中国农业银行
AGRICULTURAL BANK OF CHINA

AGRICULTURAL BANK OF CHINA LIMITED
中 國 農 業 銀 行 股 份 有 限 公 司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1288)

2018 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "**Board of Directors**") of Agricultural Bank of China Limited (the "**Bank**") is pleased to announce the audited results of the Bank and its subsidiaries (the "**Group**") for the year ended 31 December 2018, which was prepared in accordance with the *International Financial Reporting Standards* promulgated by the International Accounting Standards Board, and the proposed cash dividend for the year of 2018. The annual results have been reviewed by the Audit and Compliance Committee of the Board of Directors. This announcement contains the information required under the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* in relation to the preliminary announcements of annual results. The printed version of the 2018 annual report of the Bank will be despatched to the holders of H Shares of the Bank, and will also be available on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Bank (www.abchina.com) in April 2019.

By Order of the Board of Directors
Agricultural Bank of China Limited
ZHOU Wanfu
Company Secretary

Beijing, the PRC
29 March 2019

As at the date of this announcement, the executive directors are Mr. ZHOU Mubing and Mr. WANG Wei; the non-executive directors are Mr. XU Jiandong, Mr. CHEN Jianbo, Mr. LIAO Luming and Mr. LI Qiyun and the independent non-executive directors are Mr. WEN Tiejun, Mr. Francis YUEN Tin-fan, Ms. XIAO Xing, Mr. WANG Xinxin and Mr. HUANG Zhenzhong.

PROFILE

The predecessor of the Bank was Agricultural Cooperative Bank established in 1951. Since the resumption of establishment in February 1979, the Bank has evolved from a state-owned specialized bank to a wholly state-owned commercial bank and subsequently a state-controlled commercial bank. The Bank was restructured into a joint stock limited liability company in January 2009. In July 2010, the Bank was listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

As one of the major integrated financial service providers in China, the Bank is committed to building an international first-class commercial banking group with featured operations, efficient and convenient services, diversified functions, and demonstrated value-creation capability. Capitalizing on its comprehensive business portfolio, extensive distribution network and advanced IT platform, the Bank provides a diverse portfolio of corporate and retail banking products and services for a broad range of customers, and conducts treasury operations and asset management. Our business scope also includes, among other things, investment banking, fund management, financial leasing and life insurance. At the end of 2018, the Bank had total assets of RMB22,609,471 million, loans and advances to customers of RMB11,940,685 million and deposits from customers of RMB17,346,290 million. Our capital adequacy ratio was 15.12%. The Bank achieved a net profit of RMB202,631 million in 2018.

The Bank had a total of 23,381 domestic branch outlets at the end of 2018, including the Head Office, Business Department, three specialized institutions managed by the Head Office, four training institutes, 37 tier-1 branches, 386 tier-2 branches, 3,455 tier-1 sub-branches, 19,442 foundation-level branch outlets and 52 other establishments. Our overseas branch outlets consisted of thirteen overseas branches and four overseas representative offices. The Bank had fifteen major subsidiaries, including ten domestic subsidiaries and five overseas subsidiaries.

The Financial Stability Board has included the Bank into the list of Global Systemically Important Banks for five consecutive years since 2014. In 2018, the Bank ranked No. 40 in *Fortune*'s Global 500, and ranked No. 4 in *The Banker*'s "Top 1000 World Banks" list in terms of tier 1 capital. As at the date of this announcement, Standard & Poor's affirmed long-/short-term issuer credit ratings of the Bank at A/A-1 with stable outlook. Moody's affirmed long-/short-term bank deposit ratings of the Bank at A1/P-1 with stable outlook and Fitch Ratings affirmed long-/short-term issuer default ratings of the Bank at A/F1 with stable outlook.

