset quality. As at 31 December 2018, the Group's NPLs were RMB200,881 million, an increase of RMB8,590 million over 2017. The NPL ratio stood at 1.46%, a decrease of 0.03 percentage points from 2017. The special mention loans accounted for 2.81% of the gross loans and advances to customers, a decrease of 0.02 percentage points from 2017.

Distribution of loans and NPLs by product type

The following table sets forth the Group's loans and NPLs by product type as at the dates indicated.

	As at 31 December 2018			As at 31 December 2017		
(In millions of RMB, except percentages)	Loans	NPLs	NPL ratio (%)	Loans	NPLs	NPL ratio (%)
Corporate loans and advances	6,497,678	169,248	2.60	6,443,524	166,044	2.58
Short-term loans	2,000,945	73,974	3.70	2,050,273	80,638	3.93
Medium to long-term loans	4,496,733	95,274	2.12	4,393,251	85,406	1.94
Personal loans and advances	5,839,803	24,076	0.41	5,193,853	21,811	0.42
Residential mortgages	4,753,595	11,414	0.24	4,213,067	10,199	0.24
Credit card loans	651,389	6,387	0.98	563,613	5,039	0.89
Personal consumer loans	210,125	2,302	1.10	192,652	1,386	0.72
Personal business loans	37,287	1,391	3.73	36,376	1,620	4.45
Other loans	187,407	2,582	1.38	188,145	3,567	1.90
Discounted bills	308,368	–	–	122,495	–	–
Overseas operations and subsidiaries	1,100,406	7,557	0.69	1,143,569	4,436	0.39
Accrued interest	36,798	–	–	N/A	N/A	N/A
Total	13,783,053	200,881	1.46	12,903,441	192,291	1.49

Distribution of loans and NPLs by industry

The following table sets forth the Group's loans and NPLs by industry as at the dates indicated.

	As at 31 December 2018				As at 31 December 2017			
(In millions of RMB, except percentages)	Loans	% of total	NPLs	NPL ratio (%)	Loans	% of total	NPLs	NPL ratio (%)
Corporate loans	6,497,678	47.14	169,248	2.60	6,443,524	49.94	166,044	2.58
Transportation, storage and postal services	1,307,712	9.48	16,033	1.23	1,304,691	10.11	13,806	1.06
Manufacturing	1,092,369	7.92	79,422	7.27	1,178,373	9.13	75,000	6.36
Leasing and commercial services	962,465	6.98	4,647	0.48	913,395	7.08	3,282	0.36
– Commercial services	928,327	6.74	4,338	0.47	819,916	6.35	2,998	0.37
Production and supply of electric power, heat, gas and water	803,746	5.83	9,075	1.13	822,782	6.38	4,210	0.51
Wholesale and retail trade	373,246	2.71	26,064	6.98	436,275	3.38	33,564	7.69
Real estate	510,045	3.70	8,505	1.67	414,867	3.22	9,236	2.23
Water, environment and public utilities management	390,220	2.83	2,390	0.61	378,620	2.93	778	0.21
Construction	281,932	2.05	5,907	2.10	252,989	1.96	6,549	2.59
Mining	222,771	1.62	11,281	5.06	222,694	1.73	11,625	5.22
– Exploitation of petroleum and natural gas	3,231	0.02	90	2.79	6,199	0.05	–	–
Education	64,212	0.47	397	0.62	67,471	0.52	412	0.61
Information transmission, software and information technology services	53,230	0.39	410	0.77	41,510	0.32	394	0.95
– Telecommunications, broadcast and television, and satellite transmission services	26,382	0.19	38	0.14	25,245	0.20	8	0.03
Others	435,730	3.16	5,117	1.17	409,857	3.18	7,188	1.75
Personal Loans	5,839,803	42.37	24,076	0.41	5,193,853	40.25	21,811	0.42
Discounted bills	308,368	2.24	–	–	122,495	0.95	–	–
Overseas operations and subsidiaries	1,100,406	7.98	7,557	0.69	1,143,569	8.86	4,436	0.39
Accrued interest	36,798	0.27	–	–	N/A	N/A	N/A	N/A
Total	13,783,053	100.00	200,881	1.46	12,903,441	100.00	192,291	1.49

In 2018, the Group optimised its credit policies, refined customer selection criteria, maintained strict industry limits, and made continuous and concrete efforts to support the real economy. The NPL ratio of infrastructure sectors remained relatively low. The NPL ratio of manufacturing industry was up by 91 basis points. The amount and ratio of NPLs in the wholesale and retail trade industry both decreased compared to 2017. The NPL ratio of personal loans was also down by one basis point.

Rescheduled loans and advances to customers

The following table sets forth the Group's rescheduled loans and advances to customers as at the dates indicated.

	As at 31 December 2018		As at 31 December 2017	
(In millions of RMB, except percentages)	Amount	% of gross loans and advances	Amount	% of gross loans and advances
Rescheduled loans and advances to customers	5,818	0.04	4,001	0.03

As at 31 December 2018, the balance of rescheduled loans and advances to customers increased by RMB1,817 million to RMB5,818 million over 2017, and its proportion in gross loans and advances increased by 0.01 percentage points.

Overdue loans and advances to customers

The following table sets forth the Group's overdue loans and advances to customers by overdue period as at the dates indicated.

	As at 31 December 2018		As at 31 December 2017	
(In millions of RMB, except percentages)	Amount	% of gross loans and advances	Amount	% of gross loans and advances
Overdue within three months	55,045	0.40	53,390	0.42
Overdue between three months and six months	27,131	0.19	20,547	0.16
Overdue between six months and one year	38,132	0.28	30,334	0.24
Overdue between one and three years	45,970	0.33	54,543	0.42
Overdue for over three years	9,443	0.07	7,058	0.05
Total overdue loans and advances to customers	175,721	1.27	165,872	1.29

As at 31 December 2018, overdue loans and advances to customers increased by RMB9,849 million to RMB175,721 million over 2017, and its proportion in gross loans and advances dropped by 0.02 percentage points.

Concentration of credit risks

At the end of 2018, the Group's gross loans to the largest single borrower accounted for 2.95% of the total capital after regulatory adjustment, while those to the top ten customers accounted for 13.05% of the total capital after regulatory adjustment.

Concentration of loans

Concentration indicator	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Proportion of loans to the largest single customer (%)	2.95	4.27	4.03
Proportion of loans to top ten customers (%)	13.05	13.90	13.37

The Group's top ten single borrowers as at the date indicated are as follows:

		As at 31 December 2018	
(In millions of RMB, except percentages)	Industry	Amount	% of total loans
Customer A	Transportation, storage and postal services	69,391	0.50
Customer B	Public management, social security and social organisation	45,923	0.33
Customer C	Transportation, storage and postal services	35,149	0.26
Customer D	Finance	28,000	0.20
Customer E	Transportation, storage and postal services	26,090	0.19
Customer F	Transportation, storage and postal services	22,844	0.17
Customer G	Transportation, storage and postal services	22,388	0.16
Customer H	Transportation, storage and postal services	19,924	0.15
Customer I	Transportation, storage and postal services	19,759	0.14
Customer J	Production and supply of electric power, heat, gas and water	16,948	0.12
Total		306,416	2.22

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the type of risk that occurs when the Group cannot obtain sufficient funding in time and at a reasonable cost to repay debts when they are due, fulfil other payment obligations, or meet the other funding needs in regular business development. Liquidity risk arises from such major factors and events as significant drop in liquidation of current assets, massive outflow of wholesale or retail deposits, decreasing access to wholesale and retail financing, shorter financing periods, increasing financing costs, significant adverse changes in market liquidity and breakdown of the Bank's payment and settlement system.

Governance structure of liquidity risk management

The Board assumes the ultimate responsibility for liquidity risk management, authorises its special committees to perform relevant duties, and reviews and approves the liquidity risk appetite and management strategy. The senior management carries out the liquidity risk strategy formulated by the Board and organises the implementation of the liquidity risk management work. The board of supervisors supervises and evaluates the duty performance of the Board and the senior management in the liquidity risk management. The asset & liability management department at the Head Office takes the lead in the Bank's daily liquidity risk management, and constitutes the executive system together with leading business management departments, and relevant departments at branches and sub-branches to fulfil the specific duties in liquidity risk management. The subsidiaries assume the primary responsibility for liquidity risk management of their own.

Liquidity risk management strategy and policies

The Group's objective for liquidity risk management is to ensure its security in payment and settlement and the overall strategy features prudence, decentralisation, coordination and diversification. In accordance with regulatory requirements, external macro environment and the Bank's business development needs, the Head Office formulates the approaches for liquidity risk identification, measurement and monitoring, prepares the risk limit management criteria, carries out intra-day liquidity management, conducts the Group-level stress testing regularly, and reviews and assesses contingency plans.

In 2018, the PBC, through four targeted required reserve ratio cuts, maintained reasonable and sufficient liquidity in the banking system, guided financial institutions to serve the real economy, and put forward higher requirements for targeted liquidity supply. The Group adhered to its prudent approach in liquidity risk management and a sound risk management framework, actively adapted to monetary policy adjustments of the PBC, made forward-looking arrangements targeting internal and external changes in the funding landscape and forms, and ensured smooth access to sources and use of funds. It also refined the cash flow forecasting model and enriched the stress testing scenarios. By virtue of the application of fintech and big data, the Group improved the refined liquidity management in an active and comprehensive manner, to ensure its security in payment and settlement.

Stress testing of liquidity risk

The Group conducts quarterly stress testing on its liquidity risk, in order to gauge its risk tolerance ability in extreme scenarios with low probability and other adverse scenarios, and continuously improve the methods of stress testing in accordance with regulatory and internal management requirements. The results of stress testing show that under different stress scenarios, the Group's liquidity risk is under control at all times.

Indicators of liquidity risk management

The Group adopts liquidity indicator analysis, remaining maturity analysis and undiscounted cash flow analysis to measure the liquidity risk.

The following table sets forth the liquidity ratios, and loan-to-deposit ratio of the Group as at the dates indicated:

(%)		Regulatory standard	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Liquidity ratio[1]	RMB	≥25	47.69	43.53	44.21
	Foreign currency	≥25	84.88	74.52	40.81
Loan-to-deposit ratio[2]	RMB		73.71	70.73	68.17

1. Calculated by dividing current assets by current liabilities in accordance with the requirements of the CBIRC.
2. In accordance with the CBIRC's requirements, loan to-deposit ratio should be calculated on the basis of domestic legal person.

The following table sets forth the liquidity coverage ratio of the Group in the fourth quarter of 2018:

No.	(In millions of RMB, except percentages)	Value before translation	Value after translation
Qualified and high-quality liquid assets			
1	Qualified and high-quality liquid assets		4,209,453
Cash outflow			
2	Deposits from retail and deposits from small enterprise customers, including:	8,086,780	695,388
3	Stable deposits	2,264,042	113,114
4	Deposits with a low degree of stability	5,822,738	582,274
5	Unsecured (unpledged) wholesale financing, including:	9,196,893	3,128,647
6	Business relations deposits (excluding agent bank business)	6,151,388	1,527,967
7	Non-business relations deposits (all counterparties)	2,948,187	1,503,362
8	Unsecured (unpledged) debts	97,318	97,318
9	Secured (pledged) financing		516
10	Other items, including:	1,656,711	216,560
11	Cash outflows related to the requirement of derivatives and other collaterals (pledges)	62,691	62,691
12	Cash outflows related to financing loss of mortgage (pledged) debt instruments	9,244	9,244
13	Credit facilities and liquidity facilities	1,584,776	144,625
14	Other contractual financing obligations	28	–
15	Contingent financing obligations	2,851,811	346,190
16	Total amount of expected cash outflows		4,387,301
Cash inflow			
17	Mortgage (pledged) lending (including reverse repurchase and borrowed securities)	360,849	360,528
18	Cash inflow from normal full settlement	1,485,492	970,579
19	Other cash inflows	65,109	64,325
20	Total amount of expected cash inflows	1,911,450	1,395,432
			Value after adjustment
21	Qualified and high-quality liquid assets		4,209,453
22	Net cash outflows		2,991,869
23	Liquidity coverage ratio (%)[1]		140.78

1. The above figures represent simple arithmetic means of the values for 92 calendar days in the latest quarter, calculated in accordance with the current applicable regulatory requirements, definitions and accounting standards.

In accordance with the requirements of the *Administrative Measures for Liquidity Risk Management of Commercial Banks*, the liquidity coverage ratio equals to the qualified and high-quality liquid assets divided by net cash outflows in the future 30 days. The qualified and high-quality liquid assets of the Group mainly include securities guaranteed or issued by sovereign states and central banks with a risk weight of zero or 20%, and central bank reserves that may be used under stress circumstances. The average daily liquidity coverage ratio of the Group in the fourth quarter of 2018 was 140.78% and met the regulatory requirements. The liquidity coverage ratio in the fourth quarter increased by 8.67 percentage points over the previous quarter, mainly due to the increase of qualified and high-quality liquid assets, mortgage (pledged) lending and cash inflow from normal full settlement.

Net stable funding ratio equals to the available stable funding divided by required stable funding. In accordance with the requirements of the *Administrative Measures for Liquidity Risk Management of Commercial Banks*, as an indicator designed to help ensure that commercial banks have sufficient and stable funding sources to meet requirements of stable funding for various assets and off-balance sheet risk exposures, net stable funding ratio has been included as a regulatory indicator of liquidity risk since 1 July 2018. Pursuant to the requirements, commercial banks with total assets over RMB200 billion (inclusive) shall meet the lowest regulatory standard of 100% for net stable funding ratio on an on-going basis. According to the regulatory requirements, definitions and accounting standards applicable in the current period, as at the end of December 2018, the Group's available stable funding was RMB15,994,683 million against the required stable funding of RMB12,650,978 million, and the Group thus met the regulatory requirements with a net stable funding ratio of 126.43%.

The gap of the Group's assets and liabilities as at the specified dates by remaining maturities is set out below:

(In millions of RMB)	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one year and five years	More than five years	Total
Net gaps as at 31 December 2018	2,596,087	(10,147,155)	(144,391)	(585,977)	(106,509)	3,181,995	7,197,544	1,991,594
Net gaps as at 31 December 2017	3,139,244	(9,626,699)	(807,625)	(888,844)	(316,165)	3,333,019	6,962,897	1,795,827

The Group regularly monitors the maturity gaps between its assets and liabilities for various businesses in order to assess its liquidity risk in different time periods. As at 31 December 2018, the cumulative maturity gap of the Group was RMB1,991,594 million, an increase of RMB195,767 million over 2017. The negative gap for repayment on demand was RMB10,147,155 million, an increase of RMB520,456 million, mainly due to the relatively fast growth of deposits from its expansive customer base. Considering the low turnover rate of the Group's demand deposits and steady growth in deposits, the Group expects to enjoy a stable source of funding and maintain a sound liquidity position in the future.

MARKET RISK MANAGEMENT

Market risk is the risk of loss in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates, including interest rates, exchange rates, commodity prices and stock prices. Interest rate risk and exchange rate risk are the main market risks faced by the Group.

In 2018, the Group took initiative to refine the long-term market risk management mechanism, strengthened the risk management fundamentals of investment and trading business, responded actively to fluctuations in foreign exchange, bond and stock markets, and effectively prevented cross risk contagion. The Group established a global risk information sharing system, and conducted monitoring and reporting over global financial market risks, enabling quick response to emergencies and major market fluctuations. To actively identify, alert and mitigate risks, the Group set up supervision mechanisms for market risk management and in key areas of asset management business, and built a monitoring indicator system of key risks for investment and trading business. By incorporating bonds underwriting and custody businesses into comprehensive risk management, the Group consolidated its risk management for new products, new businesses and agency businesses, and achieved consistent risk appetite across business segments and aligned risk management in domestic and overseas operations. The Group strictly implemented the new regulations on asset management and established a full-process risk management and control mechanism through the implementation of unified credit line and reinforcement of penetrative management. Eventually, market risk management ability was greatly improved.

Value at Risk analysis

The Bank divides its on and off-balance sheet assets and liabilities into trading book and banking book. The Bank performs VaR analysis on its trading portfolio to measure and monitor the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices. The Bank calculates the VaRs of its RMB and foreign currency trading portfolios on a daily basis (at a confidence level of 99% and with a holding period of one-day).

The VaR condition of the Bank's trading book as at the balance sheet date and during the respective periods is as follows:

	2018				2017			
(In millions of RMB)	As at 31 December	Average	Maximum	Minimum	As at 31 December	Average	Maximum	Minimum
Risk valuation of trading portfolio	327	179	336	92	112	167	252	105
Interest rate risk	85	59	104	32	59	84	148	50
Foreign exchange risk	323	176	332	77	90	117	226	70
Commodity risk	–	6	39	–	1	8	21	–

Interest rate risk management

Interest rate risk is the risk of loss in the overall income and economic value of the banking book of the Group as a result of adverse movements in interest rates, term structure and other interest-related factors. The repricing risk and basis risk arising from mismatches in the term structure and pricing bases of assets and liabilities are the primary sources of interest rate risk for the Bank, while the yield curve risk and option risk carry relatively less impact.

To achieve effective management of its interest rate risk, the Group established its interest rate risk management framework, formulated corresponding management rules and policies in line with internal and external management requirements, and defined the roles, responsibilities and reporting lines of the Board, the senior management and related departments in interest rate risk management. The overall objective of the Bank's interest rate risk management is to minimise the decrease of net interest income due to interest rate changes, while keeping interest rate risk within a tolerable range in accordance with its risk appetite and risk management capability.

The Group employed multiple methods to measure and analyse the interest rate risk in its banking book, including sensitivity gap analysis, net interest income sensitivity analysis and stress testing. Management suggestions were proposed through regular analysis reports, and relevant measures were taken in light of internal and external management requirements, to maintain the overall interest rate risk level within the set boundaries.

In 2018, the Group paid close attention to changes in the external interest rate environment, and reinforced dynamic risk monitoring and prediction. It timely adjusted the product portfolio and term structure of assets and liabilities to increase the net interest income and keep the net interest margin at a stable level. Meanwhile, the Group continued to optimise the transmission mechanism of its interest rate risk management, established consistent interest rate risk appetite at the Group level, and strengthened the interest risk limit management of its overseas branches and subsidiaries. In accordance with the latest regulatory requirements of the Basel Committee and the CBIRC on interest rate risk, it further improved the Bank's interest rate risk management system and improved the refinement from the aspects of interest rate risk measurement, monitoring and control. During the reporting period, the interest rate risk in the banking book of the Group remained stable on the whole, with various limits indicators kept within their respective target levels.

Interest rate sensitivity gap analysis

The analysis of interest rate sensitivity gaps of the Group's assets and liabilities as at the specified dates by the next expected repricing dates or maturity dates (whichever are earlier) is set out below:

(In millions of RMB)	Non-interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Interest rate sensitivity gap as at 31 December 2018	52,746	(1,019,800)	1,308,199	(9,511)	1,659,960	1,991,594
Accumulated interest rate sensitivity gap as at 31 December 2018		(1,019,800)	288,399	278,888	1,938,848	
Interest rate sensitivity gap as at 31 December 2017	154,197	(2,375,840)	1,544,402	758,957	1,714,111	1,795,827
Accumulated interest rate sensitivity gap as at 31 December 2017		(2,375,840)	(831,438)	(72,481)	1,641,630	

As at 31 December 2018, the repricing gap of the Group's assets and liabilities with maturities of less than one year was RMB288,399 million, changing from negative to positive with an increase of RMB1,119,837 million over 2017, mainly due to the rapid increase of loans and advances to customers. The positive gap for assets and liabilities with maturities of more than one year was RMB1,650,449 million, a decrease of RMB822,619 million from 2017, mainly due to the increase of time deposits for periods of more than one year.

Net interest income sensitivity analysis

The net interest income sensitivity analysis is based on two scenarios. The first assumes all yield curves to rise or fall by 100 basis points in a parallel way, while the interest rates for deposits at the PBC remain the same; the second assumes the other yield curves to rise or fall by 100 basis points in a parallel way, while the interest rates for deposits at the PBC and the demand deposits remain the same.

The interest rate sensitivity of the Group's net interest income as at the specified dates is set out below:

	Change in net interest income			
(In millions of RMB)	Rise by 100 basis points	Fall by 100 basis points	Rise by 100 basis points (demand deposit rates being constant)	Fall by 100 basis points (demand deposit rates being constant)
As at 31 December 2018	(32,453)	32,453	69,138	(69,138)
As at 31 December 2017	(46,727)	46,727	50,694	(50,694)

Foreign exchange risk management

Foreign exchange risk is the risk of impact of adverse movements in exchange rates on the Group's financial position. The Group is exposed to foreign exchange risk primarily because of the currency mismatch of assets and liabilities held by the Group that are denominated in currencies other than RMB and the positions held by the Group as a market maker in the financial markets. The Group mitigates its foreign exchange risk mainly by matching its assets and liabilities, limit control, and hedging.

In 2018, the Group paid close attention to the international economic trend and changes in global financial market and focused on the exchange rate fluctuations of RMB and currency depreciation in the emerging market to enhance its forecasting capability for foreign exchange risk and implement hedging trading. The Group enhanced the foreign exchange risk management mechanism, improved the exposure measurement rules for foreign exchange risk and optimised the risk measurement system. As a result, the exposure measurement for the foreign exchange risk was more concise and automated. During the reporting period, the Group's overall foreign exchange risk exposure was stable, continuously satisfying the regulatory requirement of the CBIRC.

Currency concentrations

The Group's currency concentrations as at the dates indicated are set out below:

	As at 31 December 2018				As at 31 December 2017			
(In millions of RMB)	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	1,053,925	336,580	402,370	1,792,875	1,285,315	415,267	383,769	2,084,351
Spot liabilities	(1,029,400)	(371,917)	(291,300)	(1,692,617)	(1,151,780)	(453,711)	(326,808)	(1,932,299)
Forward purchases	2,765,210	181,417	205,064	3,151,691	2,737,947	178,350	247,059	3,163,356
Forward sales	(2,760,568)	(106,381)	(296,062)	(3,163,011)	(2,794,336)	(105,881)	(280,868)	(3,181,085)
Net options position	(13,216)	16	–	(13,200)	(72,996)	–	–	(72,996)
Net long position	15,951	39,715	20,072	75,738	4,150	34,025	23,152	61,327

As at 31 December 2018, the net exposure of the Group's foreign exchange risk was RMB75,738 million, an increase of RMB14,411 million over 2017, mainly due to the increase of profits and the exchange rate fluctuations of the US dollars.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss due to inadequate or flawed internal processes, personnel, systems, or external events.

In 2018, the Group strengthened statistics on non-compliance losses and post management, continuously improved the management of internal operational risk, promoted the application of management tools, and took various measures to reduce the losses, as to meet relevant requirements of internal risk management and external regulatory compliance.

The Group strengthened the statistical analysis of non-compliance losses such as regulatory penalties and credit violations, developed relevant system functions and reduced operational risk losses caused by non-compliances. It re-examined and adjusted the manual on incompatible positions to enhance the counterbalance of different positions. It made arrangements for job rotation and mandatory vacation of important positions to strengthen internal control capabilities. It also selected key areas to carry out self-assessment of operational risk to improve operational risk prevention and control. Moreover, the Group continued to promote its emergency planning and drills for key businesses in the "New Generation" core banking system to improve its capability in response to business disruption emergencies.

Anti-money Laundering

In 2018, in line with its risk-based approach, the Group established a sound mechanism for management of money laundering risks, and enhanced the management of customer identification, financial sanctions compliance and list monitoring, as a way to living up to regulatory requirements on anti-money laundering, counter-terrorist financing and anti-tax evasion and other relevant regulating requirements.

The Group strengthened the in-advance management and control of high-risk businesses and customers and continually improved the money laundering risk assessment and control system. It adopted the big data analytic tool to effectively identify money laundering clues. By improving its automated management capabilities of sanctions compliance risk, the Group enhanced its sanctions compliance management and control over customers from high-risk countries or regions. It exerted sustained efforts in training programmes on AML to enhance AML publicity among the general public. By pushing forward the building of a specialised AML team, the Group steadily enhanced its expertise in this area.

REPUTATIONAL RISK MANAGEMENT

Reputational risk is the risk of potential or actual negative impact on or damage to the Bank's overall image, reputation and brand value, when certain aspects of the commercial bank's operational, managerial or other behaviours or events attract media attention or coverage.

In 2018, the Group continued to improve its reputational risk management system and mechanisms, and enhanced its competence in managing reputational risks. The Group established a dedicated office for reputational risk management so as to enhance organisational guarantee and team building on this front, and revised relevant management policies to clarify roles and responsibilities. Based on economic capital measurement of the reputational risk, the Group applied management tools to the assessment of tier-one branches, overseas branches and subsidiaries on reputational risk management and included the assessment results into their KPI appraisal. It established a publicity emergency response work group to enable early warning and mitigation measures on public opinions, and further strengthened the cooperation of public opinion monitoring between the head office and branches, between the Group and subsidiaries, and between domestic and overseas institutions to achieve surveillance of sensitive information from different media on a 24/7 basis. During the reporting period, the Group steadily improved its reputational risk management capabilities, and effectively safeguarded its good corporate image and reputation.

COUNTRY RISK MANAGEMENT

Country risk refers to the risk of losses in the physical outlets, equipment, facilities or other losses to the Group in a country or a region or other losses the Bank suffers as a result of insolvency or refusal of borrowers or debtors in a country or a region to repay their debts to the Group, due to the economic, political, social changes and events in such country or region.

In strict compliance with regulatory requirements, the Bank incorporated the country risk management into the comprehensive risk management system and used a range of tools to manage the country risk, including rating evaluation, risk limit verification, stress testing, monitoring and early warning, and emergency responses. In 2018, the Bank reviewed country risk ratings and limits in a timely manner in response to the changes in international situations. It improved the monitoring mechanism for country risk exposures, implemented stress testing on country risks, and issued the country risk assessment report on a regular basis. As a result, it steadily enhanced its competence in mitigating country risk, safeguarding its international business operations.

CONSOLIDATED MANAGEMENT

Consolidated management is the Bank's on-going comprehensive management and control over the corporate governance, capital and finance of the Group and the subsidiaries, which enables the Bank to effectively identify, measure, monitor and control the overall risk profile of the Group.

In 2018, the Bank proactively implemented the latest requirements of the CBIRC for consolidated management, improved the Group's consolidated management system, and enhanced the planning and coordination, in order to prevent cross-border and cross-industry operation risks at the group level and strengthen its consolidated management standard.

Improving corporate governance and consolidated management system. The Bank established a mechanism for consolidated management assessment so as to evaluate the competence of consolidated management at the Group level as well as the effectiveness of consolidated management in a downward manner at the subsidiary level. It established a mechanism for the preparation of a three-year rolling business plan to reinforce the strategic management of subsidiaries. It defined management rules over sub-subsidiaries that are significant to the Group to strengthen management of subsidiaries. Besides, it organised the subsidiaries to develop the annual work plans for their board of directors, and made it clear that their board of directors should be accountable for major decisions.

Strengthening the Group's comprehensive risk management. The Bank established a multi-dimensional risk assessment index system to monitor and analyse the risk positions of its subsidiaries on a regular basis. It also formulated the Group's market risk policies limit scheme and industry-specific limit schemes, to further enhance limits monitoring and control across the Group. Furthermore, it improved the consolidated credit rules to strengthen the unified credit line management of the Group.

Accelerating IT system building for consolidated management. The Bank continued to improve the general ledger system of the Group, which was expanded to cover more accounting information of consolidated entities. In addition, it optimised the IT systems for internal transactions to improve the automated collection and summarisation of data regarding internal transactions of subsidiaries.

INTERNAL AUDIT

In order to promote a sound and effective risk management mechanism, internal control policies and corporate governance procedures, the Bank's internal audit department evaluates the effectiveness of the internal control policies and risk management mechanism, the effects of corporate governance procedures, the profitability of business operations, and the economic responsibilities of relevant individuals, and puts forward relevant improvement recommendations. The internal audit department works in a relatively independent manner, and it is managed vertically. It is responsible to and reports to the Board and the audit committee, and also reports to the board of supervisors and senior management. In addition to the internal audit department at the head office, there are 37 audit offices at tier-one branches responsible for conducting specific audit work and implementing audit activities.

In 2018, considering the changes in the current economic and financial situations, the internal audit department focused on risk prevention and mitigation in key business areas, organised and conducted 44 categories of systematic audit projects, including special audit on the prudence and compliance of credit business, dynamic audit and inspection on the basic management and high-risk areas of credit business, audit on personal loan business, audit on investment custody business of certain branches, dynamic audit and inspection on cross-financial business management, audit on capital adequacy ratio management, audit in relation to global systemically important bank, audit on AML, audit on the operations and management of major businesses at ten overseas institutions, and audit on economic responsibilities in the term of office. Meanwhile, the internal audit department strengthened efforts in audit follow-ups of key internal control deficiencies and significant risk events, performed in-depth analysis on the underlying causes of identified issues, so as to drive the improvement in management mechanisms, business processes and internal management of relevant departments and branches, and effectively promote the stable and healthy development of the Bank's operation and management.

The Group has implemented comprehensive capital management, which covers managing activities such as formulation of capital management policies, capital blueprint and planning, capital measurement, assessment on internal capital adequacy, capital allocation, capital incentive, restraint and transmission, capital raising, monitoring and reporting, and application of the advanced capital measurement approach in its daily operations. The Bank's general principle of capital management is to effectively balance the supply and demand of capital, by relying on internal capital accumulation supplemented with external capital replenishment and strengthening capital restraints and incentives on business development, and keep capital level above regulatory requirements, with proper safety margin and buffer band.

In 2018, the Group proactively promoted the intensive use of capital, by continuously improving its capital management framework, and enhancing the awareness to save on capital across the group, and expanding the methods and measures to take up less capital. With careful planning of risk weighted assets and further improvements in asset business structure, the light capital businesses with higher returns achieved fast growth, delivering rising capital use efficiency. In 2018, the Group enhanced its ability to achieve the balance between the supply and demand of capital. Taking no account of the external capital replenishment, the Group achieved a self-driven growth in capital, with growth rate of capital after deduction exceeding that of risk-weighted assets by 7.39 percentage points. It also actively supplemented external capital by successfully issuing RMB83 billion domestic Tier 2 capital bonds, pushing up the Group's capital adequacy ratio by 0.64 percentage points. At the end of the year, the Group's capital adequacy remained strong, reflecting notable enhancement in its risk withstanding capabilities and overall competitiveness, which provided effective support to the steady business development and strategy implementation of the Group.

CAPITAL ADEQUACY RATIOS

Scope for calculating capital adequacy ratios

In accordance with the regulatory requirements, the Group calculates and discloses capital adequacy ratios in accordance with both the *Capital Rules for Commercial Banks (Provisional)* and the Measures for the *Management of Capital Adequacy Ratios of Commercial Banks*. The scope for calculating capital adequacy ratios includes both the Bank's domestic and overseas branches and sub-branches, and financial subsidiaries (insurance companies excluded).

Capital adequacy ratios

As at 31 December 2018, considering relevant rules for the transitional period, the Group's total capital ratio, Tier 1 ratio and Common Equity Tier 1 ratio, which were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)*, were 17.19%, 14.42% and 13.83%, respectively, all in compliance with the regulatory requirements. The total capital ratio, Tier 1 ratio and Common Equity Tier 1 ratio increased by 1.69 percentage points, 0.71 percentage points and 0.74 percentage points respectively compared with those as at 31 December 2017.

The increase in the Group's capital adequacy ratios was mainly attributable to the following three factors. Firstly, the profits maintained steady growth. Secondly, the Group promoted the intensive capital development, reinforced the capital-centred planning and incentive and restraint mechanism, optimised the business structure and strengthened the refined management of capital, thus effectively reducing inefficient and invalid capital occupation and raising the efficiency of capital utilisation. Thirdly, the Group issued Tier 2 capital bonds with an amount of RMB83 billion in China, further enhancing its capital strength.

The following table sets forth, as at the dates indicated, the information related to the capital adequacy ratios of the Group and the Bank.

	As at 31 December 2018		As at 31 December 2017	
(In millions of RMB, except percentages)	The Group	The Bank	The Group	The Bank
Capital adequacy ratios calculated in accordance with the Capital Rules for Commercial Banks (Provisional)				
Capital after regulatory adjustments:				
Common Equity Tier 1 capital	1,889,390	1,766,840	1,691,332	1,579,469
Tier 1 capital	1,969,110	1,838,956	1,771,120	1,652,142
Total capital	2,348,646	2,215,308	2,003,072	1,881,181
Capital adequacy ratios:				
Common Equity Tier 1 ratio	13.83%	13.74%	13.09%	12.87%
Tier 1 ratio	14.42%	14.30%	13.71%	13.47%
Total capital ratio	17.19%	17.22%	15.50%	15.33%
Capital adequacy ratios calculated in accordance with the Measures for the Management of Capital Adequacy Ratios of Commercial Banks				
Core capital adequacy ratio	12.89%	12.83%	12.38%	12.31%
Capital adequacy ratio	16.37%	16.14%	15.40%	15.11%

Please refer to Note "Risk management – Capital management" in the financial statements for details of composition of capital.

Risk-weighted assets

The following table sets forth, as at the dates indicated, the information related to the risk-weighted assets of the Group in accordance with the *Capital Rules for Commercial Banks (Provisional)*. Corporate credit risk-weighted assets that meet the regulatory requirements are calculated with the foundation internal ratings-based approach, the retail credit risk-weighted assets are calculated with the internal ratings-based approach, the market risk-weighted assets are calculated with the internal models approach and the operational risk-weighted assets are calculated with the standardised approach.

(In millions of RMB)	As at 31 December 2018	As at 31 December 2017
Credit risk-weighted assets	12,473,529	11,792,974
Covered by the internal ratings-based approach	8,369,011	8,166,348
Uncovered by the internal ratings-based approach	4,104,518	3,626,626
Market risk-weighted assets	120,524	94,832
Covered by the internal models approach	72,578	50,734
Uncovered by the internal models approach	47,946	44,098
Operational risk-weighted assets	1,065,444	1,032,174
Additional risk-weighted assets due to the application of capital floor	–	–
Total risk-weighted assets	13,659,497	12,919,980

For more details about capital composition, capital measurement and management, please refer to *Capital Adequacy Ratio Report 2018* issued by the Bank.

LEVERAGE RATIO

From the first quarter of 2015 on, the Group calculated its leverage ratio in accordance with the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* promulgated by the CBRC in January 2015. Leverage ratio is calculated by dividing Tier 1 capital after regulatory adjustments by on and off-balance sheet assets after adjustments. Leverage ratio of a commercial bank shall not be below 4%. As at 31 December 2018, calculated in accordance with the *Measures for the Administration of the Leverage Ratio of Commercial Bank*, the Group's leverage ratio was 8.05%, meeting the regulatory requirements.

The following table sets forth the general information related to the Group's leverage ratio.

(In millions of RMB, except percentages)	As at 31 December 2018	As at 30 September 2018	As at 30 June 2018	As at 31 March 2018
Leverage ratio	8.05%	7.78%	7.61%	7.53%
Tier 1 capital after regulatory adjustments	1,969,110	1,914,471	1,840,291	1,826,713
On and off-balance sheet assets after adjustments	24,460,149	24,610,588	24,176,438	24,252,119

1. Leverage ratio is calculated in accordance with relevant regulatory requirements. Tier 1 capital after regulatory adjustments is consistent with that used in the calculation of capital adequacy ratio by the Group.
2. On and off-balance sheet assets after adjustments = On-balance sheet assets after adjustments + Off-balance sheet items after adjustments – Regulatory adjustments to Tier 1 capital.

The following table sets forth the detailed items that constitute the on and off-balance sheet assets after adjustments used in the calculation of the Group's leverage ratio, and the reconciliation with the accounting items.

(In millions of RMB)	As at 31 December 2018	As at 31 December 2017
Total on-balance sheet assets[1]	23,222,693	22,124,383
Consolidated adjustment[2]	(125,786)	(146,210)
Derivatives adjustment	64,440	71,599
Securities financing transactions adjustment	678	168
Off-balance sheet items adjustment[3]	1,307,807	1,515,080
Other adjustments[4]	(9,683)	(9,052)
On and off-balance sheet assets after adjustments	24,460,149	23,555,968

1. Total on-balance sheet assets refer to the one calculated in accordance with financial and accounting standards.
2. Consolidated adjustment refers to the difference between regulatory consolidated total assets and accounting consolidated total assets.
3. Off-balance sheet items adjustment refers to the balance of off-balance sheet items after being multiplied by credit conversion factors in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised).
4. Other adjustments mainly comprise regulatory adjustments to Tier 1 capital.

The following table sets forth the information related to the Group's leverage ratio, Tier 1 capital after regulatory adjustments, and on and off-balance sheet assets after adjustments and their relevant detailed items.

(In millions of RMB, except percentages)	As at 31 December 2018	As at 31 December 2017
On-balance sheet assets (excluding derivatives and securities financing transactions)[1]	22,847,332	21,690,628
Less: Regulatory adjustments to Tier 1 capital	(9,683)	(9,052)
On-balance sheet assets after adjustments (excluding derivatives and securities financing transactions)	22,837,649	21,681,576
Replacement costs of various derivatives (excluding eligible margin)	53,984	91,739
Potential risk exposures of various derivatives	60,899	62,831
Nominal principals arising from sales of credit derivatives	80	10
Derivative assets	114,963	154,580
Accounting assets arising from securities financing transactions	199,052	204,564
Counterparty credit risk exposure arising from securities financing transactions	678	168
Securities financing transactions assets	199,730	204,732
Off-balance sheet assets	2,848,724	3,029,172
Less: Decrease in off-balance sheet assets due to credit conversion	(1,540,917)	(1,514,092)
Off-balance sheet assets after adjustments	1,307,807	1,515,080
Tier 1 capital after regulatory adjustments	1,969,110	1,771,120
On and off-balance sheet assets after adjustments	24,460,149	23,555,968
Leverage Ratio[2]	8.05%	7.52%

1. These refer to on-balance sheet assets excluding derivatives and securities financing transactions on a regulatory consolidated basis.
2. Leverage ratio is calculated through dividing Tier 1 capital after deduction by on and off-balance sheet assets after adjustments.

In 2019, the global economy continues to recover despite the increased risk of economic downturn due to the trade friction and policy uncertainties. China's economy shows potential and resilience with the advancement of the supply-side reform and reinforcement of the reform and opening up, and it is and will continue to be in an important period of strategic opportunity for development for a long time to come. Domestic demand is constantly driving the economic growth, and emerging industries are flourishing, while traditional industries keep a good momentum in transformation and upgrading. As a result, the economic structure continues to improve and the employment situation remains stable.

The banking industry in China will still face a complex operating environment, which presents both challenges and opportunities. On the one hand, the negative impact of the trade friction on global economy surfaces, the financial market volatility rises, and the banking industry is faced with increasing difficulties in maintaining prudent operations. Fintech giants are accelerating pace to expand businesses from customers to merchants, and to build an ecosystem of services covering credit, payment, wealth management, insurance, lending and marketing to create a closed fund loop, making cross-business competition more of a trend. On the other hand, the implementation of national strategies, including the development of Xiongan New Area and Guangdong-Hong Kong-Macao Greater Bay Area, rural revitalisation and new urbanisation, broadens channels for business development of the banking industry. Huge demands for financial services come along with consumption upgrading, strategic emerging industries and green finance. Policies on large reductions of taxes and fees help to build up the market confidence and creativity of micro-economic entities, building better conditions for banks to expand customer base and businesses. Intensified regulatory requirements also further standardise the financial discipline, creating a more secure external environment for the healthy development of banks.

In 2019, the Group will adopt the new development philosophy on all fronts, stay committed to prudent operations and innovation-driven development, continue to improve financial services and prevent financial risks, deepen the supply-side structural reform in the financial sector, and enhance its capabilities of serving the real economy. The Group will focus on the following tasks: Firstly, by coordinating Group-wide resources, it will improve its capabilities of serving the real economy and providing comprehensive financial services, provide more support for the development of private enterprises and small and micro enterprises, and contribute to the advancement of the supply-side structural reform. Secondly, following the new development philosophy, it will carry forward the implementation of three strategies of house leasing, inclusive finance and fintech, and accelerate its paces to fostering new business advantages. Thirdly, it will implement the strategy of prioritised development of retail banking and corporate transactional businesses, quickly foster its advantages, and continue to strengthen its competitiveness in these businesses. Fourthly, it will deepen the refined management, stress the restraint of funds and capital, improve the asset-liability structure and profitability structure, and strengthen product and service innovation, in order to enhance the overall operation management. Fifthly, it will further advance the reform and innovation in key areas, accelerate the development of asset management and emerging consumer finance services, and strengthen its ability to provide modern financial services. Lastly, it will fortify its active and comprehensive risk management, and strengthen its efforts in compliance management both at home and abroad.

勞動者港灣

Workers' Harbours

Sail for love, berth for love

Take a rest when tired and have a drink when thirsty

Charge the devices when out of power and re-heat the meal when it's cold

The Bank offered network service resources, launched "Workers' Harbours" and made dedicated efforts to provide "resting places" and "warm quarters" for outdoor workers, including sanitation workers, taxi drivers, and traffic police.

By the end of 2018, the Bank officially set up 14,307 "Workers' Harbours", covering all qualified operating outlets across the country and providing the public with convenient facilities and services, including drinking water, among which 10,552 outlets also provided restroom facilities. The number of registered users of "Workers' Harbours" APP was about 6 million.

劳动者港湾

Please scan the QR code

CORPORATE SOCIAL RESPONSIBILITIES

Focusing on the real economy, the Group provides financial solutions in a way that follows closely the economic and social development and meets customer demands, for the purpose of serving the life and work of the public and creating a better life. Upholding the customer-oriented philosophy, the Group constantly launches new products and services, and in the course of achieving steady and sound development of various businesses, it strives to become:

A bank serving the public – Focusing on customer experience and demands, continuously innovating and improving business processes, vigorously exploring the consumer finance market, and endeavouring to enhance service quality and capabilities; actively protecting the legitimate rights and interests of customers; providing more shared services to the public in its business premises;

A bank promoting people's livelihood – Seeking for business development while devoting to economic and social development and customer satisfaction; going all out for the real economy and people's livelihood, implementing the inclusive finance strategy, and diligently serving people's livelihood that covers small and micro enterprises, "agriculture, farmers and rural areas", and the housing leasing, to facilitate the public to pursue a happier life;

A bank advocating the low-carbon and environment-friendly principle – Paying attention to the global climate change, adhering to responsible investment and propelling green banking; vigorously developing green finance and supporting low-carbon economy and environmental protection industry by assisting corporate customers in saving energy and reducing emissions, protecting biodiversity, and strictly controlling credit extension to high-pollution and high-energy-consumption industries; developing fintech and building a shared financial ecosystem; carrying out the mobile-first strategy and proactively advocating e-financial services; upholding low-carbon operations to reduce its own energy consumption and impact on climate and environment;

A bank with sustainable development – accomplishing overall risk management and staying committed to compliant operations; enhancing corporate value to create value for customers, and generate sustained and stable returns for shareholders; taking employee rights and interests into account, and making efforts to create a better working environment and render better career development opportunities; focusing on social and community development, and encouraging employees, customers and institutions to energetically participate in charitable causes to contribute to the concord development of society.

Please refer to the *2018 Corporate Social Responsibility Report* of the Bank for more details.

FINANCIAL SERVICES FOR "AGRICULTURE, FARMERS AND RURAL AREAS" AND POVERTY ALLEVIATION

In accordance with the established five-year working plan, annual plan and scheme of poverty alleviation through finance, the Bank endeavoured to implement targeted poverty alleviation and poverty alleviation in designated areas, and intensified its efforts in poverty alleviation in poverty-stricken areas through finance.

Targeted poverty alleviation plans

Basic principle

Based on the five development concepts of innovation, coordination, being green, opening up and sharing, the Bank adhered to the fundamental strategy of targeted poverty alleviation and eradication, and prioritised improving the quality of targeted poverty alleviation through finance. With its focus on the poverty-stricken areas and the targeted areas of the head office and branches, the Bank strengthened its organisational leadership and policy guarantees, concentrated on precisely satisfying the diversified financial needs for poverty alleviation and innovated products and service models, so as to integrate various resources, invigorate inherent impetus in these impoverished areas and establish a long-term mechanism for finance-assisted poverty alleviation.

General target and major task

The Bank aimed to: continue to enlarge its various investments in poverty alleviation, and strive to significantly increase the number of registered impoverished people it served; improve the coverage of fundamental financial services in impoverished areas by expanding the coverage of outlets in these areas as well as exploring and promoting the new service model of "Yunongtong"; and precisely allocate the poverty alleviation funds together with various measures to the registered impoverished people with accurate and effective services.

Safeguard measures

Strengthening organisational leadership and improving top-level design. The Board of Directors and senior management of the Bank attached great importance to targeted poverty alleviation through finance. A leading team on poverty alleviation through finance led by the Chairman was established in the Head Office, responsible for overall coordinating, planning and promoting poverty alleviation through finance. Each branch established a leading team pursuant to the practice of the Head Office. The Bank has formed a poverty alleviation mechanism with the three-level co-action among the Head Office, branches and sub-branches and with layer-by-layer implementation. By organising a poverty alleviation conference for the Bank and formulating rules and documents such as the plan for poverty alleviation through finance, the Bank continued to refine its top-level design, provide resources and policy guarantees and advance poverty alleviation in both scope and depth.

Increasing allocation of resources. The Bank prioritised its support for poverty alleviation projects by allocating dedicated credit resources. Special funds were granted to branches to establish payment service outlets in targeted poverty alleviation areas for "agriculture, farmers and rural areas". Meanwhile funds were dedicated to the development of the e-commerce-based poverty alleviation business (e.ccb.com) in impoverished areas. To provide preferential service prices, the Bank reduced services fees in impoverished areas, and offered preferential pricing policies for loans and deposits in the branches of impoverished areas according to the needs of poverty alleviation.

Implementing differentiated management policies. With respect to credit customers in poverty-stricken areas, state-level impoverished counties, and targeted regions and counties of poverty alleviation of the Bank's branches, differentiated credit policies were adopted. The Bank carried out the green channel service mechanism and prioritised the project assessment and credit approval in impoverished areas to enhance the efficiency of credit approval for major poverty alleviation projects. On the basis of satisfying its overall control requirements, the Bank properly improved its tolerance for non-performing poverty alleviation loans. Priority is given to write off loan losses arising from poverty alleviation through finance. The Bank also refined its due diligence management rules of poverty alleviation crediting businesses.

Intensifying assessment and supervision on poverty alleviation. The Bank established an assessment and supervision system for poverty alleviation through finance and poverty alleviation in designated areas, and took poverty alleviation governance as a key consideration of the supervision and assessment, for the purpose of guiding poverty alleviation with clear performance management objectives under the assessment and supervision mechanism.

Summary of annual targeted poverty alleviation

Industry-based poverty alleviation loans as an indispensable guide for the Bank's poverty alleviation through finance. Driven by mechanisms of upgrading fintech, credit management, industrial chain, and administration, the Bank provided diversified financial products and service models, established an interest-linking mechanism between new-type agricultural business entities and impoverished households and assisted impoverished areas in successfully accomplishing transition in poverty alleviation and rural revitalisation. In 2018, the Bank's industry-based targeted poverty alleviation loans increased by more than 30%, becoming an important means of poverty alleviation through finance.

Vigorously innovating products and service models. The Bank innovatively adopted a network supply chain model to serve agriculture, farmers and rural areas, cooperated with core agricultural enterprises and served inclusive customer groups in the agricultural industry chain in an effective way. It launched a service platform with the product "Mingonghui" for migrant workers, to realise payment of migrant workers' wages in a timely and accurate manner, and effectively resolve the social problem of "migrant workers' difficulty in claiming unpaid salary". With "Agricultural Big Data + Fintech", the Bank developed such products as "Diyayundai", "Nongxinyundai" and "Nongkenkuaidai" for online loan application, providing an effective solution to difficult and expensive financing for rural small and micro enterprises and households. In addition, it launched such products as "Loans to Poverty Alleviation Supply", "Loans to Rural Pledge", "Loans to Selenium-enriched Tea", "Loans to New Community Factory", and "Loans to Industry-based Poverty Alleviation" to support the industrial development in impoverished areas. The Bank initiated a characteristic model for individual poverty alleviation loans to impel the normative development of microcredit business for poverty alleviation.

Reinforcing in-depth integration between fintech and poverty alleviation. The Bank innovated a "blockchain-based platform for targeted poverty alleviation through finance", and built a "matching platform for poverty alleviation through finance". With reliance on e.ccb.com, the Bank vigorously carried out e-commerce-based poverty alleviation to respond to the call of the Ministry of Commerce. By the end of 2018, e.ccb.com had 3,878 poverty alleviation merchants with 26 provincial poverty alleviation pavilions established, covering 845 impoverished counties. Moreover, 89,400 kinds of poverty alleviation commodities were available on the platform, achieving a transaction volume of RMB10,007 million.

Expanding service channels to broaden coverage of fundamental financial services. The Bank has established 19 new outlets in state-level impoverished counties, and provided 7,236 automatic teller machines and 3,846 smart teller machines and set up 2,306 self-service banks in such counties. The Bank built 150,000 service outlets for Yunongtong, basically covering all the Bank's poverty alleviation appointed by local governments to serve the farmers. "Workers' Harbour" of certain outlets also included poverty alleviation services.

Promoting comprehensive services. The Bank developed the "Qianyuan – Fuxiang" special targeted poverty alleviation WMPs, channelling financial funds to the poverty alleviation frontline. It established the "CCB Joint Targeted Poverty Alleviation Charity Trust", with the principal and earnings donated to poverty alleviation projects in Ankang City, Shaanxi Province for three consecutive years. The "Insurance + Futures" project for corns from Ankang City was operated professionally to transfer downside risks of corn price to the futures market as a means to secure farmers' income.

Strengthening business trainings to enhance capabilities. The Bank has organised video trainings for finance-based poverty alleviation businesses, the "CCB Poverty Alleviation, Walk Together" training session and the training course pertinent to poverty alleviation in designated areas to enhance employee's capabilities for poverty alleviation throughout the Bank. The "Jinzhihuimin" project of CCB College was extended to impoverished areas to help the officials and people in such areas to apply knowledge to poverty reduction as inspired by the concept of "education before poverty alleviation".

Achievements in targeted poverty alleviation

Indicator	Amount and description
I. General information	
Fund	At the end of 2018, the balance of the Bank's industry-based targeted poverty alleviation loans was RMB63,040.07 million and the Bank's poverty alleviation donation in designated area was RMB61.88 million. Agriculture-related loans amounted to RMB1,764,650 million, among which the agriculture-related inclusive loans grew by 22.51%, significantly higher than the average loan growth during the year.
Number of registered impoverished people lifted out of poverty	The industry-based targeted poverty alleviation loans were granted to 114,000 people times, and the number of registered impoverished people granted loans (including credit card loans) amounted to 291,700.
II. Investments by items	
1. Poverty alleviation by promoting industry development	
1.1 Poverty alleviation programmes	√ Poverty alleviation by promoting agriculture, forestry, animal husbandry and fishery
	As of the end of 2018, the Bank's loans to agriculture, forestry, animal husbandry and fishery were RMB3,551.47 million.
	√ Poverty alleviation through e-commerce
	Drawing on its e.ccb.com e-commerce platform, the Bank adopted several assistance measures, including setting up a poverty alleviation zone, opening green channel, launching free online promotion and offline trade matchmaking, and organising training and guidance for merchants. It innovated poverty alleviation patterns in accordance with local conditions, helped brand-building and channel exploration in impoverished areas, and enabled people in these areas to increase income and overcome poverty. As of the end of 2018, relying on e.ccb.com, the Bank facilitated poverty alleviation transactions for a total of RMB10,007 million, covering 845 poverty-stricken counties nationwide.
	√ Others
	By adjusting measures to local conditions and relying on the credit of the leading enterprises in the industrial chain, the Bank has provided great support to the development of modern agriculture, ecological farming, leisure agriculture, rural tourism and other featured industries and offered supply chain financial service to the leading enterprises' upstream and downstream dealers and farming households so as to help impoverished people to get employed, increase income and cast off poverty.
1.2 Amount of industry-based investments	At the end of 2018, the Bank issued industry-based poverty alleviation loans of RMB63,040.07 million.
2. Poverty alleviation through education	
2.1 Student loans and related donations	By of the end of 2018, the Bank had issued student loans of RMB2.85 million to registered impoverished people. Since the Bank launched "Building the Future – CCB Sponsorship Programme for Impoverished High School Students" in 2007, it had issued RMB144 million of grants for this programme. Since it launched "Tibet in Our Hearts – CCB and Jianyin Investment Scholarship (Bursary) Foundation" to subsidise impoverished high school students and college students in Tibet in 2007, the Bank had granted scholarships (bursaries) of RMB2.53 million.
2.2 Number of students benefited	At the end of 2018, the Bank granted 91,500 loans to high school students in need, including 1,210 loans to financially distressed students in the Tibetan region.
2.3 Loans for improving educational resources	At the end of 2018, the Bank had RMB1,488.03 million of outstanding education loans to schools in impoverished areas.
3. Poverty alleviation initiatives to promote healthcare	From 2011 to 2018, the Bank made consecutive donations for "Healthy Mother Express" vehicles in poverty-stricken villages and counties in 23 provinces and autonomous regions, to provide free health check and treatment to women and healthcare services for pregnant and parturient women. The Bank had cumulatively donated RMB54 million for the purchase of 357 "Healthy Mother Express" vehicles.
4. Poverty alleviation initiatives to promote ecological protection	At the end of 2018, the Bank had a balance of RMB886.20 million loans for restoring ecological environment in impoverished areas.
5. Poverty alleviation initiatives to promote social undertakings	In 2018, the Bank sent off a total of 1,600 senior staff to serve temporary positions for poverty alleviation, helping the local counties win the tough battle against poverty by means of various measures, such as relocation, labour export and industrial development.
III. Awards	
China Women's Development Foundation	Enterprise with Outstanding Contribution
China Foundation for Poverty Alleviation	Outstanding Contribution Award
Sina Finance	Innovation Award on Financial Enterprise Poverty Alleviation

Follow-up targeted poverty alleviation plan

In 2019, the Bank will undertake multiple measures to further poverty alleviation efforts while relying on inclusive finance and fintech. Firstly, the Bank will intensify its Party and team building to better accomplish poverty alleviation through finance and poverty alleviation in designated areas. Secondly, the Bank will continue to increase credit grants in poverty alleviation through finance and allocate more financial resources to poverty-stricken areas to ensure that all regulatory assessment requirements are met. Thirdly, the Bank will further strengthen the innovation of poverty alleviation products and service models, advance the deep integration of fintech and poverty alleviation, promote the development of special industries in impoverished areas, and establish and improve a mechanism under which financial supports to enterprises are provided based on their poverty alleviation efforts. Fourthly, the Bank will promote more extensive business collaboration and implement the concept of poverty alleviation in a broader sense so as to make joint efforts to support poverty alleviation in multiple dimensions. Fifthly, the Bank will focus on designated poverty alleviation areas of the head office to enhance allocation of resources, policy support, assessment incentives and business guidance, making the "one district and three counties" of Ankang a demonstration pilot project for CCB poverty alleviation through finance. Sixthly, the Bank will strengthen risk prevention and safeguard the bottom line of wiping out systemic risks to promote poverty alleviation at a steady pace. Lastly, the Bank will promote financial poverty alleviation through media to create a favourable environment for the cause.

ENVIRONMENTAL PROTECTION

Focusing on global climate change, the Bank vigorously develops green finance, promotes green innovation and adheres to green operations, so as to reduce energy consumption and impact on the climate.

The Bank includes "Green Banking" as a goal in its medium- and long-term business planning. It takes the corporate environmental performance as a criterion for establishing customer relationships and guides customers to manage and control their own environmental and social risks through financial means. In 2018, it incorporated customer environmental and social risk classification indicators into the credit process system to improve its risk early-warning, management and control capabilities. As at the end of 2018, the balance of green loans in clean transportation, clean energy, and energy conservation & emission reduction reconstruction stood at RMB1,042,260 million, accounting for 15.35% of corporate loans, up 0.52 percentage point over 2017. In September 2018, the Bank issued US$1 billion of sustainable development bonds and EUR500 million of green bonds to support the development of green credit and inclusive finance.

In terms of industry selection, the Bank focused on clean transportation and clean energy projects that are conducive to reducing greenhouse gas emissions, as well as pollution control projects that are conducive to improving the quality of atmosphere, water and soil. It imposed stringent management and control over high-pollution and high energy-consumption industries by controlling capital investments. At the same time, it supported enterprises to adopt new equipment and new technologies for energy conservation and emission reduction, and promoted the adjustment of traditional industrial structures and the transformation and upgrading of technologies.

The Bank incorporated the green concept into procurement management, setting green criteria and evaluation standards for products and services in procurement, thereby ensuring that suppliers' pollutant control in the production process should meet relevant requirements.

The Bank discloses in its annual Corporate Social Responsibility Report such environmental data as green loans and greenhouse gas emissions, which are audited by an independent third party.

PROTECTION OF CONSUMER RIGHTS AND INTERESTS

The Bank attaches great importance to the protection of consumer rights and interests. In 2018, the Bank carried out intensive and well-organised work in this area.

The social responsibilities and related party transactions committee under the Board of Directors and the performance and due diligence supervision committee under the Board of Supervisors regularly heard reports on the development of consumer protection and focused on complaint management and customer satisfaction study. All 37 tier-one branches set up the department for protection of consumer rights and interests to provide organisational guarantee.