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DEFINITIONS

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

1.	A Share(s)	Ordinary shares listed domestically which are subscribed and traded in Renminbi
2.	ABC/Agricultural Bank of China/the Bank/the Group/We	Agricultural Bank of China Limited, or Agricultural Bank of China Limited and its subsidiaries
3.	Articles of Association	*The Articles of Association of Agricultural Bank of China Limited* amended pursuant to the Approval on Change of the Registered Capital of Agricultural Bank of China Limited (Yin Bao Jian Fu) [2018] No.199 issued by the China Banking and Insurance Regulatory Commission on 25 September 2018
4.	CASs/PRC GAAP	The Accounting Standards for Enterprises promulgated on 15 February 2006 by the Ministry of Finance of the People's Republic of China and other related rules and regulations subsequently issued
5.	CBIRC	China Banking and Insurance Regulatory Commission, or its predecessors, the former China Banking Regulatory Commission and/or the former China Insurance Regulatory Commission, where the context requires
6.	County Area(s)	The county-level regions (excluding the district-level areas in the cities) in the People's Republic of China and the areas under their administration, including counties and county-level cities
7.	County Area Banking Business	We provide customers in the County Areas with a broad range of financial services through our branch outlets located in counties and county-level cities in the People's Republic of China. We refer to such banking business as the "County Area Banking Business" or "Sannong Banking Business"
8.	County Area Banking Division	An internal division with management mechanism adopted by us for specialized operation of financial services provided to Sannong and the County Areas, as required under our restructuring into a joint stock limited liability company, which focuses on the County Area Banking Business with independence in aspects such as governance mechanism, operational decision making, financial accounting as well as incentive and constraint mechanism to a certain extent
9.	CSRC	China Securities Regulatory Commission
10.	Global Systemically Important Banks	Banks recognized as key players in the financial market with global features as announced by the Financial Stability Board

11.	H Share(s)	Shares listed on The Stock Exchange of Hong Kong Limited and subscribed and traded in Hong Kong Dollars, the nominal value of which are denominated in Renminbi
12.	Hong Kong Listing Rules	*The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited*
13.	Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
14.	Huijin	Central Huijin Investment Ltd.
15.	MOF	Ministry of Finance of the People's Republic of China
16.	PBOC	The People's Bank of China
17.	Sannong	Agriculture, rural areas and farmers
18.	SSF	National Council for Social Security Fund of the People's Republic of China

BASIC CORPORATE INFORMATION AND MAJOR FINANCIAL INDICATORS

Basic Corporate Information

Legal name in Chinese	中國農業銀行股份有限公司
Abbreviation	中國農業銀行
Legal name in English	AGRICULTURAL BANK OF CHINA LIMITED
Abbreviation	AGRICULTURAL BANK OF CHINA (ABC)
Legal representative	ZHOU Mubing
Authorized representative	ZHOU Wanfu
Secretary to the Board of Directors and Company Secretary	ZHOU Wanfu Address: No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, PRC Tel: 86-10-85109619 (Investors Relations) Fax: 86-10-85108557 E-mail: ir@abchina.com
Registered office address	No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, PRC
Postal code	100005
Hotline for customer service and compliant	95599
Internet website	www.abchina.com
Principal place of business in Hong Kong	25/F, Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong
Media for information disclosure	*China Securities Journal, Shanghai Securities News, Securities Times* and *Securities Daily*
Website of Shanghai Stock Exchange publishing the annual report (A Shares)	www.sse.com.cn
Website of Hong Kong Stock Exchange publishing the annual report (H Shares)	www.hkexnews.hk
Location where copies of the annual report are kept	Office of the Board of Directors of the Bank
Listing exchange of A Shares	Shanghai Stock Exchange
Stock name	農業銀行
Stock code	601288
Share registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch (Address: 3/F, China Insurance Building, No. 166 Lujiazui East Road, New Pudong District, Shanghai, PRC)
Listing exchange of H Shares	The Stock Exchange of Hong Kong Limited
Stock name	ABC
Stock code	1288
Share registrar	Computershare Hong Kong Investor Services Limited (Address: Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong)