The Bank formulated and issued the *Guidelines for the Protection of Consumer Rights and Interests and the Measures for the Evaluation of Protection of Consumer Rights and Interests*, and issued special notices on complaint management, consumer protection review and evaluation standards to effectively guide work of the whole bank. It continuously promoted the integration of requirements for consumer protection into relevant business rules and regulations, and reviewed consumer protection in new products and services, rules and regulations, marketing and promotional materials, internet product releases, format contract texts, etc., to avoid financial consumer disputes from the source.

The Bank is well aware of the importance of personal information to its customers and is fully committed to protecting the security of their personal information. It took security protection measures in accordance with laws, abiding by the principles of consistent power and responsibility, clear purpose, choice of consent, necessity, security guarantee, openness and transparency. It also released customer privacy policies to protect customers' personal information and maintain their trust in CCB.

The Bank focused on RMB anti-counterfeiting, telecommunication network fraud prevention, and anti-money laundering, continuously carried out various activities to promote and popularise financial knowledge throughout the country, and won wide social recognition and high commendations from the CBIRC. Relying on the WeChat official account "CCB Customer Service", it popularised various kinds of financial knowledge on bank cards, electronic channel operations, investment, wealth management and loans, and answered customers' questions, to strengthen consumers' awareness of security protection. It also held more training sessions to enhance employees' awareness of protecting consumer rights and interests and improve their service capabilities.

The Bank intensified complaint management, adding an assessment indicator on the number of complaints in KPI assessment, so as to enhance the Bank's importance attached on complaint management. The number of escalated complaints in 2018 fell by more than 30% from 2017. In 2018, the overall satisfaction of individual customers of the Bank was 81.0%, an increase of 2.3 percentage points over 2017.

Ye Xiaoqin, the customer relationship manager in Zhejiang Branch of the Bank is serving people in the Workers' Harbours

Over the past 24 years, Ye Xiaoqin has donated more than RMB200,000 accumulatively to children living in the mountain area and subsidised more than 100 poor students. She participated in the preparation of "love kitchen", which has served people with minimum social security and poverty amounting to 50,000 and provided more than 43,000 free love breakfasts. Later, Ye Xiaoqin also established the "Home of Xiaoqin Public Welfare" with her colleagues, calling for involvement of employees and customers in serving the public interests.

The Bank intends to help more people who need help and inject new positive energy into society in the spirit of "translating the responsibility of serving the public interests into businesses while calling for involvement of employees, customers and institutions".


劳动者港湾
累了能歇脚 渴了能喝水
没电能充电 饭凉能加热

CHARITY

With the professionalism and dedication as financial workers, and the enthusiasm and responsibility of social workers, we performed in-depth analysis on and participated in the resolution of social difficulties, and kept a foothold in building a shared public welfare platform, helping more people who need help and injecting new positive energy into society in the spirit of "translating the responsibility of serving the public interests into businesses while calling for involvement of employees, customers and institutions". In 2018, the Bank made charitable donations of RMB89.41 million, of which RMB61.88 million was used for poverty alleviation projects of designated poor villages. In addition, the Bank made great efforts in long-term public welfare programmes such as CCB Hope Primary Schools, Programme for High School Students, Healthy Mother Express, and Mothers of Heroes and Exemplary Workers. CCB has been building Hope Primary Schools for 22 consecutive years since 1996.

CHARITY

1996 – now

Support CCB Hope Primary Schools

China Youth Development Foundation

Provided support in building **45 Hope Primary Schools** with libraries, computer rooms and sports grounds; provided trainings for nearly 800 teachers and organised summer camps in Beijing for 120 students and teachers.

Donate RMB11.86 million

2007 – now

Building the Future – CCB Sponsorship Programme for High School Students

China Education Development Foundation

Supported **91,500 High School Students** with RMB144 million in education loans and scholarships.

Donate RMB144 million

2011 – now

CCB Sponsorship Programme of "Healthy Mother Express"

China Women's Development Foundation

Purchased **357 Vehicles** under the programme in poor counties and towns in 23 provinces and autonomous regions, including Xinjiang, Tibet, Gansu and Qinghai.

Donate RMB54 million

2007 – now

CCB Sponsorship Programme of Impoverished Mothers of Heroes and Exemplary Workers

China Women's Development Foundation

Accumulatively supported **18,000 Mothers** (wives) of heroes and exemplary workers with RMB50.60 million.

Donate RMB50 million

2007 – now

Tibet in Our Hearts – CCB and Jianyin Investment Scholarship (Bursary) Foundation

China Foundation for Poverty Alleviation

Accumulatively granted scholarships (bursaries) of RMB2.53 million to **1,210 students** from impoverished families in Tibet.

Donate RMB3.5 million

2016 – now

"Do Good, Be Wise" Caring Student Action

CCB Youth Volunteers Association and local committees of Communist Youth League of China of all branches

Made donations to more than 5000 students from poverty-stricken areas, and organised more than **150 teachers** and students from poverty-stricken areas to participate in summer (winter) camp activities.

Donate RMB3 million

2012 – now

"Donation of Bonus Points to Make Dream Come True • Micro-Charity"

China Youth Development Foundation, China Literature and Art Foundation, Chinese Young Volunteers Association, Young Volunteers Action Guidance Centre of the Central Committee of the Communist Youth League of China

Helped build **115 "Happy Music Rooms"** provided funds for Rural Music and Art Teachers Training Programme, and donated to build the "Home of Youth" for Chinese Young Volunteers Association and Young Volunteers Action Guidance Centre of the Central Committee of the Communist Youth League of China

Donate RMB6 million

CHANGES IN SHARE CAPITAL AND PARTICULARS OF SHAREHOLDERS

CHANGES IN ORDINARY SHARES

Unit: share

	1 January 2018		Change during the reporting period					31 December 2018	
	Number of shares	Percentage (%)	Issuance of additional shares	Bonus issue	Shares converted from capital reserve	Others	Sub-total	Number of shares	Percentage (%)
I. Shares subject to selling restrictions	–	–	–	–	–	–	–	–	–
II. Shares not subject to selling restrictions									
1. RMB ordinary shares	9,593,657,606	3.84	–	–	–	–	–	9,593,657,606	3.84
2. Overseas listed foreign investment shares	93,199,798,499	37.28	–	–	–	+150,443,750	+150,443,750	93,350,242,249	37.34
3. Others [1]	147,217,521,381	58.88	–	–	–	–150,443,750	–150,443,750	147,067,077,631	58.82
III. Total number of shares	250,010,977,486	100.00	–	–	–	–	–	250,010,977,486	100.00

1. H-shares of the Bank free from selling restrictions held by the promoters of the Bank, i.e. Huijin, Baowu Steel Group, State Grid and Yangtze Power.

DETAILS OF SECURITIES ISSUANCE AND LISTING

During the reporting period, the Bank had not issued any ordinary shares or convertible bonds. For details of the issuance of preference shares of the Bank, please refer to "Details of Preference Shares".

According to the resolution of the shareholders' general meeting and upon approvals from CBIRC and PBC, in September 2018, the Bank issued the first batch of 2018 domestic Tier 2 capital bonds of RMB43 billion with a coupon rate of 4.86% in the national interbank bond market; in October 2018, the Bank issued the second batch of 2018 domestic Tier 2 capital bonds of RMB40 billion with a coupon rate of 4.70% in the national interbank bond market. Both batches of bonds have a fixed interest rate with a term of 10 years, and the issuer has an option to redeem these bonds at the end of the fifth year. All proceeds raised are used to replenish the Bank's Tier 2 capital. For details of the issuance of other debt securities, please refer to Note "Debt Securities Issued" in the financial statements.

NUMBER OF ORDINARY SHAREHOLDERS AND PARTICULARS OF SHAREHOLDING

At the end of the reporting period, the Bank had a total of 384,929 ordinary shareholders, of whom 43,160 were holders of H-shares and 341,769 were holders of A-shares. As at 28 February 2019, the Bank had a total of 357,934 ordinary shareholders, of whom 42,996 were holders of H-shares and 314,938 were holders of A-shares.

Unit: share

Total number of ordinary shareholders			384,929 (Total number of registered holders of A-shares and H-shares as at 31 December 2018)			
Particulars of shareholding of the top ten shareholders						
Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total number of shares held	Number of shares subject to selling restrictions	Number of shares pledged or frozen	Changes in shareholding during the reporting period
Huijin [2]	State	57.03	142,590,494,651 (H-shares)	None	None	–
		0.08	195,941,976 (A-shares)	None	None	–
HKSCC Nominees Limited [2, 3]	Foreign legal person	36.79	91,972,087,868 (H-shares)	None	Unknown	+191,503,072
China Securities Finance Corporation Limited	State-owned legal person	0.88	2,189,259,768 (A-shares)	None	None	-476,827,663
Baowu Steel Group [3]	State-owned legal person	0.80	1,999,556,250 (H-shares)	None	None	-443,750
State Grid [3, 4]	State-owned legal person	0.64	1,611,413,730 (H-shares)	None	None	-
Yangtze Power [3]	State-owned legal person	0.35	865,613,000 (H-shares)	None	None	-150,000,000
Reca Investment Limited	Foreign legal person	0.34	856,000,000 (H-shares)	None	None	–
Central Huijin Asset Management Ltd. [2]	State-owned legal person	0.20	496,639,800 (A-shares)	None	None	–
Hong Kong Securities Clearing Company Ltd. [2]	Foreign legal person	0.20	488,832,406 (A-shares)	None	None	+244,029,486
China Life Insurance Company Limited – Dividend – Individual dividend – 005L-FH002 SH	Others	0.13	325,311,115 (A-shares)	None	None	+168,940,727

1. None of the shares held by the aforesaid shareholders were subject to selling restrictions.
2. Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Huijin. HKSCC Nominees Limited is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Ltd. Apart from these, the Bank is not aware of any connected relation or concerted action among the aforesaid shareholders.
3. As at 31 December 2018, State Grid and Yangtze Power held 1,611,413,730 H-shares and 865,613,000 H-shares of the Bank respectively, all of which were held under the name of HKSCC Nominees Limited; Baowu Steel Group held 1,999,556,250 H-shares of the Bank, in which 599,556,250 H-shares were held under the name of HKSCC Nominees Limited. Save the aforesaid H-shares of the Bank held by State Grid and Yangtze Power, as well as 599,556,250 H-shares held by Baowu Steel Group, 91,972,087,868 H-shares of the Bank were held under the name of HKSCC Nominees Limited, which also included the H-shares held by Temasek Holdings (Private) Limited.
4. As at 31 December 2018, the holding of H-shares of the Bank by State Grid through its wholly-owned subsidiaries was as follows: State Grid Yingda International Holdings Group Co., Ltd. held 54,131,000 shares, State Grid International Development Limited held 1,315,282,730 shares, Luneng Group Co., Ltd. held 230,000,000 shares and Shenzhen Guoneng International Trading Co., Ltd. held 12,000,000 shares.

SUBSTANTIAL SHAREHOLDERS OF THE BANK

Huijin is the controlling shareholder of the Bank, holding 57.11% of the shares of the Bank at the end of the reporting period, and indirectly holds 0.20% of the shares of the Bank through its subsidiary, Central Huijin Asset Management Ltd. Huijin is a wholly state-owned company established in accordance with the PRC Company Law on 16 December 2003 with the approval of the State Council. Both its registered capital and paid-in capital is RMB828,209 million. Its legal representative is Mr. Ding Xuedong. Huijin makes equity investment in key state-owned financial institutions as authorised by the State Council, and exercises the contributor's rights and obligations in key state-owned financial institutions up to its contribution on behalf of the State to achieve preservation and appreciation of state-owned financial assets. Huijin does not engage in any other commercial activities, nor does it interfere with daily operations of the key state-owned financial institutions in which it holds controlling shares.

As at 31 December 2018, the information on the enterprises whose shares were directly held by Huijin is as follows:

No.	Name of the Institution	Shareholding of Huijin (%)
1	China Development Bank	34.68
2	Industrial and Commercial Bank of China Limited [1,2]	34.71
3	Agricultural Bank of China Limited [1,2]	40.03
4	Bank of China Limited [1,2]	64.02
5	China Construction Bank Corporation [1,2,4]	57.11
6	China Everbright Group Ltd.	55.67
7	China Everbright Bank Company Limited [1,2]	19.53
8	China Export & Credit Insurance Corporation	73.63
9	China Reinsurance (Group) Corporation [2]	71.56
10	New China Life Insurance Company Limited [1,2]	31.34
11	China Jianyin Investment Limited	100.00
12	China Galaxy Financial Holdings Co., Ltd.	69.07
13	Shenwan Hongyuan Group Co., Ltd. [1]	22.28
14	China International Capital Corporation Limited [2,3]	55.68
15	China Securities Co., Ltd. [1,2]	31.21
16	Jiantou Zhongxin Assets Management Co., Ltd.	70.00
17	Guotai Junan Investment Management Co., Ltd.	14.54

1. A-share listed companies held by Huijin, the controlling shareholder of the Bank, as at 31 December 2018.
2. H-share listed companies held by Huijin, the controlling shareholder of the Bank, as at 31 December 2018.
3. On 6 June 2018, through the public listing process of Beijing Financial Assets Exchange, Huijin entered into an equity transfer agreement with Haier Group (Qingdao) Financial Holdings Co., Ltd., to which it transferred RMB398.5 million domestic shares of China International Capital Corporation Limited. At the end of 2018, related procedures were still in progress. Upon the completion of the transfer, Huijin's direct shareholding of China International Capital Corporation Limited will become approximately 46.2%.
4. Besides the enterprises whose shares are directly held by Huijin, Huijin has a wholly-owned subsidiary Central Huijin Asset Management Ltd., which was established in November 2015 in Beijing with a registered capital of RMB5 billion and engaged in assets management business. The percentage of Huijin's direct shareholding of the Bank is not included into A-shares held by Central Huijin Asset Management Ltd.

Please refer to the *Announcement on Matters related to the Incorporation of China Investment Corporation* published by the Bank on 9 October 2007 for details of China Investment Corporation.

At the end of the reporting period, there were no other corporate shareholders holding 10% or more of shares of the Bank (excluding HKSCC Nominees Limited), nor were there any internal staff shares.

DETAILS OF PREFERENCE SHARES

Details of issuance and listing of preference shares

On 16 December 2015, the Bank made a non-public issuance of offshore preference shares in the offshore market. A total number of 152,500,000 shares were issued, each having a par value of RMB100 and an issuance price of US$20, with a total amount of US$3.05 billion. The dividend rate would be adjusted every five years, and within each adjustment period, the dividend rate would remain unchanged. The dividend rate was the yield on 5-year US treasury notes in the adjustment period plus a fixed interest spread, and the dividend rate of the first five years after issuance was 4.65%. The offshore preference shares were listed on the Hong Kong Stock Exchange on 17 December 2015. Net proceeds raised from the offshore preference shares approximated RMB19,659 million, all used to replenish additional Tier 1 capital of the Bank.

On 21 December 2017, the Bank made a non-public issuance of 600,000,000 of domestic preference shares in the domestic market, each with a par value of RMB100 and issued at par. The dividend rate equals benchmark interest rate plus a fixed interest spread. The dividend rate would be adjusted every five years, and within each adjustment period, the dividend rate would remain unchanged. The dividend rate for the first 5 years is 4.75%. The domestic preference shares were listed on the Integrated Services Platform of Shanghai Stock Exchange for transfer on 15 January 2018. Net proceeds raised were RMB59,977 million, all of which were used to replenish additional Tier 1 capital of the Bank.

Stock code of preference shares	Abbreviation of preference shares	Issuance date	Issuance price	Dividend rate (%)	Number of shares issued	Listing date	Number of shares traded with listing approval
4606	CCB 15USD PREF	2015/12/16	US$20/share	4.65	152,500,000	2015/12/17	152,500,000
360030	建行優1	2017/12/21	RMB100/share	4.75	600,000,000	2018/01/15	600,000,000

Number of preference shareholders and particulars of shareholding

At the end of 2018, the Bank had 19 preference shareholders (or proxies), including one offshore preference shareholder (or proxy) and 18 domestic preference shareholders. As at 28 February 2019, the Bank had 19 preference shareholders (or proxies), including one offshore preference shareholder (or proxy) and 18 domestic preference shareholders.

At the end of 2018 the particulars of shareholding of the offshore preference shareholders (or proxies) of the Bank are as follows:

Name of preference shareholder	Nature of shareholder	Type of shares	Change during the reporting period	Shareholding percentage (%)	Total number of shares held	Number of shares subject to selling restrictions	Number of shares pledged or frozen
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore preference shares	–	100.00	152,500,000	–	Unknown

1. Particulars of shareholding of the preference shareholders were based on the information in the Bank's register of preference shareholders.
2. The register of non-public issuance of offshore preference shareholders presented the shareholding information of The Bank of New York Depository (Nominees) Limited as proxy of the preference shareholders in the clearing systems of Euroclear Bank S.A./N.V. and Clearstream Banking S.A. at the end of the reporting period.
3. The Bank is not aware of any connected relation or concerted action between the aforesaid preference shareholders and the top ten ordinary shareholders.
4. "Shareholding percentage" refers to the percentage of offshore preference shares held by the preference shareholder in the total number of offshore preference shares.

At the end of 2018, the particulars of shareholding of the top ten (including ties) domestic preference shareholders are as follows:

Name of preference shareholder	Nature of shareholder	Type of shares	Change during the reporting period	Shareholding percentage (%)	Total number of shares held	Number of shares subject to selling restrictions	Number of shares pledged or frozen
Bosera Asset Management Co., Limited	Others	Domestic preference shares	-15,000,000	26.83	161,000,000	–	None
Manulife Teda Fund Management Co., Ltd.	Others	Domestic preference shares	-	15.00	90,000,000	-	None
China Mobile Communications Group Co., Ltd.	State-owned legal person	Domestic preference shares	-	8.33	50,000,000	-	None
China Life Insurance Company Limited	Others	Domestic preference shares	-	8.33	50,000,000	-	None
Truvalue Asset Management Co., Limited	Others	Domestic preference shares	-	6.67	40,000,000	-	None
China CITIC Bank Corporation Limited	Others	Domestic preference shares	30,000,000	5.00	30,000,000	-	None
GF Securities Asset Management (Guangdong) Co., Ltd.	Others	Domestic preference shares	-	4.50	27,000,000	-	None
Postal Savings Bank of China Co., Ltd.	Others	Domestic preference shares	-	4.50	27,000,000	-	None
PICC Asset Management Company Limited	Others	Domestic preference shares	-	3.33	20,000,000	-	None
AXA SPDB Investment Managers Co., Ltd.	Others	Domestic preference shares	-	3.33	20,000,000	-	None
E Fund Management Co., Ltd.	Others	Domestic preference shares	–	3.33	20,000,000	–	None

1. Particulars of shareholding of the preference shareholders were based on the information in the Bank's register of preference shareholders.
2. The Bank is not aware of any connected relation or concerted action among the aforesaid preference shareholders, or between the aforesaid preference shareholders and the top ten ordinary shareholders.
3. "Shareholding percentage" refers to the percentage of domestic preference shares held by preference shareholders in the total number of domestic preference shares.

Profit distribution of preference shares

According to the resolution and authorisation of shareholders' general meeting, the meeting of the Board held on 23 October 2018 considered and approved the dividend distribution plan of domestic and offshore preference shares of the Bank. Dividends of preference shares would be paid in cash once a year by the Bank to preference shareholders. Dividends not fully distributed to preference shareholders would not be accumulated to next year. After distribution at the agreed dividend rate, preference shareholders will not participate in the distribution of any remaining profit with ordinary shareholders.

According to the terms of issuance of offshore preference shares, the Bank distributed dividends of US$142 million (after tax) to the holders of the offshore preference shares. According to relevant laws, when the Bank distributes dividends for offshore preference shares, the income tax shall be withheld by the Bank at a rate of 10%. According to provisions of the terms and conditions of the offshore preference shares, the Bank paid such income tax. Such dividends were paid in cash on 17 December 2018.

According to the terms of issuance of domestic preference shares, the Bank distributed dividends of RMB2,850 million (including tax) to the holders of the domestic preference shares. Such dividends were paid in cash on 26 December 2018.

Please refer to the relevant announcements published on the websites of the Shanghai Stock Exchange, Hong Kong Stock Exchange and the Bank for the dividend distribution of preference shares.

Distributions of dividends for preference shares of the Bank in the past three years were as follows:

	2018		2017		2016	
(In millions of RMB, except percentages)	Dividend rate	Dividend distribution (including tax)	Dividend rate	Dividend distribution (including tax)	Dividend rate	Dividend distribution (including tax)
Offshore preference shares	4.65%	1,086[1]	4.65%	1,045	4.65%	1,067
Domestic preference shares	4.75%	2,850	4.75%	-	N/A	N/A

1. The dividends were translated into RMB at the exchange rate on 17 December 2018, on which the dividends were paid.

Redemption or conversion of preference shares

During the reporting period, there was no redemption or conversion of preference shares issued by the Bank.

Restoration of voting rights of preference shares

During the reporting period, there was no restoration of voting rights of preference shares issued by the Bank.

Accounting policy adopted for preference shares and causes thereof

In accordance with *Accounting Standards for Enterprise No. 22 – Recognition and Measurement of Financial Instruments*, *Accounting Standards for Enterprise No. 37 – Presentation of Financial Instruments* promulgated by the MOF, as well as *International Accounting Standards No. 39 – Financial Instruments: Recognition and Measurement* and *International Accounting Standards No. 32 – Financial Instruments: Presentation* formulated by the International Accounting Standards Board, the issued and existing preference shares of the Bank conform to the accounting requirements as equity instruments in its provisions, and are calculated as equity instruments.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

PARTICULARS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors of the Bank

Name	Position	Gender	Age	Term of Office
Tian Guoli	Chairman, executive director	Male	58	October 2017 to 2019 annual general meeting
Wang Zuji	Vice chairman, executive director, president	Male	60	July 2015 to March 2019
Zhang Gengsheng	Executive director, executive vice president	Male	58	August 2015 to 2020 annual general meeting
Feng Bing	Non-executive director	Female	53	July 2017 to 2019 annual general meeting
Zhu Hailin	Non-executive director	Male	53	July 2017 to 2019 annual general meeting
Li Jun	Non-executive director	Male	59	September 2015 to 2020 annual general meeting
Wu Min	Non-executive director	Male	51	July 2017 to 2019 annual general meeting
Zhang Qi	Non-executive director	Male	46	July 2017 to 2019 annual general meeting
Anita Fung Yuen Mei	Independent non-executive director	Female	58	October 2016 to 2020 annual general meeting
Malcolm Christopher McCarthy	Independent non-executive director	Male	75	August 2017 to 2019 annual general meeting
Carl Walter	Independent non-executive director	Male	71	October 2016 to 2020 annual general meeting
Chung Shui Ming Timpson	Independent non-executive director	Male	67	October 2013 to 2018 annual general meeting
Kenneth Patrick Chung	Independent non-executive director	Male	61	November 2018 to 2020 annual general meeting
Murray Horn	Independent non-executive director	Male	64	December 2013 to 2018 annual general meeting
Resigned directors				
Pang Xiusheng	Executive director, executive vice president	Male	60	August 2015 to September 2018
Hao Aiqun	Non-executive director	Female	62	July 2015 to June 2018

Supervisors of the Bank

Name	Position	Gender	Age	Term of Office
Wu Jianhang	Shareholder representative supervisor	Male	57	June 2018 to 2020 annual general meeting
Fang Qiuyue	Shareholder representative supervisor	Male	59	June 2018 to 2020 annual general meeting
Lu Kegui	Employee representative supervisor	Male	57	May 2018 to 2020 annual general meeting
Cheng Yuanguo	Employee representative supervisor	Male	56	May 2018 to 2020 annual general meeting
Wang Yi	Employee representative supervisor	Male	56	May 2018 to 2020 annual general meeting
Bai Jianjun	External supervisor	Male	63	June 2013 to 2018 annual general meeting
Resigned supervisors				
Guo You	Chairman of the board of supervisors	Male	61	June 2014 to April 2018
Liu Jin	Shareholder representative supervisor	Female	54	September 2004 to June 2018
Li Xiaoling	Shareholder representative supervisor	Female	61	June 2013 to June 2018
Li Xiukun	Employee representative supervisor	Male	61	January 2016 to May 2018
Jin Yanmin	Employee representative supervisor	Male	57	January 2016 to May 2018
Li Zhenyu	Employee representative supervisor	Male	58	January 2016 to May 2018

Senior management of the Bank

Name	Position	Gender	Age	Term of Office
Wang Zuji	President	Male	60	July 2015 to March 2019
Zhang Gengsheng	Executive vice president	Male	58	April 2013 to
Huang Yi	Executive vice president	Male	55	April 2014 to
Zhang Lilin	Executive vice president	Male	48	September 2017 to
Liao Lin	Executive vice president	Male	53	September 2018 to
	Chief risk officer			March 2017 to
Huang Zhiling	Secretary to the Board	Male	58	February 2018 to
Xu Yiming	Chief financial officer	Male	59	June 2014 to
Resigned senior management				
Pang Xiusheng	Executive vice president	Male	60	February 2010 to September 2018
Yang Wensheng	Executive vice president	Male	52	December 2013 to May 2018
Yu Jingbo	Executive vice president	Male	61	December 2014 to May 2018
Chen Caihong	Secretary to the Board	Male	61	August 2007 to February 2018

Shareholdings of directors, supervisors and senior executives

During the reporting period, there was no change in the shareholdings of directors, supervisors and senior executives of the Bank. Some of the Bank's directors, supervisors and senior executives indirectly held H-shares of the Bank via employee stock incentive plan of the Bank before they assumed their current positions, among which, Mr. Zhang Gengsheng held 19,304 H-shares, Mr. Wu Jianhang held 20,966 H-shares, Mr. Fang Qiuyue held 21,927 H-shares, Mr. Lu Kegui held 18,989 H-shares, Mr. Cheng Yuanguo held 15,863 H-shares, Mr. Wang Yi held 13,023 H-shares, Mr. Liao Lin held 14,456 H-shares, Mr. Huang Zhiling held 18,751 H-shares and Mr. Xu Yiming held 17,925 H-shares. For resigned ones, Mr. Li Xiukun held 12,366 H-shares, Mr. Jin Yanmin held 15,739 H-shares, Mr. Li Zhenyu held 3,971 H-shares, Mr Yang Wensheng held 10,845 H-shares, Mr. Yu Jingbo held 22,567 H-shares and Mr. Chen Caihong held 19,417 H-shares. Apart from the above, all other directors, supervisors and senior executives did not hold any shares of the Bank.

Particulars of positions of directors, supervisors and senior management at shareholders

Name	Name of shareholder	Position at shareholder	Starting date of assuming duties
Feng Bing	Huijin	Employee	July 2017
Zhu Hailin	Huijin	Employee	July 2017
Li Jun	Huijin	Employee	August 2008
Wu Min	Huijin	Employee	July 2017
Zhang Qi	Huijin	Employee	July 2011

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Upon election at the 2017 annual general meeting of the Bank and upon approval of the CBIRC, Mr. Kenneth Patrick Chung commenced his position as independent non-executive director of the Bank from 1 November 2018.

As disclosed in the Bank's announcement on 3 September 2018, Mr. Pang Xiusheng ceased to serve as executive director and executive vice president of the Bank by reason of his age. As disclosed in the Bank's announcement on 29 June 2018, Ms. Hao Aiqun ceased to serve as non-executive director of the Bank due to the expiration of her term of office.

In accordance with the resolutions at the 2017 annual general meeting of the Bank, Mr. Wu Jianhang and Mr. Fang Qiuyue commenced their positions as shareholder representative supervisors of the Bank from June 2018. In accordance with the resolutions at the third meeting of the fourth employee representatives' meeting of the Bank, Mr. Lu Kegui, Mr. Cheng Yuanguo and Mr. Wang Yi commenced their positions as employee representative supervisors of the Bank from May 2018.

Due to work arrangements, Ms. Liu Jin and Ms. Li Xiaoling ceased to serve as shareholder representative supervisors of the Bank from June 2018. Due to work arrangements, Mr. Li Xiukun, Mr. Jin Yanmin and Mr. Li Zhenyu ceased to serve as employee representative supervisors of the Bank from May 2018. By reason of his age, Mr. Guo You ceased to serve as chairman of the board of supervisors and shareholder representative supervisor of the Bank from April 2018.

Upon appointment of the Board of the Bank and upon approval of the CBIRC, Mr. Liao Lin commenced his position as executive vice president of the Bank from September 2018, and he continued to serve as chief risk officer of the Bank. Upon appointment of the Board of the Bank and upon approval of the CBIRC, Mr. Huang Zhiling commenced his position as secretary to the Board from February 2018.

By reason of his age, Mr. Yu Jingbo ceased to serve as executive vice president of the Bank from May 2018. Mr. Yang Wensheng ceased to serve as executive vice president of the Bank from May 2018. By reason of his age, Mr. Chen Caihong ceased to serve as secretary to the Board of the Bank from February 2018.

CHANGES IN PERSONAL INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Tian Guoli, chairman and executive director of the Bank, commenced to serve concurrently as chairman of Sino-German Bausparkasse from March 2018.

Mr. Zhang Gengsheng, executive director and executive vice president of the Bank, ceased to serve as chairman of CCB Life from July 2018.

Ms. Anita Fung Yuen Mei, independent non-executive director of the Bank, commenced to serve concurrently as independent non-executive director of Westpac Banking Corporation from October 2018.

Sir Malcolm Christopher McCarthy, independent non-executive director of the Bank, ceased to serve as trustee of the IFRS Foundation from January 2018, and ceased to serve as chairman of Promontory Financial Group (UK) Ltd. from August 2018.

Mr. Chung Shui Ming Timpson, independent non-executive director of the Bank, commenced to serve concurrently as independent non-executive director of Orient Overseas (International) Limited from August 2018.

Mr. Pang Xiusheng, the resigned executive director and executive vice president of the Bank, commenced his position as chairman of CCB Fintech Co., Ltd. from April 2018.

Mr. Cheng Yuanguo, employee representative supervisor of the Bank, ceased to serve as chairman of CCB Trust from July 2018.

Mr. Wang Yi, employee representative supervisor of the Bank, commenced to serve concurrently as chairman of CCB Housing Services Co., Ltd. from December 2018.

Mr. Zhang Lilin, executive vice president of the Bank, commenced to serve concurrently as chairman of CCB International from November 2018.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors of the Bank

Tian Guoli
Chairman, executive director

Mr. Tian has served as chairman and executive director since October 2017, concurrently as chairman of Sino-German Bausparkasse since March 2018. Mr. Tian currently also serves as chairman of China Banking Association, a member of the Expert Committee for the 13th Five-Year Plan for Economic and Social Development of China, a member of the Monetary Policy Committee of the People's Bank of China and chairman of Asian Financial Cooperation Association and a member of International Advisory Panel of Monetary Authority of Singapore. Mr. Tian joined Bank of China in April 2013 and served as chairman of Bank of China from May 2013 to August 2017. During this period, he also served as chairman and non-executive director of Bank of China Hong Kong (Holdings) Limited. From December 2010 to April 2013, Mr. Tian served as vice chairman and general manager of China CITIC Group. During this period, he also served as chairman and non-executive director of China CITIC Bank. From April 1999 to December 2010, Mr. Tian served consecutively as vice president and president of China Cinda Asset Management Company, and chairman of China Cinda Asset Management Co., Ltd. From July 1983 to April 1999, Mr. Tian held various positions in CCB, including sub-branch general manager, branch deputy manager, department general manager of the CCB Head Office, and assistant president of CCB. Mr. Tian is a senior economist. He received a bachelor's degree in economics from Hubei Institute of Finance and Economics in 1983.

Wang Zuji
Vice chairman,
executive director, president

Mr. Wang served as vice chairman, executive director and president of the Bank from July 2015 to March 2019. From September 2012 to May 2015, Mr. Wang was vice chairman of China Insurance Regulatory Commission. From January 2008 to September 2012, Mr. Wang was vice governor of Jilin Province. From April 2006 to January 2008, Mr. Wang was assistant governor of Jilin Province, director of Development and Reform Commission of Jilin Province and concurrently director of the office to the Leading Team of Revitalising Jilin Old Industrial Base. From May 2005 to April 2006, Mr. Wang was assistant governor of Jilin Province and director-general of State-Owned Assets Supervision & Administration Commission of Jilin Province. From February 2005 to May 2005, Mr. Wang was assistant governor of Jilin Province. From January 2004 to February 2005, Mr. Wang was director of comprehensive planning department of China Development Bank. From March 2003 to January 2004, Mr. Wang was director of business development department of China Development Bank. From January 2000 to March 2003, Mr. Wang was president of Changchun Branch of China Development Bank. From January 1997 to January 2000, Mr. Wang was the deputy director of loan department II (north-east loan department) of China Development Bank. Mr. Wang is a senior engineer. He obtained a PhD degree in economics from Jilin University in 2009.

Zhang Gengsheng
Executive director,
executive vice president

Mr. Zhang has served as executive director since August 2015 and executive vice president of the Bank since April 2013. He served concurrently as chairman of CCB Life from May 2013 to July 2018. Mr. Zhang served as a member of senior management of the Bank from December 2010 to April 2013. Mr. Zhang was general manager of the group clients department (banking business department) and deputy general manager of Beijing Branch of the Bank from October 2006 to December 2010, general manager of the banking business department at the head office and the group clients department (banking business department) of the Bank from March 2004 to October 2006, deputy general manager of the banking business department at the head office of the Bank from June 2000 to March 2004 (in charge of overall management from March 2003), general manager of the Three Gorges Branch of the Bank from September 1998 to June 2000, and deputy general manager of the Three Gorges Branch of the Bank from December 1996 to September 1998. Mr. Zhang is a senior economist. He obtained his bachelor's degree in infrastructure finance and credit from Liaoning Finance and Economics College in 1984 and an EMBA degree from Peking University in 2010.

Ms. Feng has served as director since July 2017. Ms. Feng served as deputy director of Payment Centre of the National Treasury of Ministry of Finance (deputy director-general level) from September 2015 to August 2017. From August 1988 to September 2015, Ms. Feng had served as deputy division-chief and division-chief of the Tax Department of Ministry of Finance. Ms. Feng graduated from Renmin University of China with a bachelor's degree in finance in 1988, and obtained her master's degree in finance from Renmin University of China in 2001. Ms. Feng is currently an employee of Huijin, the Bank's substantial shareholder.

Feng Bing
Non-executive director

Mr. Zhu has served as director since July 2017. Mr. Zhu served as deputy director of National Accountant Assessment & Certification Centre of Ministry of Finance (deputy director-general level) from July 2012 to August 2017. From August 1992 to June 2012, Mr. Zhu had served as deputy division-chief, division-chief of the Accounting Department of Ministry of Finance. Mr. Zhu is an expert with a special grant by the PRC government, a certified public accountant (a non-practicing member), an associate researcher, and a doctoral tutor. Mr. Zhu graduated from Jiangxi University of Finance and Economics with a master's degree in accounting in 1992. He graduated from the Research Institute for Fiscal Science of Ministry of Finance with a Ph.D. degree in economics in 2000 specialised in accounting. Mr. Zhu is currently an employee of Huijin, the Bank's substantial shareholder.

Zhu Hailin
Non-executive director

Mr. Li has served as director since September 2015. Mr. Li served as non-executive director of Industrial and Commercial Bank of China Limited from December 2008 to March 2015. He previously served as assistant representative of Beijing Representative Office of the Bank of Credit and Commerce International, deputy representative of BNP Paribas China Representative Office, consultant of the international banking department of Banco Bilbao Vizcaya Argentaria, deputy director of the Research Centre of China Technology Trust and Investment Company, general manager of the research department of China Sci-Tech Securities, professor of the finance department of the School of Economics and Management of the University of Science and Technology Beijing, and director of Shenyin & Wanguo Securities Co., Ltd., Shenwan Hongyuan Securities Co., Ltd., and Shenwan Hongyuan Group Co., Ltd. Mr. Li currently also serves as supervisor of the China Export & Credit Insurance Corporation. Mr. Li graduated from University of Madrid in Spain in November 1995 and received a doctorate degree in economic management. Mr. Li is currently an employee of Huijin, the Bank's substantial shareholder.

Li Jun
Non-executive director

Wu Min
Non-executive director

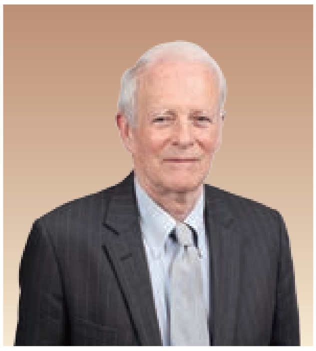
Mr. Wu has served as director since July 2017. Mr. Wu served as vice president of Chongqing Daily Press Group from December 2011 to August 2017. Mr. Wu served concurrently as president of *Contemporary Financial Research Journal* from March 2017 to August 2017, chairman of Chongqing CQDaily Printing Co., Ltd. from July 2015 to February 2017, and chairman of Chongqing Press New Fashion Media Co., Ltd from March 2015 to December 2016. From October 2006 to November 2011, Mr. Wu was deputy mayor of Qianjiang District of Chongqing City (deputy director-general level), and director of Administration Committee of Zhengyang Industrial Park of Chongqing City. From July 1991 to September 2006, Mr. Wu had served consecutively as cadre, deputy division-chief, division-chief and general manager of the compliance department of Anhui Branch of Bank of China Limited. Mr. Wu is a researcher, a senior economist, a doctor of law and a doctoral tutor. Mr. Wu obtained PRC lawyer qualification in 1994. From 1999 to 2002, Mr. Wu was concurrently a lawyer of Anhui Quanzhen Law Office, and was a government lawyer of Chongqing City from 2008 to 2011. He graduated from Anhui University with a bachelor's degree and a master's degree in law in 1991 and 2002 respectively. He obtained his Ph.D. degree in civil and commercial law from Southwest University of Political Science & Law in 2006, and conducted sociology study at sociology post-doctoral mobile station of Chinese Academy of Social Science from 2009 to 2012. Mr. Wu is currently an employee of Huijin, the Bank's substantial shareholder.

Zhang Qi
Non-executive director

Mr. Zhang has served as director since July 2017. Mr. Zhang served as non-executive director of Bank of China Limited from July 2011 to June 2017. Mr. Zhang worked in Central Expenditure Division One and Comprehensive Division of the Budget Department, and Ministers' Office of the General Office of Ministry of Finance, as well as in the Office of China Investment Corporation, serving consecutively as deputy division-chief, division-chief and senior manager from 2001 to 2011. Mr. Zhang studied in the Investment Department and Finance Department of China Northeast University of Finance and Economics from 1991 to 2001 and obtained his bachelor's degree, master's degree and PhD degree in Economics in 1995, 1998 and 2001 respectively. Mr. Zhang is currently a doctoral supervisor at China Northeast University of Finance and Economics. Mr. Zhang is currently an employee of Huijin, the Bank's substantial shareholder.

Anita Fung Yuen Mei
Independent non-executive director

Ms. Fung has served as director since October 2016. Ms. Fung served as group general manager of HSBC Holdings plc from May 2008 to February 2015. Ms. Fung served consecutively as head of Hong Kong currency bond market, head of Asian fixed income trading, head of Asian Pacific trading, treasurer and joint head of global markets for Asia-Pacific, treasurer and head of global markets for Asia-Pacific, head of global banking and markets for Asia-Pacific as well as chief executive officer of Hong Kong region of The Hongkong and Shanghai Banking Corporation Limited from September 1996 to February 2015. Ms. Fung also served as non-executive director of Bank of Communications Co., Ltd. from November 2010 to January 2015. Ms. Fung concurrently served in various positions including chairwoman and director of HSBC Global Asset Management (Hong Kong) Limited, non-executive director of HSBC Bank (China) Company Limited and director of HSBC Markets (Asia) Limited from September 2011 to February 2015. Ms. Fung served as non-executive director of Hang Seng Bank Limited from November 2011 to January 2014. Ms. Fung currently serves as independent non-executive director of Hong Kong Exchanges and Clearing Limited, Hang Lung Properties Limited as well as Westpac Banking Corporation, and serves in several positions in institutions including Airport Authority Hong Kong and Court of the Hong Kong University of Science and Technology. Ms. Fung obtained a master's degree in Applied Finance from Macquarie University of Australia in 1995. Ms. Fung was awarded the Bronze Bauhinia Star in 2013, and was appointed as the Justice of Peace in 2015, by the Government of the Hong Kong Special Administrative Region.



Malcolm Christopher McCarthy
Independent non-executive director

Sir Malcolm Christopher McCarthy has served as director since August 2017. Sir McCarthy served as independent non-executive director of Industrial and Commercial Bank of China Limited from December 2009 to October 2016. He worked first as an economist for ICI before joining the UK Department of Trade and Industry where he held various posts from economic adviser to undersecretary. He subsequently worked as a senior executive of Barclays Bank in London, Japan and North America. He served as chairman and chief executive of Office of Gas and Electricity Markets (Ofgem), chairman of the Financial Services Authority (FSA), non-executive director of Her Majesty's Treasury, chairman of the board of directors of J.C. Flowers & Co. UK Ltd, non-executive director of NIBC Holding N.V., NIBC Bank N.V., OneSavings Bank plc, Castle Trust Capital plc and Intercontinental Exchange (ICE), and trustee of the Said Business School of Oxford University. Sir McCarthy is an Honorary Fellow of Merton College, an Honorary Doctorate of the University of Stirling and the Cass Business School, and a Freeman of the City of London. He has a MA History at Merton College of Oxford University, PhD Economics of Stirling University, and MS at Graduate School of Business of Stanford University.

Carl Walter
Independent non-executive director

Mr. Carl Walter has served as director since October 2016. Mr. Walter is currently an independent consultant, providing strategic consulting advice to various countries and financial institutions. Mr. Walter served as managing director and chief operating officer in China of JPMorgan Chase & Co and chief executive officer of JP Morgan Chase Bank (China) Company Limited from September 2001 to April 2011. He was seconded from Morgan Stanley to serve as managing director and chief administrative officer of China International Capital Corporation from January 1999 to July 2001. He served concurrently as vice president and head of Asian Credit Management and Research of Credit Suisse First Boston (Singapore) as well as the director and head of China investment banking in Beijing from September 1990 to December 1998. Mr. Walter served consecutively in various positions including as vice president and general manager of Taipei Branch of Chemical Bank from January 1981 to August 1990. Mr. Walter was a visiting scholar and an adjunct professor at the Freeman Spogli Institute of Stanford University in 2012. He obtained a bachelor's degree in politics and Russian language from Princeton University in 1970, an advanced studies certificate in economics from Peking University in 1980, and a doctoral degree in politics from Stanford University in 1981.

Chung Shui Ming Timpson
Independent non-executive director

Mr. Chung has served as director since October 2013. Mr. Chung currently serves as independent non-executive directors of China Unicom (Hong Kong) Limited, Miramar Hotel and Investment Company, Limited, Glorious Sun Enterprises Limited, China Overseas Grand Oceans Group Limited, China Everbright Limited, Jinmao Hotel and Jinmao (China) Hotel Investments and Management Limited, China Railway Group Limited and Orient Overseas (International) Limited. From 2006 to 2012, he served as independent non-executive director of China Everbright Bank. Formerly, he served in various companies and public institutions, consecutively as chairman of the Council of the City University of Hong Kong, chief executive officer of Shimao International Holdings Limited, chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, executive director of the Land Fund Advisory Committee of The Government of the Hong Kong Special Administrative Region, and independent non-executive director of Nine Dragons Paper (Holdings) Limited and Henderson Land Development Company Limited. From 1979 to 1983, Mr. Chung was a senior audit director of Coopers & Lybrand Consulting. Mr. Chung is a senior fellow member of the Hong Kong Institute of Certified Public Accountants. He obtained a bachelor's degree in science from University of Hong Kong in 1976 and a master's degree in business administration from Chinese University of Hong Kong in 1987. Mr. Chung received the title of Justice of the Peace from the Government of the Hong Kong Special Administrative Region in 1998 and was awarded the Gold Bauhinia Star by The Government of the Hong Kong Special Administrative Region in 2000.

Kenneth Patrick Chung
Independent non-executive director

Mr. Kenneth Patrick Chung has served as director since November 2018. He served as independent non-executive director of Industrial and Commercial Bank of China Limited from December 2009 to March 2017. He joined Deloitte Haskins and Sells London Office in 1980, became a partner of PricewaterhouseCoopers in 1992, and was a financial service specialist of PricewaterhouseCoopers (Hong Kong and China) since 1996. Previously, he was the human resources partner of PricewaterhouseCoopers (Hong Kong), the responsible partner of the audit department of PricewaterhouseCoopers (Hong Kong and China), the global lead partner of the audit engagement team for Bank of China Limited, the honorary treasurer of the Community Chest of Hong Kong and was a member of the Ethics Committee, Limitation of Professional Liability Committee, Communications Committee, and the Investigation Panel of the Hong Kong Society of Accountants. Mr. Chung has also served as the audit head for the restructurings and initial public offerings of Bank of China Limited, Bank of China (Hong Kong) Limited and Bank of Communications and chairman of the audit committee of the Harvest Real Estate Investments (Cayman) Limited. Currently, Mr. Chung serves as independent director of Prudential Corporation Asia and independent non-executive director of Sands China Ltd., and is a trustee of Fu Tak Iam Foundation Limited. He is a member of the Institute of Chartered Accountants in England and Wales, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Macau Society of Certified Practising Accountants. Mr. Chung received a bachelor's degree in economics from the University of Durham.

Murray Horn
Independent non-executive director

Mr. Murray Horn has served as director since December 2013. Mr. Horn currently also consults to multiple government agencies. He served as chairman of Wynyard Group and directors of many listed companies, including Spark New Zealand (formerly Telecom New Zealand). He also held positions in public organisations in New Zealand and other regions, including chairman of the National Health Board of New Zealand, member of the New Zealand Tourism Board, chairman of the New Zealand Business Roundtable, member of the Board of the Centre for Independent Studies in Australia and member of the Trilateral Commission. Mr. Horn was previously managing director of ANZ Bank in New Zealand and director of global institutional banking business of ANZ (Australia). He was Secretary to the New Zealand Treasury from 1993 to 1997. Mr. Horn holds a PhD degree from Harvard University in Political Economy and Government, a master's degree in commerce and a bachelor's degree in commerce (agriculture) from Lincoln University. Lincoln University awarded him the Bledisloe Medal in 2000. He also made a Companion of the New Zealand Order of Merit in 2013.

Ms. Feng Bing, Mr. Zhu Hailin, Mr. Li Jun, Mr. Wu Min and Mr. Zhang Qi, the non-executive directors of the Bank, were nominated by Huijin, the shareholder of the Bank.

Supervisors of the Bank

Mr. Wu has served as supervisor since June 2018. Mr. Wu has served as dean of training centre for staff's development of China Construction Bank University since December 2018, concurrently as vice dean of China Construction Bank Research Academy since August 2018. Mr. Wu served as general manager of strategic planning department of the Bank from March 2014 to January 2019. Mr. Wu served as general manager of research department of the Bank from October 2013 to March 2014. From December 2007 to October 2013, Mr. Wu served as president of CCB Financial Leasing. Mr. Wu served as general manager of Guangdong Branch of the Bank from October 2004 to December 2007, general manager of Shenzhen Branch of the Bank from July 2003 to October 2004, and deputy general manager of Zhejiang Branch of the Bank from May 1997 to July 2003. Mr. Wu is a senior accountant and is a recipient of a special grant by the PRC government. He graduated from Nankai University with a master's degree in international finance in 1991 and obtained a PhD degree in technology economics and management from Tongji University in 2003.

Wu Jianhang
Shareholder representative supervisor

Mr. Fang has served as supervisor since June 2018. Mr. Fang has served as general manager of finance & accounting department of the Bank since January 2015, concurrently as non-executive director of the CCB Brasil since April 2017. Mr. Fang served as head of finance & accounting department of the Bank from August 2014 to January 2015, deputy general manager of Beijing Branch of the Bank (general manager level) from August 2011 to August 2014, deputy general manager of Beijing Branch of the Bank from August 2000 to August 2011, and deputy general manager of accounting department of the Bank from January 1998 to August 2000. From December 1997 to January 1998, Mr. Fang served as deputy general manager of Beijing Branch of the Bank. Mr. Fang is a senior accountant and is a recipient of a special grant by the PRC government. He obtained an EMBA degree from Tsinghua University in 2010.

Fang Qiuyue
Shareholder representative supervisor

Mr. Lu has served as supervisor since May 2018. Mr. Lu has served as general manager of the special assets resolution centre of the Bank since April 2017, concurrently as dean of training centre for the wealth management of asset management business of China Construction Bank University since December 2018. Mr. Lu served as director of the Tianjin audit department of the Bank from September 2013 to April 2017. Mr. Lu served as general manager of Heilongjiang Branch of the Bank from April 2011 to September 2013, and head of Heilongjiang Branch of the Bank from February 2011 to April 2011. Mr. Lu served as general manager of the fund settlement department of the Bank from July 2008 to February 2011. Mr. Lu served as general manager of the accounting department of the Bank from August 2000 to July 2008. Mr. Lu served as deputy general manager of the planning and finance department of the Bank from January 1998 to August 2000, and deputy general manager of the finance and accounting department of the Bank from September 1995 to January 1998. Mr. Lu is a senior accountant and is a recipient of a special grant by the PRC government. He graduated from Hubei Institute of Finance and Economics with a bachelor's degree in infrastructure finance and credit in 1982.

Lu Kegui
Employee representative supervisor

Cheng Yuanguo
Employee representative supervisor

Mr Cheng has served as supervisor since May 2018. Mr. Cheng has served as general manager of the corporate business department of the Bank since February 2017, and he concurrently served as chairman of CCB Trust from August 2017 to July 2018. Mr. Cheng served as general manager of the Hebei Branch of the Bank from August 2014 to February 2017. Mr. Cheng served as general manager of the group clients department (banking business department) of the Bank from March 2011 to July 2014, and concurrently served as director of CCB International from September 2010 to October 2015. Mr. Cheng served as deputy general manager of the group clients department (banking business department) of the Bank from May 2005 to March 2011, and served as deputy general manager of the banking business department of the Bank from September 2001 to May 2005. Mr. Cheng is a senior accountant. He graduated from China Northeast University of Finance and Economics with a bachelor's degree in infrastructure finance and credit in 1986.

Wang Yi
Employee representative supervisor

Mr. Wang has served as supervisor since May 2018. Mr. Wang has served as general manager of the housing finance and personal lending department of the Bank since November 2013, concurrently as chairman of CCB Housing Services Co., Ltd. since December 2018. Mr. Wang served as deputy general manager of the personal savings and investment department of the Bank (general manager level) from November 2009 to November 2013. Mr. Wang served as deputy general manager of the personal savings and investment department of the Bank from December 2008 to November 2009, and served as deputy general manager of the personal finance department of the Bank from June 2005 to December 2008. Mr. Wang served as assistant general manager of the personal banking business department of the Bank from July 2001 to June 2005. Mr. Wang is a senior engineer. He graduated from Shandong University with a bachelor's degree in computer mathematics in 1984, and obtained an EMBA degree from Peking University in 2010.

Bai Jianjun
External supervisor

Mr. Bai has served as supervisor since June 2013. Mr. Bai is currently a professor and doctoral supervisor at the Law School of Peking University, director of the Research Institute of Empirical Legal Affairs, and deputy director of the Financial Law Research Centre of Peking University. He has been teaching at the Law School of Peking University since July 1987. Mr. Bai is an adjunct professor at Zhengzhou Training Institute of the PBC and National Judges College, and independent director of CSC Financial Co., Ltd. and Sichuan Xinwang Bank Co., Ltd. He was a visiting professor at Niigata University in Japan from October 1996 to October 1997 and a visiting researcher at New York University in the US from September 1990 to October 1991. Mr. Bai obtained his master's degree from the Law School of Peking University in 1987 and his PhD degree in law from Peking University in 2003.

Senior Management of the Bank

Wang Zuji
Vice chairman, executive director, president

Mr. Wang served as vice chairman, executive director and president of the Bank from July 2015 to March 2019. From September 2012 to May 2015, Mr. Wang was vice chairman of China Insurance Regulatory Commission. From January 2008 to September 2012, Mr. Wang was vice governor of Jilin Province. From April 2006 to January 2008, Mr. Wang was assistant governor of Jilin Province, director of Development and Reform Commission of Jilin Province and concurrently director of the office to the Leading Team of Revitalising Jilin Old Industrial Base. From May 2005 to April 2006, Mr. Wang was assistant governor of Jilin Province and director-general of State-Owned Assets Supervision & Administration Commission of Jilin Province. From February 2005 to May 2005, Mr. Wang was assistant governor of Jilin Province. From January 2004 to February 2005, Mr. Wang was director of comprehensive planning department of China Development Bank. From March 2003 to January 2004, Mr. Wang was director of business development department of China Development Bank. From January 2000 to March 2003, Mr. Wang was president of Changchun Branch of China Development Bank. From January 1997 to January 2000, Mr. Wang was the deputy director of loan department II (north-east loan department) of China Development Bank. Mr. Wang is a senior engineer. He obtained a PhD degree in economics from Jilin University in 2009.

Zhang Gengsheng
Executive director, executive vice president

Mr. Zhang has served as executive director since August 2015 and executive vice president of the Bank since April 2013. He served concurrently as chairman of CCB Life from May 2013 to July 2018. Mr. Zhang served as a member of senior management of the Bank from December 2010 to April 2013. Mr. Zhang was general manager of the group clients department (banking business department) and deputy general manager of Beijing Branch of the Bank from October 2006 to December 2010, general manager of the banking business department at the head office and the group clients department (banking business department) of the Bank from March 2004 to October 2006, deputy general manager of the banking business department at the head office of the Bank from June 2000 to March 2004 (in charge of overall management from March 2003), general manager of the Three Gorges Branch of the Bank from September 1998 to June 2000, and deputy general manager of the Three Gorges Branch of the Bank from December 1996 to September 1998. Mr. Zhang is a senior economist. He obtained his bachelor's degree in infrastructure finance and credit from Liaoning Finance and Economics College in 1984 and an EMBA degree from Peking University in 2010.

Huang Yi
Executive vice president

Mr. Huang has served as executive vice president of the Bank since April 2014. Mr. Huang served as a member of senior management of the Bank from December 2013 to April 2014. Mr. Huang served as director of the legal department of the CBRC from January 2010 to December 2013, and consecutively as deputy director, director of the supervisory rules & regulations department and head of the research bureau of the CBRC from July 2003 to January 2010. From April 1999 to July 2003, Mr. Huang served consecutively as a director level staff member and director of the financial claim management office under the legal affairs department, assistant inspector of the legal affairs department (also working as deputy director-general of Department of Finance of Sichuan Province during this period) and assistant inspector of banking management department of the PBC. He was general manager of the development and research department of Hua Xia Bank from August 1997 to April 1999. Mr. Huang is a recipient of a special grant by the PRC government. He graduated from Peking University in 1997 with a PhD degree in law.

Zhang Lilin
Executive vice president

Mr. Zhang has served as executive vice president of the Bank since September 2017, and concurrently served as chairman of CCB International since November 2018. Mr. Zhang served as a member of senior management of the Bank from May 2017 to September 2017. Mr. Zhang was president (general manager) of Asset Management Department of Agricultural Bank of China ("ABC") from August 2014 to May 2017. Mr. Zhang was general manager of Credit Card Centre of ABC from September 2012 to August 2014, and head of Credit Card Centre of ABC and deputy general manager of Shanghai Branch of ABC from June to September 2012, deputy general manager of Shanghai Branch of ABC from April 2009 to June 2012, general manager of Hong Kong Branch of Agricultural Bank of China from December 2006 to April 2009, general manager of Hong Kong Branch and assistant general manager and concurrently general manager of Banking Business Department of Shanghai Branch of ABC from November to December 2006, assistant general manager and concurrently general manager of Banking Business Department of Shanghai Branch of ABC from April 2005 to November 2006, assistant general manager of Shanghai Branch of ABC from January to April 2005. Mr. Zhang is a senior economist. He obtained a PhD degree of economics in foreign economic thought history from Fudan University in July 1997.

Liao Lin
Executive vice president,
chief risk officer

Mr. Liao has served as executive vice president of the Bank since September 2018 and chief risk officer of the Bank since March 2017. Mr. Liao served as general manager of Beijing Branch of the Bank from May 2015 to March 2017. From September 2013 to May 2015, he was head and general manager of Hubei Branch of the Bank. From March 2011 to September 2013, he was head and general manager of Ningxia Branch of the Bank. He was deputy general manager of Guangxi Zhuang Autonomous Region Branch of the Bank from November 2003 to March 2011 and served as general manager of Chaoyang Sub-branch of Guangxi Zhuang Autonomous Region Branch of the Bank from December 1998 to November 2003. Mr. Liao is a senior economist. He obtained a PhD degree in management science and engineering from Southwest Jiaotong University in 2009.

Mr. Huang has served as secretary to the Board since February 2018, and served as the chief economist of the Bank since September 2013. Mr. Huang served as chief risk officer of the Bank from February 2011 to September 2013. He served as general manager of the Risk Management Department of the Bank from April 2006 to February 2011. From August 1999 to April 2006, Mr. Huang worked consecutively as director of the president office, director of the asset disposal decision-making committee office and director of the asset disposal review committee of China Cinda Asset Management Corporation; from June 1997 to August 1999, he was Deputy General Office Manager of the Bank. From November 1994 to June 1997, he worked consecutively in the Policy Research Office (Investment Research) of the Bank as deputy division-chief, assistant director (Bureau Chief) and deputy director (Deputy Bureau Chief). Mr. Huang is a researcher. He obtained his PhD degree in economics from the Finance Department of Shaanxi Institute of Finance and Economics in 1991.

Huang Zhiling
Secretary to the Board

Mr. Xu has served as chief financial officer of the Bank since June 2014. Mr. Xu served as general manager of asset and liability management department of the Bank from August 2005 to July 2014, deputy general manager of asset and liability management department of the Bank from March 2003 to August 2005, and deputy general manager of the office of Asset and Liability Management Committee of the Bank from March 2001 to March 2003. Mr. Xu is a senior accountant. He graduated from the Research Institute for Fiscal Science of the MOF with a PhD degree in economics in 1994.

Xu Yiming
Chief financial officer

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(In thousands of RMB)

Name	Allowance	Remuneration paid	Contribution by the employer to compulsory insurances, housing fund, etc.	Total (before tax)[1]	Whether obtaining remuneration from related parties of the Bank
Tian Guoli	–	546.0	165.3	711.3	No
Wang Zuji	–	546.0	165.3	711.3	No
Zhang Gengsheng	–	491.4	161.5	652.9	No
Feng Bing[2]	–	–	–	–	Yes
Zhu Hailin[2]	–	–	–	–	Yes
Li Jun[2]	–	–	–	–	Yes
Wu Min[2]	–	–	–	–	Yes
Zhang Qi[2]	–	–	–	–	Yes
Anita Fung Yuen Mei	412.5	–	–	412.5	No
Malcolm Christopher McCarthy	410.0	–	–	410.0	No
Carl Walter	440.0	–	–	440.0	No
Chung Shui Ming Timpson	440.0	–	–	440.0	No
Kenneth Patrick Chung	70.0	–	–	70.0	No
Murray Horn	470.0	–	–	470.0	No
Wu Jianhang	–	330.0	98.8	428.8	No
Fang Qiuyue	–	330.0	103.4	433.4	No
Lu Kegui[3]	29.2	–	–	29.2	No
Cheng Yuanguo[3]	29.2	–	–	29.2	No
Wang Yi[3]	29.2	–	–	29.2	No
Bai Jianjun	250.0	–	–	250.0	No
Huang Yi	–	491.4	161.5	652.9	No
Zhang Lilin	–	491.4	144.7	636.1	No
Liao Lin	–	664.7	204.3	869.0	No
Huang Zhiling	–	657.0	168.6	825.6	No
Xu Yiming	–	788.4	204.0	992.4	No
Resigned directors, supervisors and senior management					
Pang Xiusheng	–	368.6	117.0	485.6	No
Hao Aiqun[2]	–	–	–	–	Yes
Guo You	–	182.0	49.3	231.3	No
Liu Jin	–	330.0	91.6	421.6	No
Li Xiaoling	–	268.2	48.9	317.1	No
Li Xiukun[3]	20.8	–	–	20.8	No
Jin Yanmin[3]	20.8	–	–	20.8	No
Li Zhenyu[3]	20.8	–	–	20.8	No
Yang Wensheng	–	204.8	60.4	265.2	No
Yu Jingbo	–	204.8	60.4	265.2	No
Chen Caihong	–	112.5	18.4	130.9	No

1. From 2015 onwards, remunerations of the Bank's leaders administered by central authorities have been paid in accordance with relevant policies relating to the central remuneration reform.
2. Non-executive directors of the Bank receive their remuneration from Huijin, the shareholder of the Bank.
3. Remuneration before tax paid for acting as employee representative supervisor of the Bank.
4. As some of the Bank's non-executive directors and external supervisors hold positions of directors or senior executives in other legal persons or organisations, such legal persons or organisations thus become related parties of the Bank. Apart from this, none of the Bank's directors, supervisors or senior executives obtained remuneration from the related parties of the Bank.
5. The total compensation package for some directors, supervisors and senior executives for the year ended 31 December 2018 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The final compensation will be disclosed by the Bank in a separate announcement when determined.

The Bank is committed to maintaining a high level of corporate governance. In strict compliance with the PRC Company Law, Law on Commercial Banks and other laws and regulations, as well as the listing rules of the listing venues, the Bank optimised its corporate governance structure and improved related rules based on its corporate governance practices. During the reporting period, the Bank elected executive directors, non-executive directors, independent non-executive directors, shareholder representative supervisors and senior management. The Bank also set its fintech strategic plan, strategic plan for inclusive finance and capital plan for 2018 to 2020, and appointed external auditors for 2018.

The Bank has complied with the code provisions of the *Corporate Governance Code* and *Corporate Governance Report* as set out in Appendix 14 to the Listing Rules of Hong Kong Stock Exchange. The Bank has also substantially adopted the recommended best practices therein.

SHAREHOLDERS' GENERAL MEETING

Powers of shareholders' general meeting

The shareholders' general meeting is the authoritative body of the Bank and mainly exercises the following functions and powers:

- deciding on the business strategies and investment plans of the Bank;
- electing and changing directors and supervisors (except for employee representative supervisors), and determining the remuneration of relevant directors and supervisors;
- considering and approving the Bank's annual financial budgets, final accounts, profit distribution plans and loss recovery plans;
- adopting resolutions related to matters including the increase or reduction of registered capital, and merger, split, dissolution and liquidation of the Bank;
- adopting resolutions related to the issuance and listing of corporate bonds or other marketable securities;
- adopting resolutions related to material acquisitions and repurchase of the Bank's shares;
- adopting resolutions to engage, dismiss or cease to retain certified public accountants;
- deciding the issuance of preference shares; deciding or authorising the Board to decide the matters relating to the issued preference shares by the Bank, including but without limitation to repurchase, conversion and dividend distribution, etc.;
- amending the Articles of Association and other basic corporate governance documents of the Bank.

Details of shareholders' general meeting convened

On 29 June 2018, the Bank held the 2017 annual general meeting, which reviewed and approved the 2017 report of the board of directors, report of the board of supervisors, final financial accounts, profit distribution plan, 2018 fixed assets investment budget, remuneration distribution and settlement plan for directors and supervisors of 2016, election of executive directors, non-executive directors, independent non-executive directors and shareholder representative supervisors, the capital plan for 2018 to 2020, appointment of external auditors for 2018, and amendments to authorisation to the Board on external donations by the shareholders' general meeting, etc. The executive directors, namely Mr. Tian Guoli, Mr. Wang Zuji and Mr. Pang Xiusheng, the non-executive directors, namely Ms. Feng Bing, Mr. Zhu Hailin, Mr. Li Jun, Mr. Wu Min, Mr. Zhang Qi and Ms. Hao Aiqun, and the independent non-executive directors, namely Ms. Anita Fung Yuen Mei, Sir Malcolm Christopher McCarthy, Mr. Carl Walter, Mr. Chung Shui Ming Timpson, and Mr. Murray Horn attended the meeting. The directors' attendance rate was 93%. The domestic and international auditors of the Bank also attended the meeting. The shareholders' general meeting was held in compliance with relevant legal procedures. The announcements on resolutions of the meeting were published on the websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange on 29 June 2018, and on the designated newspapers on 30 June 2018 for information disclosure.

BOARD OF DIRECTORS

Responsibilities of the Board

The Board is the executive body of the shareholders' general meeting, which is responsible to the general meeting of shareholders, and performs the following functions and duties in accordance with relevant laws:

- convening the general meeting of shareholders and reporting to the general meeting of shareholders;
- implementing the resolutions of the general meeting of shareholders;
- determining the Bank's development strategy, and supervising the implementation of the development strategy;
- deciding on business plans, investment plans and risk capital allocation plans of the Bank;
- preparing annual financial budget plans, final accounting plans, profit distribution plans and loss recovery plans;
- preparing plans related to the increase or reduction of registered capital, the issuance and listing of convertible bonds, subordinated bonds, corporate bonds or other marketable securities; and plans related to merger, split, dissolution and liquidation of the Bank;
- preparing plans related to material acquisitions and repurchase of the Bank's shares;
- exercising other powers under the Articles of Association of the Bank and as authorised by the general meeting of shareholders.

The Board's implementation of resolutions of the general meeting of shareholders

In 2018, the Board strictly implemented the resolutions of shareholders' general meeting and matters authorised by the shareholders' general meeting to the Board, earnestly implementing the proposals approved by the shareholders' general meeting, including the profit distribution plan for 2017, fixed assets investment budget for 2018, appointment of auditors for 2018, and election of directors.

Composition of the Board

At the end of 2018, the Board comprised 14 directors, including three executive directors, namely Mr. Tian Guoli, Mr. Wang Zuji and Mr. Zhang Gengsheng; five non-executive directors, namely Ms. Feng Bing, Mr. Zhu Hailin, Mr. Li Jun, Mr. Wu Min and Mr. Zhang Qi; and six independent non-executive directors, namely Ms. Anita Fung Yuen Mei, Sir Malcolm Christopher McCarthy, Mr. Carl Walter, Mr. Chung Shui Ming Timpson, Mr. Kenneth Patrick Chung and Mr. Murray Horn.

The term of office of directors of the Bank is three years, and directors may be re-elected upon expiration of their terms of office.

In order to diversify the composition of the Board, the Bank formulated the *Diversity Policy for the Board of Directors* in August 2013. For nomination of directors, the Board should consider both professional capabilities and ethics of the candidates, and at the same time, take into account the requirements on board diversity. The candidates should be selected as complementary to one another, with diversified backgrounds in terms of gender, age, cultural and educational background, professional experience, specialty, knowledge and term of service. The final decision should be based on the candidates' overall competence and possible contributions to the Board. The nomination and remuneration committee is responsible to formulate and supervise the implementation of the *Diversity Policy for the Board of Directors*.

Chairman and president

Chairman of the Board is the legal representative of the Bank, and is responsible for the business strategy and overall development of the Bank.

President of the Bank is responsible for the daily management of the business operations. The president is appointed by and accountable to the Board, and performs his duties in accordance with provisions of the Articles of Association and authorisation of the Board.

The roles of chairman of the Board and president are separate, each with clearly defined duties.

Operation of the Board

The Board convenes regular meetings, generally no fewer than six times a year; extraordinary meetings are convened if and when necessary. Board meetings may be convened by means of on-site conference or written resolutions. The agenda for regular board meetings is scheduled upon consultation with each director. Board meeting papers and relevant materials are usually circulated to all directors and supervisors 14 days in advance of board meetings.

According to the Articles of Association, the Board decides the risk management policies and internal control policies of the Bank, formulates related systems of risk management and internal control of the Bank, and supervises the implementation of such systems. The Board reviews the overall risk management report of the Group semi-annually, and reviews the report of internal control evaluation and the statements of risk appetite of the Group annually, to evaluate the overall risk condition and the effectiveness of internal control system. After the evaluation, the Board held the opinion that the overall risk of the Group remained steady, the management and control of the asset quality was in line with expectations and core risk indicators remained stable. The Board also believed that the Bank had maintained effective internal control of financial reporting covering all the major aspects, in compliance with the requirements of the system of rules for enterprise internal control and other relevant regulations.

All directors keep contact with the secretary to the Board and the company secretary, to ensure compliance with board procedures and all applicable rules and regulations. Detailed minutes of board meetings are kept, and minutes of the board meetings are kept by the secretary to the Board, and are available for review by directors at any time.

Communication and reporting mechanism has been established between the Board, directors and senior management. The president reports his work to the Board on a regular basis, and is supervised by the Board. Relevant senior executives are invited to attend board meetings from time to time to provide explanations or reply to enquiries.

At board meetings, directors can express their opinions freely, and major decisions shall only be made after thorough discussion. Directors may also follow certain procedures to engage independent professional institutions, at the Bank's expense, for provision of independent professional advice if they deem necessary. If any director has material interest in a proposal to be considered by the Board, such director should abstain from discussion and voting on the relevant proposal, and will not be counted in the quorum of the relevant proposal.

The Bank effected directors' liability insurance policy for all directors in 2018.

Board meetings

In 2018, the Board of the Bank held eight meetings on 19 January, 27 March, 26 April, 28 June, 28 August, 23 October, 16 November, and 28 November respectively. The Board established the Fintech Strategic Plan and the Strategic Plan for Inclusive Finance; it elected executive directors, non-executive directors, independent non-executive directors, and appointed senior executives; it guided the steady development of overseas businesses, and approved the establishment of a Branch in Kazakhstan; it attached great importance to the improvement of risk management and internal control and compliance by guiding the review and amendment of risk management policies; it pushed forward capital management and established the Capital Plan for 2018 to 2020; it studied and amended plans of the authorisation to the Board on external donations by the shareholders' general meeting and the authorisation to the president by the Board. The directors' individual attendance records of board meetings in 2018 are set out as follows:

Board members	Number of meetings attended in person/Number of meetings during term of office	Number of meetings attended by proxy/Number of meetings during term of office	Attendance rate (%)
Executive directors			
Mr. Tian Guoli	6/8	2/8	100
Mr. Wang Zuji	7/8	1/8	100
Mr. Zhang Gengsheng	6/8	2/8	100
Non-executive directors			
Ms. Feng Bing	8/8	0/8	100
Mr. Zhu Hailin	7/8	1/8	100
Mr. Li Jun	7/8	1/8	100
Mr. Wu Min	6/8	2/8	100
Mr. Zhang Qi	8/8	0/8	100
Independent non-executive directors			
Ms. Anita Fung Yuen Mei	8/8	0/8	100
Sir Malcolm Christopher McCarthy	7/8	1/8	100
Mr. Carl Walter	7/8	1/8	100
Mr. Chung Shui Ming Timpson	7/8	1/8	100
Mr. Kenneth Patrick Chung	2/2	0/2	100
Mr. Murray Horn	8/8	0/8	100
Resigned directors			
Mr. Pang Xiusheng	3/5	2/5	100
Ms. Hao Aiqun	4/4	0/4	100

Duty performance of independent non-executive directors

At the end of 2018, the Bank had six independent non-executive directors, representing 43% of the total number of directors of the Bank, which complies with the provisions of relevant laws, regulations and Articles of Association of the Bank. The audit committee, risk management committee, nomination and remuneration committee, and social responsibilities and related party transactions committee under the Board are all chaired by independent non-executive directors.

The independent non-executive directors of the Bank do not have any business or financial interests in the Bank and its subsidiaries, neither do they assume any management positions in the Bank. The independence of the independent non-executive directors of the Bank is in compliance with the relevant regulatory requirements.

In 2018, the independent non-executive directors of the Bank actively attended the board meetings and related special committees meetings, and heard reports on operation and management. They communicated with management in a timely manner with special attention to the development of the Bank and implementation of development strategies, actively carried out researches and on-site inspections on the operation and management of the Bank. With forward-looking thoughts on business plans of the Bank, they raised constructive suggestions on the Bank's development strategy, risk management, capital adequacy, overseas business and subsidiaries' development, and played an important role in the Board's decision-making process. During the reporting period, the Bank's independent non-executive directors did not raise any objection to the relevant matters reviewed by the Board.

To constantly update their knowledge and improve their duty performance capabilities, independent non-executive directors kept a close watch on changes in regulatory policies, paid constant attention to the regulatory guidance, and diligently attended trainings on corporate governance, risk management and internal control and compliance, etc. The work of independent non-executive directors was actively supported and coordinated by the management.

Please refer to the *Work Report of Independent Directors for the Year of 2018* for details of duty performance of independent non-executive directors during the reporting period, which would be disclosed on the same date of this annual report.

Special statement and independent opinion given by the independent non-executive directors regarding the external guarantees provided by the Bank

Pursuant to the relevant provisions and requirements of the circular ZhengJianFa [2003] No. 56 issued by the CSRC and based on the principles of fairness, justice, and objectiveness, the independent non-executive directors of the Bank, including Ms. Anita Fung Yuen Mei, Sir Malcolm Christopher McCarthy, Mr. Carl Walter, Mr. Chung Shui Ming Timpson, Mr. Kenneth Patrick Chung and Mr. Murray Horn made the following statements on external guarantees provided by the Bank:

The external guarantee business provided by the Bank has been approved by the PBC and the CBIRC, and is part of the ordinary business of the Bank. With respect to the risks arising from external guarantee business, the Bank formulated specific management measures, operational processes and approval procedures, and carried out the business accordingly. The external guarantee business of the Bank is mainly in the form of letter of guarantees. As at 31 December 2018, the balance under the letter of guarantees issued by the Group was approximately RMB1,058,170 million.

Accountability of the directors in relation to financial statements

The directors are responsible for overseeing the preparation of the financial report for each accounting period to give a true and fair view of the Group's financial position, operating results and cash flow for that period. In preparing the financial report for the year ended 31 December 2018, the directors have selected appropriate accounting policies, applied them consistently, and made judgements and estimates that were prudent and reasonable.

During the reporting period, the Bank published the 2017 annual report, the report for the first quarter of 2018, the half-year report 2018, and the report for the third quarter of 2018 within the prescribed time set out in the provisions of relevant laws, regulations and listing rules of the listing venues.

Training of directors

In 2018, all directors of the Bank took part in directors' compliance training on the US Bank Secrecy Act and Anti-Money Laundering laws, and Ms. Feng Bing, Mr. Zhu Hailin, Mr. Li Jun, Mr. Wu Min and Mr. Zhang Qi participated in the special training organised by the Listed Companies Association of Beijing and other institutions; Ms. Anita Fung Yuen Mei and Sir Malcolm Christopher McCarthy participated in the qualification training for independent non-executive directors held by Shanghai Stock Exchange; Ms. Anita Fung Yuen Mei participated in the director trainings held by Hong Kong Exchanges and Clearing Limited.

Training of company secretary

In 2018, Mr. Ma Chan Chi, company secretary of the Bank, participated in professional trainings on aspects including Hong Kong Companies Ordinance, Listing Rules of Hong Kong Stock Exchange, anti-money laundering and corporate governance, which totalled over 15 hours, to strengthen his job skills and update his professional knowledge.

Compliance with Model Code for Securities Transactions by Directors

The Bank has adopted a code of practice in relation to securities transactions by directors and supervisors as set out in the *Model Code for Securities Transactions by Directors of Listed Issuers*, Appendix 10 to the Listing Rules of Hong Kong Stock Exchange. All directors and supervisors had complied with the provisions of this code in the year ended 31 December 2018.

Independent operating capability

The Bank is independent from Huijin, its controlling shareholder, with respect to business, personnel, assets, organisations and finance. The Bank has independent and integral operating assets and independent operating capability, and is able to survive in the market on its own.

Internal transactions

The internal transactions of the Bank include credit extension and off-balance sheet quasi-credit extension, financial market transactions and derivative transactions, wealth management arrangement, asset transfer, management and service arrangement, service charges, and agency transactions between the Bank and subsidiaries as well as between the subsidiaries. The internal transactions of the Bank were in compliance with regulatory requirements, and did not have any negative impact on the Group's sound operation.

COMMITTEES UNDER THE BOARD

There are five committees under the Board: strategy development committee, audit committee, risk management committee, nomination and remuneration committee, and social responsibilities and related party transactions committee. More than half of the members of the audit committee, risk management committee, nomination and remuneration committee, and social responsibilities and related party transactions committee are independent non-executive directors.

Strategy development committee

At the end of 2018, the strategy development committee consisted of 12 directors. Mr. Tian Guoli, chairman of the Bank, currently serves as chairman of the strategy development committee. Members include Mr. Wang Zuji, Ms. Feng Bing, Ms. Anita Fung Yuen Mei, Mr. Zhu Hailin, Sir Malcolm Christopher McCarthy, Mr. Li Jun, Mr. Wu Min, Mr. Carl Walter, Mr. Zhang Qi, Mr. Murray Horn and Mr. Zhang Gengsheng. Three of these members are executive directors, five are non-executive directors, and four are independent non-executive directors.

The primary responsibilities of the strategy development committee include:

- drafting strategic development plans, supervising and assessing implementation thereof;
- reviewing annual operational plans and fixed assets investment budgets;
- reviewing the implementation of annual operational plans and fixed assets investment budgets;
- evaluating the coordinated development of various businesses;
- reviewing material restructuring and re-organisation plans;
- reviewing significant investment and financing projects of the Bank;
- exercising the power of equity investment, IT planning, capital adequacy ratio management and other matters within the scope of the Board's authorisation; and
- other duties and powers authorised by the Board.

In 2018, the strategy development committee held six regular meetings and two extraordinary meetings in total. The topics reviewed and discussed mainly included: authority adjustments, fintech strategic plan, the strategic plan for inclusive finance, comprehensive business plan and implementation of fixed assets budget, establishment of overseas institutions, contribution to the national financing guarantee fund and strategic emerging industry development fund. The strategy development committee put forward opinions or suggestions on the Bank's strategic plan on fintech, strategic plan on inclusive finance, improvement of authorisation plan, establishment of branches, major investment plans, implementation of policy for financial services to support real economy, commitment to national innovation-driven development strategy, etc.

Members of strategy development committee	Number of meetings attended in person/Number of meetings during term of office	Number of meetings attended by proxy/Number of meetings during term of office	Attendance rate (%)
Mr. Tian Guoli	7/8	1/8	100
Mr. Wang Zuji	8/8	0/8	100
Mr. Zhang Gengsheng	6/8	2/8	100
Ms. Feng Bing	8/8	0/8	100
Mr. Zhu Hailin	8/8	0/8	100
Mr. Li Jun	7/8	1/8	100
Mr. Wu Min	6/8	2/8	100
Mr. Zhang Qi	8/8	0/8	100
Ms. Anita Fung Yuen Mei	8/8	0/8	100
Sir Malcolm Christopher McCarthy	8/8	0/8	100
Mr. Carl Walter	8/8	0/8	100
Mr. Murray Horn	8/8	0/8	100
Resigned members			
Mr. Pang Xiusheng	5/6	1/6	100
Ms. Hao Aiqun	5/5	0/5	100

In 2019, the strategy development committee will continue to follow the responsibilities and duties of a major bank, deeply promote three major strategies of house leasing, inclusive finance and fintech, empowering the society with financial power, comprehensively enhance the ability to serve the real economy, optimise the structure of assets and liabilities and structure of profitability, raise return on assets and return on capital, continuously enhance cost management and control, and enhance the awareness on compliance and anti-money laundering management of the Bank. It will deepen the "one bank one mode" development of overseas institutions, quicken its paces in the applying the "new-generation" system, construct the platform of big data and cloud service, enhance the capability and operating efficiency of refined management, continuously enhance the research on corporate governance, and improve the efficiency of the committee.

Audit committee

The audit committee consisted of seven directors. Mr. Chung Shui Ming Timpson, independent non-executive director of the Bank, currently serves as chairman of the audit committee. Members include Ms. Anita Fung Yuen Mei, Mr. Zhu Hailin, Mr. Li Jun, Mr. Carl Walter, Mr. Kenneth Patrick Chung and Mr. Murray Horn. Two of these members are non-executive directors and five are independent non-executive directors. The composition of the audit committee meets the requirements of corporate governance and the domestic and overseas regulations.

The primary responsibilities and authorities of the audit committee include:

- monitoring the financial reports, reviewing the disclosure of accounting information and significant events of the Bank;
- monitoring and assessing the internal controls of the Bank;
- monitoring and assessing the internal auditing work of the Bank;
- monitoring and assessing the external auditing work;
- paying attention to potential misconducts and ensuring appropriate arrangements;
- reporting work to the Board; and
- other duties and powers authorised by the Board.

In 2018, the audit committee convened five meetings, and held two separate meetings with external auditors. The audit committee supervised and reviewed the annual reports and results announcements for 2017 and the first half of 2018, and supervised and reviewed the financial reports for the first and third quarters of 2018. It supervised and evaluated external audit work and appointed external auditors; supervised and guided the internal audit, and pushed the rectification of problems identified in the internal and external audits. It strengthened the supervision and assessment of internal control. The audit committee supported the decision-making process of the Board and expressed material opinions and suggestions on the matters aforesaid.

Pursuant to requirements of the CSRC and the annual report working rules of the audit committee, the audit committee reviewed the annual financial report of the Bank, and communicated sufficiently with the management and formed written opinions before the entry of external auditors. Based on the initial audit opinions given by the external auditors, the audit committee improved communication with external auditors and reviewed the annual financial report of the Bank again. After the completion of the audit on annual financial report, the audit committee reviewed and voted on the annual financial report, and submitted it to the Board for consideration.

Members of audit committee	Number of meetings attended in person/Number of meetings during term of office	Number of meetings attended by proxy/Number of meetings during term of office	Attendance rate (%)
Mr. Chung Shui Ming Timpson	5/5	0/5	100
Ms. Anita Fung Yuen Mei	3/4	1/4	100
Mr. Zhu Hailin	5/5	0/5	100
Mr. Li Jun	5/5	0/5	100
Mr. Carl Walter	5/5	0/5	100
Mr. Kenneth Patrick Chung	0/0	0/0	–
Mr. Murray Horn	5/5	0/5	100
Resigned member			
Ms. Hao Aiqun	3/3	0/3	100

In 2019, the audit committee will continue to supervise the preparation, audit and disclosure of periodic financial reports, review auditing information and disclosure of major issues and provide professional advice to the Board, monitor and evaluate the independence and effectiveness of external audits, and promote the improvement of the service quality of external audits. It will monitor and guide the internal audits, push forward the implementation of rectification of internal audit findings. It will further improve internal control system and mechanism and enhance the monitoring and evaluation of internal control. The audit committee will also assist the Board in relevant work under the authorisation of the Board.

Risk management committee

At the end of 2018, the risk management committee consisted of seven directors. Mr. Murray Horn, independent non-executive director of the Bank, currently serves as chairman of the risk management committee. Members include Mr. Wang Zuji, Ms. Anita Fung Yuen Mei, Sir Malcolm Christopher McCarthy, Mr. Wu Min, Mr. Chung Shui Ming Timpson and Mr. Kenneth Patrick Chung. One of these members is an executive director, one is a non-executive director, and five are independent non-executive directors.

The primary responsibilities of the risk management committee include:

- reviewing the risk management policies in accordance with the overall strategy of the Bank, monitoring and assessing their implementation and effectiveness;
- supervising and examining continuously the effectiveness of risk management system of the Bank;
- providing guidance on the building of risk management system;
- monitoring and assessing the establishment, organisational structure, working procedures and effectiveness of risk management departments, and proposing suggestions for improvement;
- reviewing the risk report, conducting periodic assessments of the risk condition, and providing suggestions in relation to improvements on the risk management of the Bank;
- evaluating the performance of the Bank's senior executives responsible for risk management;
- supervising the compliance of core businesses, management systems and major operation activities of the Bank;
- taking the responsibilities of the US risk management committee as well; and
- other duties and powers authorised by the Board.

In 2018, the risk management committee convened four meetings. The risk management committee paid close attention to the impact of international and domestic economic and financial situations on the Bank, strengthened the Group's overall risk management, and comprehensively enhanced its risk management and control capabilities. It assessed the comprehensive risk conditions of the Group regularly, enhanced the consolidated management and actively promoted the review and optimisation of risk management policies. It also conducted special studies on the asset management businesses and inclusive finance businesses and assessed the ability of global anti-money laundering of the Bank. It supervised and guided rectifications in relation to regulatory inspections and promoted the comprehensive implementation of regulatory requirements on global systematically important banks. It continuously enhanced the compliance risk management of the Group, especially for the overseas institutions. The committee also took the responsibilities of the US risk management committee, and held special meetings on risk in the United States.

Under the framework of overall risk management system of the Bank, the risk management committee of the Bank continued to supervise and review the effectiveness of the risk management system of the Bank, including reviewing and amending the risk management policies, risk appetite and comprehensive risk management framework of the Bank, and monitoring and assessing the establishment, organisational structure, working procedures and effectiveness of risk management departments, conducting periodic assessment of risk management policies, risk appetite and overall risk management condition of the Bank, and monitoring and evaluating senior executives' control in relation to credit risk, market risk, and operational risk. The Board and the risk management committee of the Bank debriefed special reports on the overall risk management of the Group once every half year. Please refer to "Management Discussion and Analysis – Risk Management" for details of risk management of the Bank.

Members of risk management committee	Number of meetings attended in person/Number of meetings during term of office	Number of meetings attended by proxy/Number of meetings during term of office	Attendance rate (%)
Mr. Murray Horn	4/4	0/4	100
Mr. Wang Zuji	4/4	0/4	100
Ms. Anita Fung Yuen Mei	4/4	0/4	100
Sir Malcolm Christopher McCarthy	4/4	0/4	100
Mr. Wu Min	2/4	2/4	100
Mr. Chung Shui Ming Timpson	3/4	1/4	100
Mr. Kenneth Patrick Chung	0/0	0/0	–
Resigned members			
Mr. Pang Xiusheng	2/3	1/3	100
Ms. Hao Aiqun	2/2	0/2	100

In 2019, the risk management committee will continue to conscientiously perform its duties, continuously promote the implementation of various regulatory requirements, and strengthen the comprehensive management of various risks including credit risk, market risk, operational risk and compliance risk. It will also promote the implementation of the advanced approach of capital management, promote the implementation of the regulatory requirements on global systemically important banks, and enhance compliance risk management of the Group, especially the overseas institutions, to improve the ability of comprehensive risk management.

Nomination and remuneration committee

The nomination and remuneration committee consists of eight directors. Sir Malcolm Christopher McCarthy, independent non-executive director of the Bank, currently serves as chairman of the nomination and remuneration committee. Members include Ms. Feng Bing, Ms. Anita Fung Yuen Mei, Mr. Carl Walter, Mr. Zhang Qi, Mr. Chung Shui Ming Timpson, Mr. Kenneth Patrick Chung and Mr. Murray Horn. Two of these members are non-executive directors, and six are independent non-executive directors.

The primary responsibilities of the nomination and remuneration committee include:

- formulating criteria and procedures for the selection and appointment of directors and senior management;
- proposing candidates for directors, presidents, chief audit officer, secretary to the Board and board committee members to the Board;
- evaluating the structure, number of members and composition of the Board (including aspects on expertise, knowledge and experience), and proposing suggestions on the adjustment of the Board to implement the corporate strategies of the Bank;
- assessing the performance of members of the Board;
- evaluating candidates for senior management nominated by the president;
- formulating development plans for senior management and back-up personnel for key positions;
- evaluating the remuneration management system submitted by the president;
- formulating performance evaluation measures for directors and senior management and submitting to the Board for deliberation;
- organising performance assessment for directors and senior management; and proposing advice on the remuneration plan for directors and senior management in accordance with the performance assessment results and the board of supervisors' performance evaluations, and submitting to the Board for deliberation;
- proposing advice on the remuneration plan for supervisors in accordance with the performance assessment of the supervisors by the board of supervisors and submitting to the Board for deliberation;
- monitoring the implementation of the Bank's performance assessment and remuneration systems; and
- other duties and powers authorised by the Board.

In 2018, the nomination and remuneration committee convened five meetings in total. Regarding nomination, the committee conducted re-election of executive directors, non-executive directors and independent non-executive directors, proposed to the Board on candidates for new independent non-executive directors, members to the special committees under the Board and senior management and evaluated the eligibility and qualifications of the new department general managers in accordance with regulatory requirements and the Board's authorisation. The nomination and remuneration committee held that during the reporting period, the composition of the Board of the Bank was in conformity with the requirements of the Diversity Policy for the Board of Directors. Regarding remuneration and performance assessment, the nomination and remuneration committee studied domestic regulatory policies on remuneration, organised and formulated the proposal of the settlement of the remuneration for directors, supervisors and senior management of the Bank for 2017, studied and worked out performance assessment plans for executive directors and senior management for 2018. The nomination and remuneration committee attached importance to the development and training for senior management and talented people for back-up, and paid attention to matters such as employee remuneration structure. It also proposed opinions and suggestions on pushing forward the diversity of the members of the Board, improving the performance assessment measures for the senior management, and improving the remuneration incentive system and enhancing the development and training for talents.

Members of nomination and remuneration committee	Number of meetings attended in person/Number of meetings during term of office	Number of meetings attended by proxy/Number of meetings during term of office	Attendance rate (%)
Sir Malcolm Christopher McCarthy	5/5	0/5	100
Ms. Feng Bing	5/5	0/5	100
Ms. Anita Fung Yuen Mei	5/5	0/5	100
Mr. Carl Walter	5/5	0/5	100
Mr. Zhang Qi	5/5	0/5	100
Mr. Chung Shui Ming Timpson	5/5	0/5	100
Mr. Kenneth Patrick Chung	0/0	0/0	–
Mr. Murray Horn	5/5	0/5	100

In 2019, the nomination and remuneration committee will strengthen self-improvement efforts, continue to accomplish the work in connection with nomination, review the structure, number of members and composition of the Board, supervise the performance of the Board members and will further refine the remuneration and performance assessment measures for the directors and senior management in accordance with the national remuneration policies. The committee will put forward the proposal of the remuneration settlement for directors, supervisors and senior management in 2018 according to the operational results after comprehensive consideration of various factors, and pay attention to the remuneration system and the personnel training of the Bank.

Social responsibilities and related party transactions committee

The social responsibilities and related party transactions committee consists of five directors. Mr. Carl Walter, independent non-executive director of the Bank, currently serves as chairman of the social responsibilities and related party transactions committee. Members include Mr. Chung Shui Ming Timpson, Mr. Kenneth Patrick Chung, Mr. Murray Horn and Mr. Zhang Gengsheng. One of the members is an executive director, and the other four are independent non-executive directors.

The primary responsibilities of the social responsibilities and related party transactions committee include:

- formulating and proposing standards for material related party transactions and the system for management of related party transactions, as well as the internal approval and filing system of the Bank, and submitting the above standards for approval to the Board;
- identifying the related parties of the Bank;
- receiving filings on general related party transactions;
- reviewing material related party transactions;
- studying and formulating the strategies and policies of social responsibilities of the Bank;
- evaluating credit policies related to environment and sustainable development;
- monitoring, inspecting and assessing the performance of social responsibilities of the Bank;
- studying and formulating the strategies, policies and objectives of consumer rights and interests protection of the Bank, supervising and assessing the work of consumer rights and interests protection of the Bank;
- studying and formulating the green credit strategy, supervising and assessing the implementation of the green credit strategy;
- monitoring and guiding the promotion of relevant work of inclusive finance by the management; and
- other duties and powers authorised by the Board.

In 2018, the social responsibilities and related party transactions committee convened four meetings in total. The committee improved the supervision and management of related party transactions, reviewed the corporate social responsibility report, monitored the implementation of charity donation, promoted the protection of consumer rights and interests, monitored and implemented the green credit, and supervised and guided the inclusive finance. The social responsibilities and related party transactions committee proposed important opinions and advice on the aforesaid matters.

Members of social responsibilities and related party transactions committee	Number of meetings attended in person/Number of meetings during term of office	Number of meetings attended by proxy/Number of meetings during term of office	Attendance rate (%)
Mr. Carl Walter	4/4	0/4	100
Mr. Chung Shui Ming Timpson	3/4	1/4	100
Mr. Kenneth Patrick Chung	0/0	0/0	–
Mr. Murray Horn	4/4	0/4	100
Mr. Zhang Gengsheng	2/4	2/4	100

In 2019, the social responsibilities and related party transactions committee will continue to strengthen the supervision and management of the related party transactions. It will review social responsibilities report, monitor the implementation of charitable donations, promote the protection of consumer rights and interests, pay attention to customer complaints, monitor and promote the green credit, and monitor and guide the inclusive finance. The social responsibilities and related party transactions committee will also assist the Board in relevant work under the authorisation of the Board.

BOARD OF SUPERVISORS

Responsibilities of the board of supervisors

The board of supervisors, being the supervisory body of the Bank, is accountable to the shareholders' general meeting and performs the following functions and duties in accordance with relevant laws:

- supervising the performance of the Board, senior management and their members;
- requiring the directors and senior management personnel to correct their acts when their acts infringe the interests of the Bank;
- inspecting and supervising the financial activities of the Bank;
- verifying the financial information, including the financial report, business report and profit distribution proposal that are proposed to the shareholders' general meeting by the Board;
- supervising business decisions, risk management, internal control, etc. of the Bank, and providing guidance to the internal audit work of the Bank; and
- exercising other powers authorised by the shareholders' general meeting and the Articles of Association of the Bank.

Composition of the board of supervisors

The board of supervisors of the Bank currently consists of six supervisors, including two shareholder representative supervisors, namely Mr. Wu Jianhang and Mr. Fang Qiuyue, three employee representative supervisors, namely Mr. Lu Kegui, Mr. Cheng Yuanguo and Mr. Wang Yi, and one external supervisor, namely Mr. Bai Jianjun.

The term of office of the supervisors is three years, and they may be re-elected upon expiration of their term of office. The shareholder representative supervisors and the external supervisors of the Bank are elected by the shareholders' general meeting, and the employee representative supervisors are elected by the employee representative organisation.

Operation of the board of supervisors

The board of supervisors convenes regular meetings no fewer than four times a year, and extraordinary meetings are convened, if and when required. Meetings of the board of supervisors may be convened by on-site conference or written resolutions. Supervisors are generally notified in writing ten days prior to the convening of the board of supervisors' meeting. Matters concerning such meeting are specified in the written notice. During the meeting, the supervisors are free to express their opinions, and decisions on important matters are only made after detailed discussions.

Detailed minutes are prepared for the meetings of the board of supervisors. After each meeting, minutes will be circulated to all attending supervisors for review and comments. After finalising the minutes, the board of supervisors' office shall be responsible for distributing the final version of the minutes to all supervisors. The board of supervisors may engage external legal advisors or certified public accountants when necessary to discharge its duties, and the Bank will bear all related expenses. The Bank takes necessary measures and methods to ensure supervisors' right to information, and provides relevant information and materials to them in accordance with related regulations.

Members of the board of supervisors may attend board meetings as non-voting attendees, and the board of supervisors may, if and when the board of supervisors deems appropriate, assign supervisors to attend as non-voting attendees such meetings of the Bank as meetings of board committees, annual work conference, symposia of general managers of branches, analytic meetings on operating conditions, and president executive meetings. The board of supervisors of the Bank conducts supervisory work through measures such as inspection and review of information, off-site monitoring and analysis and on-site specific inspection, visits and symposia, and performance and due diligence evaluation.

The Bank effected supervisors' liability insurance policy for all the supervisors in 2018.

Meetings of the board of supervisors

In 2018, the board of supervisors convened six meetings in total on 27 March, 26 April, 4 July, 28 August, 23 October, and 21 December respectively, of which one was held by way of circulation of written proposal and five were held on-site. Major resolutions reviewed and approved by the board of supervisors meetings included report of the board of supervisors, supervisory working plan, periodic reports of the Bank, profit distribution plan and the 2017 assessment report on internal control, etc. Relevant information was disclosed pursuant to the provisions in relevant laws, regulations and listing rules of the listing venues. The following table sets forth the attendance records of each supervisor in the meetings of the board of supervisors in 2018:

Members of the board of supervisors	Number of meetings attended in person/Number of meetings during term of office	Number of meetings attended by proxy/Number of meetings during term of office	Attendance rate (%)
Shareholder representative supervisors			
Mr. Wu Jianhang	4/4	0/4	100
Mr. Fang Qiuyue	4/4	0/4	100
Employee representative supervisors			
Mr. Lu Kegui	4/4	0/4	100
Mr. Cheng Yuanguo	4/4	0/4	100
Mr. Wang Yi	4/4	0/4	100
External supervisor			
Mr. Bai Jianjun	6/6	0/6	100
Resigned supervisors			
Mr. Guo You	0/1	1/1	100
Ms. Liu Jin	2/2	0/2	100
Ms. Li Xiaoling	2/2	0/2	100
Mr. Li Xiukun	2/2	0/2	100
Mr. Jin Yanmin	1/2	1/2	100
Mr. Li Zhenyu	2/2	0/2	100

Duty performance of external supervisor

In 2018, Mr. Bai Jianjun, the external supervisor of the Bank, actively attended the meetings of the board of supervisors and special committees thereof, and was involved in the studying and decision-making of major issues of the board of supervisors. He proactively attended the meetings of the Board, the special committees under the Board and the operating management as non-voting delegates, and participated in the specific research organised by the board of supervisors on house leasing business, etc., and provided suggestions and opinions based on his expertise. The external supervisor duly performed his duties and contributed to the effectiveness of supervisory role played by the board of supervisors.

COMMITTEES UNDER THE BOARD OF SUPERVISORS

The performance and due diligence supervision committee and the finance and internal control supervision committee are established under the board of supervisors.

Performance and due diligence supervision committee

The performance and due diligence supervision committee consists of three supervisors, including Mr. Wu Jianhang, Mr. Fang Qiuyue and Mr. Cheng Yuanguo.

The primary responsibilities of the performance and due diligence supervision committee:

- formulating the rules, work plans and proposals and implementation plans for supervision and examination in connection with the supervision of the performance and degree of diligence of the Board, senior management and their members; and implementing and organising the implementation of such rules, plans and proposals after the board of supervisors' approval;
- giving evaluation report on the performance of duties by the Board and senior management as well as their members; and
- formulating performance evaluation measures for the supervisors and organising the implementation of such measures.

In 2018, the performance and due diligence supervision committee convened four on-site meetings in total. The performance and due diligence supervision committee reviewed evaluation reports on the performance of the Board, senior management and their members, and self-evaluation reports on the performance of the board of supervisors and supervisors; studied and formulated the work plan for performance supervision and evaluation for the year; reviewed the proposals regarding the performance assessment plan for shareholder representative supervisors of the Bank, and heard special reports on the development of the inclusive finance business of the Bank, the development of the protection of consumer rights and interests, consolidated management, stress testing of 2018, etc. The performance and due diligence supervision committee organised the implementation of annual supervisory work, assisted the board of supervisors with the supervision and evaluation of the Board, senior management and their members and the self-evaluation of the board of supervisors.

Members of the performance and due diligence supervision committee	Number of meetings attended in person/Number of meetings during term of office	Number of meetings attended by proxy/Number of meetings during term of office	Attendance rate (%)
Mr. Wu Jianhang	2/2	0/2	100
Mr. Fang Qiuyue	2/2	0/2	100
Mr. Cheng Yuanguo	1/2	1/2	100
Resigned supervisors			
Mr. Guo You	0/1	1/1	100
Ms. Liu Jin	2/2	0/2	100
Ms. Li Xiaoling	2/2	0/2	100
Mr. Li Zhenyu	2/2	0/2	100

In 2019, the performance and due diligence supervision committee will carry out solid work in supervision of performance of duties and responsibilities. The performance and due diligence supervision committee will continue to explore the ways of improving work in light of actual situation, and earnestly carry out performance supervision and evaluation of the Board, senior management and their members.

Finance and internal control supervision committee

The finance and internal control supervision committee consists of five supervisors, including Mr. Wu Jianhang, Mr. Fang Qiuyue, Mr. Lu Kegui, Mr. Wang Yi and Mr. Bai Jianjun.

The primary functions and responsibilities of the finance and internal control supervision committee:

- formulating the rules, work plans and proposals in connection with the finance and internal control; and implementing or organising the implementation of such rules, plans, and proposals upon the approval of the board of supervisors;
- examining the annual financial reports and the profit distribution proposals prepared by the Board, and providing suggestions on such reports to the board of supervisors; and
- assisting the board of supervisors in organising the implementation of supervision and inspections on the finance and internal control of the Bank, as required by circumstances.

In 2018, the finance and internal control supervision committee convened five on-site meetings in total, reviewed proposals including the periodic reports, profit distribution plans and internal control evaluation report; heard work reports on financial report auditing, internal control and compliance work, internal audit findings and rectifications, credit asset quality, and comprehensive risk management on a regular basis; organised the implementation of supervision on the internal control, acquisition and disposal of material assets, connected transactions and use of proceeds, etc.; carried out supervision over different areas including the implementation of operating business plans and fixed assets budget, the implementation of new accounting standard, the impairment allowances, the implementation of new rules on asset management, the management of internal transactions, etc. via various measures including hearing special reports, conducting interviews and discussions, put forward professional opinions and suggestions, and helped the board of supervisors to perform the supervision of finance, risk and internal control.

Members of the finance and internal control supervision committee	Number of meetings attended in person/Number of meetings during term of office	Number of meetings attended by proxy/Number of meetings during term of office	Attendance rate (%)
Mr. Wu Jianhang	2/2	0/2	100
Mr. Fang Qiuyue	2/2	0/2	100
Mr. Lu Kegui	2/2	0/2	100
Mr. Wang Yi	2/2	0/2	100
Mr. Bai Jianjun	5/5	0/5	100
Resigned supervisors			
Ms. Li Xiaoling	3/3	0/3	100
Ms. Liu Jin	2/3	1/3	100
Mr. Li Xiukun	3/3	0/3	100
Mr. Jin Yanmin	3/3	0/3	100

In 2019, the finance and internal control supervision committee will pay close attention to the key areas and issues of the Bank's finance, risk and internal control, make more efforts in research and investigation as well as analysis, and continue to refine the corresponding supervisory work.

SENIOR MANAGEMENT

Responsibilities of senior management

The senior management, being the executive body of the Bank, is accountable to the Board, and is supervised by the board of supervisors. Authorisation to the senior management by the Board strictly complies with corporate governance documents such as the Articles of Association of the Bank. Pursuant to the Articles of Association of the Bank, president of the Bank exercises the following functions and powers:

- presiding over the operation and management of the Bank, and organising and implementing resolutions of the Board;
- submitting operation and investment plans of the Bank to the Board, and organising and implementing the plans upon approval of the Board;
- drafting basic management systems of the Bank;
- authorising persons in charge of internal functional departments and branches to conduct operation activities;
- establishing president accountability system, and conducting evaluation of business performance over managers of business departments, managers of functional departments and general managers of branches of the Bank;
- proposing the convening of interim Board meetings; and
- exercising other functions and powers that should be exercised by president according to laws, regulations, rules, the Articles of Association of the Bank, and decisions of the shareholders' general meeting and the Board.

Executive vice presidents and other senior management members of the Bank shall assist president with his/her work.

Operation of senior management

Based on the authorisation of corporate governance documents, such as the Articles of Association of the Bank and the Board, the senior management orderly organises operational and management activities of the Bank. According to the strategic directions and targets determined by the Board, it makes comprehensive operational plans and periodically reports to the Board on implementation of strategies and execution progress of plans. The senior management analyses, researches and judges on internal and external environment, works out operational strategies and management measures and makes timely adjustments in line with market changes. The senior management invites directors and supervisors to participate in important meetings and major events, takes advice and suggestions, and keeps close communication with the Board and the board of supervisors, so as to enhance the operational and management capabilities and working efficiency of the Bank.

INTERNAL CONTROL

The objectives of the internal control of the Bank are to reasonably ensure its operation and management in compliance with laws and regulations, assets safety, the accuracy and integrity of financial reports and relevant information, to improve operation efficiency and effects, and to facilitate the Bank to achieve its development strategies. According to the requirements regarding the standard system of enterprise internal control, the Board establishes sound and effective internal control, evaluates its effectiveness and supervises the effectiveness of internal control system. The board of supervisors supervises the establishment and implementation of internal control of the Board. The senior management is responsible for organising and leading the daily operation of internal control.

In 2018, the Bank further refined its relevant internal control system. First, the Bank revised the General Regulations on Internal Control, implemented the latest internal control regulatory rules, organically integrated the latest theories of internal control from home and abroad with the internal control management practice of the Bank, and focused on enhancing the refinement level of internal control management and effectiveness of internal control. Second, the Bank revised the Measures for Internal Control Assessment, through promoting regular assessment, the Bank detected and modified the deficiency, filled in the loopholes in the mechanism, procedure and system in a timely manner, and continuously improved the effectiveness of internal control. Third, the Bank enhanced the internal control deficiency management, established a closed management loop consisting of problematic information collection, deficiency identification, modification, verifications, etc., refined the deficiency grading criteria, built deficiency quantitative management mechanism, and made the deficiency measurable, comparable, analysable and aggregatable.

The Board and the audit committee assess the effectiveness of the internal control and examine the report of internal control annually. The Board held that the Bank conducted effective internal control of financial reporting covering all the major aspects, in compliance with the requirements regarding the standard system of enterprise internal control and other relevant regulations. As at the end of 2018, there was no material deficiency in the internal control of financial reporting of the Bank, and no material deficiency was detected in the internal control of non-financial report as well.

The Bank employed PricewaterhouseCoopers Zhong Tian LLP for the audit of internal control. The audit opinion of internal control was in line with the Bank's assessment conclusion on the effectiveness of internal control of the financial report. The disclosure of material deficiencies of internal control of the non-financial report in the audit report of internal control was in line with the disclosure of the assessment report of internal control of the Bank.

For detailed information of internal control, please refer to the assessment report and audit report of internal control of the Bank on the websites of the Shanghai Stock Exchange, the "HKEXnews" website of Hong Kong Exchanges and Clearing Limited, and the Bank.

AUDITORS' REMUNERATION

PricewaterhouseCoopers Zhong Tian LLP was appointed as the domestic auditor for the audit of the financial report of the Bank and its domestic subsidiaries for the year of 2018 and PricewaterhouseCoopers was appointed as the international auditor for the audit of the financial report of the Bank and its major overseas subsidiaries for the year of 2018. PricewaterhouseCoopers Zhong Tian LLP was appointed as the auditor for the audit of the internal control of the Bank for the year of 2018.

Auditors' fees for the audit of the financial report (including the audit of the internal control) of the Group and other services paid to PricewaterhouseCoopers Zhong Tian LLP, PricewaterhouseCoopers and other PricewaterhouseCoopers member firms by the Group for the year ended 31 December 2018 are set out as follows:

(In millions of RMB)	2018	2017
Fees for the audit of the financial statements	148.00	137.00
Other service fees	13.14	6.04

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have offered auditing services to the Bank for eight consecutive years.

The fifth meeting of the Board in 2018 approved the appointment of Ernst & Young Hua Ming LLP as the domestic auditor of the Bank and the Bank's onshore subsidiaries for 2019, and the appointment of Ernst & Young as the international auditor of the Bank and the Bank's offshore subsidiaries for 2019.

SHAREHOLDERS' RIGHTS

Right to convene an extraordinary shareholders' general meeting

Any shareholder, individually or jointly holding more than 10% of the total issued voting shares of the Bank, has the right to request the Board in writing to convene an extraordinary general meeting.

The Board shall reply in writing within ten days after receiving the request. In case the Board approves the holding of the meeting, it shall issue a corresponding meeting notice within five days after the resolution is made. In case the Board refuses to hold the meeting or has no reply, the proposing shareholder may propose to the board of supervisors in writing. In case the board of supervisors approves the holding of the meeting, it shall issue a corresponding meeting notice within five days after receiving the proposal. In case the board of supervisors fails to issue the meeting notice, the shareholder, individually or jointly holding more than 10% of the total issued voting shares of the Bank for more than 90 consecutive days, may convene and preside over an extraordinary general meeting on his own.

Right to raise proposals to the shareholders' general meeting

Any shareholder, individually or jointly holding more than 3% of the total issued voting shares of the Bank, has the right to raise proposals to the shareholders' general meeting. Any shareholder, individually or jointly holding more than 1% of the total issued voting shares of the Bank, has the right to raise proposals regarding the nomination of the candidates for independent non-executive directors and external supervisors.

Proposals to the shareholders' general meetings shall be submitted to the convenor of such meeting prior to the issuance of the notice of such meeting; after the issuance of the notice, any shareholder, individually or jointly holding more than 3% of the total issued voting shares of the Bank, has the right to bring up extraordinary proposals. Extraordinary proposals on the nomination shall be submitted to the convenor of the meeting 35 days prior to the meeting and extraordinary proposals on other issues shall be submitted to the convenor of the meeting in writing 20 days prior to the meeting.

Right to raise proposals to the Board

Any shareholder, individually or jointly holding more than 10% of the total issued voting shares of the Bank, may raise proposals to the Board.

Right to raise enquiries to the Board

In accordance with the provisions of the Articles of Association of the Bank, the shareholders have the right to obtain relevant information, including the Articles of Association, status of the share capital, financial report, report of the board of directors and report of the board of supervisors.

INVESTOR RELATIONS

Effective communication with shareholders and work on investor relations

In 2018, through a combination of methods of "going global" and "bringing in", the Bank further strengthened its effective communication with market. By convening shareholders' general meetings, organising results announcement and road shows, participating in large investor forums, receptions of investors' research and investigation, replying to hotline for investor relationship and mailbox, the Bank listened to the voice of the market earnestly and reacted to the concerns of the market timely. The Bank promoted communications between shareholders and investors, actively advanced the achievements of three strategic plans in house leasing, inclusive finance and fintech, and advocated the Bank's long-term development and competitiveness. The cumulative number of domestic and foreign investors and analysts communicated with the Bank exceeded one thousand. Relevant periodic announcements of results of the Bank were published on designated newspapers and websites for shareholders' review.

Shareholder enquiries

Any enquiries from shareholders related to shareholding, including transfer of shares, change of address, loss reporting of share certificates and dividend notes, should be sent in writing to the following addresses:

A-share:

China Securities Depository and Clearing Corporation Limited
Shanghai Branch
3rd Floor, China Insurance Building
166 East Lujiazui Road, Pudong New District, Shanghai, China
Telephone: (86) 4008-058-058

H-share:

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wan Chai, Hong Kong
Telephone: (852) 2862-8555
Facsimile: (852) 2865-0990/(852) 2529-6087

Investor enquiries

Enquiries from investors to the Board may be directed to:
Board of Directors Office
China Construction Bank Corporation
No. 25, Financial Street, Xicheng District, Beijing, China
Telephone: (8610) 6621-5533
Facsimile: (8610) 6621-8888
Email: ir@ccb.com

Board of Directors Office – Hong Kong Office
China Construction Bank Corporation
29/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong
Telephone: (852) 3918-6212
Facsimile: (852) 2523-8185

This annual report is available on the website of the Bank (www.ccb.com), the website of the Shanghai Stock Exchange (www.sse.com.cn) and the "HKEXnews" website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). If you have any queries on this annual report, please call our hotline at (8610) 6621-5533 or (852) 3918-6212. If you have any comment or advice on the annual report, please send email to ir@ccb.com.

The Board of the Bank is pleased to present its report together with the financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Group is engaged in a range of banking services and related financial services.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the "Management Discussion and Analysis" of this annual report. For the discussion on the Bank's environmental policies and performance and relations with its employees, please refer to the *Corporate Social Responsibility Report 2018* of the Bank.

PROFIT AND DIVIDENDS

The profit of the Group for the year ended 31 December 2018 and the Group's financial position as at that date are set out in the "Financial Statements" of this annual report. The analysis on operating results, financial position as well as related changes during the reporting period are set out in the "Management Discussion and Analysis" of this annual report.

In accordance with the resolutions passed at the 2017 annual general meeting held on 29 June 2018, the Bank paid an annual cash dividend for 2017 of RMB0.291 per share (including tax), totalling approximately RMB72,753 million, to all of its shareholders whose names appeared on the register of members after the closing of the stock market on 16 July 2018.

The Board recommends a cash dividend for 2018 of RMB0.306 per share (including tax), subject to consideration and approval of the 2018 annual general meeting. Subject to approval of the annual general meeting, the dividend will be distributed to the shareholders whose names appeared on the register of members of the Bank after the closing of the stock market on 9 July 2019. The expected payment date of the A-shares annual cash dividend for 2018 is on 10 July 2019, and the expected payment date of the H-shares annual cash dividend is on 30 July 2019.

FORMULATION AND IMPLEMENTATION OF PROFIT DISTRIBUTION POLICY

Pursuant to the current Articles of Association, the Bank may distribute dividends in the form of cash, shares and a combination of cash and shares; unless under special circumstances, the Bank shall distribute dividends in cash if it gains profit and has positive accumulative undistributed profits in the year. The cash dividends distributed by the Bank in a year shall be no less than 10% of the net profit attributable to equity shareholders of the Bank on a consolidated basis in the same year. When adjusting the profit distribution policy, the Board shall conduct a specific discussion to elaborate on and verify the reasons to make the adjustments and prepare a written report. Independent non-executive directors shall express their views, and the matter shall be approved in the form of special resolution by the shareholders' general meeting. The Bank shall provide the shareholders with online voting channels when discussing and approving the adjustments to the profit distribution policy.

The Bank's formulation and implementation of profit distribution policies conform to the provisions in the Articles of Association and the requirements of the resolutions of the general meeting of shareholders. The Bank has sound policies decision-making procedures and mechanisms as well as clear and definite standard and ratio of dividends. The independent non-executive directors conducted due diligence and played their roles diligently in the decision-making process of the profit distribution plan. Minority shareholders may fully express their opinions and appeals and their legitimate rights and interests are fully protected.

The amounts of cash dividends and ratios of cash dividends to net profit of the Bank for the years from 2016 to 2018 are as follows:

(In millions of RMB, except percentages)	2018	2017	2016
Cash dividends	76,503	72,753	69,503
Ratio of cash dividends to net profit [1]	30.04%	30.03%	30.03%

1. Net profit refers to the net profit attributable to equity shareholders of the Bank on a consolidated basis. Please refer to Note "Profit Distributions" in the financial statements of annual reports of the related years for details of cash dividends.

Please refer to "Details of Preference Shares" of this annual report for details of the profit distribution of preference shares.

TAXATION AND TAX REDUCTION AND EXEMPTION

Shareholders of the Bank paid relevant taxes according to the following rules and tax laws and regulations as updated from time to time and enjoyed possible tax reduction and exemption in light of actual situations and should seek advice from their tax professionals and legal consultants for specific payment matters. The following referred tax laws and regulations are published as at the date of 31 December 2018.