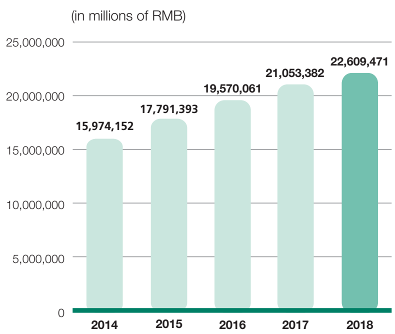
Trading exchange and platform of preference shares	The Integrated Business Platform of Shanghai Stock Exchange
Stock name (stock code)	農行優1 (360001), 農行優2 (360009)
Share registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch (Address: 3/F, China Insurance Building, No. 166 Lujiazui East Road, New Pudong District, Shanghai, PRC)
Name of domestic legal advisors	King & Wood Mallesons Lawyers
Address	17-18/F, East Tower, World Financial Centre 1, Dongsanhuan Zhonglu, Chaoyang District, Beijing
Name of Hong Kong legal advisors	Freshfields Bruckhaus Deringer
Address	55th Floor, One Island East, Taikoo Place, Quarry Bay, Hong Kong
Name of domestic auditor	PricewaterhouseCoopers Zhong Tian LLP
Address	11/F, PricewaterhouseCoopers Center, Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai
Name of the undersigned accountants	JIANG Kun, HAN Dan
Name of international auditor	PricewaterhouseCoopers
Address	22/F, Prince's Building, Central, Hong Kong
Sponsor Institution of Continuous Supervision and Guidance	Citic Securities Company Limited
Address	North Tower, Excellence Times Plaza II, No. 8 Zhong Xin San Road, Futian District, Shenzhen, Guangdong
Name of the Undersigned Sponsor Representatives	ZHU Yu, SUN Yi
The period of Continuous Supervision and Guidance	2 July 2018 – 31 December 2019

Financial Highlights

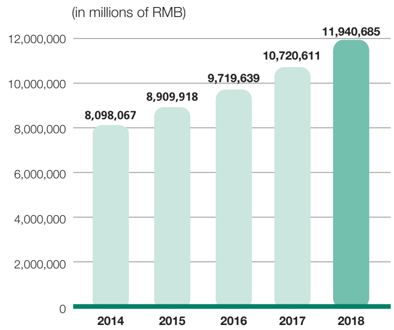
In the financial statements for 2018, accrued interest was included in the balance of relevant items. Accordingly, the relevant items in this results announcement was adjusted, which included deposits and placements with and loans to banks and other financial institutions, loans and advances to customers, financial investments, deposits and placements from banks and other financial institutions, and deposits from customers, etc.

(Financial data and indicators recorded in this results announcement are prepared in accordance with the International Financial Reporting Standards (the "**IFRSs**") and denominated in RMB, unless otherwise stated)