Holders of A-share

According to *Notice of Issues Concerning the Implementation of Differential Individual Income Tax Policies on Dividends and Bonuses of Listed Companies* (Cai Shui [2012] No.85) and *Notice of Issues Concerning the Differential Individual Income Tax Policies on Dividends and Bonuses of Listed Companies* (Cai Shui [2015] No.101) issued by the MOF, the State Administration of Taxation and the CSRC, for the stocks held for more than one year, the income from dividends and bonuses shall be temporarily exempted from individual income tax; for the stocks held for more than one month but not more than one year (inclusive), the income from dividends and bonuses shall be temporarily included in the taxable income at the reduced rate of 50%; for stocks held for not more than one month (inclusive), the income from dividends and bonuses shall be included in the taxable income in full amount. Individual income taxes on the aforesaid incomes shall be collected at the uniform rate of 20%. Individual income taxes on dividends and bonuses from listed companies made by securities investment funds shall be collected according to the rules aforesaid as well.

According to article 26(2) of the *Law on Enterprise Income Tax*, dividends, bonuses and other equity investment proceeds between qualified resident enterprises are tax-free incomes.

According to article 83 of the *Implementation Regulations of the Law on Enterprise Income Tax*, the "dividends, bonuses and other equity investment proceeds between qualified resident enterprises" as prescribed in article 26(2) of the Law on Enterprise Income Tax refer to investment income obtained by a resident enterprise from the direct investment in other resident enterprises. The "stock equities, bonuses and other equity investment proceeds" as prescribed in article 26(2) of the *Law on Enterprise Income Tax* exclude investment income from circulating stocks issued publicly by a resident enterprise and traded on stock exchanges that the holding period is less than 12 months.

According to the Law on *Enterprise Income Tax and the Implementation Regulation of the Law on Enterprise Income Tax*, the enterprise income tax shall be levied at the reduced rate of 10% for the dividend incomes obtained by a non-resident enterprise shareholder.

Holders of H-share

According to PRC tax laws and regulations, withholding agents shall withhold and pay individual income tax on income of dividends and bonuses for Hong Kong-listed shares of domestic non-foreign-invested enterprises obtained by a non-resident individual. However, an offshore resident individual shareholder holding Hong Kong-listed shares of domestic non-foreign-invested enterprises may enjoy relevant tax preferences under the tax treaties between China and the state where such shareholder possesses resident status, or the indirect tax arrangements between Mainland China and Hong Kong or Macau. Generally, as for individual holders of H-shares, individual income tax shall be withheld and paid at the rate of 10%, unless it is otherwise provided by tax laws and regulations and relevant tax treaties.

According to *Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to Holders of H-shares Which Are Overseas Non-resident Enterprises* (Guo Shui [2008] No.897) published by the State Administration of Taxation, a Chinese resident enterprise pays dividends for the year of 2008 or any year thereafter to its holders of H-shares which are overseas non-resident enterprises, and it shall withhold the enterprise income tax thereon at the uniform rate of 10%.

According to current custom of the Inland Revenue Department, the Bank bears no tax for distribution of H-share dividends.

Issues about taxation of Shanghai-Hong Kong Stock Connect shall follow the *Notice on Taxation Policies Concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets* (Cai Shui [2014] No.81) issued by the MOF, the State Administration of Taxation and the CSRC.

Issues about taxation of Shenzhen-Hong Kong Stock Connect shall follow the *Notice on Taxation Policies Concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets* (Cai Shui [2016] No.127) issued by the MOF, the State Administration of Taxation and the CSRC.

Domestic preference shareholders

Issues about payment of individual income tax involved in dividends of non-public domestic preference shares obtained by individuals shall follow the relevant PRC tax laws and regulations.

According to the *Law on Enterprise Income Tax and the Implementation Regulation of the Law on Enterprise Income Tax*, dividends gain from domestic preference shares between qualified resident enterprises are tax exemption incomes. Enterprise income tax on dividends gain from domestic preference shares obtained by a non-resident enterprise, in general, shall be collected at the preferential rate of 10%.

Offshore preference shareholders

According to PRC tax laws and regulations, when the Bank pays dividends of offshore preference shares to its shareholders which are offshore non-resident enterprises, in general, it shall withhold and pay the enterprise income tax thereon at the uniform rate of 10%.

According to current custom of the Inland Revenue Department, the Bank bears no tax for distribution of dividends of offshore preference shares.

SUMMARY OF FINANCIAL INFORMATION

Please refer to "Financial Highlights" of this annual report for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2018.

RESERVES

Please refer to "Consolidated Statement of Changes in Equity" of this annual report for details of the movements in the reserves of the Group for the year ended 31 December 2018.

DONATIONS

Charitable donations made by the Group for the year ended 31 December 2018 were RMB89.41 million, an increase of RMB11.55 million.

FIXED ASSETS

Please refer to Note "Fixed Assets" in the "Financial Statements" of this annual report for details of movements in fixed assets of the Group for the year ended 31 December 2018.

RETIREMENT BENEFITS

Please refer to Note "Accrued Staff Costs" in the "Financial Statements" of this annual report for details of the retirement benefits provided to employees of the Group.

MAJOR CUSTOMERS

For the year ended 31 December 2018, the aggregate amount of interest income and other operating income generated from the five largest customers of the Group represented an amount not exceeding 30% of the total interest income and other operating income of the Group.

ULTIMATE PARENT COMPANY AND ITS SUBSIDIARIES

Please refer to "Changes in Share Capital and Particulars of Shareholders – Substantial Shareholders of the Bank" and Note "Long-term Equity Investments" in the "Financial Statements" of this annual report for details of the Bank's ultimate parent company and its subsidiaries respectively as at 31 December 2018.

ISSUANCE OF SHARES

During the reporting period, the Bank had not issued any ordinary shares, convertible bonds or preference shares.

ISSUANCE OF DEBTS SECURITIES

Please refer to "Changes in Share Capital and Particulars of Shareholders – Details of Securities Issuance and Listing" of this annual report for details of the issuance of tier 2 capital bond of the Bank.

EQUITY-LINKED AGREEMENTS

On 16 December 2015, the Bank made a non-public issuance of offshore preference shares of US$3.05 billion in total, and a non-public issuance of domestic preference shares of RMB60 billion in total in the domestic market on 21 December 2017. During the reporting period, other than above two preference shares, the Bank had not entered into or maintained any other equity- linked agreement.

Pursuant to regulations including the *Capital Rules for Commercial Banks (Provisional)* and the *Administrative Measures for the Pilot Programme for Preference Shares*, a commercial bank shall set up the provisions of coercive conversion of preference shares into ordinary shares, under which the commercial bank shall convert the preference shares into ordinary shares as contractually agreed in case of a trigger event. Such a trigger event would happen when the common equity tier 1 ratio decreases to 5.125% (or below) and when the CBIRC determines that the Bank will not be able to exist if shares of the Bank are not transferred or written down, or when relevant regulators determine that the Bank will not be able to exist if there is no capital injection from public sectors or supports with same effect. The Bank, according to relevant regulations, has formulated provisions of trigger events under which preference shares shall be coercively converted into ordinary shares. If such trigger events happen to the Bank and all preference shares need to be coercively converted into ordinary shares in accordance with their initial conversion price, the total amount of the offshore preference shares which are converted into ordinary H-shares will not exceed 3,953,615,825 ordinary H-shares, the total amount of the domestic preference shares which are converted into ordinary A-shares will not exceed 11,538,461,538 ordinary A-shares. During the reporting period, the Bank did not experience any trigger event in which the preference shares need to be coercively converted into ordinary shares.

SHARE CAPITAL AND PUBLIC FLOAT

As of 31 December 2018, the Bank issued 250,010,977,486 ordinary shares in total (including 240,417,319,880 H-shares and 9,593,657,606 A-shares) and had 384,929 registered ordinary shareholders, which complied with the relevant requirements regarding public float under relevant laws and regulations as well as the listing rules of its listing venues.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the reporting period, there was no purchase, sale or redemption by the Bank or any of its subsidiaries of the shares of the Bank.

PRE-EMPTIVE RIGHTS

During the reporting period, the Articles of Association of the Bank does not contain such provisions under which the Bank's shareholders have pre-emptive rights. The Articles of Association provides that if the Bank wishes to increase its capital, it may issue new shares to investors, may issue new shares to or by way of distribution to existing shareholders, may transfer its capital reserve to share capital, or by other means permitted by laws and regulations.

TOP TEN SHAREHOLDERS AND THEIR SHAREHOLDINGS

Please refer to "Changes in Share Capital and Particulars of Shareholders" of this annual report for details of the top ten shareholders of the Bank and their shareholdings as at 31 December 2018.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to "Profiles of Directors, Supervisors and Senior Management" of this annual report.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Bank has received the annual confirmation on independence from each independent non-executive director in compliance with the Rule 3.13 of the Listing Rules of Hong Kong Stock Exchange. The Bank considered that all the independent non-executive directors of the Bank were independent, and their independence was in compliance with the independence guidelines set out in Rule 3.13 of the Listing Rules of Hong Kong Stock Exchange.

MATERIAL INTERESTS AND SHORT POSITIONS

On 31 December 2018, the interests and short positions of substantial shareholders and other persons in the shares of the Bank as recorded in the register required to be kept under section 336 of the *SFO* were as follows:

Name	Type of shares	Number of shares	Nature	% of issued A- shares or H-shares	% of total ordinary shares issued
Huijin [1]	A-share	692,581,776	Long position	7.22	0.28
Huijin [2]	H-share	133,262,144,534	Long position	59.31	57.03

1. On 29 December 2015, Huijin declared interests on the website of Hong Kong Stock Exchange. It disclosed that it held the interests of 692,581,776 A-shares of the Bank, accounting for 7.22% and 0.28% of the A-shares issued (9,593,657,606 shares) and the ordinary shares issued (250,010,977,486 shares) respectively. In which, 195,941,976 A-shares were directly held by Huijin, and 496,639,800 A-shares were held by Central Huijin Asset Management Ltd., a wholly-owned subsidiary of Huijin. As at 31 December 2018, according to the A-share register of shareholders of the Bank, Huijin directly held 195,941,976 A-shares of the Bank, Central Huijin Asset Management Ltd., a wholly-owned subsidiary of Huijin, directly held 496,639,800 A-shares of the Bank.
2. On 26 May 2009, Huijin declared its interests on the website of Hong Kong Stock Exchange. It disclosed that it held the interests of 133,262,144,534 H-shares of the Bank, accounting for 59.31% and 57.03% of the H-shares issued (224,689,084,000 shares) and the ordinary shares issued (233,689,084,000 shares) at that time respectively. As at 31 December 2018, according to the H-share register of shareholders of the Bank, Huijin directly held 142,590,494,651 H-shares of the Bank, accounting for 59.31% and 57.03% of the H-shares issued (240,417,319,880 shares) and the ordinary shares issued (250,010,977,486 shares) respectively.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK OR ITS ASSOCIATED CORPORATIONS

Some of the Bank's directors and supervisors indirectly held H-shares of the Bank by participating in the employee stock incentive plan of the Bank before they were appointed at the current positions, among which Mr. Zhang Gengsheng held 19,304 H-shares, Mr. Wu Jianhang held 20,966 H-shares, Fang Qiuyue held 21,927 H-shares, Mr. Lu Kegui held 18,989 H-shares, Mr. Cheng Yuanguo held 15,863 H-shares, Mr. Wang Yi held 13,023 H-shares of the Bank respectively. Save as disclosed above, as at 31 December 2018, none of the directors and supervisors of the Bank had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which have to be notified to the Bank and Hong Kong Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions therein that they shall be deemed to have pursuant to such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and Hong Kong Stock Exchange pursuant to *Model Code for Securities Transactions by Directors of Listed Issuers*, Appendix 10 to the Listing Rules of Hong Kong Stock Exchange.

As of 31 December 2018, except for the employee stock incentive plan, the Bank had not granted its directors or supervisors, or their respective spouses or children under the age of 18, any other rights to subscribe for the shares or debentures of the Bank or any of its associated corporations.

DIRECTORS' FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS

There are no relationships among the directors of the Bank, including financial, business, family or other material relationships.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS, SERVICE CONTRACTS AND DIRECTORS' LIABILITY INSURANCE

For the year 2018, no director or supervisor of the Bank or entities connected with the directors or supervisors had any interest, whether directly or indirectly, in any contract of significance in relation to the Group's business with the Bank or any of its holding companies or subsidiaries or subsidiaries of the Bank's holding companies, apart from their respective service contracts.

None of the directors and supervisors of the Bank has entered into service contracts with the Bank that cannot be terminated by the Bank within one year without payment of remuneration (other than statutory remuneration).

The Bank purchased the directors' liability insurance for all directors in 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save as disclosed in the biographical details of the directors of the Bank, none of the directors of the Bank directly or indirectly has any interest that constitutes or may constitute a competing business of the Bank.

CORPORATE GOVERNANCE

The Bank is committed to maintaining a high level of corporate governance practice. Please refer to the "Corporate Governance Report" of this annual report for details of corporate governance practice adopted by the Bank and its compliance with the *Corporate Governance Code and Corporate Governance Report*.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The CBRC approved the Articles of Association of the Bank revised in 2017, by the *Approval of the Amendments to the Articles of Association of China Construction Bank* (Yin Jian Fu [2018] No. 60) issued on 13 March 2018, upon which the revised Articles of Association took effect.

CONNECTED TRANSACTIONS

In 2018, the Bank engaged in a series of connected transactions with the connected persons of the Bank as defined by the Listing Rules of Hong Kong Stock Exchange in its ordinary course of business. Such transactions complied with the conditions for exemption under Rule 14A.73 of the Listing Rules of Hong Kong Stock Exchange, and they were fully exempted from the shareholders' approval, annual review and all the disclosure requirements.

Please refer to Note "Related Party Relationships and Transactions" in the financial statements of this annual report for details of the related party transactions as defined by domestic laws and regulations and accounting standards.

REMUNERATION POLICY FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank has established clear standards in relation to the remuneration policy for directors, supervisors and senior management. For enterprise leaders administered by central authorities, the remuneration policy complies with the relevant measures on remuneration of central financial enterprise leaders. The Bank's remuneration policy for other directors, supervisors and senior management is based on the principle of combining incentives and disciplines, short-term incentives and long-term incentives, and governmental regulations and market adjustment, and has defined a structured remuneration system compromising basic annual salary, performance annual salary and welfare income. The Bank participates in the relevant PRC mandatory retirement schemes for its directors, supervisors, senior management and other employees. Other than reviewing and settling the tenure incentive remuneration to enterprise leaders administered by central authorities in accordance with national regulations, the Bank does not implement mid-term and long-term incentive plan for other directors, supervisors and senior management.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Bank will incorporate the principle of building a "low-carbon and environment-friendly bank" into its corporate social responsibility strategy and include "Green Banking" as a goal in its medium- and long-term business planning. The Bank will actively fulfil its environmental responsibilities, vigorously support low-carbon economy and environmental protection industries, increase energy conservation and emission reduction of enterprises, actively promote online financial services, advocate low-carbon operations, and reduce energy consumption.

RELATIONSHIPS WITH EMPLOYEES AND CUSTOMERS

Employees are the valuable resources to the Bank. The Bank ensures the rights of the employees according to the law and is committed to build a broad development platform for the employees. Furthermore, the Bank constantly provided safeguard measures for the career development of employees in terms of their remunerations, benefits, trainings, and promotions. Adhering to the customer-centric philosophy, the Bank attached great importance to the protection of consumer rights and interests, met the financial service demands of its customers and continuously improved customer service experience and customer satisfaction.

INFORMATION DISCLOSURE

In 2018, the Bank strictly abided by relevant laws, regulations and regulatory requirements for information disclosure, improved the information disclosure mechanism, actively fulfilled its information disclosure obligations, and continuously improved its information disclosure level.

REGISTRATION AND MANAGEMENT OF INSIDERS

The Bank formulated the *Management Measures on Insider of Inside Information*. Pursuant to the Management Measures on Insider of Inside Information, relevant laws and regulations, and other requirements of relevant regulations of the Bank, the Bank strictly conducted the secrecy system regarding inside information, standardised the information transfer process, strengthened inside information management and controlled the scope of insiders of inside information. The Bank was not aware of any insider trading of the shares of the Bank by taking advantage of inside information during the reporting period.

EVENTS AFTER THE REPORTING PERIOD

On 26 February 2019, the Bank has exercised the option to redeem the 4.00% fixed rate subordinated bonds issued in February 2009, with the nominal value of RMB28 billion.

By order of the board of directors

Tian Guoli
Chairman

27 March 2019

REPORT OF THE BOARD OF SUPERVISORS

In 2018, pursuant to the provisions of laws and regulations and the Articles of Association of the Bank, the board of supervisors earnestly performed its supervision duties, constantly refined its methods of work, continuously improved the effectiveness of supervision, strived for the sound operation of corporate governance and the steady development of the Bank, and played an effective role in terms of their duties and functions.

PARTICULARS OF MAJOR WORK

Convening meetings of the board of supervisors pursuant to laws and regulations. During the year, six meetings of the board of supervisors were convened, in which 21 resolutions were reviewed and considered, including periodic reports of the Bank, assessment report on internal control, assessment reports of the management performance and nomination of supervisors. 12 special reports including but not limited to the implementation of operating business plans, liquidity risk management, compliance management and anti-money laundering management were debriefed. The board of supervisors conducted special research and discussion on balanced development of asset and liability business and development trend and countermeasures of intermediary business. The performance and due diligence supervision committee held four meetings, and the finance and internal control supervision committee held five meetings.

Earnestly carrying out performance supervision. Members of the board of supervisors actively attended important meetings such as meetings of the Board and the special committees under the Board, the Group's work conferences, analytic meetings on operating conditions and the presidents' executive meetings as non-voting attendees. The board of supervisors duly reviewed the meeting materials and paid special attention to the compliance with laws and regulations regarding the proceedings of meetings, decision-making procedures and results, and information disclosure. The board of supervisors learned further about the operating situation, followed the implementation of resolutions of the general meeting of shareholders and the Board as well as the performance of senior management. The board of supervisors carried out the annual performance assessment work, proposed the assessment reports on the annual performance of the Board and its members, and the senior management and its members, presented the annual self-assessment report of the performance of board of supervisors and its members, and reported the performance assessment to the shareholders' general meeting and regulators pursuant to relevant provisions.

Thoroughly strengthening financial supervision. The board of supervisors conscientiously performed its duty of supervision on financial reporting by focusing on the contents and procedures of financial reports as well as important business issues in the current reporting period, enhanced the supervision over important financial decisions, paid special attention to the implementation of business plans and management of fixed assets, and put forward supervisory opinions and suggestions. The board of supervisors heard special reports on liability business and intermediary business and put forward work suggestions on the changes in tendencies of liability business and development capability cultivation of intermediary business. The board of supervisors kept a close watch on the impact of the implementation of new accounting standard on financial indicators, reviewed and gave independent opinions on the significant changes in accounting policies resulting from the implementation of new financial instruments standard. It also conducted supervision over issues including appointment of external auditors, capital management, consolidated management, related party transactions, use of proceeds, acquisition and disposal of material assets, pursuant to the Articles of Association and regulatory requirements.

Continuously strengthening risk management supervision. The board of supervisors actively served the effective implementation of strategies, focused on the analysis of issues of online business risk management and control such as rapid loan for individuals and put forward supervision opinions such as strengthening system construction, optimizing risk model and enhancing recovery management. The board of supervisors paid close attention to credit risk management, regularly communicated with the management and external auditors on the trend of change in the quality of credit asset, and put forward supervisory advice from the perspectives of industry, region and customers. In light of actual operation situation, the board of supervisors heard liquidity risk management reports as appropriate, with a view to promoting and improving the construction of the Group's liquidity management system. The board of supervisors deepened the supervision on operational risk management, analysed the characteristics and rules of operational risks, and put forward suggestions for improvement. The board of supervisors analysed, studied and discussed gray rhinos risks in some key areas, continuously conducted supervision over the collateral management and higher regulatory standard of large banking institutions.

Carefully conducting the internal control supervision. For internal control, the board of supervisors paid constant attention to the establishment and improvement of domestic and overseas internal control and compliance management system, heard special reports on compliance management of the Group, internal audit findings and rectifications and rectifications of issues notified by regulators and raised constructive supervision suggestions. The board of supervisors conducted stressed supervision over compliance management issues and challenges, earnestly implemented responsibility of supervision on anti-money laundering, heard special reports on anti-money laundering and focused on the implementation and related progress of risk prevention against money laundering of overseas institutions, construction of anti-money laundering system and compliance management of financial sanctions. The board of supervisors continuously conducted supervision of the prevention and control over non-compliance cases, attached importance on the conduct management over key positions and personnel in root-level institutions, paid close attention to the non-compliance issues arising from counter services, credit and seal management, raised suggestions including strengthening root cause analysis and rectifications. It also attached great importance to the use of internal audit results, promoted the enhancement of coordinated management of internal control compliance within multi-departments.

Stressing on continuous self-improvement. The board of supervisors carefully chose meeting agendas and deepened the research and discussion on the agenda items centering upon the Articles of Association of the Bank, regulatory requirements and the actual conditions of business developments, continuously raising the quality and efficiency of the meetings of the board of supervisors and special committees. The board of supervisors paid much attention to strengthening the communications with the Board and senior management, communicated important supervision matters thoroughly, learned fully about actual situations, and proposed reasonable opinions and suggestions. The board of supervisors conducted problem-oriented supervision, discovered and identified problems timely, strengthened problem rectification, and continuously enhanced supervision effectiveness. It also conducted special studies on the implementation and related progress of inclusive finance business and house leasing strategy. All supervisors earnestly participated in the work of the board of supervisors, actively participated in related activities of the Bank, and constantly improved the ways and methods for supervisory work in order to duly perform their supervisory duties.

INDEPENDENT OPINIONS ON RELEVANT MATTERS OF THE BANK

Operations in compliance with laws and regulations

During the reporting period, the Bank carried out its operation pursuant to laws and regulations, and the decision-making procedure was in compliance with the provisions of laws and regulations as well as the Articles of Association of the Bank. The directors and senior executives fulfilled their duties in a diligent manner. The board of supervisors was not aware of any of their acts in performance of their duties that were in breach of applicable laws, regulations or the Articles of Association of the Bank, or were detrimental to the Bank's interest.

Financial reporting

The 2018 financial statements of the Bank truly and fairly reflected the financial position and operating results of the Bank.

Use of proceeds

During the reporting period, the Bank issued RMB83 billion domestic tier-2 capital bonds. The proceeds were all used to replenish tier-2 capital, which was consistent with the Bank's commitments.

Acquisition and sale of assets

During the reporting period, the board of supervisors was not aware of any insider trading or any acts detrimental to the interests of shareholders or leading to a drain on the Bank's assets in acquisition or sale of assets.

Related party transactions

During the reporting period, the board of supervisors was not aware of any related party transactions that were detrimental to the interests of the Bank.

Internal control

During the reporting period, the Bank continuously strengthened and refined its internal control. The board of supervisors had no objection to the 2018 Internal Control Assessment Report.

Performance of social responsibilities

During the reporting period, the Bank performed its social responsibilities in an earnest manner. The board of supervisors had no objection to the 2018 Social Responsibility Report.

Assessment of the performance of directors, supervisors and senior executives

All directors, supervisors and senior executives participated in the 2018 performance assessment were evaluated as qualified.

Board of Supervisors

27 March 2019

MAJOR ISSUES

MATERIAL LITIGATIONS AND ARBITRATIONS

During the reporting period, the Bank was not subject to any material litigation or arbitration.

FUND TAKEN BY THE CONTROLLING SHAREHOLDER OR OTHER RELATED PARTIES

During the reporting period, there was no non-operational fund taken by the controlling shareholder or other related parties of the Bank.

PROGRESS OF IMPLEMENTATION OF EMPLOYEE STOCK INCENTIVE PLAN

After the implementation of the first employee stock incentive plan of the Bank in July 2007, the Bank did not implement any new round of stock incentive plan in the reporting period.

MATERIAL RELATED PARTY TRANSACTIONS

During the reporting period, there was no material related party transaction of the Bank. All related party transactions of the Bank were conducted on the basis of commercial principles in a just, fair and open manner and at prices no more favourable than those offered to independent third parties in similar transactions.

MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the reporting period, the Bank did not enter into any material arrangement for custody, contracting or lease of other companies' assets, or allow its assets to be subject to such arrangements by other companies. The guarantee business is an off-balance sheet service in the ordinary course of the Bank's business, and the Bank did not have any material guarantee that should be disclosed except for the financial guarantee services within its business scope as approved by the regulators. The Bank did not entrust management of any material cash assets to others during the reporting period.

PERFORMANCE OF UNDERTAKINGS

In September 2004, Huijin made a commitment of "non-competition within the industry", i.e., as long as Huijin continues to hold any shares of the Bank, or is deemed as a controlling shareholder or a related party of a controlling shareholder of the Bank in accordance with related laws of the People's Republic of China or listing rules of the Bank's listing venues, Huijin would not engage in or participate in any competing commercial banking businesses, including but not limited to granting loans, taking deposits, providing settlement, and providing fund custody, bank card and currency exchange services. However, Huijin may still engage in or participate in competing businesses through investing in other commercial banks. Accordingly, Huijin committed that it would: (1) fairly treat its investments in commercial banks, and would not abuse its shareholder position in the Bank or the information it obtained through its shareholder position in the Bank to make decisions detrimental to the Bank but beneficial to other commercial banks; (2) exercise its shareholder's rights for the best interests of the Bank.

On 6 April 2016, in accordance with relevant rules of CSRC, in order to ensure the effective fulfilment of the measures to make up for the immediate return diluted by the issuance of preference shares of the Bank, Huijin undertook not to intervene with the operation and management of the Bank and not to misappropriate the interests of the Bank.

As at 31 December 2018, Huijin had not breached any of the above undertakings.

PENALTIES

During the reporting period, neither the Bank, the directors, the supervisors, the senior management nor the actual controller was subject to investigations by relevant authorities, coercive measures by judicial or disciplinary inspection departments, transfer to judicial authorities or prosecution for criminal liabilities, investigation or administrative penalty, restricted access to market, and identification as unqualified by the CSRC, material administrative punishments by environmental, safety supervision, tax or other administrative authorities, or public reprimand by the stock exchanges.

INTEGRITY

During the reporting period, there was no unperformed judgement of the courts, or significant outstanding debt at maturity of the Bank and its controlling shareholder.

MAJOR EVENTS

The *Proposal regarding Contribution by Subsidiaries to Strategic Emerging Industry Development Fund* was considered and approved by the strategy development committee of the Board of the Bank in November 2018, pursuant to which, the four subsidiaries, i.e. CCB Life, CCB International, CCB Investment and CCB Trust, were approved to contribute to the Strategic Emerging Industry Development Fund with an aggregate amount of RMB5.3 billion. The fund was jointly launched by the Bank and the NDRC and mainly extended to strategic emerging industries. Please refer to the announcement of the Bank published on 28 November 2018 for details.

Upon consideration and approval by the Board of the Bank in November 2018, the Bank intended to establish a wholly-owned subsidiary, CCB Asset Management Co., Ltd., with the capital contribution of no more than RMB15 billion. Please refer to the announcement of the Bank published on 16 November 2018 for details. The investment was approved by CBIRC in December 2018.

Upon consideration and approval by the strategy development committee of Board of the Bank and approval by the chairman of the Board, the Bank signed the *Agreement on the Sponsors of the National Financing Guarantee Fund Co., Ltd*. in July 2018, undertaking a capital commitment of RMB3 billion to the National Financing Guarantee Fund Co., Ltd. Please refer to the announcement of the Bank published on 31 July 2018 for details. Under approval by CBIRC, the Bank has completed the initial capital contribution of RMB0.75 billion on 23 November 2018.

PERFORMANCE OF POVERTY ALLEVIATION RESPONSIBILITIES

Please refer to "Corporate Social Responsibilities" of this annual report for details of the performance of poverty alleviation responsibilities.

羅兵咸永道

To the Shareholders of China Construction Bank Corporation
(a joint stock company incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Construction Bank Corporation (the "Bank") and its subsidiaries (the "Group") set out on pages 139 to 284, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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KEY AUDIT MATTERS

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

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

- Expected credit losses for loans and advances to customers at amortised cost
- Consolidation assessment of, and disclosures about, structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses for loans and advances to customers at amortised cost *Refer to Note 4(3), 4(24)(b), 25 and Note 62(1).* As at 31 December 2018, the Group's gross loans and advances to customers at amortised cost amounted to RMB13,405 billion, and the related expected credit loss allowance amounted to RMB417.6 billion. The balance of loss allowances on loans and advances to customers at amortised cost represents management's best estimates, at the balance sheet date, of the expected credit losses under the expected credit loss models ("ECL Models") as stipulated by International Financial Reporting Standard No. 9: Financial Instruments ("IFRS 9"). IFRS 9 became effective on 1 January 2018. Management first assesses whether the credit risk of loans and advances to customers has increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL. For loans and advances classified in stage 1 (no significant increase in credit risk) and stage 2 (with significant increase in credit risk), and personal loans in stage 3 (default and credit-impaired), loss allowances are assessed using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans and advances in stage 3 (default and credit-impaired), loss allowances are assessed by estimating the future discounted cash flows from the loans.	We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, over the following: 1. Management of the ECL models, including the selection and application of modelling methodology; and the on-going monitoring of the models; 2. Portfolio grouping, stage assessment, selection of specific models, parameter estimation, and forward-looking economic factors; 3. The accuracy and completeness of key data inputs used by the models; 4. The estimated future cash flows and calculations of present values of such cash flows for corporate loans and advances in stage 3; 5. The information systems for model-based measurement.

KEY AUDIT MATTERS(CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses for loans and advances to customers at amortised cost (Continued) The measurement of expected credit losses involves significant management judgments and assumptions, including the following: 1. Grouping of the Group's business operations sharing similar credit risk characteristics, selection of appropriate measurement models and determination of relevant key parameters; 2. Criteria for determining whether or not there is a significant increase in credit risk, a default or an impairment has incurred; 3. Selection of relevant economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; 4. Estimation of future cash flows for corporate loans and advances classified in stage 3. The measurement of expected credit losses uses complex models, numerous parameters and a large volume of data, and involves significant management judgments and assumptions. The amount of related loss allowance was significant to the consolidated financial statements. In view of these reasons, we focused on this in our audit.	The substantive audit procedures that we performed included: 1. We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio grouping, models selection and key parameter estimation in relation to the models. We examined the coding for model measurement on a sample basis, to test whether or not the measurement models reflected the modelling methodologies. 2. We selected samples, by reviewing the financial information and non-financial information of the borrowers, also considering relevant external evidence and other factors, to assess whether or not management's identification of significant increases in credit risk and default and credit-impaired loans was appropriate. 3. For forward-looking measurements, we reviewed management's selection of economic indicators, scenarios and application of weightings; assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis. 4. On selected samples, we examined key data inputs into the ECL models and transmission of key data between the models' measurement engines and the related information systems. 5. For corporate loans and advances in stage 3, we examined, on a sample basis, management's forecast future cash flows based on the financial information of borrowers and guarantors, latest valuation of collaterals and other available information together with discount rates in supporting the computation of loss allowances. Based on the procedures performed, the models, key parameters and data, and assumptions adopted by management in the measurement of expected credit losses for loans and advances to customers, were supported by the available evidence.
Consolidation assessment of, and disclosures about, structured entities *Refer to notes 4(1), 4(24)(f), 26(1)(a), 28 to the consolidated financial statements.* As at 31 December 2018, structured entities mainly included wealth management products, asset management plans and trust plans. The amounts of structured entities which are either consolidated or not consolidated are disclosed in notes 26(1)(a) and 28 respectively. The amount of structured entities was significant and the assessment of consolidation or not involved significant management's judgement. We focused on the following key aspects: 1. The reasonableness of the consolidation assessment made by management based on the three elements of control and the appropriateness of disclosures in the consolidated financial statements. 2. Whether information on the structured entities that were not consolidated was appropriately disclosed in the consolidated financial statements.	Our procedures included: 1. Evaluated and tested the related internal controls that management adopted over the consolidation assessment and disclosure of structured entities. 2. Tested structured entities on a sample basis to assess management's judgement to consolidate or not by checking against supporting documents including contracts and evaluated them against the following elements of control: • The Group's power over the structured entities; • The Group's exposure, or rights, to variable returns from involvement with the structured entities; and • The Group's ability to use power over the structured entities to affect the amount of the Group's returns. 3. Evaluated and checked the appropriateness of disclosures in the consolidated financial statements relating to structured entities. Based on the available evidence we found that, in all material respects, management's consolidation assessment in relation to structured entities was reasonable and the disclosures were appropriate.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated 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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 consolidated financial statements.

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yip Siu Foon, Linda.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 March 2019

CONTENTS OF FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2018	2017
Interest income		811,026	750,154
Interest expense		(324,748)	(297,698)
Net interest income	6	486,278	452,456
Fee and commission income		138,017	131,322
Fee and commission expense		(14,982)	(13,524)
Net fee and commission income	7	123,035	117,798
Net trading gain	8	12,614	4,858
Dividend income	9	773	2,195
Net gain/(loss) arising from investment securities	10	3,444	(835)
Net losses on derecognition of financial assets measured at amortised cost	11	(2,241)	N/A
Other operating income, net:			
– Other operating income		35,918	49,009
– Other operating expense		(26,049)	(31,450)
Other operating income, net	12	9,869	17,559
Operating income		633,772	594,031
Operating expenses	13	(174,764)	(167,043)
		459,008	426,988
Impairment losses on:			
– Loans and advances to customers		(143,045)	(123,389)
– Others		(7,943)	(3,973)
Impairment losses	14	(150,988)	(127,362)
Share of profit of associates and joint ventures		140	161
Profit before tax		308,160	299,787
Income tax expense	17	(52,534)	(56,172)
Net profit		255,626	243,615

The notes on pages 146 to 284 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2018	2017
Other comprehensive income:			
(1) Other comprehensive income that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		**(296)**	593
Changes of equity instruments designated as measured at fair value through other comprehensive income		**120**	N/A
Others		**43**	208
Subtotal		**(133)**	801
(2) Other comprehensive income that may be reclassified subsequently to profit or loss			
Fair value changes of debt instruments measured at fair value through other comprehensive income		**35,887**	N/A
Losses of available-for-sale financial assets arising during the period		**N/A**	(38,151)
Income tax impact relating to available-for-sale financial assets		**N/A**	9,230
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income		**303**	N/A
Reclassification adjustments included in profit or loss due to disposals		**(149)**	N/A
Reclassification adjustments included in profit or loss		**N/A**	3,403
Net (loss)/gain on cash flow hedges		**(267)**	470
Exchange difference on translating foreign operations		**2,573**	(4,748)
Subtotal		**38,347**	(29,796)
Other comprehensive income for the year, net of tax		**38,214**	(28,995)
Total comprehensive income for the year		**293,840**	214,620
Net profit attributable to:			
Equity shareholders of the Bank		**254,655**	242,264
Non-controlling interests		**971**	1,351
		255,626	243,615
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**292,705**	213,837
Non-controlling interests		**1,135**	783
		293,840	214,620
Basic and diluted earnings per share (in RMB Yuan)	18	**1.00**	0.96

The notes on pages 146 to 284 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2018	2017
Assets:			
Cash and deposits with central banks	19	**2,632,863**	2,988,256
Deposits with banks and non-bank financial institutions	20	**486,949**	175,005
Precious metals		**33,928**	157,036
Placements with banks and non-bank financial institutions	21	**349,727**	325,233
Positive fair value of derivatives	22	**50,601**	82,980
Financial assets held under resale agreements	23	**201,845**	208,360
Interest receivable	24	**N/A**	116,993
Loans and advances to customers	25	**13,365,430**	12,574,473
Financial investments	26		
Financial assets measured at fair value through profit or loss		**731,217**	578,436
Financial assets measured at amortised cost		**3,272,514**	N/A
Financial assets measured at fair value through other comprehensive income		**1,711,178**	N/A
Available-for-sale financial assets		**N/A**	1,550,680
Held-to-maturity investments		**N/A**	2,586,722
Investments classified as receivables		**N/A**	465,810
Long-term equity investments	27	**8,002**	7,067
Fixed assets	29	**169,574**	169,679
Land use rights	30	**14,373**	14,545
Intangible assets	31	**3,622**	2,752
Goodwill	32	**2,766**	2,751
Deferred tax assets	33	**58,730**	46,189
Other assets	34	**129,374**	71,416
Total assets		**23,222,693**	22,124,383
Liabilities:			
Borrowings from central banks	36	**554,392**	547,287
Deposits from banks and non-bank financial institutions	37	**1,427,476**	1,336,995
Placements from banks and non-bank financial institutions	38	**420,221**	383,639
Financial liabilities measured at fair value through profit or loss	39	**431,334**	414,148
Negative fair value of derivatives	22	**48,525**	79,867
Financial assets sold under repurchase agreements	40	**30,765**	74,279
Deposits from customers	41	**17,108,678**	16,363,754
Accrued staff costs	42	**36,213**	32,632
Taxes payable	43	**77,883**	54,106
Interest payable	44	**N/A**	199,588
Provisions	45	**37,928**	10,581
Debt securities issued	46	**775,785**	596,526
Deferred tax liabilities	33	**485**	389
Other liabilities	47	**281,414**	234,765
Total liabilities		**21,231,099**	20,328,556

The notes on pages 146 to 284 form part of these financial statements.

AS AT 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2018	2017
Equity:			
Share capital	48	250,011	250,011
Other equity instruments			
Preference Shares	49	79,636	79,636
Capital reserve	50	134,537	135,225
Investment revaluation reserve		–	(26,004)
Other comprehensive income	51	18,451	–
Surplus reserve	52	223,231	198,613
General reserve	53	279,725	259,680
Retained earnings		990,872	886,921
Exchange reserve		–	(4,322)
Total equity attributable to equity shareholders of the Bank		1,976,463	1,779,760
Non-controlling interests		15,131	16,067
Total equity		1,991,594	1,795,827
Total liabilities and equity		23,222,693	22,124,383

Approved and authorised for issue by the Board of Directors on 27 March 2019.

Tian Guoli	**Chung Shui Ming Timpson**	**Anita Fung Yuen Mei**
Chairman	*Independent non-executive director*	*Independent non-executive director*
(Authorised representative)		

The notes on pages 146 to 284 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Attributable to equity shareholders of the Bank										
	Share capital	Other equity instruments – preference shares	Capital reserve	Investment revaluation reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Non-controlling interests	Total equity
As at 31 December 2017	250,011	79,636	135,225	(26,004)	–	198,613	259,680	886,921	(4,322)	16,067	1,795,827
Changes in accounting policies (Note 4)	–	–	(688)	26,004	(19,599)	–	–	(29,352)	4,322	(138)	(19,451)
As at 1 January 2018	250,011	79,636	134,537	–	(19,599)	198,613	259,680	857,569	–	15,929	1,776,376
Movements during the year	–	–	–	–	38,050	24,618	20,045	133,303	–	(798)	215,218
(1) Total comprehensive income for the year	–	–	–	–	38,050	–	–	254,655	–	1,135	293,840
(2) Changes in share capital											
i Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	(8)	(8)
ii Change in shareholdings in subsidiaries	–	–	–	–	–	–	–	–	–	(138)	(138)
iii Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(1,667)	(1,667)
(3) Profit distribution											
i Appropriation to surplus reserve	–	–	–	–	–	24,618	–	(24,618)	–	–	–
ii Appropriation to general reserve	–	–	–	–	–	–	20,045	(20,045)	–	–	–
iii Appropriation to ordinary shareholders	–	–	–	–	–	–	–	(72,753)	–	–	(72,753)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	–	(3,936)	–	–	(3,936)
v Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(120)	(120)
As at 31 December 2018	250,011	79,636	134,537	–	18,451	223,231	279,725	990,872	–	15,131	1,991,594

	Attributable to equity shareholders of the Bank									
	Share capital	Other equity instruments – preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Non-controlling interests	Total equity
As at 31 December 2016	250,011	19,659	133,960	(976)	175,445	211,193	786,860	348	13,154	1,589,654
Movements during the year	–	59,977	1,265	(25,028)	23,168	48,487	100,061	(4,670)	2,913	206,173
(1) Total comprehensive income for the year	–	–	1,271	(25,028)	–	–	242,264	(4,670)	783	214,620
(2) Changes in share capital										
i Establishment of subsidiaries	–	–	–	–	–	–	–	–	147	147
ii Change in shareholdings in subsidiaries	–	–	(6)	–	–	–	–	–	(1,322)	(1,328)
iii Capital injection by other equity holders	–	59,977	–	–	–	–	–	–	3,422	63,399
(3) Profit distribution										
i Appropriation to surplus reserve	–	–	–	–	23,168	–	(23,168)	–	–	–
ii Appropriation to general reserve	–	–	–	–	–	48,487	(48,487)	–	–	–
iii Appropriation to ordinary shareholders	–	–	–	–	–	–	(69,503)	–	–	(69,503)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	(1,045)	–	–	(1,045)
v Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(117)	(117)
As at 31 December 2017	250,011	79,636	135,225	(26,004)	198,613	259,680	886,921	(4,322)	16,067	1,795,827

The notes on pages 146 to 284 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2018	2017
Cash flows from operating activities			
Profit before tax		**308,160**	299,787
Adjustments for:			
– Impairment losses	14	**150,988**	127,362
– Depreciation and amortisation		**17,874**	17,414
– Interest income from impaired financial assets		**(3,312)**	(3,182)
– Revaluation (gain)/loss on financial instruments at fair value through profit or loss		**(144)**	32
– Share of profit of associates and joint ventures		**(140)**	(161)
– Dividend income	9	**(773)**	(2,195)
– Unrealised foreign exchange gain		**(6,981)**	(531)
– Interest expense on bonds issued		**12,975**	12,110
– Net (gain)/loss on disposal of investment securities		**(3,444)**	835
– Net gain on disposal of fixed assets and other long-term assets		**(135)**	(138)
		475,068	451,333
Changes in operating assets:			
Net decrease in deposits with central banks and with banks and non-bank financial institutions		**367,756**	32,837
Net (increase)/decrease in placements with banks and non-bank financial institutions		**(50,390)**	47,448
Net increase in loans and advances to customers		**(852,702)**	(1,299,971)
Net decrease/(increase) in financial assets held under resale agreements		**6,778**	(105,468)
Net increase in financial assets measured at fair value through profit or loss		**(35,256)**	(92,424)
Net decrease in other operating assets		**47,322**	56,768
		(516,492)	(1,360,810)
Changes in operating liabilities:			
Net (decrease)/increase in borrowings from central banks		**(3,121)**	110,473
Net increase in placements from banks and non-bank financial institutions		**16,211**	79,857
Net increase in deposits from customers and from banks and non-bank financial institutions		**602,520**	766,290
Net decrease in financial assets sold under repurchase agreements		**(44,616)**	(115,297)
Net increase in certificates of deposit issued		**40,963**	141,011
Income tax paid		**(49,174)**	(54,551)
Net increase in financial liabilities measured at fair value through profit or loss		**11,922**	18,588
Net increase in other operating liabilities		**82,550**	42,196
		657,255	988,567
Net cash from operating activities		**615,831**	79,090

The notes on pages 146 to 284 form part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2018	2017
Cash flows from investing activities			
Proceeds from sale and redemption of financial investments		1,202,207	1,446,732
Dividends received		1,037	2,237
Proceeds from disposal of fixed assets and other long-term assets		2,612	2,911
Purchase of investment securities		(1,553,492)	(1,525,529)
Purchase of fixed assets and other long-term assets		(20,783)	(22,263)
Acquisition of subsidiaries, associates and joint ventures		(1,360)	(1,544)
Net cash used in investing activities		(369,779)	(97,456)
Cash flows from financing activities			
Issue of bonds		123,524	34,989
Capital contribution by non-controlling interests		–	3,569
Contribution by preference shareholders		–	59,977
Consideration paid for acquisition of non-controlling interests		(138)	–
Dividends paid		(76,811)	(70,688)
Repayment of borrowings		(6,319)	(6,347)
Interest paid on bonds issued		(11,335)	(12,708)
Net cash from financing activities		28,921	8,792
Effect of exchange rate changes on cash and cash equivalents		14,390	(18,211)
Net increase/(decrease) in cash and cash equivalents		289,363	(27,785)
Cash and cash equivalents as at 1 January	55	571,339	599,124
Cash and cash equivalents as at 31 December	55	860,702	571,339
Cash flows from operating activities include:			
Interest received		825,909	730,411
Interest paid, excluding interest expense on bonds issued		(308,323)	(297,536)

The notes on pages 146 to 284 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

1 COMPANY INFORMATION

The history of China Construction Bank Corporation (the "Bank") dates back to 1954, which was previously known as the People's Construction Bank of China when it was established. It administered and disbursed government funds for construction and infrastructure related projects under the state economic plan. The People's Construction Bank of China gradually became a full service commercial bank following the establishment of China Development Bank in 1994 to assume its policy lending functions. In 1996, the People's Construction Bank of China changed its name to China Construction Bank ("CCB"). On 17 September 2004, China Construction Bank Corporation was formed as a joint-stock commercial bank in the People's Republic of China (the "PRC") as a result of a separation procedure undertaken by its predecessor, China Construction Bank. In October 2005 and September 2007, the Bank's H-shares and A-shares were listed on Hong Kong Stock Exchange (Stock Code: 939) and Shanghai Stock Exchange (Stock Code: 601939) respectively. As at 31 December 2018, the Bank issued total ordinary share capital of RMB250,011 million, with a par value of RMB1.00 per share.

The Bank obtained its finance permit No.B0004H111000001 from the China Banking Regulatory Commission ("CBRC") (In 2018, it was renamed as China Banking and Insurance Regulatory Commission, hereinafter referred to as the "CBIRC") of the PRC. The Bank obtained its unified social credit code No.911100001000044477 from the Beijing Administration for Industry and Commerce. The registered office of the Bank is located at No.25, Finance Street, Xicheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing, investment banking, insurance and other financial services. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC excluding Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (the "State Council"). The overseas financial operations of the Bank are under the supervision of their respective local jurisdictions. Central Huijin Investment Ltd. ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), exercises its rights and obligations as an investor on behalf of the PRC government.

These financial statements were authorised for issue by the board of directors of the Bank on 27 March 2019.

2 BASIS OF PREPARATION

The Group uses the calendar year as the accounting year, which is from 1 January to 31 December.

These financial statements comprise the Bank and its subsidiaries and the Group's interests in associates and joint ventures.

(1) Basis of measurement

These financial statements have been prepared on the historical cost basis except that: (i) financial instruments at fair value through profit or loss; (ii) derivative financial instruments are measured at fair value; (iii) financial assets measured at fair value through other comprehensive income are measured at fair value; and (iv) certain non-financial assets are measured at revalued amount. The measurement basis of major assets and liabilities are further explained in Note 4.

(2) Functional and presentation currency

These financial statements are presented in RMB, unless otherwise stated, rounded to the nearest million, which is the functional currency of the domestic operations of the Group. The functional currencies of overseas branches and subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into RMB for the preparation of these financial statements according to Note 4(2)(b).

(3) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 4(24).

3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622), and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group has adopted the following new or revised IFRSs and Interpretations effective for the current year. There is no early adoption of any new IFRSs and Interpretations not yet effective for the year ended 31 December 2018.

IFRS 9, "Financial Instruments"

IFRS 9 classifies financial assets into three categories: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss, based on the entity's business model for managing the assets and their contractual cash flow characteristics. It also introduces a new model for the recognition of impairment losses – the expected credit losses ("ECL") model.

IFRS 15, "Revenue from Contracts with Customers"

IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. Besides, it also provides specific guidance on capitalisation of contract cost and licence arrangements.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Consolidated financial statements

(a) Business combinations

The consideration transferred by the acquirer for the acquisition and the identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Where the cost of a business combination exceeds the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill in accordance with the accounting policies set out in Note 4(9); where the cost of a business combination is less than the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss.

Acquisition date mentioned above is the date that the Group effectively obtains control of the acquiree.

(b) Subsidiaries and non-controlling interests

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

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

For the separate financial statements of the Bank, investments in subsidiaries are accounted for at cost. At initial recognition, investment in subsidiaries is measured at the cost of acquisition determined at the acquisition date when the subsidiaries are acquired through business combination or the capital injected into the subsidiaries set up by the Group. Impairment losses on investments in subsidiaries are accounted for in accordance with the accounting policies as set out in Note 4(11).

The financial results and performance of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. When preparing the consolidated financial statements, the Bank makes necessary adjustments on the accounting period and accounting policies of subsidiaries to comply with those of the Bank.

Significant intragroup balances and transactions, and any significant profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The portion of a subsidiary's net assets that is attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, is treated as non-controlling interests and presented as "non-controlling interests" in the consolidated statement of financial position within total equity. The portion of net profit or loss and other comprehensive income of subsidiaries for the year attributable to non-controlling interests is separately presented in the consolidated statement of comprehensive income as a component of the Group's net profit.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(1) Consolidated financial statements (continued)

(c) Associates and joint arrangements

An associate is an enterprise in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policy decisions.

Joint arrangement is an arrangement of which two or more parties have joint control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Investments in associates or joint ventures are accounted for using the equity method in the consolidated financial statements and are initially recorded at acquisition cost, and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associates or joint ventures. The Group's share of the post-acquisition, post-tax results of the associates or joint ventures for the year is recognised in the consolidated statement of comprehensive income. The Group's interest in associates or joint ventures is included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures.

The Group discontinues recognising its share of net losses of the associates or joint ventures after the carrying amount of investments in associates and joint ventures together with any long-term interests that in substance form part of the Group's net investment in the associates or joint ventures are reduced to zero, except to the extent that the Group has incurred legal or constructive obligations to assume additional losses. Where the associates or joint ventures make net profits subsequently, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(2) Translation of foreign currencies

(a) Translation of foreign currency transactions

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; exchange differences are recognised in profit or loss, except for the differences arising from the translation of equity instruments designated at fair value through other comprehensive income, which are recognised in other comprehensive income.

(b) Translation of financial statements denominated in foreign currencies

Foreign currency financial statements of overseas branches and subsidiaries are translated into RMB for the preparation of consolidated financial statements. At the end of each reporting period, the assets and liabilities in the financial statements denominated in foreign currencies are translated into RMB at the spot exchange rates ruling at that date. All items within equity except for retained earnings are translated at the exchange rates ruling at the dates of the initial transactions. Income and expenses in the statement of comprehensive income are translated at the weighted average exchange rates for the year. Foreign exchange differences arising from foreign operations are recognised in "other comprehensive income" in the shareholders' equity in the statement of financial position. The effect of exchange rate changes on cash is presented separately in the statement of cash flows.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments

(a) *Classification*

The Group classifies financial instruments into different categories based on the business model used to manage financial assets and contractual cash flow characteristics or the purposes for which the liabilities were incurred. The categories are: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income ("FVOCI"), financial assets and liabilities measured at fair value through profit or loss ("FVPL"), and other financial liabilities.

The business model of the Group's management of financial assets refers to how the Group manages financial assets to generate cash flows. The business model determines whether the cash flow of financial assets managed by the Group is derived from contractual cash flows, sales of financial assets or both. Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

The characteristics of the contractual cash flow of financial assets refer to the cash flow attributes agreed in the contract of financial instruments that reflect the economic characteristics of the relevant financial assets, that is, the contractual cash flows generated by the relevant financial assets on a specific date are only for payment of the principal and the interest based on the amount of principal outstanding. Of which, principal refers to the fair value of financial assets at initial recognition. The payment of the underlying interest, where the principal is the fair value of the financial asset at the time of initial recognition, and its amount may change during the lifetime of the financial asset due to prepayment and other reasons; interest includes the time value of money, the credit risk associated with the outstanding principal amount for a specific period, and the consideration of other basic borrowing risks, costs and profits.

Financial assets measured at amortised cost

Financial assets are classified as financial assets measured at amortised cost if both of the following conditions are met: (i) the assets are managed within a business model whose objective is to hold assets in order to collect contractual cash flows; (ii) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets measured at FVOCI include debt instruments measured at FVOCI and equity instrument designated as measured at FVOCI.

Financial assets are classified as financial assets measured at FVOCI if both of the following conditions are met: (i) the assets are managed within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; (ii) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At inception, the Group may designate non-trading equity instruments as financial assets measured at FVOCI, and recognise dividend income in accordance with the relevant policies specified in Note 4(18)(d). Once the designation is made, it cannot be revoked.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(a) *Classification (continued)*

Financial assets and liabilities measured at fair value through profit or loss (FVPL)

The Group classifies the financial assets other than financial assets measured at amortised cost and FVOCI as financial assets measured at FVPL.

Financial assets measured at FVPL include those held for trading purposes, those designated as measured at FVPL, those could not pass the Solely Payment of Principal and Interests ("SPPI") testing and the remaining equity investments which are not designated as measured at FVOCI.

Financial liabilities measured at FVPL include negative fair value of derivatives, and those designated as measured at FVPL.

Financial assets or financial liabilities are classified as held for trading if they are: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instruments or a financial guarantee contract).

At initial inception, the Group may designate financial assets as financial assets measured at FVPL if the designation can eliminate or significantly reduce accounting mismatch. Once the designation is made, it cannot be revoked.

Financial liabilities are designated as measured at FVPL upon initial recognition when: (i) the designation can eliminate or significantly reduce accounting mismatch; or (ii) the formal written file of the Group's risk management or investment strategy have clearly stated that the financial liability portfolio, or the portfolio of financial assets and financial liabilities, are managed, evaluated and reported to key management personnel on the basis of fair value. Once the designation is made, it cannot be revoked.

Other financial liabilities

Other financial liabilities are financial liabilities other than those measured at FVPL and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

(b) *Derivatives and hedge accounting*

The Group uses derivatives to hedge its exposure to foreign exchange and interest rate risks. Derivatives are recognised at fair value at the trade date upon initial recognition, and subsequently measured at fair value. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualified as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those that are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but not qualified for hedge accounting, changes in the fair value of these derivatives are recognised in the consolidated statement of comprehensive income.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

(i) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognised as ineffectiveness in the profit or loss.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(b) Derivatives and hedge accounting (Continued)

(ii) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the "other comprehensive income". The ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in equity are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the profit or loss when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the profit or loss.

(c) Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host. If a hybrid contract contains a host that is an financial asset, the embedded derivative shall not be separated from the host and shall be classified and measured as a whole.

If a hybrid contract contains a host that is not an financial asset, an embedded derivative shall be separated from the host and accounted for as a derivative if, and only if: (i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss.The Group could choose to measure the separated derivative at FVPL, or designate the entire hybrid contract as at FVPL.

(d) Recognition and derecognition

All financial assets and financial liabilities are recognised in the statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

The difference between the carrying amount of the financial asset derecognised and the consideration received and the cumulative changes in fair value previously recognised in equity are recognised in profit or loss.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

The financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged, cancelled or expired, or (ii) an agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(e) Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments measured at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, the Group measures different categories of financial assets at amortised cost, fair value through other comprehensive income or fair value through profit or loss respectively. Financial liabilities other than those measured at fair value through profit or loss are measured at amortised cost using the effective interest method.

Financial assets measured at fair value through profit or loss

Gains and losses from changes in the fair value of financial assets measured at fair value through profit or loss are recognised in profit or loss.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at FVPL are measured at fair value, where the gain or loss arose are recognised in profit or loss. For the financial liabilities designated as measured at FVPL, they are accounted for in accordance with the following requirements: (i) the amount of changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be included in other comprehensive income; (ii) other changes in fair value of the financial liabilities are recognised in current profit or loss. If the treatment of the impact of changes in the financial liabilities' own credit risk will create or enlarge the accounting mismatch in profit or loss in accordance with (i), the Group shall recognise the entire gain or loss of the financial liabilities (including the amount of the impact of changes in its own credit risk) in profit or loss. When the financial liabilities designated as at fair value through profit or loss is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from other comprehensive income to retained earnings.

Financial assets measured at FVOCI

The impairment losses, foreign exchange gains and losses and interest income calculated using effective interest method of financial assets measured at FVOCI are recognised in profit or loss. Besides, other changes of carrying amount are recognised in other comprehensive income.

When the debt instruments measured at FVOCI are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income being transferred to the profit or loss. For equity instrument investments designated as measured at FVOCI, once the designation is made, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss (the changes in fair value are recognised in retained earnings on disposal). Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Financial assets measured at amortised cost

The amortised cost of a financial asset should be measured with the initial recognition after the following adjustments: (i) deducting the repaid principal; (ii) adding or subtracting the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount; (iii) the loss provision for the accumulated accrual.

For financial assets measured at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortization process.

Effective interest rate

The effective interest rate is the rate that exactly discount estimated future cash payments or receipts through the expected lifetime of the financial asset to the carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance). The calculation does not consider expected credit losses but includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate.

The Group determines interest income based on the book balance of financial assets multiplied by the effective interest rate, except (i) for purchased or sourced financial assets that have suffered credit impairment, from the initial recognition, interest income is calculated using the financial assets' amortised cost and credit-adjusted effective interest rate; (ii) for a purchased or sourced financial asset that has not suffered credit impairment but has become credit impaired in subsequent periods, interest income is determined using the financial asset's amortised cost and the effective interest rate. If the financial instrument no longer has credit impairment due to the improvement of its credit risk in the subsequent period, and this improvement can be objectively related to an event that occurs after the application of the above provisions, interest income should be recalculated using the effective interest rate multiplied by the book balance of the financial assets.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(e) Measurement (Continued)

Effective interest rate (Continued)

Credit-adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses.