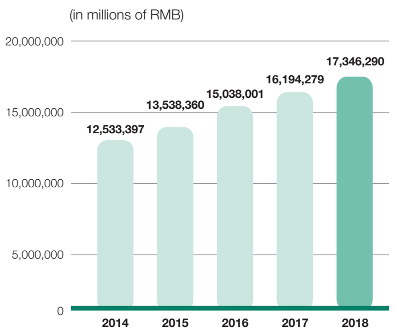
Total assets



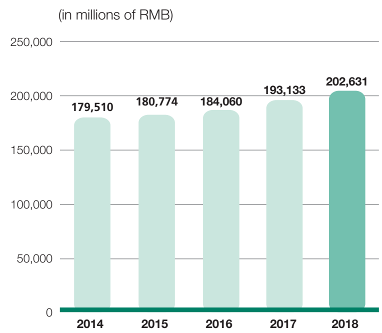
Total loans and advances to customers



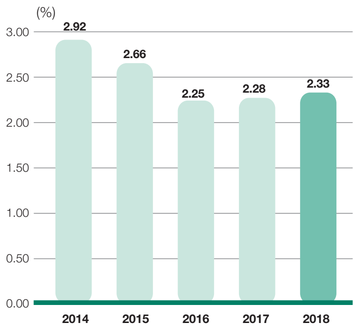
Deposits from customers



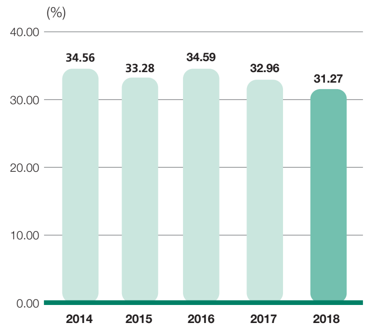
Net profit



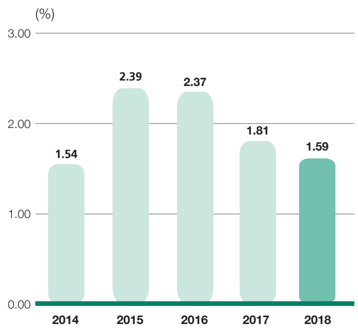
Net interest margin



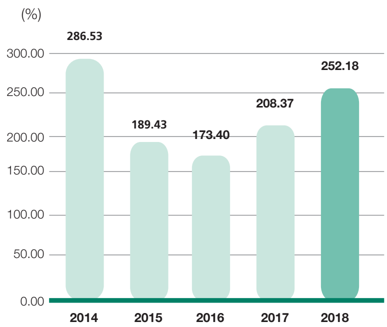
Cost-to-income ratio



Non-performing loan ratio



Allowance to non-performing loans



Major Financial Data

	31 December 2018	31 December 2017	31 December 2016	31 December 2015	31 December 2014
At the end of the reporting period (in millions of RMB)					
Total assets	**22,609,471**	21,053,382	19,570,061	17,791,393	15,974,152
Total loans and advances to customers	**11,940,685**	10,720,611	9,719,639	8,909,918	8,098,067
of which: Corporate loans	**6,514,383**	6,147,584	5,368,250	5,378,404	5,147,410
Discounted bills	**343,961**	187,502	569,948	356,992	157,349
Retail loans	**4,665,871**	4,000,273	3,340,879	2,727,890	2,396,639
Overseas and others	**389,410**	385,252	440,562	446,632	396,669
Allowance for impairment losses on loans	**479,143**	404,300	400,275	403,243	358,071
Loans and advances to customers, net	**11,461,542**	10,316,311	9,319,364	8,506,675	7,739,996
Financial investments	**6,885,075**	6,152,743	5,333,535	4,512,047	3,575,630
Cash and balances with central banks	**2,805,107**	2,896,619	2,811,653	2,587,057	2,743,065
Deposits and placements with and loans to banks and other financial institutions	**661,741**	635,514	1,203,614	1,202,175	979,867
Financial assets held under resale agreements	**371,001**	540,386	323,051	471,809	509,418
Total liabilities	**20,934,684**	19,623,985	18,248,470	16,579,508	14,941,533
Deposits from customers	**17,346,290**	16,194,279	15,038,001	13,538,360	12,533,397
of which: Corporate deposits	**6,559,082**	6,379,447	5,599,743	4,821,751	4,437,283
Retail deposits	**9,791,974**	9,246,510	8,815,148	8,065,556	7,422,318
Overseas and others	**794,590**	568,322	623,110	651,053	673,796
Deposits and placements from banks and other financial institutions	**1,449,863**	1,254,791	1,458,065	1,537,660	1,056,064
Financial assets sold under repurchase agreements	**157,101**	319,789	205,832	88,804	131,021
Debt securities issued	**780,673**	475,017	388,215	382,742	325,167
Equity attributable to equity holders of the Bank	**1,670,294**	1,426,415	1,318,193	1,210,091	1,031,066
Net capital[1]	**2,073,343**	1,731,946	1,546,500	1,471,620	1,391,559
Common Equity Tier 1 (CET1) capital, net[1]	**1,583,927**	1,339,953	1,231,030	1,124,690	986,206
Additional Tier 1 capital, net[1]	**79,906**	79,906	79,904	79,902	39,946
Tier 2 capital, net[1]	**409,510**	312,087	235,566	267,028	365,407
Risk-weighted assets[1]	**13,712,894**	12,605,577	11,856,530	10,986,302	10,852,619