(f) Impairment

At the end of the reporting period, the Group performs impairment assessment based on expected credit loss on financial assets measured at amortised cost and FVOCI, as well as loan commitments and financial guarantee contracts.

The expected credit loss refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received discounted at the original real interest rate by the Group, that is, the present value of all cash shortages. Among them, financial assets that have been purchased or sourced by the Group and have suffered credit impairment shall be discounted according to the effective interest rate of the financial assets after credit adjustments.

The Group's method of measuring expected credit losses of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

At the end of each reporting period, the Group measures the expected credit losses ("ECL") of financial instruments at different stages and recognises its loss provision and its changes in the following cases: the financial instrument is in Stage 1 if the credit risk of the financial instrument has not increased significantly since the initial recognition and the Group measures its loss provision based on the amount of expected credit loss of the financial instrument in the next 12 months; the financial instrument is in Stage 2 if the credit risk of the financial instrument has increased significantly since the initial recognition and the Group measures its loss provision based on the amount of lifetime expected credit loss of the financial instrument; the financial instrument is in Stage 3 if the financial instrument has credit impaired and the Group measures its loss provision based on the amount of lifetime expected credit loss of the financial instrument. Regardless of whether the Group's assessment of credit losses is based on a single financial instrument or a combination of financial instruments, the increase or reversal of the loss provision resulting therefrom should be included in the current profit or loss as an impairment loss or gain.

For debt instruments measured at FVOCI, the Group recognises the allowance of impairment in other comprehensive income and impairment losses or gains in profit and loss, which should not change the book value of the financial assets set out in the statement of financial position.

For loss provision measured at the amount equivalent to the lifetime expected credit loss of the financial instrument previously, if, at the end of the current reporting period, the financial instrument is no longer having significant increase in credit risk since the initial recognition, the Group measures its loss provision based on the amount of its expected credit losses for the next 12 months, and the reversal of the loss provision arising from it is recognised in profit or loss for the current reporting period.

For financial assets that have been purchased or sourced for credit impairment, the Group only recognises cumulative changes in lifetime expected credit losses after initial recognition at the end of the reporting period as loss provision. At the end of each reporting period, the Group recognises the amount of the change in lifetime expected credit losses as an impairment loss or gain in current profit or loss.

(g) Write off

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in profit or loss through impairment losses.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(h) Modification of contracts

The Group sometimes renegotiates or otherwise modifies the contracts with counterparties. If the new terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset under the revised terms.

If the renegotiation or modification does not result in derecognition, but lead to changes in contractual cash flows, the Group assesses whether a significant increase in credit risk has occurred, based on comparing the risk of a default occurring under the revised terms as at the end of the reporting period with that as at the date of initial recognition under original terms.

(i) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on the prices within the bid-ask spread that is most representative of fair value in the circumstances, and without any deduction for transaction costs that may occur on sales or disposals. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring orderly transactions.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include the price used by market participants in an orderly transaction, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Group reviews the valuation techniques and tests them for validity.

(j) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(k) Securitisations

The Group securitises certain loans, which generally involves the sale of these assets to structured entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Gains or losses on securitisation are the difference between the carrying amount of the transferred financial assets and the consideration received (including retained interest) which is recognised in profit or loss.

(l) Financial assets held under resale agreements and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(4) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are acquired by the Group principally for trading purpose are initially recognised at fair value and re-measured at fair value less cost to sell. The changes in fair value less cost to sell are recognised in profit or loss. Precious metals that are not acquired by the Group principally for trading purpose are carried at lower of cost and net realisable value.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(5) Fixed assets

Fixed assets are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to fixed assets when ready for its intended use.

(a) Cost

Fixed assets are initially recognised at cost, except for the fixed assets and construction in progress obtained from CCB by the Bank which were recognised at the revalued amount as cost on the date of restructuring. 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 a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Where the individual components of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as separate fixed assets.

Subsequent costs, including the cost of replacing part of an item of fixed assets, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of fixed assets are recognised in profit or loss.

(b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired fixed assets are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, residual value rates and annual depreciation rates of respective fixed assets are as follows:

Types of assets	Estimated useful lives	Estimated net residual value rates	Annual depreciation rates
Bank premises	30-35 years	3%	2.8%-3.2%
Equipment	3-8 years	3%	12.1%-32.3%
Others	4-11 years	3%	8.8%-24.3%

Aircraft and vessels are used for the Group's operating lease business, depreciated using straight-line method over the expected useful life of 20 to 30 years (less the years in service at the time of purchase) with the estimated residual value rate varying from 2.9% to 4.8%.

The Group reviews the estimated useful life and estimated residual value rates of a fixed asset and the depreciation method applied at least once a financial year.

Impairment losses on fixed assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

(c) Disposal

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

(6) Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(a) Finance lease

Where the Group is a lessor under finance leases, an amount representing the sum of the minimum lease receivables and initial direct costs at the commencement of the lease term, is included in "loans and advances to customers" on statement of financial position as a lease receivable. Unrecognised finance income under finance leases is amortised using the effective interest rate method over the lease term. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases.

Impairment losses on lease receivables are accounted for in accordance with the accounting policies as set out in Note 4(3)(f).

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Lease (Continued)

(b) Operating lease

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the profit or loss, using the straight-line method, over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(7) Land use rights

Land use rights are initially recognised at cost. The land use rights obtained from CCB by the Bank on the date of restructuring were recorded at the revalued amount. The cost of the land use rights is amortised on a straight-line basis over their authorised useful lives, and charged to the profit or loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 4(11).

(8) Intangible assets

Software and other intangible assets are initially recognised at cost. The cost less estimated residual values, if any, of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

(9) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of the acquiree's identifiable net assets. Goodwill is not amortised. Goodwill arising from a business combination is allocated to each cash-generating unit ("CGU") or group of CGUs, that is expected to benefit from the synergies of the combination. The Group performs an impairment test on goodwill semi-annually.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised immediately in profit or loss.

On disposal of the related CGU or group of CGUs, any attributable amount of goodwill net of allowances for impairment losses, if any, is included in the calculation of the profit or loss on disposal.

Impairment loss on goodwill is accounted for in accordance with the accounting policies as set out in Note 4(11).

(10) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets are recognised and reported in "other assets" in the statement of financial position when the Group intends to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower.

When the Group seizes assets to compensate for the losses of loans and advances and interest receivable, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets. Repossessed assets are recognised at the carrying value, net of allowances for impairment losses accounted for in accordance with the accounting policies as set out in Note 4(11).

(11) Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Allowances for impairment losses on non-financial assets (Continued)

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

(a) Testing CGU with goodwill for impairment

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU or group of CGUs that is expected to benefit from the synergies of the combination.

A CGU or group of CGUs to which goodwill has been allocated is tested for impairment by the Group semi-annually, or whenever there is an indication that the CGU or group of CGUs are impaired, by comparing the carrying amount of the CGU or group of CGUs, including the goodwill, with the recoverable amount of the CGU or group of CGUs. The recoverable amount of the CGU or group of CGUs are the estimated future cash flows, which are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or group of CGUs with allocated goodwill.

At the time of impairment testing of a CGU or group of CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. In such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of CGUs containing the goodwill. In such circumstances, the entity tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

(b) Impairment loss

If 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 the profit or loss.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or group of CGUs, pro rata on the basis of the carrying amount of each asset.

(c) Reversing an impairment loss

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversed.

(12) Employee benefits

Employee benefits are all forms of consideration given and compensations incurred by the Group in exchange for services rendered by employees or the termination of the employment relationship. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the statement of financial position.

(a) Post-employment benefits

The Group divides post-employment benefit plans into defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans. For defined contribution plans, the Group pays contributions to basic retirement insurance, annuity scheme and unemployment insurance for the employees during the reporting period, while defined benefit plans are mainly supplementary retirement benefits.

Defined contribution retirement schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organizations. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Employee benefits (Continued)

(a) Post-employment benefits (Continued)

Annuity contributions

In addition to the statutory provision contributions, the Bank's employees have joined the annuity scheme set up by the Bank under "CCBC Annuity Scheme" (the "scheme") in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

Supplementary retirement benefits

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 in addition to the contributions made to statutory insurance schemes. Such supplementary retirement benefits are defined benefit plans.

The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of obligations that the Group is committed to pay to the employees after their retirement using actuarial techniques. At the end of each reporting period, such obligations are discounted with interest yield of government bonds with similar duration. The service cost and net interest from the supplementary retirement benefits are recognised in profit or loss, and the remeasurements are recognised in other comprehensive income.

The liability recognised in the statement of financial position in respect of supplementary retirement benefits is the present value of supplementary retirement benefit obligations at the end of the reporting period less the fair value of plan assets.

(b) Termination benefits

Where the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision is recognised for the compensation arising from termination of employment relationship, with a corresponding charge to the profit or loss for the current period. An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs.

(c) Early retirement expenses

The Group recognises the present value of all its liabilities to employees who voluntarily agreed to retire early. The early retirement benefit payments are made by the Group from the date of early retirement to the regulated retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

(d) Staff incentive plan

As approved by the board of directors, for the purposes of providing incentives and rewards to eligible employees for their past services, the Group awards a specified amount of staff compensation to the staff incentive plan independently managed by a designated staff committee for those eligible participating employees. The Group recognises its contribution to the plan when it has a present legal or constructive obligation to make such payment and a reliable estimate of the obligation can be made.

(13) Insurance contracts

Insurance contracts classification

Under the contract the insurer signed with the policyholder, the insurer may undertake insurance risk or other risks, or both insurance risk and other risks.

Where the Group undertakes both the insurance risk and other risks, and the insurance risk and other risks can be separately measured, the insurance risk shall be separately accounted for as insurance contracts while the other risks shall be accounted for as either investment contracts or service contracts. Where the insurance risk and other risks cannot be distinguished from each other, or can be distinguished but cannot be separately measured, significant insurance risk test shall be performed at the contract's initial recognition date. If the insurance risk is significant, the contract is classified as an insurance contract; otherwise, it is classified as an investment contract or service contract.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(13) Insurance contracts (Continued)

Insurance income recognition

Insurance premium income is recognised when all of the following criteria are met:

(i) The insurance contract is issued, and related insurance risk is undertaken by the Group;

(ii) The related economic benefits are likely to flow to the Group; and

(iii) Related income can be reliably measured.

Insurance contract liabilities

When measuring insurance contract liabilities, the Group identifies insurance contracts where insurance risks are of similar nature as a measurement unit. Insurance contract liabilities are measured based on a reasonably estimated amount of payments that the Group is obliged to pay in order to fulfil relevant obligations under the insurance contract. Structured product that cannot be sold separately is classified as one measurement unit.

The Group performs liability adequacy test at the end of each reporting period. If the insurance contract liabilities re-calculated with the insurance actuarial method exceed their carrying amounts on the date of the liability adequacy test, an additional provision shall be made for the respective insurance contract liabilities based on the differences. Otherwise, no adjustment is made to the respective insurance contract liabilities.

(14) Provisions and contingent liabilities

A provision is recognised in the statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or nonoccurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

(15) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. A financial instrument issued is an equity instrument if, and only if, both conditions (i) and (ii) below are met: (i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and (ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

(16) Financial guarantees and loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of guarantee fees, and the best estimate of the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated statement of profit and loss.

The impairment allowance of loan commitments provided by the Group is measured by ECL. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group can not separately identify the ECL on the undrawn commitment component from those on the loan component, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

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4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(17) Fiduciary activities

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, insurance companies, annuity plans and other organisations. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance sheet items.

The Group conducts entrusted lending business, whereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") according to the instructions of the customers. As the Group 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 and no impairment assessments are made for these entrusted loans.

(18) Income recognition

Provided the control of goods or services have been transferred to customers in an amount reflects the consideration to which the Group expects to be entitled, revenue is recognised in the income statement as follows:

(a) Interest income

Interest income for interest bearing financial instruments is recognised in profit or loss based on the effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest 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 expense over the relevant period.

(b) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group 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 Group making a loan, the fee is recognised as commission on expiry.

(c) Finance income from finance leases and hire purchase contracts

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(d) Dividend income

Dividend income from equity investments is recognised in profit or loss on the date when the Group's right to receive payment is established.

(19) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. 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. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(20) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(21) Profit distribution

Proposed dividends which are declared and approved after the end of each reporting period are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the note to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

(22) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one 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. The Group's related parties include but are not limited to the following:

(a) the Bank's parents;

(b) the Bank's subsidiaries;

(c) other entities which are controlled by the Bank's parents;

(d) an investor who has joint control over the Group;

(e) an investor who can exercise significant influence over the Group;

(f) an associate of the Group;

(g) a joint venture entity of the Group;

(h) principal individual investors of the Group, and close family members of such individuals (principal individual investors are the individual investors who have the power, directly or indirectly, to control, jointly control or exercise significant influence over another party);

(i) key management personnel of the Group and close family members of such individuals (key management personnel represent those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity);

(j) key management personnel of the Bank's parents and close family members of such individuals;

(k) other entities that are controlled or jointly controlled by the Group's principal individual investors, key management personnel, or close family members of such individuals; and

(l) a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(23) Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments etc., which the management has chosen for organization. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

The amount reported for each operating segment item is the measure reported to the chief operating decision makers for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(24) Significant accounting estimates and judgements

(a) *Classification of financial assets*

The Group's significant judgments in determining the classification of financial assets include the analysis of business models and contractual cash flow characteristics.

The Group determines the business model for the management of financial assets at the level of portfolios and considers the factors such as how the asset's performance is evaluated and reported to key management personnel, the risks affecting the performance of financial assets and the way in which financial assets are managed, and how managers are compensated.

In assessing whether the contractual cash flow of financial assets is consistent with the basic lending arrangement, the Group uses the following key judgments: whether the principals may change because of the changes of time distribution or amount during the life period due to the reasons such as prepayment; whether the interests includes only the time value of money, credit risk, other basic borrowing risks and the consideration of costs and profits. For example, whether the amount prepaid reflects only the principal that has not yet been paid and the interest based on the outstanding principal, as well as reasonable compensation paid for the early termination of the contract.

(b) *Expected credit losses*

The measurement of the expected credit loss allowance for the investment in financial assets and debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 62(1).

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses; and
- Establishing groups of similar financial assets for the purpose of measuring expected credit losses.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 62(1) credit risk.

(c) *Fair value of financial instruments*

The fair value of financial instruments that are traded in an active market is based on their quoted market prices in an active market at the valuation date. A quoted market price is a price from an active market where price information is readily and regularly available from an exchange or from a dealer quotation and where this price information represents actual and recurring orderly transactions.

For all other financial instruments, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, foreign currency exchange rates credit spreads and the liquidity premium. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on the maximising observable market data at the end of each reporting period. However, where market data is not available, the Group needs to make the best estimates on such unobservable market inputs.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants in an orderly transaction.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(24) Significant accounting estimates and judgements (Continued)

(d) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(e) Employee retirement benefit obligations

The Group has established liabilities in connection with benefits payable to certain retired employees. The amounts of employee benefit expense and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Group's other comprehensive income and liability related to its employee retirement benefit obligations.

(f) Scope of consolidation

The Group has taken into consideration all facts and circumstances in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

(25) Changes in significant accounting policies

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" as issued by the International Accounting Standard Board ("IASB") in May 2014. IFRS 15 unifies the previous income standard and the construction contracts standard into one revenue recognition model, replacing the previous "transfer of risk-reward" with the "transfer of control" as the criteria for revenue recognition, and clarifying some specific applications in revenue recognition. The date of transition is 1 January 2018. The adoption of IFRS 15 does not have a significant impact on the Group's consolidated financial statements.

The Group has adopted IFRS 9 "Financial Instruments" as issued by the IASB in July 2014 with a date of transition on 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any part of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. Any differences between the book value at 1 January 2018 and that as at 31 December 2017 is due to the implementation of IFRS 9.

Consequently, for note disclosures, the consequential amendments to IFRS 7 "Financial Instruments: Disclosure" disclosures have also only been applied to the current period. The comparative period note disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has also resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. For the impact of the adoption of IFRS 9 on the Group's financial statements, please refer to Note 4(26) Impact of changes in significant accounting policies.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Changes in significant accounting policies (Continued)

Before 1 January 2018, the accounting policies related to financial instruments under the original IAS 39 "Financial Instruments: Recognition and Measurement" used by the Group:

Financial instruments

(a) *Categorisation*

The Group classifies financial instruments into different categories at inception, depending on the purposes for which the assets were acquired or the liabilities were incurred. The categories are: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include those classified as held for trading, and those designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract).

Financial assets or financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in the measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than: (i) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (ii) those that meet the definition of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the Group intends to sell immediately or in the near future, which will be classified as held for trading; (ii) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (iii) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, and investment classified as receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as: (i) financial assets at fair value through profit or loss; (ii) held-to-maturity investments; or (iii) loans and receivables.

Other financial liabilities

Other financial liabilities are financial liabilities other than those designated as at fair value through profit or loss and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Changes in significant accounting policies (continued)

Financial instruments (continued)

(b) Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost, while other categories of financial instruments are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal. Investments in available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment losses, if any.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are recognised in profit or loss.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in profit or loss.

When the available-for-sale financial assets are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income being transferred to the profit or loss.

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

(c) Impairment

At the end of each reporting period, the Group assesses the carrying amount of financial assets (except for those at fair value through profit or loss). If there is any objective evidence that a financial asset is impaired, the Group will recognise the impairment loss in profit or loss. Losses expected as a result of future events, no matter how likely, are not recognised as impairment losses.

Objective evidence that a financial asset is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following evidence:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of significant financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of an equity instrument;
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- other objective evidence indicating there is an impairment of the financial asset.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Changes in significant accounting policies (continued)

Financial instruments (continued)

(c) Impairment (continued)

Loans and receivables and held-to-maturity investments

Individual assessment

Loans and receivables and held-to-maturity investments, which are considered individually significant, are assessed individually for impairment. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate, and recognised in profit or loss.

Cash flows relating to short-term loans and receivables and held-to-maturity investments are not discounted if the effect of discounting is immaterial. The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective assessment

Homogeneous groups of loans and advances to customers not considered individually significant and individually assessed and loans and receivables and held-to-maturity investments with no objective evidence of impairment on an individual basis are assessed for impairment losses on a collective basis. If there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those financial assets, the impairment is recognised and recorded in profit or loss.

For homogeneous groups of loans and advances that are not considered individually significant, the Group adopts a roll rate methodology to assess impairment losses on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions.

Loans and receivables and held-to-maturity investments which are individually significant and therefore have been individually assessed but for which no impairment can be identified, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; and (iii) the current economic and credit environments and whether in management's experience these indicate that the actual losses level is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience.

Impairment losses recognised on a collective basis represent a transitional step which identifies the impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

At the end of each reporting period, collective assessment covers those loans and receivables and held-to-maturity investments that were impaired but were not individually identified as such until some time in the future. As soon as information is available to specifically identify objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of collectively assessed financial assets.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Changes in significant accounting policies (continued)

Financial instruments (continued)

(c) Impairment (continued)

Loans and receivables and held-to-maturity investments (continued)

Impairment reversal and loan write-offs

If, in a subsequent period, the amount of the impairment loss on loans and receivables and held-to-maturity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in profit or loss through impairment losses.

Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms as appropriate. Rescheduled loans are assessed individually and classified as impaired loans and advances upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan has met specific conditions by the end of the observation period of normally 6 months, with the approval from management, they would no longer be considered as impaired.

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. For available-for-sale investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss.

If, in a subsequent period, the fair value of available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be treated in accordance with the following principles: (i) the impairment loss on debt instruments classified as available-for-sale shall be reversed, with the amount of the reversal recognised in profit or loss; (ii) the impairment loss on equity instruments classified as available-for-sale shall not be reversed through the profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income; or (iii) the impairment loss in respect of available-for-sale equity investments carried at cost shall not be reversed.

(d) Financial guarantees

Financial guarantees are contracts that require the Group as the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "other liabilities". The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statement of financial position if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Impact of changes in significant accounting policies

Set out below are disclosures of the impact of the adoption of IFRS 9 for the Group:

(a) Classification and measurement of financial instruments

The classification and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 on 1 January 2018 are compared as follows:

	IAS 39		IFRS 9	
	Classification	**Carrying amount**	**Classification**	**Carrying amount**
Financial assets				
Cash and deposits with central banks	Amortised cost	2,988,256	Amortised cost	2,988,256
Deposits with banks and non-bank financial institutions	Amortised cost	175,005	Amortised cost	174,933
Placements with banks and non-bank financial institutions	Amortised cost	325,233	Amortised cost	325,230
Positive fair value of derivatives	FVPL	82,980	FVPL	82,980
Financial assets held under resale agreements	Amortised cost	208,360	Amortised cost	208,345
Interest receivable	Amortised cost	116,993	Amortised cost	116,993
Loans and advances to customers	Amortised cost	12,574,473	Amortised cost	12,421,262
			FVOCI	122,358
			FVPL	15,902
Financial investments	FVOCI (Available-for-sale financial assets)	1,550,680	FVPL	76,956
			FVOCI	1,109,513
			Amortised cost	377,973

	IAS 39		IFRS 9	
	Classification	**Carrying amount**	**Classification**	**Carrying amount**
Financial assets				
Financial investments	Amortised cost (Held-to-maturity investments)	2,586,722	Amortised cost	2,454,799
			FVOCI	129,460
			FVPL	722
	Amortised cost (Investments classified as receivables)	465,810	Amortised cost	401,521
			FVOCI	41,513
			FVPL	23,348
	FVPL	578,436	FVPL	578,436
Other financial assets	Amortised cost	65,238	Amortised cost	64,526
			FVPL	712

There were no changes to the classification and measurement of financial liabilities, other than the changes in the fair value of financial liabilities designated as measured at FVPL that are attributable to changes in the instrument's credit risk, which are now presented in other comprehensive income.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Impact of changes in significant accounting policies (continued)

(b) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9*

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of loans and advances to customers and financial investments, from the classification in accordance with IAS 39 to the new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 carrying amount as at 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount as at 1 January 2018
Loans and advances to customers (measured at amortised cost)				
Opening balance under IAS 39	12,574,473			
Subtraction：				
Transfer to loans and advances to customers (measured at FVPL)		(15,839)		
Subtraction：				
Transfer to loans and advances to customers (measured at FVOCI)		(122,383)		
Remeasurement: ECL allowance			(14,989)	
Closing balance under IFRS 9				12,421,262
Loans and advances to customers (measured at FVPL)				
Opening balance under IAS 39	N/A			
Addition：				
Transfer from loans and advances to customers (measured at amortised cost)		15,839		
Remeasurement: From measured at amortised cost to fair value			63	
Closing balance under IFRS 9				15,902
Loans and advances to customers (measured at FVOCI)				
Opening balance under IAS 39	N/A			
Addition：				
Transfer from loans and advances to customers (measured at amortised cost)		122,383		
Remeasurement: From measured at amortised cost to fair value			(25)	
Closing balance under IFRS 9				122,358

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Impact of changes in significant accounting policies (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount as at 31 December 2017	Reclassifications	IFRS 9 carrying amount as at 1 January 2018
Available-for-sale financial assets			
Opening balance under IAS 39	1,550,680		
Subtraction: Transfer to amortised cost		(364,158)	
Subtraction: Transfer to FVPL		(77,009)	
Subtraction: Transfer to FVOCI		(1,109,513)	
Closing balance under IFRS 9			N/A
Held-to-maturity investments			
Opening balance under IAS 39	2,586,722		
Subtraction: Transfer to amortised cost		(2,454,401)	
Subtraction: Transfer to FVPL		(722)	
Subtraction: Transfer to FVOCI		(131,599)	
Closing balance under IFRS 9			N/A

	IAS 39 carrying amount as at 31 December 2017	Reclassifications	IFRS 9 carrying amount as at 1 January 2018
Investments classified as receivables			
Opening balance under IAS 39	465,810		
Subtraction: Transfer to amortised cost		(401,053)	
Subtraction: Transfer to FVPL		(23,230)	
Subtraction: Transfer to FVOCI		(41,527)	
Closing balance under IFRS 9			N/A

	IAS 39 carrying amount as at 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount as at 1 January 2018
Financial assets measured at amortised cost				
Opening balance under IAS 39	N/A			
Addition:				
Transfer from held-to-maturity		2,454,401		
Remeasurement: ECL allowance			398	
Addition:				
Transfer from investments classified as receivables		401,053		
Remeasurement: ECL allowance			468	
Addition:				
Transfer from available-for-sale		364,158		
Remeasurement:				
ECL allowance			(594)	
Reclassification:				
From measured at fair value to amortised cost		14,409		
Closing balance under IFRS 9				3,234,293

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Impact of changes in significant accounting policies (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount as at 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount as at 1 January 2018
Financial assets measured at FVPL				
Opening balance under IAS 39	578,436			
Addition:				
Transfer from available-for-sale		77,009		
Remeasurement: Measured at fair value			(53)	
Addition:				
Transfer from investments classified as receivables		23,230		
Remeasurement: From measured at amortised cost to fair value			(283)	
Reclassification: From measured at amortised cost to fair value		401		
Addition:				
Transfer from held-to-maturity		722		
Addition:				
Transfer from other assets		712		
Closing balance under IFRS 9				680,174

	IAS 39 carrying amount as at 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount as at 1 January 2018
Financial assets measured at FVOCI				
Opening balance under IAS 39	N/A			
Addition:				
Transfer from available-for-sale		1,109,513		
Addition:				
Transfer from held-to-maturity		131,599		
Remeasurement:				
From measured at amortised cost to fair value			(2,206)	
Reclassification:				
From measured at amortised cost to fair value		67		
Addition:				
Transfer from investments classified as receivables		41,527		
Remeasurement:				
From measured at amortised cost to fair value			(143)	
Reclassification:				
From measured at amortised cost to fair value		129		
Closing balance under IFRS 9				1,280,486

The impact of classification and measurement of adopting IFRS 9 is not material for other financial assets other than loans and advances to customers and financial investments.

For the Group, following the adoption of IFRS 9 on 1 January 2018, equity reduced by RMB19,451 million as compared to the financial statements as of the end of 2017.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Impact of changes in significant accounting policies (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group:

(i) Bond investments

Most bonds held by the Group could pass the SPPI testing. With regard to the requirements of the new standard, the category of financial assets should be determined based on the business model of managing those assets, which was evaluated according to the established facts and circumstances on the implementation date of the standard. Among the bonds investments, part of held-to-maturity investments and investments classified as receivables are reclassified to financial assets measured at FVOCI because their business model is to hold financial assets in order to collect contractual cash flows and sell financial assets. Some of the available-for-sale bonds are reclassified to financial assets measured at amortised cost due to their business model is achieved by collecting contractual cash flows. In addition, a small number of bonds with subordinated terms and writing-down natures are reclassified to financial assets measured at FVPL due to the inability to pass SPPI testing.

(ii) Discounted bills

Discounted bills held by domestic branches of the Group are in line with the business model as achieved by both collecting contractual cash flows and selling financial assets. Therefore, they are reclassified from loans and advances to customers to financial assets measured at FVOCI.

(iii) Equity investments

The Group has elected to irrevocably designate strategic investments in non-trading equity securities in clearing houses and exchanges at FVOCI as permitted under IFRS 9. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of. These securities were previously classified as available for sale. In addition to the above，the remaining equity investments of the Group were reclassified to financial assets measured at FVPL from available-for-sale financial assets.

(iv) Others

The Group's holdings of other banks' wealth management products with floating income, fund investments, trust plans and asset management plans are unable to pass the SPPI testing, so they are reclassified from investments classified as receivables and available-for-sale financial assets to financial assets measured at FVPL.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Impact of changes in significant accounting policies (continued)

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

Measurement category	Allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurement	Allowance under IFRS 9
Deposits with banks and non-bank financial institutions	57	–	72	129
Placements with banks and non-bank financial institutions	112	–	3	115
Financial assets held under resale agreements	–	–	15	15
Loans and advances to customers				
– Loans and advances to customers measured at amortised cost	328,968	(155)	14,989	343,802
– Loans and advances to customers measured at FVOCI	N/A	112	384	496
Financial Investments				
Financial assets measured at amortised cost	N/A	4,927	(272)	4,655
Financial assets measured at FVOCI	N/A	443	1,696	2,139
Held-to-maturity investments	3,410	(3,410)	–	–
Available-for-sale financial assets	6,295	(6,295)	–	–
Investments classified as receivables	2,114	(2,114)	–	–
Other financial assets	2,987	–	–	2,987
Off-balance sheet business	2,402	–	23,333	25,735
Total	346,345	(6,492)	40,220	380,073

(27) Changes in significant accounting estimates and assumptions

On 1 January 2018, the significant accounting estimates and judgements of IFRS 9 used by the Group include the measurement of expected credit losses and the classification of financial assets. Detailed information is set out in Note 4(24).

The significant accounting estimates and judgements used by the Group before 1 January 2018 included:

(a) Impairment losses on loans and advances, available-for-sale and held-to-maturity debt investments

The Group reviews the portfolios of loans and advances, and available-for-sale and held-to-maturity debt investments periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and advance, an available-for-sale or a held-to-maturity debt investment. 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 conditions that correlate with defaults on the assets in the portfolio.

The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flows. The same principle is adopted for impairment loss on a held-to-maturity debt investment which is individually assessed, except that as a practical expedient, the Group may measure the impairment loss on the basis of the instrument's fair value using an observable market price at the measurement date. The impairment loss for an available-for-sale debt investment is the difference between the acquisition cost (net off any principal repayments and amortisation) and the fair value, less any impairment loss previously recognised in profit or loss at the measurement date.

When loans and advances and held-to-maturity debt investments 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 and held-to-maturity debt investments that are being assessed. Historical loss experience is adjusted on the basis of the relevant observable data that reflects current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(27) Changes in significant accounting estimates and assumptions (Continued)

(b) Impairment of available-for-sale equity instruments

For available-for-sale equity instruments, a significant or other-than-temporary decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or other-than-temporary, the Group considers if the fair value of an available-for-sale equity instrument as at the end of reporting period is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than a year (including one year) together with other relevant considerations.

(c) Reclassification of held-to-maturity investments

In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Change of the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

5 TAXATION

The Group's main applicable taxes and tax rates are as follows:

Value added tax ("VAT")

Pursuant to the 'Circular on the Comprehensive Plan for Levying VAT in place of Business Tax' (Cai Shui [2016] No.36) jointly issued by the Ministry of Finance and the State Administration of Taxation, business tax that used to be levied on taxable income of the Bank and its subsidiaries in Mainland China was replaced by VAT from 1 May 2016. Accordingly, the income and expense under VAT were reported on a net basis. The main VAT taxation rate is 6%.

City construction tax

City construction tax is calculated as 1% – 7% of VAT.

Education surcharge

Education surcharge is calculated as 3% of VAT.

Local education surcharge

Local education surcharge is calculated as 2% of VAT.

Income tax

The income tax rate that is applicable to the Bank and its subsidiaries in Mainland China is 25%. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent allowed under the relevant income tax laws of the PRC. All tax exemptions are determined upon approval from the relevant tax authorities.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

6 NET INTEREST INCOME

	Note	2018	2017
Interest income arising from:			
Deposits with central banks		38,892	43,027
Deposits with banks and non-bank financial institutions		12,231	7,166
Placements with banks and non-bank financial institutions		11,765	8,113
Financial assets measured at fair value through profit or loss		N/A	11,046
Financial assets held under resale agreements		9,049	5,708
Investment securities	(a)	172,147	159,667
Loans and advances to customers			
– Corporate loans and advances		322,082	301,921
– Personal loans and advances		239,888	206,598
– Discounted bills		4,972	6,908
Total		811,026	750,154
Interest expense arising from:			
Borrowings from central banks		(15,671)	(14,486)
Deposits from banks and non-bank financial institutions		(36,441)	(34,736)
Placements from banks and non-bank financial institutions		(13,684)	(11,885)
Financial assets sold under repurchase agreements		(1,340)	(3,391)
Debt securities issued		(24,735)	(19,887)
Deposits from customers			
– Corporate deposits		(118,392)	(110,651)
– Personal deposits		(114,485)	(102,662)
Total		(324,748)	(297,698)
Net interest income		486,278	452,456

(a) As for this report, the interest income of investment securities include those generated from bonds measured at amortised cost and FVOCI (In 2017, they were interest income from held-to-maturity bonds, available-for-sale bonds and bonds classified as receivables).

(1) Interest income from impaired financial assets is listed as follows:

	2018	2017
Impaired loans and advances	3,229	3,143
Other impaired financial assets	83	39
Total	3,312	3,182

(2) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

7 NET FEE AND COMMISSION INCOME

	2018	2017
Fee and commission income		
Bank card fees	46,192	42,242
Electronic banking service fees	18,585	9,341
Agency service fees	16,044	16,256
Commission on trust and fiduciary activities	12,748	11,857
Settlement and clearing fees	12,101	13,211
Wealth management service fees	11,113	20,040
Consultancy and advisory fees	10,441	9,906
Guarantee fees	3,414	3,330
Credit commitment fees	1,573	1,525
Others	5,806	3,614
Total	138,017	131,322
Fee and commission expense		
Bank card transaction fees	(8,000)	(7,710)
Inter-bank transaction fees	(1,360)	(1,284)
Others	(5,622)	(4,530)
Total	(14,982)	(13,524)
Net fee and commission income	123,035	117,798

8 NET TRADING GAIN

	2018	2017
Debt securities	11,496	(1,138)
Derivatives	(66)	1,404
Equity investments	(450)	471
Others	1,634	4,121
Total	12,614	4,858

9 DIVIDEND INCOME

	2018	2017
Dividend income from equity investments measured at fair value through profit or loss	676	N/A
Dividend income from equity instruments investments measured at fair value through other comprehensive income	97	N/A
Total	773	N/A
Dividend income from listed trading equity investments	N/A	486
Dividend income from available-for-sale equity investments		
– Listed	N/A	1,310
– Unlisted	N/A	399
Total	N/A	2,195

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

10 NET GAIN/(LOSS) ARISING FROM INVESTMENT SECURITIES

	2018	2017
Net gain related to financial assets designated as measured at fair value through profit or loss	15,567	N/A
Net loss related to financial liabilities designated as measured at fair value through profit or loss	(14,761)	N/A
Net gain related to other financial assets measured at fair value through profit or loss	1,938	N/A
Net gain related to financial assets measured at fair value through other comprehensive income	499	N/A
Net revaluation gain/(loss) reclassified from other comprehensive income on disposal	204	(4,048)
Net gain on sale of available-for-sale financial assets	N/A	2,549
Net gain on sale of held-to-maturity investments	N/A	278
Net gain on sale of receivables	N/A	33
Others	(3)	353
Total	3,444	(835)

11 NET LOSSES ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

For the year ended 31 December 2018, the net losses on derecognition of financial assets measured at amortised cost mainly attributes to the Group's issuance of asset-backed securities, which led to the RMB2,507 million net losses arising from the derecognition of customers' loans and advances (for the year ended 31 December 2017: N/A).

12 OTHER OPERATING INCOME, NET

Other operating income

	2018	2017
Insurance related income	21,495	26,349
Foreign exchange gain	6,153	14,455
Rental income	2,790	2,449
Others	5,480	5,756
Total	35,918	49,009

Foreign exchange gain or loss includes gains and losses in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and currency swaps entered into in order to economically hedge long positions in foreign currency assets).

Other operating expenses

	2018	2017
Insurance related cost	20,714	26,946
Others	5,335	4,504
Total	26,049	31,450

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

13 OPERATING EXPENSES

	2018	2017
Staff costs		
– Salaries, bonuses, allowances and subsidies	**66,788**	64,274
– Other social insurance and welfare	**11,187**	10,213
– Housing funds	**6,390**	6,214
– Union running costs and employee education costs	**2,820**	2,609
– Defined contribution plans	**14,850**	12,923
– Early retirement expenses	**20**	37
– Compensation to employees for termination of employment relationship	**2**	4
	102,057	96,274
Premises and equipment expenses		
– Depreciation charges	**15,447**	14,049
– Rent and property management expenses	**9,926**	9,578
– Maintenance	**3,000**	2,882
– Utilities	**1,953**	1,988
– Others	**2,064**	1,988
	32,390	30,485
Taxes and surcharges	**6,132**	5,767
Amortisation expenses	**2,427**	2,306
Audit fees	**162**	172
Other general and administrative expenses	**31,596**	32,039
Total	**174,764**	167,043

14 IMPAIRMENT LOSSES

	2018
Credit impairment losses	
Loans and advances to customers	**143,045**
Financial investments	
Financial assets measured at amortised cost	**1,072**
Financial assets measured at fair value through other comprehensive income	**16**
Off-balance sheet business	**5,435**
Others	**1,541**
	151,109
Other impairment losses	**(121)**
Total	**150,988**

	2017
Loans and advances to customers	
– Additions	141,957
– Releases	(18,568)
Investment classified as receivables	796
Available-for-sale debt securities	457
Held-to-maturity investments	413
Available-for-sale equity investments	307
Fixed assets	1
Others	1,999
Total	127,362

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

15 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

	2018				
	Allowances RMB'000	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (Note (v)) RMB'000	Total (Note (i)) RMB'000
Executive directors					
Tian Guoli (Note (vi))	–	546	55	110	711
Wang Zuji (Note (vi))	–	546	55	110	711
Zhang Gengsheng (Note (vi))	–	491	55	107	653
Non-executive directors					
Feng Bing (Note (iii))	–	–	–	–	–
Zhu Hailin (Note (iii))	–	–	–	–	–
Li Jun (Note (iii))	–	–	–	–	–
Wu Min (Note (iii))	–	–	–	–	–
Zhang Qi (Note e (iii))	–	–	–	–	–
Independent non-executive directors					
Anita Fung Yuen Mei	413	–	–	–	413
Malcolm Christopher McCarthy	410	–	–	–	410
Carl Walter	440	–	–	–	440
Chung Shui Ming Timpson	440	–	–	–	440
Kenneth Patrick Chung (Note (ii))	70	–	–	–	70
Murray Horn	470	–	–	–	470
Supervisors					
Wu Jianhang (Note (vi))	–	330	29	70	429
Fang Qiuyue (Note (vi))	–	330	29	74	433
Lu Kegui (Note (iv))	29	–	–	–	29
Cheng Yuanguo (Note (iv))	29	–	–	–	29
Wang Yi (Note (iv))	29	–	–	–	29
Bai Jianjun	250	–	–	–	250
Former executive director					
Pang Xiusheng (Note (ii) & (vi))	–	369	41	76	486
Former non-executive director					
Hao Aiqun (Note (ii) & (iii))	–	–	–	–	–
Former supervisors					
Guo You (Note (vi))	–	182	18	31	231
Liu Jin (Note (vi))	–	330	26	66	422
Li Xiaoling (Note (vi))	–	268	–	49	317
Li Xiukun (Note (iv))	21	–	–	–	21
Jin Yanmin (Note (iv))	21	–	–	–	21
Li Zhenyu (Note (iv))	21	–	–	–	21
	2,643	3,392	308	693	7,036

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

15 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

	2017			
	Accrued cost (Allowances) RMB'000	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank RMB'000	Other monetary income RMB'000	Term incentive income during 2015-2017 RMB'000
Executive directors				
Tian Guoli	311	61	–	86
Wang Zuji	746	141	–	502
Pang Xiusheng (Note (ii))	671	139	–	518
Zhang Gengsheng	671	139	–	518
Non-executive directors				
Li Jun (Note (iii))	–	–	–	–
Hao Aiqun (Note (ii) & (iii))	–	–	–	–
Feng Bing (Note (iii))	–	–	–	–
Zhu Hailin (Note (iii))	–	–	–	–
Wu Min (Note (iii))	–	–	–	–
Zhang Qi (Note (iii))	–	–	–	–
Independent non-executive directors				
Anita Fung Yuen Mei	390	–	–	–
Carl Walter	440	–	–	–
Chung Shui Ming Timpson	440	–	–	–
Murray Horn	470	–	–	–
Malcolm Christopher McCarthy	171	–	–	–
Supervisors				
Guo You	746	141	–	576
Liu Jin	1,759	175	–	–
Li Xiaoling	1,759	168	–	–
Li Xiukun	50	–	–	–
Jin Yanmin	50	–	–	–
Li Zhenyu	50	–	–	–
Bai Jianjun	250	–	–	–
Former executive director				
Wang Hongzhang	497	75	–	508
Former non-executive directors				
Guo Yanpeng	–	–	–	–
Dong Shi	–	–	–	–
Former independent non-executive directors				
Wim Kok	190	–	–	–
Zhang Long	137	–	–	–
	9,798	1,039	–	2,708

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

15 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes:

(i) The amounts of emoluments for the year ended 31 December 2018 in respect of the services rendered by the directors and supervisors are subject to the approval of the Annual General Meeting.

(ii) As disclosed in the Bank's announcement on 29 June 2018, Ms. Hao Aiqun ceased to serve as non-executive director of the Bank due to expiry of term.

As disclosed in the Bank's announcement on 3 September 2018, Mr. Pang Xiusheng ceased to serve as executive director and executive vice president of the Bank due to retirement.

Upon election at the 2017 Annual General Meeting of the Bank, Mr. Kenneth Patrick Chung commenced his position as independent non-executive director of the Bank from 1 November 2018.

(iii) The Bank does not need to pay the emoluments of non-executive directors appointed by Huijin for the services rendered in 2018 and 2017.

(iv) The amounts only included fees for their services as supervisors.

(v) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

(vi) The total compensation package for these directors and supervisors for the year ended 31 December 2018 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have a significant impact on the Group's financial statements for the year ended 31 December 2018. The final compensation will be disclosed in a separate announcement when determined.

(vii) The total compensation package for certain directors and supervisors for the year ended 31 December 2017 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2017 financial statements were announced. The aforesaid total compensation package for the directors and supervisors for the year ended 31 December 2017 was the final amount.

(viii) From 2015 onwards, remuneration of the Bank's leaders administered by central authorities are paid in accordance with relevant policies relating to the central remuneration reform.

None of the directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the years ended 31 December 2018 and 2017.

16 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments are directors or supervisors whose emoluments are disclosed in Note 15. The aggregate of the emoluments before individual income tax in respect of the five highest paid individuals during the year is as follows:

	2018 RMB'000	2017 RMB'000
Salaries and allowance	15,861	15,589
Variable compensation	34,352	31,914
Contributions to defined contribution retirement schemes	1,144	1,056
Other benefit in kind	627	554
	51,984	49,113

The number of these individuals whose emoluments before individual income tax are within the following bands is set out below.

	2018	2017
RMB8,000,001 – RMB8,500,000	–	1
RMB8,500,001 – RMB9,000,000	–	1
RMB9,000,001 – RMB9,500,000	–	–
RMB9,500,001 – RMB10,000,000	1	1
RMB10,000,001 – RMB10,500,000	3	1
RMB10,500,001 – RMB11,000,000	–	–
RMB11,000,001 – RMB11,500,000	1	–
RMB11,500,001 – RMB12,000,000	–	1

None of these individuals received any inducements, or compensation for loss of office, or waived any emoluments during the year ended 31 December 2018 and 2017.

17 INCOME TAX EXPENSE

(1) Income tax expense

	2018	2017
Current tax	72,531	63,737
– Mainland China	69,949	60,753
– Hong Kong	1,444	1,377
– Other countries and regions	1,138	1,607
Adjustments for prior years	(1,928)	(352)
Deferred tax	(18,069)	(7,213)
Total	52,534	56,172

The provisions of income taxes for Mainland China and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from Mainland China and Hong Kong operations for the year respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(2) Reconciliation between income tax expense and accounting profit

	Note	2018	2017
Profit before tax		308,160	299,787
Income tax calculated at 25% statutory tax rate		77,040	74,947
Effects of different applicable rates of tax prevailing in other countries/regions		(740)	(573)
Non-deductible expenses	(i)	9,212	9,340
Non-taxable income	(ii)	(31,050)	(27,190)
Adjustments on income tax for prior years which affect profit or loss		(1,928)	(352)
Income tax expense		52,534	56,172

(i) Non-deductible expenses primarily include non-deductible losses resulting from write-off of loans, and items that are in excess of deductible amount under the relevant PRC tax regulations such as staff costs and entertainment expenses.

(ii) Non-taxable income primarily includes interest income from PRC government bonds and local government bonds.

18 EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2018 and 2017 have been computed by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the years.

For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared in respect of the period should be deducted from the amounts attributable to equity shareholders of the Bank.

The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur as at 31 December 2018 and 2017, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

	2018	2017
Net profit attributable to equity shareholders of the Bank	254,655	242,264
Less: profit for the year attributable to preference shareholders of the Bank	(3,936)	(1,045)
Net profit attributable to ordinary shareholders of the Bank	250,719	241,219
Weighted average number of ordinary shares (in millions of shares)	250,011	250,011
Basic earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	1.00	0.96
Diluted earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	1.00	0.96

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

19 CASH AND DEPOSITS WITH CENTRAL BANKS

	Note	2018	2017
Cash		65,215	73,876
Deposits with central banks			
– Statutory deposit reserves	(1)	2,130,958	2,665,738
– Surplus deposit reserves	(2)	389,425	209,080
– Fiscal deposits and others		46,095	39,562
Accrued interest		1,170	N/A
Total		2,632,863	2,988,256

(1) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates in Mainland China of the Bank were as follows:

	2018	2017
Reserve rate for RMB deposits	13.00%	17.00%
Reserve rate for foreign currency deposits	5.00%	5.00%

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by the PBOC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(2) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

20 DEPOSITS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2018	2017
Banks	468,564	163,521
Non-bank financial institutions	15,703	11,541
Accrued interest	2,912	N/A
Gross balances	487,179	175,062
Allowances for impairment losses (Note 35)	(230)	(57)
Net balances	486,949	175,005

(2) Analysed by geographical sectors

	2018	2017
Mainland China	451,606	147,945
Overseas	32,661	27,117
Accrued interest	2,912	N/A
Gross balances	487,179	175,062
Allowances for impairment losses (Note 35)	(230)	(57)
Net balances	486,949	175,005

In 2018, the book value of deposits with banks and non-bank financial institutions is in the first stage. The book value and the impairment loss allowances do not involve the transfer between stages.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

21 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2018	2017
Banks	**240,418**	173,762
Non-bank financial institutions	**107,285**	151,583
Accrued interest	**2,138**	N/A
Gross balances	**349,841**	325,345
Allowances for impairment losses (Note 35)	**(114)**	(112)
Net balances	**349,727**	325,233

(2) Analysed by geographical sectors

	2018	2017
Mainland China	**187,065**	276,308
Overseas	**160,638**	49,037
Accrued interest	**2,138**	N/A
Gross balances	**349,841**	325,345
Allowances for impairment losses (Note 35)	**(114)**	(112)
Net balances	**349,727**	325,233

In 2018, the book value of placements with banks and non-bank financial institutions is in stage 1. The book value and the impairment loss allowances do not involve the transfer between stages.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

22 DERIVATIVES AND HEDGE ACCOUNTING

(1) Analysed by type of contract

		2018			2017		
	Note	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Interest rate contracts		302,322	1,998	1,902	332,480	980	487
Exchange rate contracts		4,947,440	47,749	44,772	5,307,995	78,909	78,581
Other contracts	(a)	89,325	854	1,851	182,632	3,091	799
Total		5,339,087	50,601	48,525	5,823,107	82,980	79,867

(2) Analysed by credit risk-weighted assets

	Note	2018	2017
Counterparty credit default risk-weighted assets			
– Interest rate contracts		1,365	651
– Exchange rate contracts		21,402	47,728
– Other contracts	(a)	2,276	5,395
Subtotal		25,043	53,774
Credit value adjustment		12,493	20,545
Total		37,536	74,319

The notional amounts of derivatives only represent the unsettled transactions volume as at the end of the reporting period, instead of the amount of risk assets. Since 1 January 2013, the Group has adopted Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) and other related policies. According to the rules set out by the CBRC, the credit risk-weighted assets included credit valuation adjustments, with the considerations of counterparty status and maturity characteristic, and back-to-back client-driven transactions.

(a) Other contracts mainly consist of precious metals contracts.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

22 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

(3) Hedge accounting

The following designated hedging instruments are included in the derivatives financial instruments disclosed above.

	2018			2017		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Fair value hedges						
Interest rate swaps	46,452	559	(88)	49,087	469	(98)
Foreign exchange swaps	–	–	–	325	12	–
Cross currency swaps	344	17	–	–	–	–
Cash flow hedges						
Foreign exchange swaps	45,146	324	(330)	33,193	1,051	(418)
Foreign exchange forwards	–	–	–	51,684	918	(69)
Cross currency swaps	4,007	238	(6)	–	–	–
Interest rate swaps	17,156	37	(79)	–	–	–
Total	113,105	1,175	(503)	134,289	2,450	(585)

(a) *Fair value hedge*

The Group uses interest rate swaps and cross currency swaps to hedge against changes in fair value of financial assets measured at FVOCI, certificates of deposit issued, deposits from customers and non-bank financial institutions, and loans and advances to customers arising from changes in interest rates and exchange rates.

Net gains/(losses) on fair value hedges are as follows:

	2018	2017
Net gains/(losses) on		
– hedging instruments	72	(77)
– hedged items	(69)	71

The gain and loss arising from ineffective portion of fair value hedge was immaterial for the year ended 31 December 2018 and 2017.

(b) *Cash flow hedge*

The Group uses foreign exchange swaps, cross currency swaps and interest rate swaps to hedge against exposures to cash flow variability primarily from interest rate and foreign exchange risks of deposits from customers and non-bank financial institutions, loans and advances to customers, certificates of deposit issued, placement from banks and non-bank financial institutions and placements with banks and non-bank financial institutions. The maturities of hedging instruments and hedged items are both within five years.

For the year ended 31 December 2018, the Group's net loss from the cash flow hedge of RMB267 million were recognised in other comprehensive income (2017: net gain from the cash flow hedge of RMB470 million) and the gain and loss arising from ineffective portion of cash flow hedge was immaterial.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Financial assets held under resale agreements by underlying assets are shown as follows:

	2018	2017
Debt securities		
– Government bonds	**62,775**	106,541
– Debt securities issued by policy banks, banks and non-bank financial institutions	**77,639**	94,461
– Corporate bonds	**28**	2,618
– Others	**–**	1,051
Subtotal	**140,442**	204,671
Discounted bills	**61,302**	3,689
Accrued interest	**145**	N/A
Total	**201,889**	208,360
Allowances for impairment losses (Note 35)	**(44)**	–
Net balances	**201,845**	208,360

In 2018, the book value of financial assets held under resale agreements is in stage 1. The book value and the impairment loss allowances do not involve the transfer between stages.

24 INTEREST RECEIVABLE

	2017
Deposits with central banks	1,354
Deposits with banks and non-bank financial institutions	680
Financial assets held under resale agreements	145
Loans and advances to customers	39,583
Debt securities	69,550
Others	5,681
Gross and net balances	116,993

25 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by measurement

	Note	2018	2017
Loans and advances to customers measured at amortised cost		**13,405,030**	12,903,441
Less: Allowances for impairment losses		**(417,623)**	(328,968)
The carrying amount of loans and advances to customers measured at amortised cost	(a)	**12,987,407**	12,574,473
The carrying amount of loans and advances to customers measured at fair value through other comprehensive income	(b)	**308,368**	N/A
The carrying amount of loans and advances to customers measured at fair value through profit or loss	(c)	**32,857**	N/A
Accrued interest		**36,798**	N/A
The carrying amount of loans and advances to customers		**13,365,430**	12,574,473

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(1) Analysed by measurement (continued)

(a) Loans and advances to customers as measured at amortised cost

	2018	2017
Corporate loans and advances		
– Loans	7,309,538	7,365,095
– Finance leases	136,071	122,737
	7,445,609	7,487,832
Personal loans and advances		
– Residential mortgages	4,844,440	4,252,698
– Personal consumer loans	214,783	203,218
– Personal business loans	37,287	41,417
– Credit cards	655,190	567,683
– Others	205,845	214,878
	5,957,545	5,279,894
Discounted bills	1,876	135,715
Gross loans and advances to customers measured at amortised cost	13,405,030	12,903,441
Stage 1	(183,615)	N/A
Stage 2	(93,624)	N/A
Stage 3	(140,384)	N/A
Individual assessment	N/A	(113,820)
Collective assessment	N/A	(215,148)
Allowances for impairment losses (Note 35)	(417,623)	(328,968)
Net loans and advances to customers measured at amortised cost	12,987,407	12,574,473

(b) Loans and advances to customers measured at fair value through other comprehensive income

	2018	2017
Discounted bills	308,368	N/A

(c) Loans and advances to customers at fair value through profit or loss

	2018	2017
Corporate loans and advances	32,857	N/A

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(2) Analysed by assessment method of expected credit losses

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans and advances to customers measured at amortised cost	**12,808,032**	**396,117**	**200,881**	**13,405,030**
Less: allowances for impairment losses	**(183,615)**	**(93,624)**	**(140,384)**	**(417,623)**
The carrying amount of loans and advances to customers measured at amortised cost	**12,624,417**	**302,493**	**60,497**	**12,987,407**
The carrying amount of loans and advances measured at fair value through other comprehensive income	**308,346**	**22**	**–**	**308,368**
The impairment losses of loans and advances measured at fair value through other comprehensive income	**(944)**	**(2)**	**–**	**(946)**

	2017			
		Impaired loans and advances		
	Loans and advances for which allowances are collectively assessed	for which allowances are collectively assessed	for which allowances are individually assessed	Total
Gross loans and advances to customers	12,711,150	22,493	169,798	12,903,441
Allowances for impairment losses	(201,346)	(13,802)	(113,820)	(328,968)
Net loans and advances to customers	12,509,804	8,691	55,978	12,574,473

For loans and advances to customers at Stage 1 and 2 and personal loans and advances at Stage 3, ECL model is used to calculate the ECL amount while for corporate loans and advances at Stage 3, discounted cash flow model is used.

The segmentation of the loans mentioned above is defined in Note 62(1).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(3) Movements of allowances for impairment losses

	Note	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Purchased impaired financial assets	2018 Total
As at 1 January 2018		149,249	65,887	128,666	–	343,802
Transfers:						
Transfers in (out) to Stage 1		3,153	(2,578)	(575)	–	–
Transfers in (out) to Stage 2		(4,241)	5,041	(800)	–	–
Transfers in (out) to Stage 3		(1,476)	(16,077)	17,553	–	–
Newly originated or purchased financial assets		88,574	–	–	–	88,574
Transfer out/repayment	(i)	(60,428)	(9,578)	(40,718)	–	(110,724)
Remeasurements	(ii)	8,784	50,929	73,514	–	133,227
Write-off		–	–	(43,879)	–	(43,879)
Recoveries of loans and advances previously written off		–	–	6,623	–	6,623
As at 31 December 2018		183,615	93,624	140,384	–	417,623

	Note	2017 Allowances for loans and advances which are collectively assessed	2017 Allowances for impaired loans and advances which are collectively assessed	2017 Allowances for impaired loans and advances which are individually assessed	2017 Total
As at 1 January 2017		155,949	13,275	99,453	268,677
Charge for the year		45,602	7,524	88,831	141,957
Release during the year		–	–	(18,568)	(18,568)
Unwinding of discount		–	–	(3,143)	(3,143)
Transfers out	(i)	(205)	(2,919)	(24,352)	(27,476)
Write-offs		–	(5,270)	(31,721)	(36,991)
Recoveries		–	1,192	3,320	4,512
As at 31 December 2017		201,346	13,802	113,820	328,968

(i) Transfers out/repayment refers to transfer of allowance of non-performing loans through package sale, securitisation of assets, and as a result of foreclosures, as well as repayment of allowance of returns of the loans.

(ii) Remeasurements comprise the impact of changes in PD (Probability of Default), LGD (Loss Given Default) or EAD (Exposure at Default); changes in model assumptions and methodology; credit loss changes due to stage-transfer; unwinding of the time value; and the impact of exchange rate changes.

The allowances for impairment losses disclosed above are for loans and advances to customers measured at amortised cost.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(4) Overdue loans analysed by overdue period

	2018				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	13,719	12,734	4,547	825	31,825
Guaranteed loans	13,461	27,875	21,495	3,206	66,037
Loans secured by tangible assets other than monetary assets	25,407	22,671	19,243	5,188	72,509
Loans secured by monetary assets	2,458	1,983	685	224	5,350
Total	55,045	65,263	45,970	9,443	175,721
As a percentage of gross loans and advances to customers	0.40%	0.47%	0.33%	0.07%	1.27%

	2017				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	8,701	6,594	5,640	1,138	22,073
Guaranteed loans	15,569	20,668	24,730	3,047	64,014
Loans secured by tangible assets other than monetary assets	28,556	22,547	22,715	2,658	76,476
Loans secured by monetary assets	564	1,072	1,458	215	3,309
Total	53,390	50,881	54,543	7,058	165,872
As a percentage of gross loans and advances to customers	0.42%	0.40%	0.42%	0.05%	1.29%

Overdue loans represent loans of which the whole or part of the principal or interest are overdue for 1 day or more.

(5) Package sale of non-performing loans

During the year ended 31 December 2018, the total amount of non-performing loans sold through packaged sales to external asset management companies was RMB36,136 million (2017: RMB45,522 million).