	2018	2017	2016	2015	2014
Operating results for the year (in millions of RMB)					
Operating income	**602,557**	542,898	510,128	540,862	524,126
Net interest income	**477,760**	441,930	398,104	436,140	429,891
Net fee and commission income	**78,141**	72,903	90,935	82,549	80,123
Operating expenses	**213,963**	205,268	197,049	225,818	223,898
Credit impairment losses	**136,647**	N/A	N/A	N/A	N/A
Impairment losses on assets	**N/A**	98,166	86,446	84,172	67,971
Total profit before tax	**251,674**	239,478	226,624	230,857	232,257
Net profit	**202,631**	193,133	184,060	180,774	179,510
Net profit attributable to equity holders of the Bank	**202,783**	192,962	183,941	180,582	179,461
Net cash generated from operating activities	**105,927**	633,417	715,973	820,348	34,615

Financial Indicators

	2018	2017	2016	2015	2014
Profitability (%)					
Return on average total assets[2]	**0.93**	0.95	0.99	1.07	1.18
Return on weighted average net assets[3]	**13.66**	14.57	15.14	16.79	19.57
Net interest margin[4]	**2.33**	2.28	2.25	2.66	2.92
Net interest spread[5]	**2.20**	2.15	2.10	2.49	2.76
Return on risk-weighted assets[1,6]	**1.48**	1.53	1.55	1.65	1.65
Net fee and commission income to operating income	**12.97**	13.43	17.83	15.26	15.29
Cost-to-income ratio[7]	**31.27**	32.96	34.59	33.28	34.56
Data per share (RMB Yuan)					
Basic earnings per share[3]	**0.59**	0.58	0.55	0.55	0.55
Diluted earnings per share[3]	**0.59**	0.58	0.55	0.55	0.55
Net cash per share generated from operating activities	**0.30**	1.95	2.20	2.53	0.11

	31 December 2018	31 December 2017	31 December 2016	31 December 2015	31 December 2014
Asset Quality (%)					
Non-performing loan ratio[8]	**1.59**	1.81	2.37	2.39	1.54
Allowance to non-performing loans[9]	**252.18**	208.37	173.40	189.43	286.53
Allowance to loan ratio[10]	**4.02**	3.77	4.12	4.53	4.42
Capital adequacy (%)					
Common Equity Tier 1 (CET1) capital adequacy ratio[1]	**11.55**	10.63	10.38	10.24	9.09
Tier 1 capital adequacy ratio[1]	**12.13**	11.26	11.06	10.96	9.46
Capital adequacy ratio[1]	**15.12**	13.74	13.04	13.40	12.82
Risk-weighted assets to total assets ratio[1]	**60.65**	59.87	60.59	61.75	67.94
Total equity to total assets ratio	**7.41**	6.79	6.75	6.81	6.46
Data per share (RMB Yuan)					
Net assets per ordinary share[11]	**4.54**	4.15	3.81	3.48	3.05

Notes:

1. Figures were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations.

2. Calculated by dividing net profit by the average balances of total assets at the beginning and the end of the period.

3. Calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision) issued by the CSRC and International Accounting Standard 33 – Earnings per share.

4. Calculated by dividing net interest income by the average balances of interest-earning assets.

5. Calculated as the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

6. Calculated by dividing net profit by risk-weighted assets at the end of the period. The risk-weighted assets are calculated in accordance with the relevant regulations of the CBIRC.