(6) Write off

According to the Group's write-off policy, it is required to continue recover the bad debts that are written off. In 2018, the amount of the financial assets that Group has written off but still under enforcement is RMB16,910 million.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS

(1) Analysed by measurement

	Note	2018	2017
Financial assets measured at fair value through profit or loss	(a)	**731,217**	578,436
Financial assets measured at amortised cost	(b)	**3,272,514**	N/A
Financial assets measured at fair value through other comprehensive income	(c)	**1,711,178**	N/A
Available-for-sale financial assets		**N/A**	1,550,680
Held-to-maturity investments		**N/A**	2,586,722
Investments classified as receivables		**N/A**	465,810
Total		**5,714,909**	5,181,648

(a) Financial assets measured at fair value through profit or loss

Analysed by nature

	Note	2018	2017
Held for trading purposes			
– Debt securities	(i)	**218,757**	189,447
– Equity instruments and funds	(ii)	**1,706**	1,312
		220,463	190,759
Financial assets designated as measured at fair value through profit or loss			
– Debt securities	(iii)	**14,909**	10,211
– Equity instruments and funds		**–**	23,076
– Other debt instruments	(iv)	**350,578**	354,390
		365,487	387,677

	Note	2018	2017
Others			
– Credit investments	(v)	**14,257**	N/A
– Debt securities	(vi)	**31,740**	N/A
– Funds and others	(vii)	**99,270**	N/A
		145,267	N/A
Total		**731,217**	578,436

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (Continued)

(a) Financial assets measured at fair value through profit or loss (Continued)

Analysed by type of issuers

Held for trading purpose

(i) Debt securities

	2018	2017
Government	8,361	10,812
Central banks	–	543
Policy banks	41,068	22,395
Banks and non-bank financial institutions	52,288	58,485
Enterprises	117,040	97,212
Total	218,757	189,447
Listed (Note)	218,757	189,447
– of which in Hong Kong	1,091	26
Total	218,757	189,447

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified in the listed category.

(ii) Equity instruments and funds

	2018	2017
Banks and non-bank financial institutions	453	152
Enterprises	1,253	1,160
Total	1,706	1,312
Listed	1,677	1,171
– of which in Hong Kong	1,150	1,067
Unlisted	29	141
Total	1,706	1,312

Financial assets designated as measured at fair value through profit or loss

(iii) Debt securities

	2018	2017
Enterprises, unlisted	14,909	10,211

(iv) Other debt instruments

	2018	2017
Banks and non-bank financial institutions	257,813	218,322
Enterprises	92,765	136,068
Total	350,578	354,390

Other debt instruments were mainly the deposits with banks, bonds and credit assets invested by principal guaranteed wealth management products and bonds (Note 28(2)).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(a) Financial assets measured at fair value through profit or loss (continued)

Analysed by type of issuers (continued)

Others

(v) Credit investments

	2018	2017
Banks and non-bank financial institutions, unlisted	14,257	N/A

(vi) Debt securities

	2018	2017
Policy banks	4,094	N/A
Banks and non-bank financial institutions	27,646	N/A
Total	31,740	N/A
Listed	31,279	N/A
Unlisted	461	N/A
Total	31,740	N/A

(vii) Funds and others

	2018	2017
Banks and non-bank financial institutions	62,156	N/A
Enterprises	37,114	N/A
Total	99,270	N/A
Listed	44,027	N/A
– of which in Hong Kong	1,143	N/A
Unlisted	55,243	N/A
Total	99,270	N/A

There was no significant limitation on the ability of the Group to dispose of financial assets measured at FVPL.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(b) Financial assets measured at amortised cost

Analysed by type of issuers

	2018
Government	2,623,081
Central banks	447
Policy banks	372,422
Banks and non-bank financial institutions	33,972
Enterprises	152,404
Special government bond	49,200
Subtotal	3,231,526
Accrued interest	47,823
Gross balances	3,279,349
– Stage 1	(5,171)
– Stage 2	(509)
– Stage 3	(1,155)
Allowances for impairment losses	(6,835)
Net balances	3,272,514
Listed (Note)	3,121,678
– of which in Hong Kong	5,903
Unlisted	150,836
Total	3,272,514
Market value of listed bonds	3,124,407

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as listed.

On 1 January 2018, net carrying value of RMB364,158 million debt securities held by the Group were reclassified from available-for-sale financial assets to financial assets measured at amortised cost. On 31 December 2018, the net value of above-mentioned debt securities was RMB377,065 million and the fair value was RMB371,316 million. Assuming that these debt securities were not reclassified on 1 January 2018, the amount charged to other comprehensive income for this year as a result of fair value changes would be RMB7,158 million under IAS 39.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(c) Financial assets measured at fair value through other comprehensive income

Analysed by nature

	Note	2018
Debt securities	(i)	1,707,884
Equity instruments	(ii)	3,294
Total		1,711,178

Analysed by type of issuers

(i) Debt securities

	2018
Government	1,015,579
Central banks	38,483
Policy banks	351,329
Banks and non-bank financial institutions	112,860
Enterprises	145,290
Accumulated change of fair value charged in OCI	19,900
Subtotal	1,683,441
Accrued interest	24,443
Carrying value	1,707,884
Listed (Note)	1,681,048
– of which in Hong Kong	65,938
Unlisted	26,836
Total	1,707,884

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as listed.

(ii) Equity instruments designated at fair value through other comprehensive income

	2018	
	Fair value	Dividend income
State Financing Guarantee Fund Co., Ltd.	750	–
China Citic Bank Co., Ltd.	696	44
VISA Int..	569	1
Ping An Bank Co., Ltd.	290	4
Bank VTB OAO Co., Ltd.	258	25
China UnionPay Co., Ltd.	221	16
Others	510	7
Total	3,294	97
Cost	2,495	
Cumulative changes in fair value	799	

The Group neither sold any investments above nor transferred any cumulative profit or losses among the equity.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(2) Movement of financial investments

(a) Financial assets measured at amortised cost

	2018				
	Stage 1	Stage 2	Stage 3	Purchased impaired financial assets	Total
As at 1 January 2018	3,237,512	786	650	–	3,238,948
Transfers:					
Transfers in (out) to Stage 1	–	–	–	–	–
Transfers in (out) to Stage 2	(3,896)	3,896	–	–	–
Transfers in (out) to Stage 3	(1,979)	–	1,979	–	–
Newly originated or purchased financial assets	380,371	–	–	–	380,371
Financial assets derecognised during the year	(388,976)	(1,053)	(153)	–	(390,182)
FX and other movements	2,346	12	31	–	2,389
As at 31 December 2018	3,225,378	3,641	2,507	–	3,231,526

(b) Financial assets measured at fair value through other comprehensive income

	2018				
	Stage 1	Stage 2	Stage 3	Purchased impaired financial assets	Total
As at 1 January 2018	1,280,486	–	–	–	1,280,486
Transfers:					
Transfers in (out) to Stage 1	–	–	–	–	–
Transfers in (out) to Stage 2	–	–	–	–	–
Transfers in (out) to Stage 3	–	–	–	–	–
Newly originated or purchased financial assets	829,334	–	–	–	829,334
Financial assets derecognised during the year	(433,457)	–	–	–	(433,457)
FX and other movements	7,078	–	–	–	7,078
As at 31 December 2018	1,683,441	–	–	–	1,683,441

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(3) Movements of allowances for impairment losses

(a) Financial assets measured at amortised cost

		2018				
	Note	Stage 1	Stage 2	Stage 3	Purchased impaired financial assets	Total
As at 1 January 2018		4,049	83	523	–	4,655
Transfers:						
Transfers in (out) to Stage 1		–	–	–	–	–
Transfers in (out) to Stage 2		(342)	342	–	–	–
Transfers in (out) to Stage 3		(345)	–	345	–	–
Newly originated or purchased financial assets		1,166	–	–	–	1,166
Financial assets derecognised during the year		(691)	(64)	(27)	–	(782)
Remeasurements	(i)	359	77	252	–	688
FX and other movements		975	71	62	–	1,108
As at 31 December 2018		5,171	509	1,155	–	6,835

(b) Financial assets measured at fair value through other comprehensive income

		2018				
	Note	Stage 1	Stage 2	Stage 3	Purchased impaired financial assets	Total
As at 1 January 2018		2,139	–	–	–	2,139
Transfers:						
Transfers in (out) to Stage 1		–	–	–	–	–
Transfers in (out) to Stage 2		–	–	–	–	–
Transfers in (out) to Stage 3		–	–	–	–	–
Newly originated or purchased financial assets		501	–	–	–	501
Financial assets derecognised during the year		(182)	–	–	–	(182)
Remeasurements	(i)	(303)	–	–	–	(303)
FX and other movements		(65)	–	–	–	(65)
As at 31 December 2018		2,090	–	–	–	2,090

(i) Remeasurements mainly comprise the impact of changes in probability of default, loss given default and exposure at default, credit loss changes due to stage-transfer.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(4) Available-for-sale financial assets

Analysed by type of nature

	2017
Debt securities	1,461,824
Equity instruments	31,723
Funds	57,133
Total	1,550,680

Debt securities

Analysed by type of issuers

	2017
Government	985,559
Central banks	36,742
Policy banks	228,104
Banks and non-bank financial institutions	89,327
Enterprises	122,092
Total	1,461,824
Listed (Note)	1,428,927
– of which in Hong Kong	22,662
Unlisted	32,897
Total	1,461,824

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified in the listed category.

Equity instruments and funds

	2017
Debt-to-equity swap	913
Other equity instruments	30,810
Funds	57,133
Total	88,856
Listed	54,172
– of which in Hong Kong	1,957
Unlisted	34,684
Total	88,856

Mainly pursuant to the debt-to-equity swap arrangement by the PRC government in 1999, the Group obtained equity interests of certain entities in lieu of repayments of loans granted to them. According to the relevant requirements, the Group is prohibited from being involved in management of the operations of these entities. In substance, the Group does not have any control, joint control or significant influence over these entities.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(5) Held-to-maturity investments

Analysed by type of issuers

	2017
Government	1,908,032
Central banks	434
Policy banks	552,057
Banks and non-bank financial institutions	27,045
Enterprises	102,564
Gross balances	2,590,132
Allowances for impairment losses (Note 35)	(3,410)
Net balances	2,586,722
Listed (Note)	2,575,216
– of which in Hong Kong	4,000
Unlisted	11,506
Total	2,586,722
Market value of listed securities	2,522,112

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified in the listed category.

(6) Investments classified as receivables

	Note	2017
Government		
– Special government bond	(a)	49,200
– Others		304,554
Policy banks		20,000
Banks and non-bank financial institutions		13,462
Enterprises		29,096
Others	(b)	51,612
Gross balances		467,924
Allowances for impairment losses (Note 35)		(2,114)
Net balances		465,810
Listed		406,864
– of which in Hong Kong		1,181
Unlisted		58,946
Total		465,810

(a) This represents a non-transferable bond with a nominal value of RMB49,200 million issued by the Ministry of Finance ("MOF") in 1998 to strengthen the capital base of CCB. The bond matures in 2028 and bears a fixed interest rate of 2.25% per annum. The PBOC approved the Bank's use of the special government bond as eligible assets equivalent to the surplus deposit reserve at PBOC for clearing purpose.

(b) Others include asset management plans and capital trust plans with fixed or determined payments. They mature from January 2017 to November 2026 and bear interest rates ranging from 2.95% to 9.50% per annum. During the reporting period, matured plans have been repaid without overdue.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 LONG-TERM EQUITY INVESTMENTS

(1) Investments in subsidiaries

(a) Investment cost

	Note	2018	2017
CCB Financial Asset Investment Corporation Limited ("CCBFI")		**12,000**	12,000
CCB Brasil Financial Holding – Investimentos e Participações Ltda		**9,542**	9,542
CCB Financial Leasing Corporation Limited ("CCBFLCL")		**8,163**	8,163
CCB Life Insurance Company Limited ("CCB Life")		**3,902**	3,902
CCB Trust Corporation Limited ("CCB Trust")		**3,409**	3,409
China Construction Bank (London) Limited ("CCB London")		**2,861**	2,861
CCB Pension Management Corporation Limited ("CCB Pension")		**1,955**	1,955
China Construction Bank (Europe) S.A. ("CCB Europe")		**1,629**	1,629
Sino-German Bausparkasse Corporation Limited ("Sino-German Bausparkasse")		**1,502**	1,502
PT Bank China Construction Bank Indonesia Tbk ("CCB Indonesia")		**1,340**	1,352
China Construction Bank (Malaysia) Berhad ("CCB Malaysia")		**1,334**	1,334
China Construction Bank (New Zealand) Limited ("CCB New Zealand")		**976**	976
China Construction Bank (Russia) Limited Liability Company ("CCB Russia")		**851**	851
Golden Fountain Finance Limited ("Golden Fountain")		**676**	676
CCB Principal Asset Management Corporation Limited ("CCB Principal")		**130**	130
CCB International Group Holdings Limited ("CCBIG")		**–**	–
Rural Banks	(i)	**–**	1,378
Total		**50,270**	51,660

(i) On 25 December 2018, the Bank sold all the interest in the 27 rural banks to Bank of China Limited and Fullerton Financial Holdings Pte. Ltd. for a consideration of RMB1.606 billion. Upon completion of the transaction, the above-mentioned rural banks were no longer subsidiaries of the Bank.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(1) Investments in subsidiaries (continued)

(b) Except for CCB Indonesia, major subsidiaries of the Group are unlisted enterprises, details of the investments in subsidiaries are as follows:

Name of company	Principal place of business	Particulars of issued and paid up capital	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank	Method of investment
CCBFI	Beijing, the PRC	RMB12,000 million	Investment	100%	–	100%	Establishment
CCB Brasil Financial Holding – Investimentos e Participações Ltda	Sao Paulo, Brasil	R$4,281 million	Investment	99.99%	0.01%	100%	Acquisition
CCBFLCL	Beijing, the PRC	RMB8,000 million	Financial Leasing	100%	–	100%	Establishment
CCB Life	Shanghai, the PRC	RMB4,496 million	Insurance	51%	–	51%	Acquisition
CCB Trust	Anhui, the PRC	RMB1,527 million	Trust business	67%	–	67%	Acquisition
CCB London	London, United Kingdom	US$200 million RMB1,500 million	Commercial Banking	100%	–	100%	Establishment
CCB Pension	Beijing, the PRC	RMB2,300 million	Pension Management	85%	–	85%	Establishment
CCB Europe	Luxembourg	EUR200 million	Commercial Banking	100%	–	100%	Establishment
Sino-German Bausparkasse	Tianjin, the PRC	RMB2,000 million	House savings	75.10%	–	75.10%	Establishment
CCB Indonesia	Jakarta, Indonesia	IDR1,663,146 million	Commercial Banking	60%	–	60%	Acquisition
CCB Malaysia	Kuala Lumpur, Malaysia	MYR823 million	Commercial Banking	100%	–	100%	Establishment
CCB New Zealand	Auckland, New Zealand	NZD199 million	Commercial Banking	100%	–	100%	Establishment
CCB Russia	Moscow, Russia	RUB4,200 million	Commercial Banking	100%	–	100%	Establishment
Golden Fountain	British Virgin Islands	US$50,000	Investment	100%	–	100%	Acquisition
CCB Principal	Beijing, the PRC	RMB200 million	Fund management services	65%	–	65%	Establishment
CCBIG	Hong Kong, the PRC	HK$1	Investment	100%	–	100%	Establishment
CCB International (Holdings) Limited ("CCBI")	Hong Kong, the PRC	US$601 million	Investment	–	100%	100%	Acquisition
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong, the PRC	HK$6,511 million RMB17,600 million	Commercial Banking	–	100%	100%	Acquisition
China Construction Bank (Brasil) Banco Multiplo S/A. ("CCB Brasil")	Sao Paulo, Brasil	R$2,957 million	Commercial Banking	–	100%	100%	Acquisition

(c) As at 31 December 2018, the amount of the non-controlling interests of the subsidiaries was immaterial to the Group.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(2) Interests in associates and joint ventures

(a) The movement of the Group's interests in associates and joint ventures is as follows:

	2018	2017
As at 1 January	7,067	7,318
Acquisition during the year	1,352	1,544
Disposal during the year	(252)	(1,549)
Share of profits	140	161
Cash dividend receivable	(202)	(42)
Effect of exchange difference and others	(103)	(365)
As at 31 December	8,002	7,067

(b) Details of the interests in major associates and joint ventures are as follows:

Name of Company	Principal place of business	Particulars of issued and paid up capital	Principal activities	% of ownership held	% of voting held	Total assets at period end	Total liabilities at period end	Revenue for the period	Net profit for the year
Diamond String Limited	Hong Kong, the PRC	HK $10,000	Property investment	50.00%	50.00%	2,029	1,805	277	121
Minmetals Yuanding Equity Investment Fund (Ningbo) Partnership (Limited Partnership)	Ningbo, the PRC	RMB1,080 million	Investment management and consulting	43.48%	16.67%	1,079	3	–	(4)
Maotai CCBT Private Equity Fund (Limited Partnership)	Guizhou, the PRC	RMB900 million	Investment management and consultancy	37.50%	40.00%	947	26	34	21
Guangdong SOE Reorganization Development Fund (Limited Partnership)	Zhuhai, the PRC	RMB720 million	Investment management and consultancy	49.67%	33.00%	716	–	17	10

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

28 STRUCTURED ENTITIES

(1) Unconsolidated structured entities

Unconsolidated structured entities of the Group include trust plans, asset management plans, funds, asset-backed securities and wealth management products held for investment purpose, and non-principal guaranteed wealth management products, trust plans and funds, etc. which are issued or established by the Group for providing wealth management services to customers and earning management fees, commission and custodian fees in return.

As at 31 December 2018 and 2017, the assets recognised for the Group's interests in the unconsolidated structured entities above included related investment and management fee, commission and custodian fee receivables accrued. The related carrying amount and the maximum exposure were as follows:

	2018	2017
Financial investments		
Financial assets measured at fair value through profit or loss	68,499	17,405
Financial assets measured at amortised cost	54,884	N/A
Financial assets measured at fair value through other comprehensive income	896	N/A
Available-for-sale financial assets	N/A	79,231
Investments classified as receivables	N/A	48,356
Interests in associates and joint ventures	4,196	3,430
Interest receivables	N/A	178
Other assets	3,510	3,398
Total	131,985	151,998

For the year ended 31 December 2018 and 2017, the income from these unconsolidated structured entities held by the Group was as follows:

	2018	2017
Interest income	3,356	2,661
Fee and commission income	12,326	19,760
Net trading gain	–	471
Dividend income	309	1,486
Net gain/(loss) arising from investment securities	1,932	(3,623)
Share of profit of associates and joint ventures	21	55
Total	17,944	20,810

As at 31 December 2018, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,841,018 million (as at 31 December 2017: RMB1,730,820 million), and the balance of trust plans, funds and asset management plans issued or established by the Group amounted to RMB3,334,455 million (including the Group's non-principal guaranteed wealth management products issued by the subsidiaries) (as at 31 December 2017: RMB3,006,555 million). For the year ended 31 December 2018, there were debt securities purchased and sold between the Group and the non-principal guaranteed wealth management products mentioned above. These transactions were based on market prices or general commercial terms. The profit and loss from these transactions was not material to the Group.

(2) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products (Note 26(1)(a)(iv)) and certain asset management plans and trust plans etc.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

29 FIXED ASSETS

	Bank premises	Construction in progress	Equipment	Aircraft and vessels	Others	Total
Cost/Deemed cost						
As at 1 January 2018	122,870	26,646	54,989	22,855	43,636	270,996
Additions	1,205	6,651	5,104	2,502	2,476	17,938
Transfer in/(out)	9,745	(12,386)	82	–	2,559	–
Other movements	(342)	(1,197)	(5,057)	204	(2,820)	(9,212)
As at 31 December 2018	133,478	19,714	55,118	25,561	45,851	279,722
Accumulated depreciation						
As at 1 January 2018	(34,156)	–	(36,351)	(2,250)	(28,141)	(100,898)
Charge for the year	(4,964)	–	(5,904)	(1,271)	(4,579)	(16,718)
Other movements	172	–	4,893	113	2,714	7,892
As at 31 December 2018	(38,948)	–	(37,362)	(3,408)	(30,006)	(109,724)
Allowances for impairment losses (Note 35)						
As at 1 January 2018	(415)	–	–	(1)	(3)	(419)
Charge for the year	–	(1)	–	(13)	–	(14)
Other movements	9	–	–	–	–	9
As at 31 December 2018	(406)	(1)	–	(14)	(3)	(424)
Net carrying value						
As at 1 January 2018	88,299	26,646	18,638	20,604	15,492	169,679
As at 31 December 2018	94,124	19,713	17,756	22,139	15,842	169,574

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

29 FIXED ASSETS (CONTINUED)

	Bank premises	Construction in progress	Equipment	Aircraft and vessels	Others	Total
Cost/Deemed cost						
As at 1 January 2017	119,972	25,543	54,987	20,501	42,193	263,196
Additions	1,082	6,305	4,109	6,229	2,309	20,034
Transfer in/(out)	3,111	(4,568)	59	–	1,398	–
Other movements	(1,295)	(634)	(4,166)	(3,875)	(2,264)	(12,234)
As at 31 December 2017	122,870	26,646	54,989	22,855	43,636	270,996
Accumulated depreciation						
As at 1 January 2017	(30,328)	–	(34,598)	(1,478)	(26,201)	(92,605)
Charge for the year	(4,192)	–	(5,791)	(1,058)	(4,066)	(15,107)
Other movements	364	–	4,038	286	2,126	6,814
As at 31 December 2017	(34,156)	–	(36,351)	(2,250)	(28,141)	(100,898)
Allowances for impairment losses (Note 35)						
As at 1 January 2017	(418)	–	–	(75)	(3)	(496)
Charge for the year	–	–	–	(1)	–	(1)
Other movements	3	–	–	75	–	78
As at 31 December 2017	(415)	–	–	(1)	(3)	(419)
Net carrying value						
As at 1 January 2017	89,226	25,543	20,389	18,948	15,989	170,095
As at 31 December 2017	88,299	26,646	18,638	20,604	15,492	169,679

Notes:

(1) Other movements include disposals, retirements and exchange gains or losses of fixed assets.

(2) As at 31 December 2018, the ownership documentation for the Group's bank premises with a net carrying value of RMB18,645 million (as at 31 December 2017: RMB19,512 million) was being finalised. However, management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

30 LAND USE RIGHTS

	2018	2017
Cost/Deemed cost		
As at 1 January	21,495	21,206
Additions	444	499
Disposals	(79)	(210)
As at 31 December	21,860	21,495
Amortisation		
As at 1 January	(6,810)	(6,322)
Charge for the year	(565)	(535)
Disposals	26	47
As at 31 December	(7,349)	(6,810)
Allowances for impairment losses (Note 35)		
As at 1 January	(140)	(142)
Disposals	2	2
As at 31 December	(138)	(140)
Net carrying value		
As at 1 January	14,545	14,742
As at 31 December	14,373	14,545

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

31 INTANGIBLE ASSETS

	Software	Others	Total
Cost/Deemed cost			
As at 1 January 2018	8,424	1,211	9,635
Additions	1,519	214	1,733
Disposals	(29)	(153)	(182)
As at 31 December 2018	9,914	1,272	11,186
Amortisation			
As at 1 January 2018	(6,429)	(446)	(6,875)
Charge for the year	(754)	(57)	(811)
Disposals	29	101	130
As at 31 December 2018	(7,154)	(402)	(7,556)
Allowances for impairment losses (Note 35)			
As at 1 January 2018	–	(8)	(8)
Additions	–	–	–
Disposals	–	–	–
As at 31 December 2018	–	(8)	(8)
Net carrying value			
As at 1 January 2018	1,995	757	2,752
As at 31 December 2018	2,760	862	3,622

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

31 INTANGIBLE ASSETS (CONTINUED)

	Software	Others	Total
Cost/Deemed cost			
As at 1 January 2017	7,688	1,128	8,816
Additions	851	121	972
Disposals	(115)	(38)	(153)
As at 31 December 2017	8,424	1,211	9,635
Amortisation			
As at 1 January 2017	(5,851)	(358)	(6,209)
Charge for the year	(628)	(107)	(735)
Disposals	50	19	69
As at 31 December 2017	(6,429)	(446)	(6,875)
Allowances for impairment losses (Note 35)			
As at 1 January 2017	(1)	(7)	(8)
Additions	–	(1)	(1)
Disposals	1	–	1
As at 31 December 2017	–	(8)	(8)
Net carrying value			
As at 1 January 2017	1,836	763	2,599
As at 31 December 2017	1,995	757	2,752

32 GOODWILL

(1) The goodwill is mainly attributable to the expected synergies arising from the acquisition of CCB Asia, CCB Brasil and CCB Indonesia. The movement of the goodwill is listed as follows:

	2018	2017
As at 1 January	**2,751**	2,947
Effect of exchange difference	**15**	(196)
As at 31 December	**2,766**	2,751

(2) Impairment test for CGU containing goodwill

The Group calculated the recoverable amount of CGU using cash flow projections based on financial forecasts approved by management. The average growth rate used by the Group is consistent with the forecasts included in industry reports. The discount rate used reflects specific risks relating to the relevant segments.

No impairment losses on goodwill of the Group were recognised as at 31 December 2018 (as at 31 December 2017: nil).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

33 DEFERRED TAX

	2018	2017
Deferred tax assets	58,730	46,189
Deferred tax liabilities	(485)	(389)
Total	58,245	45,800

(1) Analysed by nature

	2018		2017	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	(25,347)	(6,464)	31,341	8,162
– Allowances for impairment losses	260,308	64,823	153,278	38,023
– Early retirement benefits and accrued salaries	21,265	5,276	23,511	5,814
–Others	(20,363)	(4,905)	(26,160)	(5,810)
Total	235,863	58,730	181,970	46,189
Deferred tax liabilities				
– Fair value adjustments	(1,271)	(193)	(1,446)	(343)
– Others	(1,751)	(292)	(556)	(46)
Total	(3,022)	(485)	(2,002)	(389)

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

33 DEFERRED TAX (CONTINUED)

(2) Movements of deferred tax

	Fair value adjustments	Allowances for impairment losses	Early retirement benefits and accrued salaries	Others	Total
As at 1 January 2018 (Note)	**5,332**	**46,906**	**5,814**	**(5,856)**	**52,196**
Recognised in profit or loss	**31**	**17,917**	**(538)**	**659**	**18,069**
Recognised in other comprehensive income	**(12,020)**	**–**	**–**	**–**	**(12,020)**
As at 31 December 2018	**(6,657)**	**64,823**	**5,276**	**(5,197)**	**58,245**
As at 1 January 2017	(43)	27,959	6,188	(3,612)	30,492
Recognised in profit or loss	(233)	10,064	(374)	(2,244)	7,213
Recognised in other comprehensive income	8,095	–	–	–	8,095
As at 31 December 2017	7,819	38,023	5,814	(5,856)	45,800

The Group did not have significant unrecognised deferred tax as at the end of the reporting period.

Note: The differences between the opening balances of deferred tax of this year and the balances at 31 December 2017 were due to the adoption of IFRS 9.

34 OTHER ASSETS

	Note	2018	2017
Repossessed assets	(1)		
– Buildings		**1,721**	1,589
– Land use rights		**624**	624
– Others		**765**	953
		3,110	3,166
Clearing and settlement accounts		**18,517**	6,095
Fee and commission receivables		**11,305**	9,463
Policyholder account assets and accounts receivable of insurance business		**6,318**	3,194
Deferred expenses		**3,232**	3,254
Leasehold improvements		**3,196**	3,401
Others		**87,633**	46,865
Gross balance		**133,311**	75,438
Allowances for impairment losses (Note 35)			
– Repossessed assets		**(1,165)**	(1,035)
– Others		**(2,772)**	(2,987)
Total		**129,374**	71,416

(1) For the year ended 31 December 2018, the original cost of repossessed assets disposed of by the Group amounted to RMB550 million (for the year ended 31 December 2017: RMB606 million). The Group intends to dispose of repossessed assets through various methods including auction, competitive bidding and disposal.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

35 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES

		2018				
	Note	As at 1 January	Charge for the year/ (Write-back)	Transfer (out)/in	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	20	129	107	–	(6)	230
Precious metals		41	31	–	–	72
Placements with banks and non-bank financial institutions	21	115	13	(14)	–	114
Financial assets held under resale agreements	23	15	29	–	–	44
Loans and advances to customers	25(3)	343,802	142,595	(24,895)	(43,879)	417,623
Financial assets measured at amortised cost	26(3)(a)	4,655	1,072	1,108	–	6,835
Long-term equity investments		–	41	–	–	41
Fixed assets	29	419	14	–	(9)	424
Land use rights	30	140	–	–	(2)	138
Intangible assets	31	8	–	–	–	8
Other assets	34	4,022	1,509	–	(1,594)	3,937
Total		353,346	145,411	(23,801)	(45,490)	429,466

		2017				
	Note	As at 1 January	(Write-back)/ Charge for the year	Transfer (out)/in	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	20	66	(9)	–	–	57
Precious metals		27	14	–	–	41
Placements with banks and non-bank financial institutions	21	123	(11)	–	–	112
Loans and advances to customers	25(4)	268,677	123,389	(26,107)	(36,991)	328,968
Available for sale debt securities		1,309	457	57	–	1,823
Available for sale equity instrument		4,076	307	119	(30)	4,472
Held-to-maturity investments	26(5)	3,049	413	(52)	–	3,410
Investment classified as receivables	26(6)	1,351	796	(33)	–	2,114
Fixed assets	29	496	1	–	(78)	419
Land use rights	30	142	–	–	(2)	140
Intangible assets	31	8	1	–	(1)	8
Other assets	34	4,340	1,613	–	(1,931)	4,022
Total		283,664	126,971	(26,016)	(39,033)	345,586

Transfer (out)/in includes exchange differences.

36 BORROWINGS FROM CENTRAL BANKS

	2018	2017
Mainland China	495,004	484,657
Overseas	50,441	62,630
Accrued interest	8,947	N/A
Total	554,392	547,287

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

37 DEPOSITS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2018	2017
Banks	161,393	149,749
Non-bank financial institutions	1,257,303	1,187,246
Accrued interest	8,780	N/A
Total	1,427,476	1,336,995

(2) Analysed by geographical sectors

	2018	2017
Mainland China	1,277,120	1,181,374
Overseas	141,576	155,621
Accrued interest	8,780	N/A
Total	1,427,476	1,336,995

38 PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2018	2017
Banks	379,785	353,317
Non-bank financial institutions	38,259	30,322
Accrued interest	2,177	N/A
Total	420,221	383,639

(2) Analysed by geographical sectors

	2018	2017
Mainland China	130,596	148,424
Overseas	287,448	235,215
Accrued interest	2,177	N/A
Total	420,221	383,639

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

39 FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
Principal guaranteed wealth management products	351,369	354,382
Financial liabilities related to precious metals	37,832	39,927
Structured financial instruments	42,133	19,839
Total	431,334	414,148

The Group's financial liabilities measured at FVPL are those designated as measured at FVPL. As at the end of reporting period, the difference between the fair value of these financial liabilities and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2018 and 31 December 2017.

40 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Financial assets sold under repurchase agreements by underlying assets are shown as follows:

	2018	2017
Debt securities		
– Government bonds	20,473	63,322
– Debt securities issued by policy banks, banks and non-bank financial institutions	3,569	3,632
– Corporate bonds	29	–
Subtotal	24,071	66,954
Discounted bills	765	401
Others	5,774	6,924
Accrued interest	155	N/A
Total	30,765	74,279

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

41 DEPOSITS FROM CUSTOMERS

	2018	2017
Demand deposits		
– Corporate customers	5,922,676	5,767,595
– Personal customers	3,313,664	3,204,950
Subtotal	9,236,340	8,972,545
Time deposits (including call deposits)		
– Corporate customers	3,037,130	3,312,456
– Personal customers	4,657,959	4,078,753
Subtotal	7,695,089	7,391,209
Accrued interest	177,249	N/A
Total	17,108,678	16,363,754

Deposits from customers include:

		2018	2017
(1)	Pledged deposits		
	– Deposits for acceptance	63,385	83,365
	– Deposits for guarantee	76,609	97,050
	– Deposits for letter of credit	19,260	22,491
	– Others	170,860	290,235
	Total	330,114	493,141
(2)	Outward remittance and remittance payables	15,341	29,635

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

42 ACCRUED STAFF COSTS

	Note	2018			
		As at 1 January	Increased	Decreased	As at 31 December
Salaries, bonuses, allowances and subsidies		23,628	66,788	(66,643)	23,773
Other social insurance and welfare		3,973	11,187	(10,478)	4,682
Housing funds		163	6,390	(6,371)	182
Union running costs and employee education costs		2,738	2,820	(2,027)	3,531
Post-employment benefits	(1)				
– Defined contribution plans		893	14,850	(13,062)	2,681
– Defined benefit plans		(440)	326	(44)	(158)
Early retirement benefits		1,674	52	(206)	1,520
Compensation to employees for termination of employment relationship		3	2	(3)	2
Total		32,632	102,415	(98,834)	36,213

	Note	2017			
		As at 1 January	Increased	Decreased	As at 31 December
Salaries, bonuses, allowances and subsidies		24,813	64,274	(65,459)	23,628
Other social insurance and welfare		2,735	10,213	(8,975)	3,973
Housing funds		193	6,214	(6,244)	163
Union running costs and employee education costs		2,252	2,609	(2,123)	2,738
Post-employment benefits	(1)				
– Defined contribution plans		964	12,923	(12,994)	893
– Defined benefit plans		970	25	(1,435)	(440)
Early retirement benefits		1,940	76	(342)	1,674
Compensation to employees for termination of employment relationship		3	4	(4)	3
Total		33,870	96,338	(97,576)	32,632

The Group has no overdue balance of accrued staff costs as at the end of the reporting period.

(1) Post-employment benefits

(a) Defined contribution plans

	2018			
	As at 1 January	Increased	Decreased	As at 31 December
Basic pension insurance	589	9,896	(9,724)	761
Unemployment insurance	37	298	(296)	39
Annuity contribution	267	4,656	(3,042)	1,881
Total	893	14,850	(13,062)	2,681

	2017			
	As at 1 January	Increased	Decreased	As at 31 December
Basic pension insurance	664	9,622	(9,697)	589
Unemployment insurance	42	312	(317)	37
Annuity contribution	258	2,989	(2,980)	267
Total	964	12,923	(12,994)	893

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

42 ACCRUED STAFF COSTS (CONTINUED)

(1) Post-employment benefits (continued)

(b) *Defined benefit plans – Supplementary retirement benefits*

The Group's obligations in respect of the supplementary retirement benefits as at the end of reporting period were calculated using the projected unit credit actuarial cost method and reviewed by qualified staff (a member of Society of Actuaries of the United States of America) of an external independent actuary: Towers Watson Management Consulting (Shenzhen) Co., Ltd..

	Present value of defined benefit plan obligations		Fair value of plan assets		Net liabilities of defined benefit plans	
	2018	2017	**2018**	2017	**2018**	2017
As at 1 January	**6,197**	7,131	**6,637**	6,161	**(440)**	970
Cost of the net defined benefit liability in profit or loss						
– Interest costs	**221**	212	**235**	187	**(14)**	25
Remeasurements of the defined benefit liability in other comprehensive income						
– Actuarial losses/(gain)	**326**	(519)	**–**	–	**326**	(519)
– Returns on plan assets	**–**	–	**30**	74	**(30)**	(74)
Other changes						
– Benefits paid	**(605)**	(627)	**(605)**	(627)	**–**	–
– Contribution to plan assets	**–**	–	**–**	842	**–**	(842)
As at 31 December	**6,139**	6,197	**6,297**	6,637	**(158)**	(440)

Interest cost was recognised in other general and administrative expenses.

(i) *Principal actuarial assumptions of the Group as at the end of reporting period are as follows:*

	2018	2017
Discount rate	**3.25%**	4.00%
Health care cost increase rate	**7.00%**	7.00%
Average expected future lifetime of eligible employees	**12.0 years**	12.4 years

Mortality assumptions are based on China Life Insurance Mortality Table (2010-2013). The Table published historical statistics in China.

(ii) *The sensitivity of the present value of supplementary retirement benefit obligations to changes in the weighted principal assumption is:*

	Impact on present value of supplementary retirement benefit obligations	
	Increase in assumption by 0.25%	Decrease in assumption by 0.25%
Discount rate	**(123)**	**128**
Health care cost increase rate	**48**	**(46)**

(iii) *As at 31 December 2018, the weighted average duration of supplementary retirement benefit obligations of the Group is 8.2 years (As at 31 December 2017: 7.9 years).*

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

42 ACCRUED STAFF COSTS (CONTINUED)

(1) Post-employment benefits (continued)

(b) Defined benefit plans – Supplementary retirement benefits (continued)

(iv) Plan assets of the Group are as follows:

	2018	2017
Cash and cash equivalents	232	411
Equity instruments	261	532
Debt instruments	5,675	5,557
Others	129	137
Total	6,297	6,637

43 TAXES PAYABLE

	2018	2017
Income tax	66,670	44,359
Value added tax	8,986	7,549
Others	2,227	2,198
Total	77,883	54,106

44 INTEREST PAYABLE

	2017
Deposits from customers	175,126
Deposits from banks and non-bank financial institutions	7,550
Debts securities issued	2,307
Others	14,605
Total	199,588

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

45 PROVISIONS

	2018	2017
Expected credit losses on off-balance sheet activities	31,224	2,402
Litigation provisions and others	6,704	8,179
Total	37,928	10,581

Movement of the provision – expected credit losses on off-balance sheet activities

		2018				
	Note	Stage 1	Stage 2	Stage 3	Purchased impaired financial assets	Total
As at 1 January 2018		19,523	4,228	1,984	–	25,735
Transfers:						
Transfers in (out) to Stage 1		260	(260)	–	–	–
Transfers in (out) to Stage 2		(147)	147	–	–	–
Transfers in (out) to Stage 3		(3)	(215)	218	–	–
Newly originated		18,361	–	–	–	18,361
Matured		(11,770)	(2,009)	(215)	–	(13,994)
Remeasurements	(a)	(3,880)	4,080	922	–	1,122
As at 31 December 2018		22,344	5,971	2,909	–	31,224

(a) Remeasurements comprise the impact of changes in PD, LGD or EAD; changes in model assumptions and methodology; credit loss due to transfer between different stages.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

46 DEBT SECURITIES ISSUED

	Note	2018	2017
Certificates of deposit issued	(1)	371,583	321,366
Bonds issued	(2)	111,447	71,331
Subordinated bonds issued	(3)	145,169	144,898
Eligible Tier 2 capital bonds issued	(4)	142,681	58,931
Accrued interest		4,905	N/A
Total		775,785	596,526

(1) Certificates of deposit were mainly issued by head office and overseas branches.

(2) Bonds issued

Issue date	Maturity date	Interest rate per annum	Issue place	Currency	2018	2017
28/05/2014	28/05/2019	1.375%	Switzerland	CHF	2,093	2,002
02/07/2014	02/07/2019	3.25%	Hong Kong	USD	4,123	3,904
05/09/2014	05/09/2019	3.75%	Taiwan	RMB	600	600
05/09/2014	05/09/2021	4.00%	Taiwan	RMB	600	600
18/11/2014	18/11/2019	3.75%	Taiwan	RMB	1,000	1,000
18/11/2014	18/11/2021	3.95%	Taiwan	RMB	1,000	1,000
18/11/2014	18/11/2024	4.08%	Taiwan	RMB	600	600
20/01/2015	20/01/2020	3.125%	Hong Kong	USD	4,810	4,555
11/02/2015	11/02/2020	1.50%	Luxembourg	EUR	3,929	3,902
18/06/2015	18/06/2018	4.317%	Auckland	NZD	–	231
18/06/2015	18/06/2019	4.30%	Auckland	NZD	7	7
18/06/2015	18/06/2020	3 month New Zealand benchmark interest rate+1.2%	Auckland	NZD	115	115
16/07/2015	18/06/2018	3.935%	Auckland	NZD	–	69
28/07/2015	28/07/2020	3.25%	Hong Kong	USD	3,437	3,253
10/09/2015	10/09/2019	3.945%	Auckland	NZD	57	57
18/09/2015	18/09/2018	3 month Australia benchmark interest rate +1.15%	Sydney	AUD	–	2,031
07/12/2015	18/09/2018	3 month Australia benchmark interest rate +1.15%	Sydney	AUD	–	15
29/12/2015	27/01/2020	3.80%	Auckland	NZD	92	92
30/03/2016	30/03/2026	4.08%	Mainland China	RMB	3,500	3,500
16/05/2016	16/05/2019	3.10%	Auckland	NZD	46	47
31/05/2016	31/05/2019	2.38%	Hong Kong	USD	1,513	1,434
31/05/2016	31/05/2021	2.75%	Hong Kong	USD	2,075	1,967
18/08/2016	18/09/2020	2.95%	Auckland	NZD	476	475
18/10/2016	18/10/2020	3.05%	Auckland	NZD	7	7
21/10/2016	21/10/2021	2.25%	Hong Kong	USD	4,483	1,757
09/11/2016	09/11/2019	3.05%	Mainland China	RMB	3,200	3,200
09/11/2016	09/11/2021	3.05%	Mainland China	RMB	800	800
22/12/2016	22/12/2019	3.35%	Auckland	NZD	46	46
17/02/2017	17/02/2020	0.63%	Luxembourg	EUR	3,928	3,902
05/05/2017	26/07/2022	Senior Tranche A: CNLR1Y+0.18% Senior Tranche B: CNLR1Y+0.64%	Mainland China	RMB	–	1,012

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

46 DEBT SECURITIES ISSUED (CONTINUED)

(2) Bonds issued (continued)

Issue date	Maturity date	Interest rate per annum	Issue place	Currency	2018	2017
31/05/2017	29/05/2020	3MLIBOR+0.77%	Hong Kong	USD	**8,246**	7,808
13/06/2017	13/06/2022	2.75%	Hong Kong	USD	**4,123**	3,904
04/08/2017	05/02/2018	1.87%	Hong Kong	USD	**–**	163
27/09/2017	27/09/2019	2.37%	Hong Kong	USD	**515**	488
25/10/2017	25/10/2022	3.15%	Hong Kong	USD	**687**	651
25/10/2017	27/10/2020	2.20%	Hong Kong	USD	**82**	78
26/10/2017	26/10/2020	2.08%	Singapore	SGD	**2,522**	2,432
09/11/2017	09/11/2022	3.93%	Auckland	NZD	**693**	692
04/12/2017	04/12/2020	2.29%	Hong Kong	USD	**5,497**	5,205
04/12/2017	04/12/2020	2.75%	Hong Kong	USD	**3,436**	3,253
04/12/2017	04/12/2022	3.00%	Hong Kong	USD	**2,749**	2,603
22/12/2017	21/12/2018	3.25%	Hong Kong	USD	**–**	2,798
13/03/2018	13/03/2021	3.20%	Auckland	NZD	**46**	–
17/04/2018	17/04/2019	2.97%	Hong Kong	USD	**69**	–
17/04/2018	26/03/2021	3M LIBOR+0.75%	Hong Kong	USD	**550**	–
18/04/2018	18/04/2021	4.88%	Mainland China	RMB	**6,000**	–
19/04/2018	26/04/2019	3MLIBOR+0.45%	Hong Kong	USD	**275**	–
30/04/2018	30/04/2021	3MLIBOR+0.75%	Hong Kong	USD	**137**	–
04/05/2018	04/05/2021	3MLIBOR+0.80%	Hong Kong	USD	**172**	–
08/06/2018	08/06/2021	3MLIBOR+0.73%	Hong Kong	USD	**6,184**	–
08/06/2018	08/06/2023	3MLIBOR+0.83%	Hong Kong	USD	**4,123**	–
19/06/2018	19/06/2023	4.01%	Auckland	NZD	**462**	–
12/07/2018	12/07/2023	3MLIBOR+1.25%	Hong Kong	USD	**2,749**	–
20/07/2018	20/07/2021	4.48%	Mainland China	RMB	**3,000**	–
21/08/2018	19/06/2023	4.005%	Auckland	NZD	**162**	–
23/08/2018	23/08/2021	4.25%	Mainland China	RMB	**2,500**	–
21/09/2018	21/09/2020	2.643%	Singapore	SGD	**1,513**	–
24/09/2018	24/09/2021	3MLIBOR+0.75%	Hong Kong	USD	**6,871**	–
24/09/2018	24/09/2021	3MEURIBOR +0.60%	Luxembourg	EUR	**3,924**	–
20/12/2018	20/12/2021	3MLIBOR+0.75%	Auckland	USD	**688**	–
24/12/2018	24/12/2020	3MLIBOR+0.70%	Hong Kong	USD	**1,099**	–
Total nominal value					**111,611**	72,255
Less: unamortised issuance costs					**(164)**	(924)
Carrying value as at 31 December					**111,447**	71,331

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

46 DEBT SECURITIES ISSUED (CONTINUED)

(3) Subordinated bonds issued

The carrying value of the Group's subordinated bonds issued upon the approval of the PBOC, the CBRC, the HKMA and Brasil Central Bank is as follows:

Issue date	Maturity date	Interest rate per annum	Currency	Note	2018	2017
24/02/2009	26/02/2024	4.00%	RMB	(a)	**28,000**	28,000
07/08/2009	11/08/2024	4.04%	RMB	(b)	**10,000**	10,000
03/11/2009	04/11/2019	Benchmark rate released by Brasil Central Bank	BRL	(c)	**354**	393
18/12/2009	22/12/2024	4.80%	RMB	(d)	**20,000**	20,000
27/04/2010	27/04/2020	8.50%	USD	(c)	**1,728**	1,713
03/11/2011	07/11/2026	5.70%	RMB	(e)	**40,000**	40,000
20/11/2012	22/11/2027	4.99%	RMB	(f)	**40,000**	40,000
20/08/2014	20/08/2024	4.25%	USD	(g)	**5,154**	4,880
Total nominal value					**145,236**	144,986
Less: Unamortised issuance cost					**(67)**	(88)
Carrying value as at 31 December					**145,169**	144,898

(a) CCB has chosen to exercise the option to redeem all the bonds on 26 February 2019.

(b) The Group has an option to redeem the bonds on 11 August 2019. If they are not redeemed by the Group, the interest rate will increase to 7.04% per annum from 11 August 2019 for the next five years.

(c) The subordinated bonds were issued by BIC.

(d) The Group has an option to redeem the bonds on 22 December 2019. If they are not redeemed by the Group, the interest rate will increase to 7.80% per annum from 22 December 2019 for the next five years.

(e) The Group has an option to redeem the bonds on 7 November 2021, subject to an approval from relevant authority.

(f) The Group has an option to redeem the bonds on 22 November 2022, subject to an approval from relevant authority.

(g) The Group has an option to redeem the bonds on 20 August 2019, subject to an approval from relevant authority.

(4) Eligible Tier 2 capital bonds issued

Issue date	Maturity date	Interest rate per annum	Currency	Note	2018	2017
15/08/2014	18/08/2029	5.98%	RMB	(a)	**20,000**	20,000
12/11/2014	12/11/2024	4.90%	RMB	(b)	**2,000**	2,000
13/05/2015	13/05/2025	3.88%	USD	(c)	**13,746**	13,014
18/12/2015	21/12/2025	4.00%	RMB	(d)	**24,000**	24,000
25/09/2018	24/09/2028	4.86%	RMB	(e)	**43,000**	–
29/10/2018	28/10/2028	4.70%	RMB	(f)	**40,000**	–
Total nominal value					**142,746**	59,014
Less: Unamortised issuance cost					**(65)**	(83)
Carrying value as at 31 December					**142,681**	58,931

(a) The Group has an option to redeem the bonds on 18 August 2024, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid, either.

(b) The Group has an option to redeem the bonds on 12 November 2019, subject to an approval from relevant authority. If they are not redeemed by the Group, the interest rate per annum will increase by 1.538% on the basis of the twelve months CNH HIBOR applicable on the interest reset date from 12 November 2019 for the next five years. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid, either.

(c) The Group has an option to redeem the bonds on 13 May 2020, subject to an approval from relevant authority. If they are not redeemed by the Group, the interest rate will be reset on 13 May 2020 and increase by 2.425% on the basis of five years USD treasury benchmark applicable on the interest reset date. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid, either.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

46 DEBT SECURITIES ISSUED (CONTINUED)

(4) Eligible Tier 2 capital bonds issued (continued)

(d) The Group has an option to redeem the bonds on 21 December 2020, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid, either.

(e) The Group has an option to redeem the bonds on 25 September 2023, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid, either.

(f) The Group has an option to redeem the bonds on 29 October 2023, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid, either.

47 OTHER LIABILITIES

	2018	2017
Insurance related liabilities	**116,463**	112,914
Payment and collection clearance accounts	**21,696**	13,986
Deferred income	**14,548**	11,731
Cash pledged and rental income received in advance	**9,486**	8,887
Capital expenditure payable	**9,248**	9,552
Clearing and settlement accounts	**7,630**	16,136
Dormant accounts	**6,973**	5,032
Accrued expenses	**3,728**	3,382
Others	**91,642**	53,145
Total	**281,414**	234,765

48 SHARE CAPITAL

	2018	2017
Listed in Hong Kong (H share)	**240,417**	240,417
Listed in Mainland China (A share)	**9,594**	9,594
Total	**250,011**	250,011

All H and A shares are ordinary shares, have a par value of RMB1 per share and rank pari passu with the same rights and benefits.

49 OTHER EQUITY INSTRUMENTS

(1) Preference shares outstanding as at the end of the reporting period

						Total amount			
Preference shares	**Issue date**	**Classification**	**Initial interest rate**	**Issue price**	**Quantity (million)**	**Original Currency (USD)**	**(RMB)**	**Maturity date**	**Conversion conditions**
2015 Offshore Preference Shares	16-Dec-15	Equity instruments	4.65%	$20 per share	152.5	3,050	19,711	No maturity date	None
2017 Domestic Preference Shares	21-Dec-17	Equity instruments	4.75%	RMB100 per share	600		60,000	No maturity date	None
Less: Issuance fee							(75)		
Carrying amount							79,636		

49 OTHER EQUITY INSTRUMENTS

(2) The key terms

(a) Offshore Preference Shares

(i) Dividend

The initial annual dividend rate is 4.65% and is subsequently subject to reset per agreement, but in no case shall exceed 20.4850%. The dividend is measured and paid in dollars. After such dividend being paid at the agreed dividend payout ratio, the holders of the above offshore preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends for offshore preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend for the offshore preference shares, and such cancellation shall not be deemed a default. However, until the Bank fully pays the dividends for the current dividend period, the Bank shall not make any dividend distribution to ordinary shareholders.

(ii) Redemption

Subject to receiving the prior approval of CBIRC and satisfaction of the redemption conditions precedent, all or some only of the Offshore Preference Shares may be redeemed at the discretion of the Bank on 16 December 2020 or on any dividend payment date thereafter at the redemption price which is equal to issue price plus dividends payable but not yet distributed in current period.

(iii) Compulsory conversion of preference shares

When an Additional Tier 1 Capital Instrument Trigger Event occurs, that is when Core Tier 1 Capital Adequacy Ratio of the Bank falling to 5.125% (or below), the Bank shall (without the need for the consent of offshore preference shareholders) convert all or some only of the preference shares in issue into such number of H shares which will be sufficient to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above 5.125% according to the contract; when a Tier 2 Capital Instrument Trigger Event occurs, the Bank shall (without the need for the consent of offshore preference shareholders) convert all of the offshore preference shares in issue into such number of H shares according to contract. Tier 2 Capital Instrument Trigger Event is defined as the earlier of: (i) the CBIRC having decided that without a conversion or write-off the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. Once a preference share has been converted, it will not be restored in any circumstances. When the compulsory conversion of offshore preference shares occurs, the Bank shall report to the CBIRC for approval and decision.

(b) Domestic Preference Shares

(i) Dividend

The nominal dividend rate of the Domestic Preference Shares is adjusted on a phase-by-phase basis. It is the sum of the benchmark rate plus the fixed interest spread, and is adjusted every five years. The fixed interest spread is determined as the nominal dividend rate set for issuance less the benchmark rate at the time of issuance, and will not be subject to future adjustments. The dividends for domestic preference shares are non-cumulative. The Bank has the right to cancel dividend distribution on Domestic Preference Shares, and the cancellation does not constitute a default event. The Bank may, at its discretion, use the cancelled dividends to repay other indebtedness due and payable. If the Bank cancels all or part of the dividends on the Domestic Preference Shares, the Bank shall make no profit distribution to shareholders holding ordinary shares from the day after the cancellation proposal is adopted by the General Shareholders' Meeting to the day when full distribution of dividends is resumed. The cancellation of dividends on Domestic Preference Shares will not constitute other restrictions to the Bank except for the distribution of dividends to ordinary shareholders.

The dividends on the Domestic Preference Shares are distributed annually.

(ii) Redemption

The Bank may, subject to CBIRC approval and compliance with the Redemption Preconditions, redeem in whole or in part of the Domestic Preference Shares after at least five years from the completion date of the issuance (i.e., 27 December 2017). The redemption period begins from the first day of the redemption and ends on the day when all Domestic Preference Shares are redeemed or converted. The redemption price of the Domestic Preference Shares shall be their issue price plus any dividends accrued but unpaid in the current period.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

49 OTHER EQUITY INSTRUMENTS (CONTINUED)

(2) The key terms (continued)

(b) Domestic Preference Shares (continued)

(iii) Compulsory conversion of preference shares

If an Additional Tier 1 Capital Instrument Trigger Event occurs, i.e., the Core Tier 1 Capital Adequacy Ratio of the Bank has fallen to 5.125% or below, the Bank has the right to, without prior consent from the shareholders of the Domestic Preference Shares and as agreed, convert all or part of the Domestic Preference Shares issued and outstanding to ordinary A shares, to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above the trigger point (i.e., 5.125%). In the case of partial conversion, the Domestic Preference Shares shall be subject to the same proportion and conditions of conversion. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances.

When a Tier 2 Capital Instrument Trigger Event occurs, the Bank has the right to, without prior consent of the shareholders of the Domestic Preference Shares and as agreed, convert all the Domestic Preference Shares issued and outstanding to ordinary A shares. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances. A Tier 2 Capital Instrument Trigger Event is the earlier of the following two scenarios: (1) the CBIRC having decided that without a conversion or write-off of the Bank's capital the Bank would become non-viable; and (2) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. When the compulsory conversion of preference shares occurs, the Bank shall report to the CBIRC for approval and decision, and perform the announcement obligation according to the regulations of the Securities Law and CSRC.

The Bank classifies preference shares issued as an equity instrument and presented as an equity item on statements of financial position. Capital raised from the issuance of the above preference shares, after deduction of the expenses relating to the issuance, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

(3) Changes in Preference shares outstanding

	1 January 2018		Increase		31 December 2018	
Preference Shares	**Amount (million shares)**	**Carrying value**	**Amount (million shares)**	**Carrying value**	**Amount (million shares)**	**Carrying value**
2015 Offshore Preference Shares	152.5	19,659	–	–	152.5	19,659
2017 Domestic Preference Shares	600	59,977	–	–	600	59,977
Total	752.5	79,636	–	–	752.5	79,636

(4) Interests attributable to the holders of equity instruments

Items	**2018**	2017
1. Total equity attributable to equity holders of the Bank	1,976,463	1,779,760
(1) Equity attributable to ordinary equity holders of the Bank	1,896,827	1,700,124
(2) Equity attributable to other equity holders of the Bank	79,636	79,636
Of which: net profit	3,936	1,045
dividends received	3,936	1,045
2. Total equity attributable to non-controlling interests	15,131	16,067
(1) Equity attributable to non-controlling interests of ordinary shares	11,678	12,645
(2) Equity attributable to non-controlling interests of other equity instruments	3,453	3,422

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

50 CAPITAL RESERVE

	2018	2017
Share premium	134,537	134,537
Cash flow hedge reserve	–	320
Others	–	368
Total	134,537	135,225

51 OTHER COMPREHENSIVE INCOME

	Other comprehensive income of statement of financial position			Other comprehensive income of 2018				
	1 January 2018 (Note 4(25))	Net-of-tax amount attributable to equity shareholders	31 December 2018	The amount before income taxes	Less: Reclassification adjustments included in profit or loss due to disposals	Less: income taxes	Net-of-tax amount attributable to equity shareholders	Net-of-tax amount attributable to non-controlling interests
(1) Other comprehensive income that will not be reclassified to profit or loss								
Remeasurements of post-employment benefit obligations	(110)	(296)	(406)	(296)	–	–	(296)	–
Changes of equity instruments designated as measured at fair value through other comprehensive income	479	120	599	160	–	(40)	120	–
Others	478	43	521	43	–	–	43	–
(2) Other comprehensive income that may be reclassified subsequently to profit or loss								
Fair value changes of debt instruments measured at fair value through other comprehensive income	(18,420)	35,585	17,165	47,816	(199)	(11,879)	35,585	153
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	1,976	301	2,277	404	–	(101)	301	2
Net gains/(losses) on cash flow hedges	320	(267)	53	(267)	–	–	(267)	–
Exchange difference on translating foreign	(4,322)	2,564	(1,758)	2,573	–	–	2,564	9
Total	(19,599)	38,050	18,451	50,433	(199)	(12,020)	38,050	164

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

51 OTHER COMPREHENSIVE INCOME (CONTINUED)

The changes in fair value of available-for-sale financial assets were recognised in "investment revaluation reserve" in 2017. Movements of investment revaluation reserve are as follows:

	2017		
	Before-tax amount	Tax impact	Net-of-tax amount
As at 1 January	(1,381)	405	(976)
(Losses)/Gains during the year			
– Debt securities	(39,394)	9,541	(29,853)
– Equity instruments and funds	1,896	(474)	1,422
	(37,498)	9,067	(28,431)
Reclassification adjustments			
– Impairment	764	(191)	573
– Disposals	4,048	(1,012)	3,036
– Others	(274)	68	(206)
	4,538	(1,135)	3,403
As at 31 December	(34,341)	8,337	(26,004)

52 SURPLUS RESERVE

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF on 15 February 2006. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in annual general meetings.

53 GENERAL RESERVE

The general reserve of the Group as at the end of the reporting period is set up based upon the requirements of:

	Note	2018	2017
MOF	(1)	272,001	254,104
Hong Kong Banking Ordinance	(2)	2,124	2,124
Other regulatory bodies in Mainland China	(3)	4,908	2,866
Other overseas regulatory bodies		692	586
Total		279,725	259,680

(1) Pursuant to relevant regulations issued by the MOF, the Bank has to appropriate a certain amount of its net profit as general reserve to cover potential losses against its assets. In accordance with the 'Regulation on Management of Financial Institutions for Reserves' (Cai Jin [2012] No. 20), issued by the MOF on 30 March 2012, the general reserve balance for financial institutions should not be lower than 1.5% of the ending balance of gross risk-bearing assets.

(2) Pursuant to requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.

(3) Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiaries are required to appropriate a certain amount of its net profit as general reserve.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

54 PROFIT DISTRIBUTION

In the Annual General Meeting held on 29 June 2018, the shareholders approved the profit distribution for the year ended 31 December 2017. The Bank appropriated cash dividend for the year ended 31 December 2017 in an aggregate amount of RMB72,753 million.

In the Board of Directors' Meeting, held on 23 October 2018, the directors approved the payment of dividends to offshore preference shareholders and domestic preference shareholders. The dividends for the offshore preference shares distributed were US$157,583,333.33 (including taxes), calculated using the initial dividend rate of 4.65% (after taxes) as set in the terms and conditions, and equaled RMB1,086 million (including taxes), at the exchange rate on 17 December 2018, the dividend payout date. The dividends for domestic preference shares distributed were RMB2,850 million, calculated using the nominal dividend rate of 4.75% (including taxes) as set in the terms and conditions, and the dividend payout date was 26 December 2018.

On 27 March 2019, Board of Directors proposed the following profit distribution scheme for the year ended 31 December 2018:

(1) Appropriate statutory surplus reserve amounted to RMB24,618 million, based on 10% of the net profit of the Bank amounted to RMB246,184 million for the year 2018 (2017: RMB23,168 million). It has been recorded in "Surplus reserve" as at the end of the reporting period.

(2) Appropriate general reserve amounted to RMB17,897 million, pursuant to relevant regulations issued by MOF (2017: RMB13,943 million).

(3) Declare cash dividend RMB0.306 per share before tax (2017: RMB0.291 per share) and in aggregation amount of RMB76,503 million to all shareholders. Proposed dividends as at the end of the reporting period are not recognised as a liability.

Above proposed profit distribution scheme is subject to the approval of the shareholders in the Annual General Meeting. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

55 NOTES TO CASH FLOW STATEMENT

Cash and cash equivalents

	2018	2017
Cash	65,215	73,876
Surplus deposit reserves with central banks	389,425	209,080
Demand deposits with banks and non-bank financial institutions	60,531	60,910
Deposits with banks and non-bank financial institutions with original maturity with or within three months	211,186	59,220
Placements with banks and non-bank financial institutions with original maturity with or within three months	134,345	168,253
Total	860,702	571,339

56 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Securities Lending Transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. As at 31 December 2018, the transactions of debt securities lent to counterparties have all matured and with no carrying value (as at 31 December 2017: RMB35,938 million).

56 TRANSFERRED FINANCIAL ASSETS (CONTINUED)

Credit Assets Securitisation Transactions

The Group enters into securitisation transactions in normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors. The Group retains interests in the form of subordinated tranches which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial positions to the extent of the Group's continuing involvement.

As at 31 December 2018, loans with an original carrying amount of RMB447,278 million (as at 31 December 2017: RMB153,397 million) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 31 December 2018, the carrying amount of assets that the Group continued to recognise was RMB49,017 million (as at 31 December 2017: RMB13,175 million). The carrying amount of continuing involvement assets and liabilities that the Group continued to recognise was RMB47,515 million as at 31 December 2018 (as at 31 December 2017: RMB13,352 million).

57 OPERATING SEGMENTS

The Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

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

(1) Geographical segments

The Group operates principally in Mainland China with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Macau, Taiwan, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Sydney, Ho Chi Minh City, Luxembourg, Toronto, London, Zurich, Dubai, Chile, Auckland and certain subsidiaries operating in Hong Kong, London, Moscow, Luxembourg, British Virgin Islands, Auckland, Jakarta, San Paulo and Kuala Lumpur.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets, liabilities and capital expenditure are allocated based on their geographical location.

Geographical segments of the Group, as defined for management reporting purposes, are defined as follows:

- "Yangtze River Delta" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;
- "Pearl River Delta" refers to the following areas where the tier-1 branches of the Bank operate: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;
- "Bohai Rim" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;
- the "Central" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province and Anhui Province;
- the "Western" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and
- the "Northeastern" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

57 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2018								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	56,645	52,140	41,781	59,244	56,944	14,066	188,612	16,846	486,278
Internal net interest income/(expense)	19,917	15,545	32,295	26,350	24,542	10,289	(123,248)	(5,690)	–
Net interest income	76,562	67,685	74,076	85,594	81,486	24,355	65,364	11,156	486,278
Net fee and commission income	16,983	17,338	17,995	15,775	10,535	4,178	36,987	3,244	123,035
Net trading gain/(loss)	369	608	408	336	257	58	11,250	(672)	12,614
Dividend income	112	7	1	52	10	–	60	531	773
Net (loss)/gain arising from investment securities	(1,367)	(571)	(504)	29	(103)	(37)	4,157	1,840	3,444
Net gain/(loss) on derecognition of financial assets measured at amortised cost	13	–	–	1	–	–	(2,391)	136	(2,241)
Other operating (expense)/income, net	(410)	574	2,138	516	2,245	107	(17)	4,716	9,869
Operating income	92,262	85,641	94,114	102,303	94,430	28,661	115,410	20,951	633,772
Operating expenses	(27,709)	(22,399)	(26,989)	(30,949)	(29,138)	(11,302)	(18,254)	(8,024)	(174,764)
Impairment losses	(14,799)	(14,364)	(33,980)	(30,650)	(22,661)	(16,577)	(15,584)	(2,373)	(150,988)
Share of profit/(loss) of associates and joint ventures	–	–	1	427	–	–	–	(288)	140
Profit before tax	49,754	48,878	33,146	41,131	42,631	782	81,572	10,266	308,160
Capital expenditure	1,530	1,874	3,917	2,987	2,240	1,261	2,112	2,944	18,865
Depreciation and amortisation	2,594	1,819	2,583	3,536	2,837	1,495	2,522	488	17,874
	2018								
Segment assets	4,552,907	3,568,920	5,294,858	4,200,214	3,448,750	1,179,534	9,090,812	1,693,490	33,029,485
Long-term equity investments	1	–	6	6,966	–	–	–	1,029	8,002
	4,552,908	3,568,920	5,294,864	4,207,180	3,448,750	1,179,534	9,090,812	1,694,519	33,037,487
Deferred tax assets									58,730
Elimination									(9,873,524)
Total assets									23,222,693
Segment liabilities	4,545,367	3,572,390	5,280,416	4,208,014	3,453,631	1,189,598	7,280,378	1,574,344	31,104,138
Deferred tax liabilities									485
Elimination									(9,873,524)
Total liabilities									21,231,099
Off-balance sheet credit commitments	512,137	461,552	653,558	495,996	378,075	143,531	100	203,775	2,848,724

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

57 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2017								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	48,813	44,573	38,519	52,282	53,586	12,290	186,954	15,439	452,456
Internal net interest income/(expense)	23,973	19,223	33,632	28,890	25,935	11,576	(136,706)	(6,523)	–
Net interest income	72,786	63,796	72,151	81,172	79,521	23,866	50,248	8,916	452,456
Net fee and commission income	17,095	15,584	18,332	16,872	11,383	3,813	31,780	2,939	117,798
Net trading gain/(loss)	1,022	1,567	637	362	407	189	(1,392)	2,066	4,858
Dividend income	1,288	5	–	189	11	–	245	457	2,195
Net gain/(loss) arising from investment securities	481	–	35	658	199	–	(2,846)	638	(835)
Other operating income, net	58	790	1,569	561	2,625	149	3,394	8,413	17,559
Operating income	92,730	81,742	92,724	99,814	94,146	28,017	81,429	23,429	594,031
Operating expenses	(25,727)	(21,426)	(26,204)	(30,140)	(27,754)	(11,324)	(16,748)	(7,720)	(167,043)
Impairment losses	(13,724)	(16,877)	(31,377)	(21,669)	(20,555)	(14,243)	(5,324)	(3,593)	(127,362)
Share of profit of associates and joint ventures	–	–	–	100	–	–	–	61	161
Profit before tax	53,279	43,439	35,143	48,105	45,837	2,450	59,357	12,177	299,787
Capital expenditure	1,932	1,916	7,655	2,666	2,006	1,054	1,687	6,209	25,125
Depreciation and amortisation	2,581	1,750	3,166	3,343	2,704	1,417	1,624	829	17,414

	2017								
Segment assets	4,687,992	3,479,166	4,916,680	4,058,155	3,294,459	1,100,318	8,672,547	1,723,881	31,933,198
Long-term equity investments	1	–	–	4,904	–	–	–	2,162	7,067
	4,687,993	3,479,166	4,916,680	4,063,059	3,294,459	1,100,318	8,672,547	1,726,043	31,940,265
Deferred tax assets									46,189
Elimination									(9,862,071)
Total assets									22,124,383
Segment liabilities	4,675,179	3,479,313	4,887,516	4,058,490	3,303,501	1,110,903	7,050,551	1,624,785	30,190,238
Deferred tax liabilities									389
Elimination									(9,862,071)
Total liabilities									20,328,556
Off-balance sheet credit commitments	600,582	422,504	767,363	492,226	348,508	155,452	–	242,537	3,029,172

57 OPERATING SEGMENTS (CONTINUED)

(2) Business segments

Business segments, as defined for management reporting purposes, are as follows:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking and wealth management services, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking and wealth management services, card business, remittance services and agency services, etc.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currency for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of debt securities.

Others

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

57 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	2018				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	171,838	123,046	170,952	20,442	486,278
Internal net interest income/(expense)	65,135	59,385	(116,334)	(8,186)	–
Net interest income	236,973	182,431	54,618	12,256	486,278
Net fee and commission income	28,713	72,303	12,251	9,768	123,035
Net trading (loss)/gain	(285)	(91)	4,652	8,338	12,614
Dividend income	–	–	–	773	773
Net (loss)/gain arising from investment securities	(3,929)	(4,373)	15,220	(3,474)	3,444
Net (loss)/gain on derecognition of financial assets measured at amortised cost	(2,691)	184	116	150	(2,241)
Other operating income, net	13	619	8,511	726	9,869
Operating income	258,794	251,073	95,368	28,537	633,772
Operating expenses	(64,005)	(85,083)	(11,014)	(14,662)	(174,764)
Impairment losses	(120,621)	(26,256)	381	(4,492)	(150,988)
Share of profit of associates and joint ventures	–	–	–	140	140
Profit before tax	74,168	139,734	84,735	9,523	308,160
Capital expenditure	5,616	8,076	955	4,218	18,865
Depreciation and amortisation	6,535	9,399	1,111	829	17,874

	2018				
Segment assets	7,555,369	6,043,043	8,252,601	1,526,264	23,377,277
Long-term equity investments	–	–	–	8,002	8,002
	7,555,369	6,043,043	8,252,601	1,534,266	23,385,279
Deferred tax assets					58,730
Elimination					(221,316)
Total assets					23,222,693
Segment liabilities	10,098,929	8,256,278	1,058,771	2,037,952	21,451,930
Deferred tax liabilities					485
Elimination					(221,316)
Total liabilities					21,231,099
Off-balance sheet credit commitments	1,771,513	873,436	–	203,775	2,848,724

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

57 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	2017				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	150,924	101,139	173,958	26,435	452,456
Internal net interest income/(expense)	73,083	74,348	(139,552)	(7,879)	–
Net interest income	224,007	175,487	34,406	18,556	452,456
Net fee and commission income	30,739	61,298	19,850	5,911	117,798
Net trading (loss)/gain	(6,128)	(1,357)	11,687	656	4,858
Dividend income	–	–	–	2,195	2,195
Net gain/(loss) arising from investment securities	–	–	681	(1,516)	(835)
Other operating (expense)/income, net	(556)	526	(700)	18,289	17,559
Operating income	248,062	235,954	65,924	44,091	594,031
Operating expenses	(59,291)	(83,839)	(9,582)	(14,331)	(167,043)
Impairment losses	(106,047)	(14,379)	(1,725)	(5,211)	(127,362)
Share of profit of associates and joint ventures	–	–	–	161	161
Profit before tax	82,724	137,736	54,617	24,710	299,787
Capital expenditure	5,110	7,974	849	11,192	25,125
Depreciation and amortisation	5,701	8,897	947	1,869	17,414

	2017				
Segment assets	6,837,261	5,377,252	8,475,693	1,648,535	22,338,741
Long-term equity investments	–	–	–	7,067	7,067
	6,837,261	5,377,252	8,475,693	1,655,602	22,345,808
Deferred tax assets					46,189
Elimination					(267,614)
Total assets					22,124,383
Segment liabilities	10,072,832	7,502,694	900,534	2,119,721	20,595,781
Deferred tax liabilities					389
Elimination					(267,614)
Total liabilities					20,328,556
Off-balance sheet credit commitments	2,016,432	761,613	–	251,127	3,029,172

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

58 ENTRUSTED LENDING BUSINESS

At the end of the reporting period, the amounts of the entrusted loans and funds were as follows:

	2018	2017
Entrusted loans	2,922,226	2,736,842
Entrusted funds	2,922,226	2,736,842

59 PLEDGED ASSETS

(1) Assets pledged as security

(a) Carrying value of pledged assets analysed by asset type

	2018	2017
Cash deposit	948	–
Discounted bills	765	401
Bonds	639,922	628,172
Others	5,773	6,924
Total	647,408	635,497

(2) Collateral accepted as securities for assets

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 31 December 2018 and 2017, the Group did not hold any collateral for resale agreements which was permitted to sell or repledge in the absence of default for the transactions.

60 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

Credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees, letters of credit etc. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers.

As credit commitments may expire without being drawn upon, the total of the contractual amounts set out in the following table do not represent the expected future cash outflows.

	2018	2017
Loan commitments		
– with an original maturity within one year	150,257	192,768
– with an original maturity of one year or over	306,838	396,467
Credit card commitments	923,508	801,618
	1,380,603	1,390,853
Bank acceptances	230,756	276,629
Financing guarantees	51,422	60,821
Non-financing guarantees	1,006,748	898,422
Sight letters of credit	34,159	41,216
Usance letters of credit	130,195	266,865
Others	14,841	94,366
Total	2,848,724	3,029,172

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics.

	2018	2017
Credit risk-weighted amount of contingent liabilities and commitments	**985,503**	1,110,481

(3) Operating lease commitments

The Group leases certain property and equipment under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. As at the end of the reporting period, the future minimum lease payments under non-cancellable operating leases for property and equipment were as follows:

	2018	2017
Within one year	**6,353**	5,720
After one year but within two years	**4,876**	4,289
After two years but within three years	**3,571**	3,024
After three years but within five years	**4,175**	3,350
After five years	**3,376**	2,423
Total	**22,351**	18,806

(4) Capital commitments

As at the end of the reporting period, the Group had capital commitments as follows:

	2018	2017
Contracted for	**11,792**	5,882

(5) Underwriting obligations

As at 31 December 2018, there was no unexpired underwriting commitment of the Group (as at 31 December 2017: nil).

(6) Government bonds redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations, which represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured as at 31 December 2018, were RMB81,331 million (as at 31 December 2017: RMB79,431 million).

(7) Outstanding litigation and disputes

As at 31 December 2018, the Group was the defendant in certain pending litigations and disputes with gross claims of RMB9,070 million (as at 31 December 2017: RMB10,499 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 45). The Group considers that the provisions made are reasonable and adequate.

(8) Provision against commitments and contingent liabilities

The Group assessed and made provisions for any probable outflow of economic benefits in relation to the commitments and contingent liabilities in accordance with their accounting policies (Note 4(14)).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Transactions with parent companies and their affiliates

The parent companies of the Group are CIC and Huijin.

Approved by the State Council, CIC was established on 29 September 2007 with a registered capital of RMB1,550 billion. As a wholly owned subsidiary of CIC, Huijin exercises its rights and obligations as an investor on behalf of the PRC government.

Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company. It was registered in Beijing with a registered capital of RMB828,209 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations. As at 31 December 2018, Huijin directly held 57.11% shares of the Bank.

The related companies under parent companies include the subsidiaries under parent companies and other associates and joint ventures.

The Group's transactions with parent companies and their affiliates mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts with a nominal value of RMB145,236 million (as at 31 December 2017: RMB144,986 million). These are bearer bonds and tradable in secondary market. Accordingly, the Group has no information in respect of the amount of the bonds held by the affiliates of parent companies as at the end of the reporting period.

(a) *Transactions with parent companies*

In the ordinary course of the business, material transactions that the Group entered into with parent companies are as follows:

Amounts

	2018		2017	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**1,980**	**0.24%**	1,096	0.15%
Interest expense	**95**	**0.03%**	128	0.04%

Balances outstanding as at balance sheet date

	2018		2017	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Interest receivable	**N/A**	**N/A**	140	0.12%
Loans and advances to customers	**28,000**	**0.21%**	28,000	0.22%
Financial investments				
Financial assets measured at amortised cost	**8,097**	**0.25%**	N/A	N/A
Financial assets measured at fair value through other comprehensive income	**11,563**	**0.68%**	N/A	N/A
Available-for-sale financial assets	**N/A**	**N/A**	2,199	0.14%
Held-to-maturity investments	**N/A**	**N/A**	9,140	0.35%
Deposits from banks and non-bank financial institutions	**1,627**	**0.11%**	6,114	0.46%
Deposits from customers	**3,675**	**0.02%**	55	0.00%
Interest payable	**N/A**	**N/A**	–	0.00%
Credit commitments	**288**	**0.01%**	288	0.01%

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(1) Transactions with parent companies and their affiliates (continued)

(b) Transactions with the affiliates of parent companies

In the ordinary course of the business, material transactions that the Group entered into with the affiliates of parent companies are as follows:

Amounts

		2018		2017	
	Note	Amount	Ratio to similar transactions	Amount	Ratio to similar transactions
Interest income		22,526	2.78%	32,102	4.28%
Interest expense		4,748	1.46%	10,237	3.44%
Fee and commission income		171	0.12%	667	0.51%
Fee and commission expense		208	1.39%	198	1.46%
Operating expenses	(i)	884	0.53%	724	0.46%

Balances outstanding as at balance sheet date

		2018		2017	
	Note	Balance	Ratio to similar transactions	Balance	Ratio to similar transactions
Deposits with banks and non-bank financial institutions		40,591	8.34%	36,672	20.95%
Placements with banks and non-bank financial institutions		96,352	27.55%	71,066	21.85%
Positive fair value of derivatives		4,811	9.51%	7,522	9.06%
Financial assets held under resale agreements		10,110	5.01%	62,500	30.00%
Interest receivable		N/A	N/A	21,747	18.59%
Loans and advances to customers		68,382	0.51%	30,553	0.24%
Financial investments					
Financial assets measured at fair value through profit or loss		17,067	2.33%	22,323	3.86%
Financial assets measured at amortised cost		294,975	9.01%	N/A	N/A
Financial assets measured at fair value through other comprehensive income		229,510	13.41%	N/A	N/A
Available-for-sale financial assets		N/A	N/A	215,607	13.90%
Held-to-maturity investments		N/A	N/A	458,789	17.74%
Investment classified as receivables		N/A	N/A	28,925	6.21%
Other assets	(ii)	211	0.16%	15	0.02%
Deposits from banks and non-bank financial institutions	(iii)	60,518	4.24%	194,730	14.56%
Placements from banks and non-bank financial institutions		117,661	28.00%	109,661	28.58%
Negative fair value of derivatives		6,961	14.35%	6,739	8.44%
Financial assets sold under repurchase agreements		1,486	4.83%	1,255	1.69%
Deposits from customers		18,633	0.11%	14,455	0.09%
Interest payable		N/A	N/A	423	0.21%
Other liabilities		4,467	1.59%	1,251	0.53%
Credit commitments		8,443	0.29%	10,231	0.34%

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(1) Transactions with parent companies and their affiliates (continued)

(b) Transactions with the affiliates of parent companies (continued)

(i) Operating expenses mainly represent rental expenses paid by the Group for leased assets, including properties and motor vehicles, owned by parent companies and its affiliates, and fees for related services provided by parent companies and its affiliates.

(ii) Other assets mainly represent other receivables from the affiliates of parent companies.

(iii) Deposits from the affiliates of parent companies are unsecured and are repayable under normal commercial terms.

(2) Transactions with associates and joint ventures of the Group

Transactions between the Group and its associates and joint ventures are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group. In the ordinary course of the business, material transactions that the Group entered into with associates and joint ventures are as follows:

Amounts

	2018	2017
Interest income	**399**	604
Interest expense	**322**	571
Fee and commission income	**197**	27
Operating expenses	**239**	–

Balances outstanding as at balance sheet date

	2018	2017
Loans and advances to customers	**8,634**	7,497
Other assets	**16**	–
Placements from banks and non-bank financial institutions	**–**	98
Negative fair value of derivatives	**35**	–
Deposits from customers	**1,669**	2,223
Interest payable	**N/A**	2
Other liabilities	**419**	264
Credit commitments	**10**	82

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(3) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 4(1)(b).

In the ordinary course of the business, material transactions that the Bank entered into with its subsidiaries are as follows:

Amounts

	2018	2017
Interest income	1,002	1,320
Interest expense	739	577
Fee and commission income	1,769	1,820
Fee and commission expense	575	542
Dividend income	311	65
Net gain arising from investment securities	–	399
Other operating expense, net	(192)	(94)
Operating expenses	990	811

Balances outstanding as at balance sheet date

	2018	2017
Deposits with banks and non-bank financial institutions	3,640	4,871
Placements with banks and non-bank financial institutions	77,992	90,481
Positive fair value of derivatives	327	1,424
Financial assets held under resale agreements	2,130	–
Interest receivable	N/A	120
Loans and advances to customers	10,918	10,653
Financial investments		
Financial assets measured at amortised cost	2,127	N/A
Financial assets measured at fair value through other comprehensive income	10,336	N/A
Available-for-sale financial assets	N/A	9,074
Held-to-maturity investments	N/A	656
Investment classified as receivables	N/A	455
Other assets	39,105	38,480

	2018	2017
Deposits from banks and non-bank financial institutions	6,688	19,547
Placements from banks and non-bank financial institutions	38,999	58,017
Financial liabilities measured at fair value through profit or loss	45	–
Negative fair value of derivatives	344	1,288
Financial assets sold under repurchase agreements	1,334	–
Deposits from customers	7,233	3,821
Interest payable	N/A	94
Debt securities issued	824	840
Other liabilities	281	1,033

As at 31 December 2018, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary is RMB38,733 million (as at 31 December 2017: RMB53,726 million).

For the year ended 31 December 2018, the transactions between subsidiaries of the Group are mainly deposits with banks and non-bank financial institutions and deposits from banks and non-bank financial institutions. As at 31 December 2018, the balances of the above transactions were RMB2,509 million (as at 31 December 2017: RMB4,613 million) and RMB2,509 million (as at 31 December 2017: RMB10,721 million) respectively.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(4) Transactions with other PRC state-owned entities

State-owned entities refer to those entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations. Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; purchase, sale, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(5) Transactions with the Annuity Scheme and Plan Assets

Apart from the obligations for defined contributions to the Annuity Scheme and regular banking transactions, there were no other transactions between the Group and the Annuity Scheme for the years ended 31 December 2018 and 2017.

As at 31 December 2018, RMB3,760 million of the Group's supplementary retirement benefit plan assets (as at 31 December 2017: RMB3,183 million) were managed by CCB Principal and management fees from the Bank was RMB15.63 million (as at 31 December 2017: RMB10.59 million).

(6) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives. The Group enters into banking transactions with key management personnel in the normal course of business. For the years ended 31 December 2018 and 2017, there were no material transactions and balances with key management personnel.

The compensation of directors and supervisors is disclosed in Note 15. The senior executives' annual compensation before individual income tax during the year is as follows:

	2018			
	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (Note (i)) RMB'000	Total (Note (ii)) RMB'000
Executive Vice President				
Huang Yi	491	55	107	653
Zhang Lilin	491	50	95	636
Executive Vice President and Chief Risk Officer				
Liao Lin	665	55	149	869
Chief Financial Officer				
Xu Yiming	788	55	149	992
Secretary to the Board				
Huang Zhiling	657	47	122	826
Former Executive Vice President				
Yang Wensheng	205	22	38	265
Yu Jingbo	205	22	38	265
Former Secretary to the Board				
Chen Caihong	113	–	18	131
	3,615	306	716	4,637

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(6) Key management personnel (continued)

	2017			
	Accrued cost (Allowances) RMB'000	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank RMB'000	Other monetary income RMB'000	Term incentive income during 2015-2017 RMB'000
Executive Vice President				
Yang Wensheng	671	139	–	518
Huang Yi	671	139	–	518
Yu Jingbo	671	139	–	518
Zhang Lilin	392	74	–	109
Chief Disciplinary Officer				
Zhu Kepeng	671	139	–	411
Chief Risk Officer				
Liao Lin	1,759	157	–	–
Chief Financial Officer				
Xu Yiming	2,110	187	–	–
Secretary to the Board				
Huang Zhiling	–	–	–	–
Former Chief Risk Officer				
Zeng Jianhua	352	30	–	–
Former Secretary to the Board				
Chen Caihong	2,110	131	–	–
	9,407	1,135	–	2,074

(i) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

(ii) The total compensation package for these key management personnel for the year ended 31 December 2018 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation to be adjusted for is not expected to have significant impact on the Group's financial statements for the year ended 31 December 2018. The final compensation will be disclosed in a separate announcement when determined.

(iii) The total compensation package for certain key management personnel for the year ended 31 December 2017 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2017 financial statements were announced. The aforesaid total compensation package for the key management personnel for the year ended 31 December 2017 was the final amount.

(iv) From 2015 onwards, remuneration of the Bank's leaders administered by central authorities has been paid in accordance with relevant policies relating to the central remuneration reform.

(7) Loans, quasi-loans and other credit transactions to directors, supervisors and senior executives

The Group had no material balance of loans, quasi-loans and other credit transactions to directors, supervisors and senior executives as at the end of reporting period. Those loans, quasi-loans and other credit transactions to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions with those which are available to other employees, based on terms and conditions granted to third parties adjusted for risk reduction.

62 RISK MANAGEMENT

The Group has exposure to the following risks:

- credit risk
- market risk
- liquidity risk
- operational risk
- insurance risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

Risk management framework

The Board of Directors carry out their responsibilities according to Articles of Association and other related regulatory requirements. The Board of Directors of the Bank has established the Risk Management Committee, responsible for making risk management strategies and policies, monitoring the implementation, and evaluating the overall risk profile on a regular basis. The Board of Supervisors has oversight of the establishment of the overall risk management system and how well the Board of Directors and senior management carry out risk management responsibilities. Senior management is responsible for carrying out the risk strategy established by the Board of Directors and the implementation of the overall risk management of the Group. Senior management appoints Chief Risk Officer who assisted the president with the corresponding risk management work.

To identify, evaluate, monitor and manage risk, the Group has designed a comprehensive governance framework, internal control policies and procedures. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training system, standardised management and process management, aims at developing a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Risk Management Department is the overall business risk management department. Credit Management Department is the overall credit risk management department. Credit Approval Department is the overall credit business approval department. Internal Control and Compliance Department is the coordination department for operating risk management, information technology risk management, compliance risk management and money laundering risk management. Other departments are responsible for various corresponding risks.

The Group Audit Committee is responsible for monitoring and evaluating internal controls, and monitoring the compliance of core business sectors and their management procedures. Internal Control and Compliance Department assists the Audit Committee to execute the above mentioned responsibilities and reports to the Audit Committee.

(1) Credit risk

Credit risk management

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

Credit business

The Risk Management Department takes the lead in the development and implementation of the credit risk measurement tools including customers rating and facilities grading. The Credit Management Department is responsible for establishing credit risk management policies and monitoring the quality of credit assets. The Special Assets Resolution Center is responsible for the special assets resolutions. The Credit Approval Department is responsible for the Group's comprehensive credit limits and credit approval of various credit businesses. While the Credit Management Department takes the lead, both the Credit Management Department and the Credit Approval Department will coordinate with the Corporate Banking Department, the SME Business Department, the Institutional Banking Department, the International Business Department, the Strategic Clients Department, the Housing Finance & Personal Lending Department, the Credit Card Center, and the Legal Affairs Department to implement the credit risk management policies and procedures.

With respect to the credit risk management of corporate and institutional business, the Group has accelerated the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have been implemented to improve the overall asset quality. The Group manages credit risks throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risk and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually carries out post-lending monitoring, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported timely and measures are implemented to prevent and control risks.

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (Continued)

Credit risk management (Continued)

Credit business (Continued)

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for consent. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard recovery procedures.

To mitigate risks, the Group requests the customers to provide collateral and guarantees where appropriate. A refined management system and operating procedure for collateral have been developed, and there is a guideline to specify the suitability of accepting specific types of collateral. Collateral values, structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

Treasury business

For risk management purposes, credit risk arising from debt securities and derivatives exposures is managed independently and information thereon is disclosed in Notes (1)(i) and (1)(j) below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

Measurement of Expected Credit Loss (ECL)

(A) Segmentation of Financial Instruments

The Group adopts a "three-stage" model for impairment based on changes in credit quality since initial recognition, to estimate the expected credit losses.

The key definition of the three stages are summarised below:

Stage 1: For financial instruments with no significant increase in credit risk after initial recognition, expected credit losses in the next 12 months are recognised.

Stage 2: For financial instruments with significant increase in credit risk since initial recognition, but there are no objective evidence of impairment, lifetime expected credit losses are recognised.

Stage 3: For financial assets show objective evidence of impairment at the end of the reporting period, lifetime expected credit losses are recognised.

(B) Significant Increase in Credit Risk (SICR)

The Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition on a quarterly basis. The Group sufficiently considers all reasonable and supportable information, including forward-looking information, which reflects the significant increase in credit risk. The major factors considered include regulatory and business environment, internal and external credit grading, repayment ability, operation capacity, contract terms of the loan, assets price, market interest rate, repayment behaviors, etc. The Group compares the risk of a default occurring as at the reporting date with that as at the date of initial recognition of one financial instrument or a portfolio of financial instruments that shares the similar credit risk characteristics. The key factors are as follows: 1. The change in probability of default (PD), for example, in principle, the internal credit rating of corporate loans and advances is 15 or below, and the internal credit rating of debt securities has dropped by 2 or more notches. 2. Other factors which cause significant increase in credit risk. Usually, it should be regarded as a significant increase in credit risk if the overdue exceeds 30 days.

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (Continued)

Measurement of Expected Credit Loss (ECL) (Continued)

(C) Definition of default and credit-impaired assets

The Group considers a financial instrument is default, when it is credit-impaired. Generally, overdue for more than 90 days on contractual payment terms is considered default.

In order to evaluate whether a financial asset is impaired, the Group considers the following criteria:

- Significant financial difficulty of the borrower or issuer;
- Breach of contract term, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for financial assets because of financial difficulties;
- A substantial discount on purchasing or generating a financial asset may reflects the fact that credit losses occur;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including adverse changes in the payment status of borrowers in the Group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Group;
- Other objective evidence indicating there is an impairment of the financial asset.

The Group's definition of default has been consistently applied to the modelling process of PD, EAD and LGD during the ECL calculation.

(D) Measuring ECL – Explanation of Inputs, Assumptions and Estimation Techniques

The ECL is recognised on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether a financial instrument is considered to be credit-impaired. Expected credit losses are the discounted product of the weighted average of PD, LGD, and EAD under the three scenarios, defined as follows:

– PD represents after consideration of forward-looking information the likelihood of a borrower defaulting on its financial obligation in the future. Please refer to earlier disclosure in this note for the definition of default.

– LGD represents after consideration of forward-looking information the Group's expectation on the ratio of extent of loss and a defaulted exposure.

– EAD is the total amount of risk exposure on and off balances sheet at the time of default. The exposure is determined by the repayment plan according to different types of products.

– The discount rate used in the ECL calculation is the effective interest rate.

Please refer to further disclosure in this note for forward looking information which is incorporated in the calculation of expected credit losses.

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs and how the collateral values change etc. – are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (Continued)

Measurement of Expected Credit Loss (ECL) (Continued)

(E) Forward-looking information incorporated in the ECL

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables related to expected credit losses and made forward-looking adjustments, such as GDP, CPI, M2, PPI, RMB deposit reserve rate, London spot gold price, average exchange rate of US Dollar to RMB and so on. Taking GDP as an example, the predicted value in neutral scenario accords with the development goals issued by the Central People's Government, the predicted value in positive and negative scenarios will fluctuate up and down on the basis of the predicted value in neutral scenario. The forecasts of macroeconomic variables in the variables pool are provided periodically by the Group. The Group constructs empirical models to obtain the relationship between historical macroeconomic variables and PD and LGD, and the PD and LGD in a given future horizon are projected based on the forecasted macroeconomic variables.

The Group constructs empirical models to determine the weightings in positive, neutral and negative. In 2018, the positive, neutral and negative scenarios are of comparable weighting. Following this assessment, the Group measures ECL as a weighted average probability of ECL in the next 12-month under the three scenarios for Stage 1 financial instruments; and a weighted average probability of lifetime ECL for Stage 2 and 3 financial instruments.

(F) Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. The Group uses credit rating, product types and client types, etc. for grouping to calculate the losses measured on a collective basis.

(a) Maximum credit risk exposure

The following table presents the maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement. In respect of the financial assets recognised in the statement of financial position, the maximum exposure to credit risk is represented by the carrying amount after deducting for any impairment allowance.

	2018	2017
Deposits with central banks	**2,567,648**	2,914,380
Deposits with banks and non-bank financial institutions	**486,949**	175,005
Placements with banks and non-bank financial institutions	**349,727**	325,233
Positive fair value of derivatives	**50,601**	82,980
Financial assets held under resale agreements	**201,845**	208,360
Interest receivable	**N/A**	116,993
Loans and advances to customers	**13,365,430**	12,574,473
Financial investments		
Financial assets measured at fair value through profit or loss	**630,241**	554,048
Financial assets measured at amortised cost	**3,272,514**	N/A
Debt securities measured at fair value through other comprehensive income	**1,707,884**	N/A
Available-for-sale debt securities	**N/A**	1,461,824
Held-to-maturity investments	**N/A**	2,586,722
Investments classified as receivables	**N/A**	465,810
Other financial assets	**123,629**	65,238
Total	**22,756,468**	21,531,066
Off-balance sheet credit commitments	**2,848,724**	3,029,172
Maximum credit risk exposure	**25,605,192**	24,560,238

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) Distribution of loans and advances to customers in terms of credit quality is analysed as follows

	Note	2017
Gross impaired loss		
– Individually assessed and impaired gross amount		169,798
– Allowances for impairment losses		(113,820)
Subtotal		55,978
– Collectively assessed and impaired gross amount		22,493
– Allowances for impairment losses		(13,802)
Subtotal		8,691
Overdue but not impaired		
– between 1 day and 90 days		30,483
– between 91 days and 180 days		–
– more than 180 days		–
Gross amount		30,483
Allowances for impairment losses	(i)	(3,164)
Subtotal		27,319
Neither overdue nor impaired		
– Unsecured loans		3,856,502
– Guaranteed loans		2,035,372
– Loans secured by tangible assets other than monetary assets		5,441,687
– Loans secured by monetary assets		1,347,106
Gross amount		12,680,667
Allowances for impairment losses	(i)	(198,182)
Subtotal		12,482,485
Total		12,574,473

(i) The balances represent collectively assessed allowances of impairment losses.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) Distribution of loans and advances to customers in terms of credit quality is analysed as follows (continued)

Within overdue but not credit impaired loans and advances and credit impaired loans and advances, the portion covered or not covered by collateral held are shown as follows:

	2018		
	Overdue but not credit impaired loans and advances		Credit impaired loans and advances
	Corporate	Personal	Corporate
Portion covered	1,737	15,239	22,581
Portion not covered	1,482	10,757	150,459
Total	3,219	25,996	173,040

	2017		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Portion covered	4,112	14,678	29,810
Portion not covered	3,523	8,170	139,988
Total	7,635	22,848	169,798

The above collateral includes land use rights, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations

	2018			2017		
	Gross Loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Transportation, storage and postal services	**1,435,520**	**10.42%**	**497,172**	1,429,583	11.08%	516,193
– Manufacturing	**1,260,179**	**9.14%**	**338,453**	1,318,827	10.22%	410,706
– Leasing and commercial services	**1,048,235**	**7.61%**	**367,530**	981,704	7.61%	347,367
– Production and supply of electric power, heat, gas and water	**840,381**	**6.10%**	**201,091**	867,818	6.73%	199,689
– Real estate	**630,192**	**4.57%**	**312,305**	522,242	4.05%	284,698
– Wholesale and retail trade	**426,948**	**3.10%**	**188,993**	477,404	3.70%	266,890
– Water, environment and public utility management	**409,137**	**2.97%**	**203,576**	395,163	3.06%	193,538
– Construction	**311,157**	**2.26%**	**75,368**	280,721	2.18%	70,228
– Mining	**254,241**	**1.84%**	**21,878**	250,698	1.94%	28,685
– Public management, social securities and social organisation	**70,578**	**0.51%**	**9,406**	107,297	0.83%	18,035
– Agriculture, forestry, farming, fishing	**67,256**	**0.49%**	**21,355**	74,831	0.58%	24,972
– Education	**66,476**	**0.48%**	**15,071**	70,981	0.55%	16,912
– Others	**658,166**	**4.77%**	**163,219**	710,563	5.50%	87,281
Total corporate loans and advances	**7,478,466**	**54.26%**	**2,415,417**	7,487,832	58.03%	2,465,194
Personal loans and advances	**5,957,545**	**43.22%**	**5,004,794**	5,279,894	40.92%	4,429,426
Discounted bills	**310,244**	**2.25%**	**–**	135,715	1.05%	–
Accrued interest	**36,798**	**0.27%**	**–**	N/A	N/A	N/A
Total loans and advances to customers	**13,783,053**	**100.00%**	**7,420,211**	12,903,441	100.00%	6,894,620

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations (continued)

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	2018					
		Allowances for expected credit losses				
	Stage 3 Gross loans	Stage 1	Stage 2	Stage 3	Charged to income statement during the year	Written off during the year
Transportation, storage and postal services	**16,500**	**(17,555)**	**(8,509)**	**(10,339)**	**(13,930)**	**545**

	2017				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to income statement during the year	Written off during the year
Manufacturing	76,557	(51,220)	(39,504)	(47,638)	15,896
Transportation, storage and postal services	13,844	(8,651)	(26,573)	(10,184)	549

(d) Loans and advances to customers analysed by geographical sector concentrations

	2018			2017		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	**2,386,931**	**17.31%**	**1,491,555**	2,288,830	17.74%	1,476,742
Central	**2,418,013**	**17.54%**	**1,505,629**	2,176,159	16.86%	1,346,200
Western	**2,277,666**	**16.53%**	**1,299,688**	2,117,740	16.41%	1,206,486
Bohai Rim	**2,292,606**	**16.63%**	**1,109,429**	2,131,045	16.52%	1,024,363
Pearl River Delta	**2,085,684**	**15.13%**	**1,454,487**	1,941,337	15.05%	1,370,326
Northeastern	**712,310**	**5.17%**	**357,228**	672,309	5.21%	341,388
Head office	**685,733**	**4.98%**	**–**	574,506	4.45%	–
Overseas	**887,312**	**6.44%**	**202,195**	1,001,515	7.76%	129,115
Accrued interest	**36,798**	**0.27%**	**–**	N/A	N/A	N/A
Gross loans and advances to customers	**13,783,053**	**100.00%**	**7,420,211**	12,903,441	100.00%	6,894,620

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations (continued)

Details of Stage 3 loans and expected credit losses in respect of geographical sectors are as follows:

	2018			
	Stage 3 Gross loans	Allowances for expected credit losses		
		Stage 1	Stage 2	Stage 3
Bohai Rim	42,331	(28,558)	(19,930)	(29,548)
Western	36,092	(31,323)	(15,091)	(24,688)
Central	34,087	(33,900)	(14,904)	(25,313)
Yangtze River Delta	26,234	(34,526)	(18,960)	(18,543)
Pearl River Delta	24,077	(29,859)	(10,630)	(14,627)
Northeastern	25,850	(9,996)	(11,195)	(19,095)
Head office	8,123	(11,317)	(2,112)	(6,395)
Overseas	4,087	(4,136)	(802)	(2,175)
Total	200,881	(183,615)	(93,624)	(140,384)

	2017		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Bohai Rim	38,302	(22,645)	(39,339)
Western	34,973	(19,205)	(37,230)
Central	32,154	(19,135)	(35,432)
Yangtze River Delta	31,460	(21,038)	(40,866)
Pearl River Delta	27,777	(18,022)	(31,612)
Northeastern	18,920	(11,925)	(15,798)
Head Office	5,867	(394)	(10,640)
Overseas	2,838	(1,456)	(4,231)
Total	192,291	(113,820)	(215,148)

The definitions of geographical segments are set out in Note 57(1).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(e) Loans and advances to customers analysed by types of collateral

	2018	2017
Unsecured loans	**4,301,972**	3,885,329
Guaranteed loans	**2,024,072**	2,123,492
Loans secured by tangible assets other than monetary assets	**6,218,435**	5,539,863
Loans secured by monetary assets	**1,201,776**	1,354,757
Accrued interest	**36,798**	N/A
Gross loans and advances to customers	**13,783,053**	12,903,441

(f) Rescheduled loans and advances to customers

	2018		2017	
	Total	**Percentage of gross loans and advances to customers**	Total	Percentage of gross loans and advances to customers
Rescheduled loans and advances to customers	**5,818**	**0.04%**	4,001	0.03%
Of which:				
Rescheduled loans and advances overdue for more than 90 days	**1,866**	**0.01%**	998	0.01%

(g) Credit exposure

Loans and advances to customers

	2018				
	Stage 1 12 months ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased financial assets that have already been impaired**	**Total**
Low risk	**13,112,857**	**12,230**	**–**	**–**	**13,125,087**
Medium risk	**3,521**	**383,909**	**–**	**–**	**387,430**
High risk	**–**	**–**	**200,881**	**–**	**200,881**
Total carrying amount	**13,116,378**	**396,139**	**200,881**	**–**	**13,713,398**
Allowance for impairment	**(183,615)**	**(93,624)**	**(140,384)**	**–**	**(417,623)**

The Group classifies asset risk characteristics according to the quality of assets. "Low risk" means that the borrower can fulfill the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; "Medium risk" means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; "High risk" means that the borrower's repayment ability has obvious problems and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(g) Credit exposure (continued)

Off Balance Sheet Items

	2018				
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased financial assets that have already been impaired	Total
Low risk	2,759,992	–	–	–	2,759,992
Medium risk	–	84,082	–	–	84,082
High risk	–	–	4,650	–	4,650
Total carrying amount	2,759,992	84,082	4,650	–	2,848,724
Allowance for impairment	(22,344)	(5,971)	(2,909)	–	(31,224)

The Group classifies asset risk characteristics according to the quality of assets. “Low risk” means that the borrower can fulfill the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; “Medium risk” means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; “High risk” means that the borrower’s repayment ability has obvious problems and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred.

Financial investments

	2018				
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased financial assets that have already been impaired	Total
Credit rating					
Low risk	4,915,168	–	–	–	4,915,168
Medium risk	65,689	222	–	–	63,920
High risk	–	3,564	2,590	–	8,145
Total carrying amount	4,980,857	3,786	2,590	–	4,987,233
Allowance for impairment	(7,261)	(509)	(1,155)	–	(8,925)

The Group classifies financial investment risk characteristics based on asset entry and internal rating changes. “Low risk” means that the issuer’s initial internal rating is above the entry level, there are no reasons to suspect that the financial investment is expected to default; “Medium risk” means that although the issuer’s internal rating is reduced to a certain extent, but there are not enough reasons to suspect that the financial investment is expected to default; “high risk” means that there are obvious problems may cause a default, or the financial investment indeed is defaulted.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(g) Credit exposure (continued)

Amount due from banks and non-bank financial institutions

	2018				
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased financial assets that have already been impaired	Total
Credit rating					
Low risk	1,038,909	–	–	–	1,038,909
Medium risk	–	–	–	–	–
High risk	–	–	–	–	–
Total carrying amount	1,038,909	–	–	–	1,038,909
Allowance for impairment	(388)	–	–	–	(388)

The Group classifies amount due from banks and non-bank financial institutions risk characteristics based on asset entry and internal rating changes. "Low risk" means that the issuer's initial internal rating is above the entry level, there are no reasons to suspect that the amount due from banks and non-bank financial institutions is expected to default; "Medium risk" means that although the issuer's internal rating is reduced to a certain extent, but there are not enough reasons to suspect that the amount due from banks and non-bank financial institutions is expected to default; "high risk" means that there are obvious problems may cause a default, or the amount due from banks and non-bank financial institutions indeed is defaulted.

(h) Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:

Amount due from banks and non-bank financial institutions includes deposits and placements with banks and non-bank financial institutions, and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

	2018
Credit impaired	1
Allowances for impairment losses	(1)
Subtotal	–
Neither overdue nor impaired	
– grade A to AAA	958,266
– grade B to BBB	14,103
– unrated	61,345
Accrued interest	5,195
Total	1,038,909
Allowances for impairment losses	(388)
Subtotal	1,038,521
Total	1,038,521

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows (continued):

	2017
Impaired	
– Individually assessed and impaired gross amount	25
– Allowances for impairment losses	(25)
Subtotal	–
Neither overdue nor impaired	
– grade A to AAA	646,592
– grade B to BBB	489
– unrated	61,661
Total	708,742
Allowances for impairment losses	(144)
Subtotal	708,598
Total	708,598

Amounts neither overdue nor impaired are analysed above according to the Group's internal credit rating. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of banks and non-bank financial institutions for which the Group has not assigned internal credit ratings.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(i) Distribution of debt investments analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt investments portfolio held. The ratings are obtained from Bloomberg Composite, or major rating agencies where the issuers of the debt investments are located. The carrying amounts of the debt investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	2018					
	Unrated	AAA	AA	A	Lower than A	Total
Credit impaired						
– Banks and non-bank financial institutions	344	–	–	–	–	344
– Enterprises	2,246	–	–	–	–	2,246
Total	2,590	–	–	–	–	2,590
Allowances for impairment losses						(1,155)
Subtotal						1,435
Neither overdue nor impaired						
– Government	1,512,484	2,186,322	13,049	20,556	25,719	3,758,130
– Central banks	16,362	4,549	16,735	853	400	38,899
– Policy banks	764,358	3,160	2,901	21,313	–	791,732
– Banks and non-bank financial institutions	291,519	135,189	10,795	40,327	7,729	485,559
– Enterprises	238,441	262,728	14,652	19,278	5,465	540,564
Total	2,823,164	2,591,948	58,132	102,327	39,313	5,614,884
Allowances for impairment losses						(5,680)
Subtotal						5,609,204
Total						5,610,639

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(i) Distribution of debt investments analysed by rating (continued)

		2017					
	Note	Unrated	AAA	AA	A	Lower than A	Total
Impaired							
Individually assessed and impaired gross amount							
– Enterprises		632	–	–	–	–	632
– Others		200	–	–	–	–	200
Total		832	–	–	–	–	832
Allowances for impairment losses							(434)
Subtotal							398
Neither overdue nor impaired							
– Government		2,042,536	1,158,184	8,698	24,490	25,461	3,259,369
– Central banks		6,891	5,837	25,089	–	–	37,817
– Policy banks		803,872	3,665	1,545	13,491	–	822,573
– Banks and non-bank financial institutions		253,410	100,733	12,765	31,369	8,443	406,720
– Enterprises		164,026	282,420	29,681	15,708	5,319	497,154
– Others		8,278	22,641	19,218	695	454	51,286
Total		3,279,013	1,573,480	96,996	85,753	39,677	5,074,919
Allowances for impairment losses	(i)						(6,913)
Subtotal							5,068,006
Total							5,068,404

(i) The balances represent collectively assessed allowances of impairment losses.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(j) Credit risk arising from the Group's derivatives exposures

The majority of the Group's derivatives transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk both in respect of the domestic customers and the overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

(k) Settlement risk

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(l) Sensitivity analysis

The allowance for impairment losses is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, and other factors considered when applying expert credit judgment. Changes in these inputs, assumptions, models, and judgments would have an impact on the recognition of significant increase in credit risk and the measurement of ECLs.

(i) Sensitivity analysis of segmentation

The allowance for credit losses of performing financial assets consists of an aggregate amount of Stage 1 and Stage 2 probability-weighted ECL which are twelve-month ECLs and lifetime ECLs respectively. A significant increase in credit risk since initial recognition will result in financial assets transferring from Stage 1 to Stage 2. The following table presents the impact of ECLs from the second year to the end of the lifetime for financial assets in stage 2.

	2018		
	12 months credit loss of all performing financial assets	**Impact of lifetime**	**Current ECL**
Performing loans	**267,782**	**9,457**	**277,239**
Performing financial investments	**7,266**	**504**	**7,770**

(ii) Sensitivity analysis of macroeconomic variables

The Group has carried out sensitivity analysis of benchmark core economic factors such as GDP. As at 31 December 2018, when the core economic factors in the neutral scenario are up or down by 10%, the ECLs of financial assets will not change by more than 5%.

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk

Market risk is the risk of loss, in respect of the Group's on and off balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading business. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments and commodities which are not included in the trading book.

The Group continues to improve market risk management system. The Market Risk Management Department is responsible for leading the establishment of market risk management policies and rules, developing the market risk measurement tools, monitoring and reporting the trading market risk and related daily work. The Asset and Liability Management Department (the "ALM") is responsible for managing non-trading interest rate risk, exchange rate risk and the size and structure of the assets and liabilities in response to structural market risk. The Financial Market Department manages the Bank's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group's interest rate risk mainly comprises repricing risk and basis risk arising from mismatch of term structure and pricing basis of assets and liabilities. The Group uses multiple tools such as repricing gap analysis, sensitivity analysis on net interest income, scenario analysis and stress testing, etc. to monitor the interest rate risk periodically.

The Group's foreign exchange exposure mainly comprises exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposure by spot foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group is also exposed to market risk in respect of its customer driven derivatives portfolio and manages this risk by entering into back-to-back hedging transactions with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(a) VaR analysis

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rates, foreign exchange rates and commodity prices VaR for the Bank's trading portfolio. By reference to historical movements in interest rates, foreign exchange rates and commodity prices, the Risk Management Department calculates VaR on a daily basis for the trading portfolio and monitors it regularly. VaR is calculated at a confidence level of 99% and with a holding period of one day.

A summary of the VaR of the Bank's trading portfolio as at the end of the reporting period and during the respective years is as follows:

	Note	2018			
		As at 31 December	**Average**	**Maximum**	**Minimum**
Risk valuation of trading portfolio		**327**	**179**	**336**	**92**
Of which:					
– Interest rate risk		**85**	**59**	**104**	**32**
– Foreign exchange risk	(i)	**323**	**176**	**332**	**77**
– Commodity risk		**–**	**6**	**39**	**–**

		2017			
		As at 31 December	Average	Maximum	Minimum
Risk valuation of trading portfolio		112	167	252	105
Of which:					
– Interest rate risk		59	84	148	50
– Foreign exchange risk	(i)	90	117	226	70
– Commodity risk		1	8	21	–

(i) The VaR in relation to bullion is included in foreign exchange risk above.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and at a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs do not add up to the total VaR as there is diversification effect due to correlation amongst the risk factors.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used there is 1 percent probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and
- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(b) Net interest income sensitivity analysis

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease annualised net interest income of the Group for the year by RMB32,453 million (as at 31 December 2017: RMB46,727 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the annualised net interest income of the Group for the year would decrease or increase by RMB69,138 million (as at 31 December 2017: RMB50,694 million).

The above interest rate sensitivity is for illustration purpose only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and are subject to the Bank's current interest rate exposures. However, the possible risk management measures that can be undertaken by the department who manages the interest related risk or related business departments to mitigate interest rate risk have not been taken into account. In practice, the department who manage the interest related risk strives to reduce loss arising from interest rate risk while increasing its net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

(c) Interest rate repricing gap analysis

Interest rate risk refers to the risk where the market interest rates, term structure and other factors may experience unfavourable fluctuations which impact the overall profitability and fair value resulting in losses to the Bank. The key determinants of the Group's interest rate risk arise from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in repricing risk and basis risk.

The ALM is responsible for regularly monitoring the interest rate risk positions and measuring the interest rate repricing gap. The main reason for measuring the interest rate repricing gap is to assist in analysing the impact of interest rate changes on net interest income.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) *Interest rate repricing gap analysis (continued)*

The following tables indicate the average interest rate ("AIR") for the respective year, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period.

	Note	2018						
		Average interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.53%	119,043	2,513,820	–	–	–	2,632,863
Deposits and placements with banks and non-bank financial institutions		3.34%	5,050	664,234	159,581	7,811	–	836,676
Financial assets held under resale agreements		2.85%	126	201,719	–	–	–	201,845
Loans and advances to customers	(ii)	4.34%	36,798	8,324,410	4,827,130	118,889	58,203	13,365,430
Investments	(iii)	3.75%	193,041	644,118	815,599	2,428,596	1,641,557	5,722,911
Other assets			462,968	–	–	–	–	462,968
Total assets		3.82%	817,026	12,348,301	5,802,310	2,555,296	1,699,760	23,222,693
Liabilities								
Borrowings from central banks		3.21%	8,947	205,692	338,978	775	–	554,392
Deposits and placements from banks and non-bank financial institutions		2.72%	10,970	1,325,178	424,822	80,644	6,083	1,847,697
Financial liabilities measured at fair value through profit or loss		3.42%	22,977	233,450	165,395	9,512	–	431,334
Financial assets sold under repurchase agreements		2.87%	154	24,045	1,268	4,611	687	30,765
Deposits from customers		1.39%	233,879	11,289,878	3,365,791	2,210,178	8,952	17,108,678
Debt securities issued		3.62%	4,905	289,858	197,857	259,087	24,078	775,785
Other liabilities			482,448	–	–	–	–	482,448
Total liabilities		1.64%	764,280	13,368,101	4,494,111	2,564,807	39,800	21,231,099
Asset-liability gap		2.18%	52,746	(1,019,800)	1,308,199	(9,511)	1,659,960	1,991,594

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

		2017						
	Note	Average interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.51%	122,593	2,865,663	–	–	–	2,988,256
Deposits and placements with banks and non-bank financial institutions		2.64%	–	364,272	128,267	7,699	–	500,238
Financial assets held under resale agreements		2.99%	–	208,360	–	–	–	208,360
Loans and advances to customers	(ii)	4.18%	–	7,514,939	4,660,444	336,579	62,511	12,574,473
Investments	(iii)	3.74%	120,309	460,631	522,564	2,362,479	1,722,732	5,188,715
Other assets			664,341	–	–	–	–	664,341
Total assets		3.66%	907,243	11,413,865	5,311,275	2,706,757	1,785,243	22,124,383
Liabilities								
Borrowings from central banks		2.99%	–	204,808	341,709	770	–	547,287
Deposits and placements from banks and non-bank financial institutions		2.49%	–	1,462,200	202,473	51,471	4,490	1,720,634
Financial liabilities at fair value through profit or loss		3.37%	19,854	234,157	153,549	6,588	–	414,148
Financial assets sold under repurchase agreements		3.33%	–	67,469	1,892	4,632	286	74,279
Deposits from customers		1.33%	121,264	11,569,194	2,987,851	1,674,005	11,440	16,363,754
Debt securities issued		3.69%	–	251,877	79,399	210,334	54,916	596,526
Other liabilities			611,928	–	–	–	–	611,928
Total liabilities		1.56%	753,046	13,789,705	3,766,873	1,947,800	71,132	20,328,556
Asset-liability gap		2.10%	154,197	(2,375,840)	1,544,402	758,957	1,714,111	1,795,827

(i) Average interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB59,455 million as at 31 December 2018 (as at 31 December 2017: RMB64,750 million).

(iii) Investments include financial assets measured at FVPL, financial assets measured at amortised cost, financial assets measured at FVOCI and investments in associates and joint ventures, etc. (as at 31 December 2017: Investments include financial assets measured at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investment, investments classified as receivables and investments in associates and joint ventures, etc.).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) *Currency risk*

The Group's foreign exchange exposure mainly comprises exposures that arise from the foreign currency portfolio within the Treasury Department's proprietary investments, and currency exposures originated by the Group's overseas businesses.