7. Calculated by dividing operating and administrative expenses by operating income in accordance with CASs, which is consistent with the corresponding figures as stated in the financial report of the Bank prepared in accordance with CASs.

8. Calculated by dividing the balance of non-performing loans (excluding accrued interest) by the balance of total loans and advances to customers (excluding accrued interest).

9. Calculated by dividing the balance of allowance for impairment losses on loans (excluding accrued interest) by the balance of non-performing loans (excluding accrued interest), among which, the balance of allowance for impairment losses on loans (excluding accrued interest) does not include the allowance for impairment losses on bills and forfeiting recognized in other comprehensive income. The target ratio set by CBIRC for 2018 is 130%.

10. Calculated by dividing the balance of allowance for impairment losses on loans (excluding accrued interest) by the balance of total loans and advances to customers (excluding accrued interest), among which, the balance of allowance for impairment losses on loans (excluding accrued interest) does not include the allowance for impairment losses on bills and forfeiting recognized in other comprehensive income. The target ratio set by CBIRC for 2018 is 1.8%.

11. Calculated by dividing equity attributable to ordinary equity holders of the Bank after deduction of preference shares at the end of the reporting period by the total number of ordinary shares at the end of reporting period.

Other Financial Indicators

		Regulatory Standard	31 December 2018	31 December 2017	31 December 2016	31 December 2015	31 December 2014
Liquidity ratio[1] (%)	RMB	≥25	**55.17**	50.95	46.74	44.50	44.02
	Foreign Currency	≥25	**101.77**	106.74	82.24	115.15	72.49
Percentage of loans to the largest single customer[2] (%)		≤10	**5.53**	7.26	6.98	7.15	5.23
Percentage of loans to the top ten customers[3] (%)			**15.25**	18.27	16.58	16.82	14.43
Loan migration ratio[4] (%)	Normal		**1.72**	2.13	3.00	4.96	3.60
	Special mention		**16.93**	18.70	24.86	18.28	4.99
	Substandard		**61.48**	71.48	89.23	86.94	42.53
	Doubtful		**8.91**	6.94	9.55	10.35	10.10

Notes: 1. Calculated by dividing current assets by current liabilities in accordance with the relevant regulations of the CBIRC.

2. Calculated by dividing total loans to the largest single customer (excluding accrued interest) by net capital.

3. Calculated by dividing total loans to the top ten customers (excluding accrued interest) by net capital.

4. Calculated in accordance with the relevant regulations of the CBIRC, reflecting domestic data only.

Quarterly Data

2018 (in millions of RMB)	**First quarter**	**Second quarter**	**Third quarter**	**Fourth quarter**
Operating income	157,238	150,712	152,187	142,420
Net profit attributable to equity holders of the Bank	58,736	57,053	55,822	31,172
Net cash generated from/(used in) operating activities	(117,938)	(103,514)	333,839	(6,460)

CHAIRMAN'S STATEMENT

We are currently in an era filled with both opportunities and challenges. This is also a period having the potential for much to be accomplished and many objectives to be achieved.

During 2018, in a demanding and complex environment at home and abroad, we remained true to the principle of seeking progress while working to keep performance stable, exerting significant effort to enhance our market competitiveness, capability to create value, and effectively manage risk. As our businesses experienced stable improvement in size, quality, and efficiency, we delivered good operating results to our investors. Total assets reached RMB22.61 trillion, an increase of 7.4%, and we recorded net profit of RMB202,631 million for 2018, an increase of 4.9%. Our cost-to-income ratio decreased by 1.69 percentage points to 31.27% and our non-performing loan ratio decreased by 0.22 percentage point to 1.59%. The Bank's capital adequacy ratio increased by 1.38 percentage points to 15.12%.