The Group manages currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group actively manages foreign currency exposure risk, and minimizes foreign exchange risk by business lines. Therefore, the net exposure is not sensitive to exchange rate fluctuations and the potential impact to the pre-tax profits and other comprehensive income of the Group is not material.

The currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

		2018			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,412,254	116,273	104,336	2,632,863
Deposits and placements with banks and non-bank financial institutions	(i)	800,852	198,616	39,053	1,038,521
Loans and advances to customers		12,390,275	545,594	429,561	13,365,430
Investments	(ii)	5,452,573	174,263	96,075	5,722,911
Other assets		395,762	48,020	19,186	462,968
Total assets		21,451,716	1,082,766	688,211	23,222,693
Liabilities					
Borrowings from central banks		503,669	33,184	17,539	554,392
Deposits and placements from banks and non-bank financial institutions	(iii)	1,433,725	309,123	135,614	1,878,462
Financial liabilities measured at fair value through profit or loss		408,623	20,972	1,739	431,334
Deposits from customers		16,347,860	442,304	318,514	17,108,678
Debt securities issued		438,158	230,548	107,079	775,785
Other liabilities		463,483	14,590	4,375	482,448
Total liabilities		19,595,518	1,050,721	584,860	21,231,099
Net position		1,856,198	32,045	103,351	1,991,594
Net notional amount of derivatives		(244,071)	270,379	(14,750)	11,558
Credit commitments		2,538,090	188,121	122,513	2,848,724

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

		2017			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,796,711	102,635	88,910	2,988,256
Deposits and placements with banks and non-bank financial institutions	(i)	538,969	151,775	17,854	708,598
Loans and advances to customers		11,304,255	832,693	437,525	12,574,473
Investments	(ii)	4,927,815	167,193	93,707	5,188,715
Other assets		589,623	31,493	43,225	664,341
Total assets		20,157,373	1,285,789	681,221	22,124,383
Liabilities					
Borrowings from central banks		484,657	35,805	26,825	547,287
Deposits and placements from banks and non-bank financial institutions	(iii)	1,378,896	277,483	138,534	1,794,913
Financial liabilities measured at fair value through profit or loss		392,984	20,628	536	414,148
Deposits from customers		15,453,722	593,332	316,700	16,363,754
Debt securities issued		269,389	226,549	100,588	596,526
Other liabilities		511,113	77,123	23,692	611,928
Total liabilities		18,490,761	1,230,920	606,875	20,328,556
Net position		1,666,612	54,869	74,346	1,795,827
Net notional amount of derivatives		268,286	(294,407)	55,765	29,644
Credit commitments		2,673,845	153,622	201,705	3,029,172

(i) Including financial assets held under resale agreements.

(ii) Please refer to Note 62(2)(c)(iii) for the scope of investments.

(iii) Including financial assets sold under repurchase agreements.

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet the other funding needs in regular business development. Major factors and events affecting liquidity risks include: massive outflow of wholesale or retail deposits, increase in wholesale or retail financing cost, debtor defaults, decrease in the liquidity of assets, and decrease in the financing ability etc.

In managing liquidity risks, the decision-making system consists of the Bank's Board of Directors and its sub-committee, and the senior management. The Head Office's Asset and Liability Management Department takes the lead in the daily management of the Bank's liquidity risks, and works along with the Financial Market Department, Channel and Operation Management Department, Data Management Department, Public Relations & Corporate Culture Department, Board of Directors' Office, management arms of business lines, and relevant divisions of the branches and subsidiaries to ensure proper execution of liquidity risk management actions. The Board of Supervisors and Audit Department constitute as the supervisory component. These three units perform decision-making, execution and supervisory functions respectively in the Bank's liquidity risk management as per their roles and responsibilities.

The Group's objective for liquidity risk management is to guarantee the Group's payment and settlement security, and maintain an optimal balance between the Bank's liquidity position and profitability. Liquidity risks are managed on a consolidated basis, where the Head Office centrally manages the Bank's overall liquidity risks, and in light of regulatory requirements, external macro environment and the Bank's business development status, formulates liquidity risk management policies, including limit management, intraday liquidity risk management, stress testing and contingency planning. Subsidiaries are the primary owners of their own liquidity risk management.

The Group conducts stress testing on its liquidity risk position on a quarterly basis in order to gauge its risk tolerance in adverse situations, including improbable extreme scenarios. The results have shown that under stress scenarios, the Bank's liquidity risk increases but remains manageable.

The Group uses a variety of methods to measure its liquidity risks, including liquidity index analysis, analysis of remaining contractual maturities and undiscounted cash flow analysis.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) *Maturity analysis*

The following tables provide an analysis of the assets and liabilities of the Group based on the remaining periods to repayment as at the end of the reporting period:

	2018							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,177,053	454,640	–	1,170	–	–	–	2,632,863
Deposits and placements with banks and non-bank financial institutions	–	82,941	492,206	93,405	160,187	7,937	–	836,676
Financial assets held under resale agreements	–	–	201,103	742	–	–	–	201,845
Loans and advances to customers	70,252	717,226	475,109	567,815	2,799,488	3,203,135	5,532,405	13,365,430
Investments								
– Financial assets measured at fair value through profit or loss	85,036	31,322	76,537	104,992	227,632	144,658	61,040	731,217
– Financial assets measured at amortised cost	–	–	82,489	57,223	274,510	1,704,067	1,154,225	3,272,514
– Financial assets measured at fair value through other comprehensive income	3,294	–	18,383	48,472	246,776	888,772	505,481	1,711,178
– Long-term equity investments	8,002	–	–	–	–	–	–	8,002
Other assets	252,935	50,974	14,966	27,156	52,093	16,831	48,013	462,968
Total assets	2,596,572	1,337,103	1,360,793	900,975	3,760,686	5,965,400	7,301,164	23,222,693
Liabilities								
Borrowings from central banks	–	–	99,813	109,258	344,546	775	–	554,392
Deposits and placements from banks and non-bank financial institutions	–	929,855	246,048	152,645	427,102	83,943	8,104	1,847,697
Financial liabilities measured at fair value through profit or loss	–	18,839	148,784	87,018	167,065	9,628	–	431,334
Financial assets sold under repurchase agreements	–	–	23,189	918	1,274	4,694	690	30,765
Deposits from customers	–	10,372,640	873,288	926,854	2,545,389	2,368,005	22,502	17,108,678
Debt securities issued								
– Certificates of deposit issued	–	–	66,392	133,875	155,634	16,458	–	372,359
– Bonds issued	–	–	–	16	13,669	94,526	4,095	112,306
– Subordinated bonds issued	–	–	–	28,952	35,742	82,278	–	146,972
– Eligible Tier 2 capital bonds issued	–	–	–	–	2,011	121,709	20,428	144,148
Other liabilities	485	162,924	47,670	47,416	174,763	1,389	47,801	482,448
Total liabilities	485	11,484,258	1,505,184	1,486,952	3,867,195	2,783,405	103,620	21,231,099
Net gaps	2,596,087	(10,147,155)	(144,391)	(585,977)	(106,509)	3,181,995	7,197,544	1,991,594
Notional amount of derivatives								
– Interest rate contracts	–	–	64,199	47,984	96,775	82,458	10,906	302,322
– Exchange rate contracts	–	–	1,203,631	872,879	2,738,985	127,182	4,763	4,947,440
– Other contracts	–	–	33,130	31,688	22,014	2,493	–	89,325
Total	–	–	1,300,960	952,551	2,857,774	212,133	15,669	5,339,087

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	2017							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,705,300	282,956	–	–	–	–	–	2,988,256
Deposits and placements with banks and non-bank financial institutions	–	85,221	194,429	80,625	128,814	11,149	–	500,238
Financial assets held under resale agreements	–	–	203,910	4,450	–	–	–	208,360
Loans and advances to customers	72,933	631,065	445,807	581,601	2,641,172	2,881,396	5,320,499	12,574,473
Investments								
– Financial assets measured at fair value through profit or loss	24,386	–	150,934	103,563	150,580	128,825	20,148	578,436
– Available-for-sale financial assets	88,855	–	37,644	31,627	127,903	931,628	333,023	1,550,680
– Held-to-maturity investments	–	–	13,953	36,360	220,316	1,186,295	1,129,798	2,586,722
– Investment classified as receivables	–	–	2,841	11,479	23,610	207,401	220,479	465,810
– Long-term equity investments	7,067	–	–	–	–	–	–	7,067
Other assets	244,725	76,990	42,548	85,403	127,317	48,817	38,541	664,341
Total assets	3,143,266	1,076,232	1,092,066	935,108	3,419,712	5,395,511	7,062,488	22,124,383
Liabilities								
Borrowings from central banks	–	–	97,125	107,684	341,708	770	–	547,287
Deposits and placements from banks and non-bank financial institutions	–	764,478	347,584	287,101	250,648	65,779	5,044	1,720,634
Financial liabilities measured at fair value through profit or loss	–	19,854	136,833	97,323	153,550	6,588	–	414,148
Financial assets sold under repurchase agreements	–	–	66,125	1,344	1,892	4,632	286	74,279
Deposits from customers	–	9,783,474	1,117,271	1,101,977	2,636,627	1,699,395	25,010	16,363,754
Debt securities issued								
– Certificates of deposit issued	–	–	60,085	150,190	91,918	19,140	33	321,366
– Bonds issued	–	–	–	162	3,715	63,355	4,099	71,331
– Subordinated bonds issued	–	–	–	–	–	140,044	4,854	144,898
– Eligible Tier 2 capital bonds issued	–	–	–	–	–	12,967	45,964	58,931
Other liabilities	4,022	135,125	74,668	78,171	255,819	49,822	14,301	611,928
Total liabilities	4,022	10,702,931	1,899,691	1,823,952	3,735,877	2,062,492	99,591	20,328,556
Net gaps	3,139,244	(9,626,699)	(807,625)	(888,844)	(316,165)	3,333,019	6,962,897	1,795,827
Notional amount of derivatives								
– Interest rate contracts	–	–	30,749	45,943	145,336	98,848	11,604	332,480
– Exchange rate contracts	–	–	870,778	893,633	3,430,481	110,477	2,626	5,307,995
– Other contracts	–	–	33,184	61,192	84,471	3,513	272	182,632
Total	–	–	934,711	1,000,768	3,660,288	212,838	14,502	5,823,107

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) *Contractual undiscounted cash flow*

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off balance sheet credit commitments of the Group as at the end of reporting period. The Group's expected cash flows on these instruments may vary significantly from this analysis.

	2018							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	554,392	562,405	–	100,667	110,809	350,154	775	–
Deposits and placements from banks and non-bank financial institutions	1,847,697	1,878,423	930,363	246,832	155,573	441,916	93,123	10,616
Financial liabilities at fair value through profit or loss	431,334	438,124	18,839	151,389	87,702	169,994	10,200	–
Financial assets sold under repurchase agreements	30,765	32,323	–	23,209	926	1,405	5,782	1,001
Deposits from customers	17,108,678	17,367,636	10,373,070	883,249	941,884	2,615,420	2,529,230	24,783
Debt securities issued								
– Certificates of deposit issued	372,359	378,674	–	66,811	135,146	159,820	16,897	–
– Bond issued	112,306	121,149	–	258	433	16,153	100,205	4,100
– Subordinated bonds issued	146,972	163,059	–	–	29,230	41,479	92,350	–
– Eligible Tier 2 capital bonds issued	144,148	172,588	–	–	–	8,756	142,636	21,196
Other non-derivative financial liabilities	317,810	317,810	84,604	34,266	28,583	122,706	–	47,651
Total	21,066,461	21,432,191	11,406,876	1,506,681	1,490,286	3,927,803	2,991,198	109,347
Off- balance sheet loan commitments and credit card commitments (Note)		1,380,603	1,126,654	93,138	27,583	24,320	79,865	29,043
Guarantees, acceptances and other credit commitments (Note)		1,468,121	–	226,985	176,721	442,485	591,866	30,064

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) *Contractual undiscounted cash flow (continued)*

	2017							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	547,287	563,332	–	99,448	110,503	352,611	770	–
Deposits and placements from banks and non-bank financial institutions	1,720,634	1,751,770	766,491	351,816	291,385	260,618	74,705	6,755
Financial liabilities at fair value through profit or loss	414,148	418,613	19,854	138,903	98,501	154,750	6,605	–
Financial assets sold under repurchase agreements	74,279	75,774	–	66,326	1,374	2,030	5,658	386
Deposits from customers	16,363,754	16,725,423	9,785,489	1,131,863	1,138,058	2,735,162	1,905,745	29,106
Debt securities issued								
– Certificates of deposit issued	321,366	359,190	–	63,261	150,660	104,893	40,339	37
– Bond issued	71,331	82,226	–	201	1,796	8,139	67,539	4,551
– Subordinated bonds issued	144,898	204,878	–	36	1,224	5,913	175,336	22,369
– Eligible Tier 2 capital bonds issued	58,931	80,778	–	–	–	2,758	28,842	49,178
Other non-derivative financial liabilities	216,642	216,642	24,349	26,551	28,197	124,193	–	13,352
Total	19,933,270	20,478,626	10,596,183	1,878,405	1,821,698	3,751,067	2,305,539	125,734
Off- balance sheet loan commitments and credit card commitments (Note)		1,390,853	1,133,818	85,704	8,111	37,721	83,073	42,426
Guarantees, acceptances and other credit commitments (Note)		1,638,319	–	398,492	232,930	425,987	542,427	38,483

Note: The off-balance sheet loan commitments and credit card commitments may expire without being drawn upon. Guarantees, acceptances and other credit commitments do not represent the amount to be paid.

62 RISK MANAGEMENT (CONTINUED)

(4) Operational risk

Operational risk refers to the risks that resulted from flawed or erroneous internal processes, people and systems, or external events.

In 2018, the Group strengthened statistics on violations and position management, continuously improved the level of internal operational risk management, promoted management tool applications and continued to meet operational risk management compliance standards. More measures are took to reduce losses in order to meet requirements of internal risk management and external regulatory compliance.

Strengthen statistical analysis of violations such as regulatory penalties and credit violations, and develop corresponding system functions, in an effort to reduce operational risk losses caused by violations; re-examine and adjust the incompatible post manuals to enhance the level of post checks and balances; develop a list of important positions for job rotation and mandatory vacation, and strengthen the ability of internal control; select key areas to carry out self-assessment of operational risk, especially to carry out "Fat Finger" risk identification and assessment, and improve operational risk prevention and control; continue to promote the construction and related drills of emergency plans for important business in the New Generation Core System to improve the ability to respond to emergencies like business disruptions.

(5) Fair value of financial instruments

(a) Valuation process, technique and input

The Board is responsible for establishing a robust internal control policy of valuation, and takes the ultimate responsibility for the adequacy and effectiveness of internal control system. The Board of Supervisors takes charge of supervising the performance of the Board and Senior Management. According to the requirements of the Board and the Board of Supervisors, Senior Management is responsible for organising and implementing the internal control system over the valuation process to ensure the effectiveness of the internal control system of valuation.

The Group has established an independent valuation process for financial assets and financial liabilities. The relevant departments are responsible for performing valuation, verifying valuation model and accounting of valuation results.

The major valuation techniques and inputs used by the Group are set out in Note 4(3)(i) and Note 4(24)(c). For the year ended 31 December 2018, there was no significant change in the valuation techniques or inputs used to determine fair value as compared to those used for the year ended 31 December 2017.

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

– Level 1: Fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

– Level 2: Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

– Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value

(i) Fair value hierarchy

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	2018			
	Level 1	Level 2	Level 3	Total
Assets				
Positive fair value of derivatives	–	50,566	35	50,601
Loans and advances to customers				
– Loans and advances to customers measured at fair value through profit or loss	–	32,857	–	32,857
– Loans and advances to customers measured at fair value through other comprehensive income	–	308,368	–	308,368
Financial assets measured at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	1,711	217,046	–	218,757
– Equity instruments and funds	1,706	–	–	1,706
Financial assets designated as measured at fair value through profit or loss				
– Debt securities	595	–	14,314	14,909
– Other debt instruments	–	265,938	84,640	350,578
Other Financial assets measured at fair value through profit or loss				
– Credit investment	–	13,004	1,253	14,257
– Debt securities	–	31,553	187	31,740
– Funds and others	28,300	27,009	43,961	99,270
Financial assets measured at fair value through other comprehensive income				
– Debt securities	187,632	1,520,252	–	1,707,884
– Financial assets designated as measured at fair value through other comprehensive income	1,819	73	1,402	3,294
Total	221,763	2,,466,666	145,792	2,834,221
Liabilities				
Financial liabilities measured at fair value through profit or loss				
– Financial liabilities designated as measured at fair value through profit or loss	–	429,706	1,628	431,334
Negative fair value of derivatives	–	48,490	35	48,525
Total	–	478,196	1,663	479,859

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	2,050	187,397	–	189,447
– Equity instruments and funds	1,312	–	–	1,312
Financial assets designated as at fair value through profit or loss				
– Debt securities	–	–	10,211	10,211
– Equity instruments and funds	837	–	22,239	23,076
– Other debt instruments	–	228,995	125,395	354,390
Positive fair value of derivatives	–	82,881	99	82,980
Available-for-sale financial assets				
– Debt securities	176,791	1,282,194	2,839	1,461,824
– Equity instruments and funds	8,181	63,806	4,419	76,406
Total	189,171	1,845,273	165,202	2,199,646
Liabilities				
Financial liabilities measured at fair value through profit or loss				
– Financial liabilities designated as at fair value through profit or loss	–	413,676	472	414,148
Negative fair value of derivatives	–	79,769	98	79,867
Total	–	493,445	570	494,015

A majority of the financial assets classified as level 2 is RMB bonds. The fair value of these bonds is determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd. A majority of the financial liabilities designated as at fair value through profit or loss classified as level 2 is the fund raised from principal guaranteed wealth management products, the fair value of which is determined based on the income approach. The majority of derivatives is classified as level 2 and valued using income approach. For the valuation of financial instruments classified as level 2, all significant inputs are observable market data.

The financial asset at fair value through profit or loss classified as level 3 is the underlying assets of principal guaranteed wealth management products. These financial assets are valued using income approach and market approach, which incorporate the non-observable assumptions including discount rate.

As at 31 December 2018 and 2017, there were no significant transfers within the fair value hierarchy of the Group.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(ii) Movements of fair value of financial instruments in level 3 of the fair value hierarchy

The following table shows a reconciliation from the opening balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy:

	2018										
		Financial assets designated as measured at fair value through profit or loss		Other Financial assets measured at fair value through profit or loss							
	Positive fair value of derivatives	Debt securities	Other debt instruments	Credit investment	Debt securities	Funds and others	Equity instruments designated as measured at fair value through other comprehensive income	Total assets	Negative fair value of derivatives	Financial liabilities designated as measured at fair value through profit or loss	Total liabilities
As at 1 January 2018 (Note 4(25))	99	10,164	125,395	267	1,098	19,462	623	157,108	(98)	(472)	(570)
Total gains or losses:											
In profit or loss	(17)	(135)	235	(85)	(194)	(1,106)	-	(1,302)	17	146	163
In other comprehensive income	-	-	-	-	-	-	18	18	-	-	-
Purchases	-	7,263	487,445	1,073	-	34,688	761	531,230	-	(1,414)	(1,414)
Sale and settlements	(47)	(2,978)	(528,435)	(2)	(717)	(9,083)	-	(541,262)	46	112	158
As at 31 December 2018	35	14,314	84,640	1,253	187	43,961	1,402	145,792	(35)	(1,628)	(1,663)

	2017									
	Financial assets designated as at fair value through profit or loss				Available-for-sale financial assets					
	Debt securities	Equity instruments and funds	Other debt instruments	Positive fair value of derivatives	Debt securities	Equity instruments and funds	Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2017	8,690	16,132	264,856	466	5,719	9,349	305,212	(708)	(545)	(1,253)
Total gains or losses:										
In profit or loss	114	162	2,398	(243)	(264)	(46)	2,121	204	242	446
In other comprehensive income	–	–	–	–	(81)	(50)	(131)	–	–	–
Purchases	3,546	19,532	396,578	–	715	5,160	425,531	(287)	–	(287)
Sale and settlements	(2,139)	(13,587)	(538,437)	(124)	(3,250)	(9,994)	(567,531)	319	205	524
As at 31 December 2017	10,211	22,239	125,395	99	2,839	4,419	165,202	(472)	(98)	(570)

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(ii) Movements of fair value of financial instruments in level 3 of the fair value hierarchy (continued)

In level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year in the above table are presented in net trading gain, net gain arising from investment securities and credit impairment losses of the statement of comprehensive income.

Gains or losses on level 3 financial assets and liabilities included in the statement of comprehensive income comprise:

	2018			2017		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Total (losses)/gains	(741)	(398)	(1,139)	1,964	603	2,567

(d) Financial instruments not measured at fair value

(i) Financial assets

The Group's financial assets not measured at fair value mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, held-to-maturity investments and investment classified as receivables.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate the fair values.

Financial investments

The following table shows the carrying values and the fair values of financial assets measured at amortised cost of 2018 and the investment classified as receivables and held-to-maturity investments in 2017 which are not presented in the statement of financial position at their fair values.

	2018					2017				
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortised cost	3,272,514	3,272,774	47,794	3,156,789	68,191	N/A	N/A	N/A	N/A	N/A
Investment classified as receivables	N/A	N/A	N/A	N/A	N/A	465,810	480,353	–	466,521	13,832
Held-to-maturity investments	N/A	N/A	N/A	N/A	N/A	2,586,722	2,535,280	23,186	2,512,094	–
Total	3,272,514	3,272,774	47,794	3,156,789	68,191	3,052,532	3,015,633	23,186	2,978,615	13,832

62 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(d) Financial instruments not measured at fair value (continued)

(ii) Financial liabilities

The Group's financial liabilities not measured at fair value mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. The fair value of subordinated bonds and the eligible Tier 2 capital bonds issued as at 31 December 2018 was RMB293,466 million (as at 31 December 2017: RMB211,511 million), and their carrying value was RMB291,104 million (as at 31 December 2017: RMB203,829 million). The carrying values of other financial liabilities approximated their fair values as at the end of the reporting period. The Group uses observable inputs to measure the fair values of subordinated bonds and eligible Tier 2 capital bonds issued, and classified as the level 2 of the fair value hierarchy.

(6) Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRS.

As at 31 December 2018, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

(7) Insurance Risk

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty in the resulting claim amount. The characteristic of an insurance contract inherently decides randomness and unpredictability of the underlying insurance risk. For insurance contracts where the theory of probability is applied to pricing and provisioning of insurance contract liabilities, the principal risk that the Group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance contract liabilities.

The Group manages the uncertainty of insurance risk through its underwriting strategy and policies to diversify the underwriting risks, adequate reinsurance arrangements, and enhanced underwriting control and claim control.

The Group makes related assumptions for the insurance risks and recognises insurance contract liabilities accordingly. For long-term personal insurance contracts and short-term personal insurance contracts, insurance risk may be elevated by the uncertainty of insurance risk assumptions including assumptions on death events, relevant expenses, and interest rates. For property and casualty insurance contracts, claims are often affected by natural disasters, catastrophes, terrorist attacks and other factors. In addition, the insurance risk will be affected by the policy termination, premium reduction or policyholders' refusal of payment, that is, the insurance risk will be affected by the policyholder's behavior and decision.

62 RISK MANAGEMENT (CONTINUED)

(8) Capital management

The Bank has implemented comprehensive capital management, covering capital management policies design, capital projecting and planning, capital calculation, internal capital assessment, capital allocation, capital motivation, restriction and conduction, capital raising, monitoring and reporting, and applications of advanced approach of capital calculation on the management of the ordinary course of the business. General principles of capital management of the Bank is to continuously retain an adequate capital level, retain a certain margin of safety and a certain level of buffer based on that all regulatory requirements have been complied, and ensure that the capital can cover all kinds of risks adequately; exercise reasonable and effective capital allocation and strengthen capital restraint and incentive mechanism to support the strategic planning effectively and to restrict and conduct the business so as to increase the capital efficiency and return level continuously; tamp capital strength, and retain relatively high capital quality by achieving capital supplement with priority to the internal accumulation and utilising various capital instruments reasonably to optimise capital structure; continuously develop the advanced approach of capital management on the applications in the business management such as credit policies, credit approval and pricing.

Capital adequacy ratio is a reflection of the Group's ability to maintain a stable operation and resist adverse risks. In accordance with CBIRC's "Measures for Capital Management of Commercial Banks (trial)" and relevant regulations, commercial banks should meet the minimum capital requirements from 1 January 2013. The Common Equity Tier 1 ratio should be at or above a minimum of 5%, Tier 1 ratio at or above a minimum of 6% and total capital ratio at or above a minimum of 8%. Systematically important domestic banks should also meet the 1% additional capital requirement, with their Common Equity Tier 1 capital. Meanwhile, in accordance with CBIRC's "Notice of relevant transitional arrangement for implementation of Measures for Capital Management of Commercial Banks (trial)", a capital conservation buffer will be introduced progressively during the transitional period, which will be raised through Common Equity Tier 1 capital. If a countercyclical buffer is required or the Pillar 2 capital requirement is raised by the regulator to a specific commercial bank, the minimum requirements should be met within the transitional period.

The Group timely monitors, analyses and reports capital adequacy ratios, assesses if the capital management objectives have been met and exercises effective management of capital adequacy ratio. The Group adopts various measures such as controlling asset growth, adjusting the structure of risk assets, increasing internal capital supply and raising capital through external channels, to ensure that the Common Equity Tier 1 ratio, Tier 1 ratio and total capital ratio of the Group are in full compliance with regulatory requirements and meet internal management requirements. This helps to insulate against potential risks as well as support healthy business developments. The Group now fully complies with all regulatory requirements in this respect.

The Group's capital planning has taken the regulatory requirements, the Group's development strategy and risk appetite into consideration, and based on those factors the Group projects the capital usage and need.

The capital raising management of the Group involves reasonable utilisation of various capital instruments to ensure that both external regulatory and internal capital management objectives are met, taking into account capital planning and operating environment. This helps to optimise the Group's capital structure.

In April 2014, CBRC has officially approved the implementation of the advanced approach of capital management by the Bank. In this approach, the Bank has elected to use foundation internal rating based ("IRB") approach for corporate risk exposure which is compliant with regulatory requirements, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(8) Capital management (continued)

The Group's capital adequacy ratio calculated in accordance with the "Measures for Capital Management of Commercial Banks (trial)" issued by the CBRC as at the end of the reporting period are as follows:

	Note	2018	2017
Common Equity Tier 1 ratio	(a)(b)(c)	13.83%	13.09%
Tier 1 ratio	(a)(b)(c)	14.42%	13.71%
Total capital ratio	(a)(b)(c)	17.19%	15.50%
Common Equity Tier 1 capital			
– Qualifying common share capital		250,011	250,011
– Capital reserve	(d)	134,511	109,968
– Surplus reserve		223,231	198,613
– General reserve		279,627	259,600
– Retained earnings		989,113	883,184
– Non-controlling interest recognised in Common Equity Tier 1 capital		2,744	3,264
– Others	(e)	19,836	(4,256)
Deductions for Common Equity Tier 1 capital			
– Goodwill	(f)	2,572	2,556
– Other intangible assets (excluding land use rights)	(f)	3,156	2,274
– Cash-flow hedge reserve		53	320
– Investments in common equity of financial institutions being controlled but outside the scope of consolidation		3,902	3,902
Additional Tier 1 capital			
– Other directly issued qualifying additional Tier 1 instruments including related premium		79,636	79,636
– Non-controlling interest recognised in Additional Tier 1 capital		84	152
Tier 2 capital			
– Directly issued qualifying Tier 2 instruments including related premium		206,615	138,848
– Provisions in Tier 2	(g)	172,788	92,838
– Non-controlling interest recognised in Tier 2 capital		133	266
Common Equity Tier 1 capital after deduction	(h)	1,889,390	1,691,332
Tier 1 capital after deduction	(h)	1,969,110	1,771,120
Total capital after deduction	(h)	2,348,646	2,003,072
Risk-weighted assets	(i)	13,659,497	12,919,980

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(8) Capital management (continued)

Notes:

(a) Since the interim report of 2014, the Group has elected the advanced approach to calculate capital adequacy ratio and implemented the parallel period rules.

(b) The Common Equity Tier 1 ratio is calculated by dividing the Common Equity Tier 1 Capital after deduction by risk-weighted assets. Tier 1 ratio is calculated by dividing the Tier 1 Capital after deduction by risk-weighted assets. Total Capital ratio is calculated by dividing the Total capital after deduction by risk-weighted assets.

(c) The scope for calculating capital adequacy ratio of the Group includes all the domestic branches and subsidiaries in the financial sector (excluding CCB Life).

(d) Capital reserve at 31 December 2017 includes investment revaluation reserve (excluding foreign exchange reserve).

(e) At 31 December 2018, others include other comprehensive income (include foreign exchange reserve). At 31 December 2017, others mainly include foreign exchange reserve.

(f) Both balances of goodwill and other intangible assets (excluding land use right) are the net amounts after deducting relevant deferred tax liabilities.

(g) Since the interim report of 2014, eligible excessive loan provisions was measured based on the advanced approach and implemented parallel period rules.

(h) Common Equity Tier 1 capital after deduction is calculated by netting off the corresponding deduction items from the Common Equity Tier 1 capital. Tier 1 capital after deduction is calculated by netting off the corresponding deduction items from the Tier 1 capital. Total capital after deduction is calculated by netting off the corresponding deduction items from the total capital.

(i) At 31 December 2018, according to the rules of advanced approach, risk-weighted assets include credit risk-weighted assets, market risk-weighted assets, operational risk-weighted assets and excess risk-weighted assets due to the application of capital floor.

63 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK

	2018	2017
Assets:		
Cash and deposits with central banks	**2,619,762**	2,973,506
Deposits with banks and non-bank financial institutions	**463,059**	126,766
Precious metals	**33,928**	157,036
Placements with banks and non-bank financial institutions	**354,876**	286,797
Positive fair value of derivatives	**47,470**	75,851
Financial assets held under resale agreements	**183,161**	194,850
Interest receivable	**N/A**	111,436
Loans and advances to customers	**12,869,443**	12,081,328
Financial investments		
Financial assets measured at fair value through profit or loss	**529,223**	395,536
Financial assets measured at amortised cost	**3,206,630**	N/A
Financial assets measured at fair value through other comprehensive income	**1,614,375**	N/A
Available-for-sale financial assets	**N/A**	1,402,017
Held-to-maturity investments	**N/A**	2,550,066
Investments classified as receivables	**N/A**	575,994
Long-term equity investments	**50,270**	51,660
Investment in consolidated structured entities	**161,638**	187,486
Fixed assets	**140,865**	144,042
Land use rights	**13,443**	13,657
Intangible assets	**2,690**	1,831
Deferred tax assets	**55,217**	43,821
Other assets	**147,305**	91,671
Total assets	**22,493,355**	21,465,351

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

63 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK (CONTINUED)

	2018	2017
Liabilities:		
Borrowings from central banks	554,392	546,633
Deposits from banks and non-bank financial institutions	1,410,847	1,323,371
Placements from banks and non-bank financial institutions	323,535	318,488
Financial liabilities measured at fair value through profit or loss	429,595	413,523
Negative fair value of derivatives	47,024	73,730
Financial assets sold under repurchase agreements	8,407	53,123
Deposits from customers	16,795,736	16,064,638
Accrued staff costs	32,860	29,908
Taxes payable	74,110	51,772
Interest payable	N/A	197,153
Provisions	36,130	8,543
Debt securities issued	702,038	538,989
Deferred tax liabilities	6	39
Other liabilities	141,985	95,324
Total liabilities	20,556,665	19,715,234

	2018	2017
Equity:		
Share capital	250,011	250,011
Other equity instruments		
Preference Shares	79,636	79,636
Capital reserve	135,109	135,791
Investment revaluation reserve	–	(24,463)
Other comprehensive income	21,539	–
Surplus reserve	223,231	198,613
General reserve	272,867	254,864
Retained earnings	954,297	856,109
Exchange reserve	–	(444)
Total equity	1,936,690	1,750,117
Total liabilities and equity	22,493,355	21,465,351

Approved and authorised for issue by the Board of Directors 27 March 2019.

Tian Guoli	**Chung Shui Ming Timpson**	**Anita Fung Yuen Mei**
Chairman (Authorised representative)	*Independent non-executive director*	*Independent non-executive director*

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

63 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK (CONTINUED)

	Share capital	Other equity instruments-preference shares	Capital reserve	Investment revaluation reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Total equity
As at 31 December 2017	250,011	79,636	135,791	(24,463)	–	198,613	254,864	856,109	(444)	1,750,117
Changes in accounting policies	–	–	(682)	24,463	(14,120)	–	–	(28,686)	444	(18,581)
As at 1 January 2018	250,011	79,636	135,109	–	(14,120)	198,613	254,864	827,423	–	1,731,536
Movements during the year	–	–	–	–	35,659	24,618	18,003	126,874	–	205,154
(1) Total comprehensive income for the year	–	–	–	–	35,659	–	–	246,184	–	281,843
(2) Profit distribution										
i Appropriation to surplus reserve	–	–	–	–	–	24,618	–	(24,618)	–	–
ii Appropriation to general reserve	–	–	–	–	–	–	18,003	(18,003)	–	–
iii Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	(72,753)	–	(72,753)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	–	(3,936)	–	(3,936)
As at 31 December 2018	250,011	79,636	135,109	–	21,539	223,231	272,867	954,297	–	1,936,690

	Share capital	Other equity instruments-preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Total equity
As at 31 December 2016	250,011	19,659	134,520	(1,213)	175,445	206,697	766,312	(188)	1,551,243
Movements during the year	–	59,977	1,271	(23,250)	23,168	48,167	89,797	(256)	198,874
(1) Total comprehensive income for the year	–	–	1,271	(23,250)	–	–	231,680	(256)	209,445
(2) Changes in share capital									
i Capital injection by other equity holders	–	59,977	–	–	–	–	–	–	59,977
(3) Profit distribution									
i Appropriation to surplus reserve	–	–	–	–	23,168	–	(23,168)	–	–
ii Appropriation to general reserve	–	–	–	–	–	48,167	(48,167)	–	–
iii Dividends paid to ordinary shareholders	–	–	–	–	–	–	(69,503)	–	(69,503)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	(1,045)	–	(1,045)
As at 31 December 2017	250,011	79,636	135,791	(24,463)	198,613	254,864	856,109	(444)	1,750,117

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

64 EVENTS AFTER THE REPORTING PERIOD

On 26 February 2019, the Group has exercised the option to redeem the 4.00% fixed rate subordinated bonds issued in February 2009, with the nominal value of RMB28 billion.

On 27 February 2019, the Group issued offshore Tier 2 Capital Bonds amount to US$1.85 billion. The bonds have a tenor of 10 years with fixed interest rate. The Bank has a conditional right to redeem the Bonds at the end of the fifth year.

65 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to confirm with the presentation and disclosures in the current period.

66 ULTIMATE PARENT

As stated in Note 1, the immediate and ultimate parent of the Group is Huijin and CIC respectively.

67 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are relevant to the Group. These amendments, new standards and interpretations are not yet effective for the year ended 31 December 2018 and have not been adopted in the financial statements.

Standards		Effective for annual periods beginning on or after
(1)	IFRS 16, "Leases"	1 January 2019
(2)	Amendments to IFRS 9, "Prepayment Features with Negative Compensation"	1 January 2019
(3)	IFRIC 23, "Uncertainty over Income Tax Treatments"	1 January 2019
(4)	Amendments to IAS 28, "Long-term Interests in Associates and Joint Ventures"	1 January 2019
(5)	Amendments to IAS 19, "Plan Amendment, Curtailment or Settlement"	1 January 2019
(6)	Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
(7)	IFRS 17, "Insurance Contracts"	1 January 2021
(8)	Amendments to IFRS 10 and IAS 28, "Sale or contribution of assets between an investor and its associate or joint venture"	N/A

(1) IFRS 16, "Leases"

IFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on statement of financial position for lessees. The standard replaces IAS 17 "Leases", and related interpretations.

The Group anticipates that adoption of IFRS 16 will not have a significant impact on the Group's consolidated financial statements.

(2) Amendments to IFRS 9, "Prepayment Features with Negative Compensation"

The narrow-scope amendments made to IFRS 9 Financial Instruments in December 2017 enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss.

To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

67 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

(3) IFRIC 23, "Uncertainty over Income Tax Treatments"

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.

(4) Amendments to IAS 28, "Long-term Interests in Associates and Joint Ventures"

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures.

(5) Amendments to IAS 19, "Plan Amendment, Curtailment or Settlement"

The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:

- calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change
- any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling
- separately recognise any changes in the asset ceiling through other comprehensive income.

(6) Annual Improvements to IFRS Standards 2015-2017 Cycle

The following improvements were finalised in December 2017:

- IFRS 3 – clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.
- IFRS 11 – clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.
- IAS 12 – clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.
- IAS 23 – clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

67 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

(7) IFRS 17, "Insurance Contracts"

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The Group is currently assessing the impact of IFRS 17 upon initial application.

(8) Amendments to IFRS 10 and IAS 28, "Sale or contribution of assets between an investor and its associate or joint venture"

The narrow-scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture. The amendments apply prospectively.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

The following information of the Group does not form part of the audited financial statements, and is included herein for information purposes only.

1 DIFFERENCE BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER IFRS AND THOSE PREPARED IN ACCORDANCE WITH PRC GAAP

China Construction Bank Corporation (the "Bank") prepares consolidated financial statements, which include the financial statements of the Bank and its subsidiaries (collectively the "Group"), in accordance with International Financial Reporting Standards and its interpretations ("IFRS") promulgated by the International Accounting Standards Board and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As a financial institution incorporated in the People's Republic of China (the "PRC") and listed in the Shanghai Stock Exchange, the Group also prepares its consolidated financial statements for the year ended 31 December 2017 in accordance with the Accounting Standards for Business Enterprises and other relevant regulations issued by the regulatory bodies of the PRC (collectively "PRC GAAP and regulations").

There is no difference in the net profit for the year ended 31 December 2018 or total equity as at 31 December 2017 between the Group's consolidated financial statements prepared under IFRS and those prepared under PRC GAAP and regulations respectively.

2 LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO

	Fourth quarter of 2018	Third quarter of 2018	Second quarter of 2018	First quarter of 2018
Liquidity coverage ratio	**140.78%**	132.11%	137.68%	135.83%

The formula of liquidity coverage ratio ("LCR") is dividing high quality liquid assets by net cash outflows in the next 30 days. The Group calculates the LCR as the arithmetic mean of its LCR as at each day in the quarter on the basis of the regulatory requirements, definitions and accounting standards as applicable to the current period.

According to the regulatory requirements, definitions and accounting standards applicable in the current period, as at the end of December 2018, the Group's available stable funding was RMB15,994,683 million against the required stable funding of RMB12,650,978 million, and the Bank thus met the regulatory requirements with a net stable funding ratio of 126.43%.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

3 CURRENCY CONCENTRATIONS

	2018			
	USD (RMB equivalent)	**HKD (RMB equivalent)**	**Others (RMB equivalent)**	**Total**
Spot assets	**1,053,925**	**336,580**	**402,370**	**1,792,875**
Spot liabilities	**(1,029,400)**	**(371,917)**	**(291,300)**	**(1,692,617)**
Forward purchases	**2,765,210**	**181,417**	**205,064**	**3,151,691**
Forward sales	**(2,760,568)**	**(106,381)**	**(296,062)**	**(3,163,011)**
Net options position	**(13,216)**	**16**	**–**	**(13,200)**
Net long position	**15,951**	**39,715**	**20,072**	**75,738**
Net structural position	**37,835**	**2,131**	**(15,523)**	**24,443**

	2017			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	1,285,315	415,267	383,769	2,084,351
Spot liabilities	(1,151,780)	(453,711)	(326,808)	(1,932,299)
Forward purchases	2,737,947	178,350	247,059	3,163,356
Forward sales	(2,794,336)	(105,881)	(280,868)	(3,181,085)
Net options position	(72,996)	–	–	(72,996)
Net long position	4,150	34,025	23,152	61,327
Net structural position	24,947	3,230	(6,104)	22,073

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- investments in property and equipment, net of accumulated depreciation;
- capital and statutory reserves of overseas branches; and
- investments in overseas subsidiaries and related companies.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China. The international claims of the Group is the sum of cross-border claims in all currencies and local claims in foreign currencies.

International claims include loans and advances to customers, deposits with central banks, deposits and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposit and investment securities.

International claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the Group reduces its exposure to a particular country/region by an effective transfer of credit risk to a different country/region with the use of credit risk mitigants which include guarantees, collateral and credit derivatives.

	2018				
	Banks	**Public sector entities**	**Non-bank private institutions**	**Others**	**Total**
Asia Pacific	**414,821**	**88,488**	**849,512**	**7,726**	**1,360,547**
– of which attributed to Hong Kong	**76,294**	**34,337**	**142,935**	**1,791**	**255,357**
Europe	**28,634**	**30,677**	**48,577**	**764**	**108,652**
North and South America	**23,568**	**129,100**	**77,530**	**16,593**	**246,791**
Total	**467,023**	**248,265**	**975,619**	**25,083**	**1,715,990**

	2017				
	Banks	Public sector entities	Non-bank private institutions	Others	Total
Asia Pacific	346,088	93,120	1,055,030	118,362	1,612,600
– of which attributed to Hong Kong	46,609	35,932	335,490	3,033	421,064
Europe	27,815	32,342	99,400	169	159,726
North and South America	20,274	105,162	124,671	–	250,107
Total	394,177	230,624	1,279,101	118,531	2,022,433

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

5 OVERDUE LOANS AND ADVANCES TO CUSTOMERS BY GEOGRAPHICAL SECTOR

	2018	2017
Central	21,981	20,327
Western	22,512	19,555
Bohai Rim	22,079	18,824
Yangtze River Delta	17,528	18,205
Pearl River Delta	14,564	17,965
Northeastern	13,512	11,247
Head office	6,730	5,223
Overseas	1,770	1,136
Total	120,676	112,482

According to regulation requirements, the above analysis represents the gross amount of loans and advances overdue for more than three months.

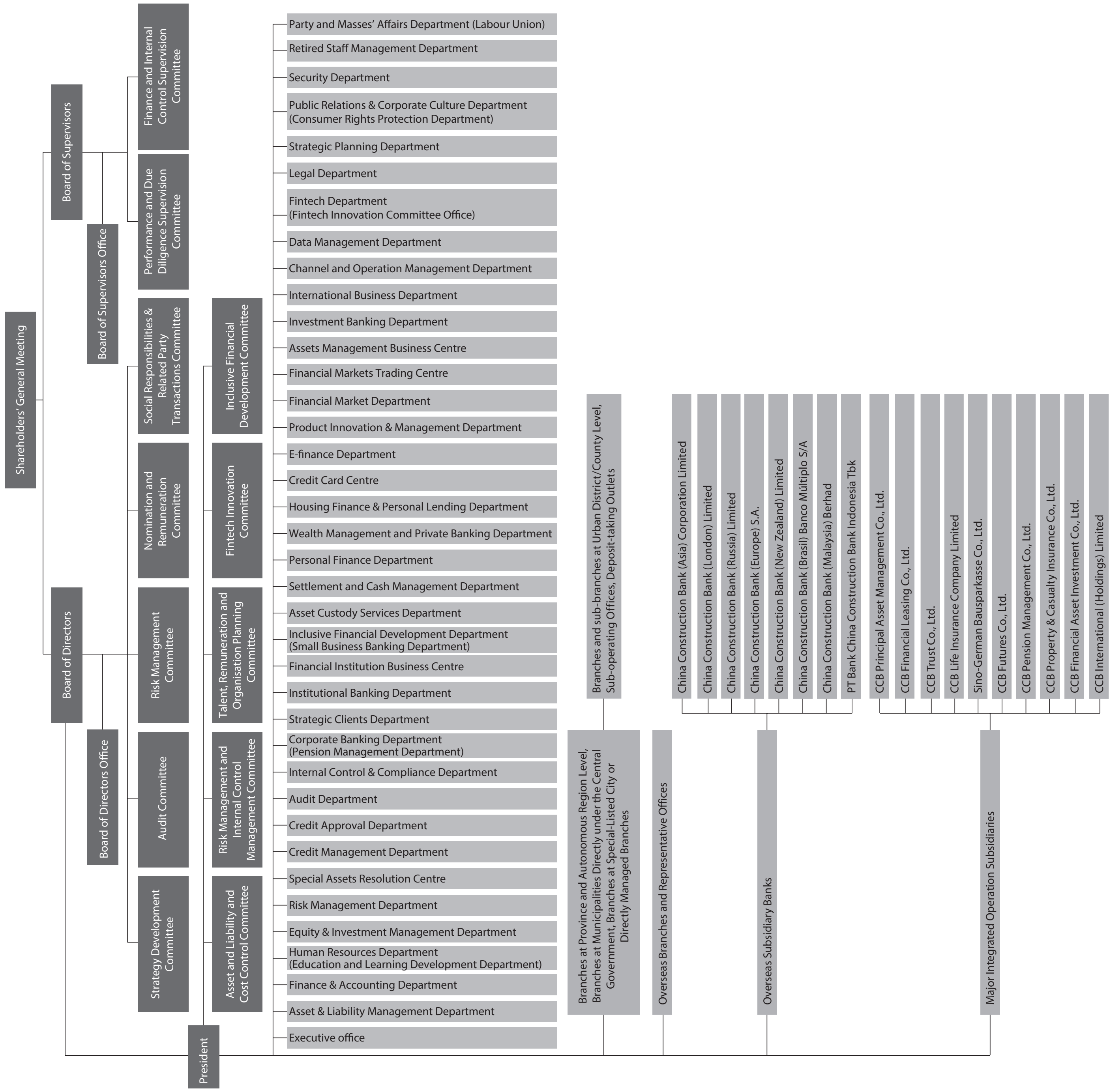
Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.

6 EXPOSURES TO NON-BANKS IN MAINLAND CHINA

The Bank is a commercial bank incorporated in Mainland China with its banking business primarily conducted in Mainland China. As at 31 December 2018, substantial amounts of the Bank's exposures arose from businesses with Mainland China entities or individuals. Analyses of various types of exposures by counterparty have been disclosed in the respective notes to the financial statements.

ORGANISATIONAL STRUCTURE



BRANCHES AND SUBSIDIARIES

TIER-ONE BRANCHES IN MAINLAND CHINA

Branches	Address	Telephone	Facsimile
Anhui Branch	No. 255, Huizhou Road, Hefei Postcode: 230001	(0551) 62874100	(0551) 62872014
Beijing Branch	Entry.4, Building 28, Xuanwumen West Street, Beijing Postcode: 100053	(010) 63603682	(010) 63603656
Chongqing Branch	No. 123, Minzu Road, Yuzhong District, Chongqing Postcode: 400010	(023) 63771855	(023) 63771835
Dalian Branch	No. 1, Jiefang Street, Zhongshan District, Dalian Postcode: 116001	(0411) 88066666	(0411) 82804560
Fujian Branch	No.298, Jiangbin Road, Taijiang District, Fuzhou Postcode: 350009	(0591) 87838467	(0591) 87856865
Gansu Branch	No. 77, Qin'an Road, Lanzhou Postcode: 730030	(0931) 4891555	(0931) 4891862
Guangdong Branch	21-46/F, No. 509, Dongfengzhong Road, Guangzhou Postcode: 510045	(020) 83018888	(020) 83013950
Guangxi Branch	No. 90, Minzu Avenue, Nanning Postcode: 530022	(0771) 5513110	(0771) 5513012
Guizhou Branch	No. 148, Zhonghua North Road, Guiyang Postcode: 550001	(0851) 86696000	(0851) 86696377
Hainan Branch	CCB Plaza, No. 8, Guomao Road, Haikou Postcode: 570125	(0898) 68587268	(0898) 68587569
Hebei Branch	No. 40, Ziqiang Road, Shijiazhuang Postcode: 050000	(0311) 87888866	(0311) 88601001
Henan Branch	No. 80, Huayuan Road, Zhengzhou Postcode: 450003	(0371) 65556677	(0371) 65556688
Heilongjiang Branch	No. 67, Hongjun Street, Nan'gang District, Harbin Postcode: 150001	(0451) 58683565	(0451) 53625552
Hubei Branch	No. 709, Jianshe Street, Wuhan Postcode: 430015	(027) 65775888	(027) 65775881
Hunan Branch	No. 2, Baisha Road, Changsha Postcode: 410005	(0731) 84419910	(0731)84419141
Jilin Branch	No. 810, Xi'an Road, Changchun Postcode: 130061	(0431) 80835310	(0431) 88988748
Jiangsu Branch	No. 188, Hongwu Road, Nanjing Postcode: 210002	(025) 84200545	(025) 84209316
Jiangxi Branch	No. 366, Bayi Street, Nanchang Postcode: 330006	(0791) 86848200	(0791) 86848318

Branches	Address	Telephone	Facsimile
Liaoning Branch	No. 176, Zhongshan Road, Heping District, Shenyang Postcode: 110002	(024) 22787600	(024) 22857427
Inner Mongolia Branch	No. 6, Daxue East Street, Saihan District, Huhhot Postcode: 010010	(0471) 4593751	(0471) 4593890
Ningbo Branch	No. 255, Baohua Street, Ningbo Postcode: 315040	(0574) 87313888	(0574) 87325019
Ningxia Branch	No. 98, Nanxun West Street, Yinchuan Postcode: 750001	(0951) 4126111	(0951) 4106165
Qingdao Branch	No. 222, Shenzhen Road, Laoshan District, Qingdao Postcode: 266061	(0532) 68670056	(0532) 82670157
Qinghai Branch	No. 59, West Street, Xining Postcode: 810000	(0971) 8261743	(0971) 8261549
Shandong Branch	No. 168, North Long'ao Road, Jinan Postcode: 250099	(0531) 82088007	(0531) 86169108
Shaanxi Branch	No. 38, South Guangji Street, Xi'an Postcode: 710002	(029) 87617515	(029) 87606014
Shanxi Branch	No. 126, Yingze Street, Taiyuan Postcode: 030001	(0351) 4957800	(0351) 4957871
Shanghai Branch	No. 900, Lujiazui Ring Road, Shanghai Postcode: 200120	(021) 58880000	(021) 58781818
Shenzhen Branch	Block A, Rongchao Business Centre, No.6003 Yitian Road, Futian District, Shenzhen Postcode: 518026	(0755) 23828888	(0755) 23828111
Sichuan Branch	Sichuan CCB Building, No. 86, Tidu Street, Chengdu Postcode: 610016	(028) 86767161	(028) 86767187
Suzhou Branch	No. 18, Suzhou Road West, Suzhou Postcode: 215021	(0512) 62788786	(0512) 62788783
Tianjin Branch	Plus 1 No.19, Nanjing Road, Hexi District, Tianjin Postcode: 300203	(022) 23401166	(022) 23401811
Tibet Branch	No. 21, Beijing West Road, Lhasa Postcode: 850008	(0891) 6838792	(0891) 6836818
Xiamen Branch	No. 98, Lujiang Road, Xiamen Postcode: 361001	(0592) 2158668	(0592) 2158862
Xinjiang Branch	No. 99, Minzhu Road, Urumqi Postcode: 830002	(0991) 2848666	(0991) 2819160
Yunnan Branch	CCB Plaza, Jinbi Road, Kunming Postcode: 650021	(0871) 63060858	(0871) 63060333
Zhejiang Branch	No. 33, Jiefang East Road, Hangzhou Postcode: 310016	(0571) 85313263	(0571) 85313001

BRANCHES OUTSIDE MAINLAND CHINA

Chile Branch	Isidora Goyenechea 2800, 30/F, Santiago, Chile Postcode: 7550000 Telephone: (56) 2-27289100
DIFC Branch	31/F, Tower 2, Al Fattan Currency House, DIFC, P.O.Box: 128220, Dubai, UAE Telephone:(971) 4-5674888 Facsimile:(971) 4-5674777
Frankfurt Branch	Bockenheimer Landstrasse 75,60325 Frankfurt am Main, Germany Telephone: (49) 69-9714950 Facsimile: (49) 69-97149588, 97149577
Ho Chi Minh City Branch	1105-1106 Sailing Tower, 111A Pasteur Street, District 1, Ho Chi Minh City, Vietnam Telephone: (84) 28-38295533 Facsimile: (84) 28-38275533
Hong Kong Branch	28/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong Telephone: (852) 39186939 Facsimile: (852) 39186001
Johannesburg Branch	95 Grayston Drive, Morningside, Sandton, South Africa 2196 Telephone: (27) 11-5209400 Facsimile: (27) 11-5209411
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Toronto Branch	181 Bay Street, Suite 3650, Toronto ON, Canada, M5J 2T3 Telephone: (1) 647-7777700 Facsimile: (1) 647-7777739
Zurich Branch	Beethovenstrasse 33, 8002 Zurich, Switzerland Telephone: (41) 43-5558800 Facsimile: (41) 43-5558898

SUBSIDIARIES

CCB Financial Asset Investment Co., Ltd.	Unit 1601-01, 16/F, Jia 9, Financial Street, Xicheng District, Beijing Postcode: 100033 Telephone: (010) 67590600 Facsimile: (010) 67590601
CCB Financial Leasing Co., Ltd.	6/F, Building 4, Chang'an Xingrong Centre, No. 1, Naoshikou Street, Xicheng District, Beijing Postcode: 100031 Telephone: (010) 67594013 Facsimile: (010) 66275808 Website: www.ccbleasing.com
CCB Futures Co., Ltd.	5/F, No. 99 (CCB Shanghai Tower), Yincheng Road, Pudong New District, Shanghai Postcode: 200120 Telephone: (021) 60635551 Facsimile: (021) 60635520 Website: www.ccbfutures.com
CCB International (Holdings) Limited	12/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong Telephone: (852) 39118000 Facsimile: (852) 25301496 Website: www.ccbintl.com.hk
CCB Life Insurance Company Limited	30/F, CCB Tower, No. 99, Yincheng Road, Pudong New District, Shanghai Postcode:200120 Telephone: (021) 60638288 Facsimile: (021) 60638204 Website: www.ccb-life.com.cn
CCB Pension Management Co., Ltd.	11/F, A Section, Zhizhen Building, 7 Zhichun Road, Haidian District, Beijing Postcode:100191 Telephone: (010) 56731294 Facsimile: (010) 56731202 Website: www.ccbpension.com
CCB Principal Asset Management Co., Ltd.	16/F, Winland International Finance Centre, No. 7, Financial Street, Xicheng District, Beijing Postcode: 100033 Telephone: (010) 66228888 Facsimile: (010) 66228889 Website: www.ccbfund.cn
CCB Property & Casualty Insurance Co., Ltd.	20/F, Borui Building, Jia 26, Dongsanhuanbei Road, Chaoyang District, Beijing Postcode: 100026 Telephone: 010-85098000 Facsimile: (010) 85098100 Website: www.ccbpi.com.cn
CCB Trust Co., Ltd.	10/F, Chang'an Xingrong Centre, Block 4, No. 1, Naoshikou Street, Xicheng District, Beijing Postcode: 100031 Telephone: (010) 67596584 Facsimile: (010) 67596590 Website: www.ccbtrust.com.cn
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APPENDIX: INDICATORS FOR ASSESSING GLOBAL SYSTEMIC IMPORTANCE OF COMMERCIAL BANKS

The Group calculated the indicators for assessing global systemic importance of the Bank in accordance with the Guidelines for the Disclosure of the Indicators for Assessing Global Systemic Importance of Commercial Banks issued by the CBRC and the Instructions for G-SIB assessment exercise by the Basel Committee on Banking Supervision. The following table sets forth the Group's indicators as at 31 December 2018.

(In billions of RMB)		31 December 2018	31 December 2017
Number	**Indicators**	**Amount[3]**	Amount[3]
1	Total on- and off- balance sheet assets after adjustments[1]	**24,469.8**	23,565.0
2	Intra-financial system assets	**1,339.3**	1,087.3
3	Intra-financial system liabilities	**1,837.9**	1,686.4
4	Securities outstanding and other financing tools	**2,263.2**	2,172.2
5	Total payments through payment system and as a correspondent for other banks	**409,069.6**	337,544.4
6	Assets under custody	**10,067.7**	9,416.2
7	Securities underwriting activity	**1,301.0**	1,141.7
8	Notional amount of over-the-counter (OTC) derivatives	**5,339.1**	5,823.1
9	Securities at fair value through profit or loss and securities at fair value through other comprehensive income[2]	**600.0**	590.2
10	Level 3 assets	**104.9**	138.3
11	Cross-jurisdictional claims	**760.9**	677.3
12	Cross-jurisdictional liabilities	**1,268.1**	1,178.2

1. In accordance with the Instructions for G-SIB assessment exercise by the Basel Committee on Banking Supervision, capital regulatory adjustments will not be deducted from on- and off- balance sheet assets after adjustments.
2. Securities at fair value through profit or loss and securities at fair value through other comprehensive income are calculated by netting off the level 1 and level 2 assets, in accordance with the CBIRC requirements. Level 1 and Level 2 assets are defined in the *Measures for Liquidity Risk Management of Commercial Banks* issued by the CBIRC.
3. As per the regulatory requirements, the indicators for assessing global systemic importance are calculated under regulatory scope of consolidation, which are different from the data under accounting scope of consolidation. Meanwhile, data related to intra-group transactions are eliminated. Therefore, the indicators are not comparable to other business statistics.

China Construction Bank Corporation
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Stock Code : 939 (Ordinary H-Share)
4606 (Offshore Preference Share)

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