We focused on our core businesses and improved the quality of financial services. Concentrating our efforts on key areas and weak sectors in the real economy, we were able to effectively supply high-quality financial services to support major national strategic initiatives, major engineering programs, and key projects. Notably, we supported the national strategic initiatives of rural revitalization and the fight against poverty, primarily by promoting our financial services for Sannong. Through the innovation of our products and service delivery models, we eased financing difficulties and lowered high financing costs for private enterprises and small and micro enterprises. Focusing on supply-side structural reform, we adjusted and optimized our credit structure to allocate more financial resources to industries emerging as new drivers of economic growth.

We persevered through many difficulties to achieve meaningful reform. We regard successful reform and innovation as imperatives for continued growth, addressing issues that could hamper the stable development of our business. To resolve bottlenecks in our processes and systems, we accelerated application of the "Ten Reforms" to areas that include, among others, management of product and technology innovation, provincial capital city branches, and our asset management business. Efforts such as these enabled smoother operation of our business processes and will ensure more sustainable business development and growth.

We promoted transformation through consolidating our traditional advantages and bolstering areas of weakness. We intensified our efforts related to "Three Major Projects", which include the "Providing Internet Financial Services for Sannong", the "Strategic Transformation of the Retail Banking Business and Branch Outlets", and the "Improvement of Intermediary Businesses". By integrating new concepts, technologies, and business models with our traditional financial services, we created a more resilient competitive capability for the future. We also continued implementation of the "Three Major Plans", which include the"Clean-up Plan"to reduce our non-performing loans, the "Consolidation Plan" to improve our capital adequacy ratio, and the "Efficiency Plan" to decrease our cost-to-income ratio, so as to accelerate our addressing areas of weakness and further reinforce our foundation for stable and sustainable development.

We addressed both the symptoms and root causes of risk control. Adhering to the operating principle of "stable operations", we maintained the high quality of our credit assets. We realized continued declines in both the balance and ratio of non-performing loans, by disposing of the existing non-performing loans and reducing the inflow of additional non-performing loans, addressing both the symptoms and root causes of this aspect of credit risk. Due to increased volatility and uncertainty in financial markets, we strengthened our efforts to improve our forecasting capability and recalibrate our judgment, as well as prevented and controlled risk with several means. This enabled us to maintain proper control over our market and liquidity risks. With enhanced management, innovative models, capability empowered by technology, and accountability, we improved our capability to prevent cases of compliance violations and control risks. Accordingly, we obtained more consolidated management base.

The world has been facing tremendous change, the likes of which have not been seen in more than a century. During this time, China has continued to develop in a period also having strategic opportunities. Confronted with demanding and complex environment at home and abroad, we will consider both the current circumstance and trend to capitalize on opportunities arising from the subtle interdependence between crisis and opportunity. We will also deepen reform in the process of honing our traditional advantages and driving strategic transformation, while overcoming challenges following the working principle of "seeking progress while maintaining stability". We will maintain an intense focus on our core businesses and major responsibilities. We refined service, controlled risk, implemented reforms, explored innovation, bolstered areas of weakness, and promoted transformation. Through these actions, we continue to achieve high-quality development of ABC. At the same time we also diligently perform our political, social and economic responsibilities.

We will deepen supply-side structural reforms in the financial sector to enhance our capability to serve the real economy. Based on the real economy, we will further increase loans and refine their structure, in order to provide higher quality and more efficient financial services for the real economy. Focusing on deepening supply-side structural reform, we will support major national strategic initiatives and manufacturing industries to achieve high-quality development. Adhering to the concept of "prioritizing the development of agricultural and rural areas" and focusing on rural revitalization, we will make our County Area Banking Business more inclusive and professional. Through more targeted poverty alleviation and highlighting key areas, we will continue to achieve positive results in financial poverty alleviation. We will accelerate innovation in products and service delivery models, and develop the customized, differentiated, and tailored products, so as to improve our responsiveness of our financial services to private enterprises and small and micro enterprises, as well as in areas of personal consumption and the livelihood of people.

We will adhere to a strict approach to risk limitation. In order to diligently support the decisions and arrangements of China for taking tough steps to forestall and defuse major risks, we will consider worst-case scenarios and work to resolve significant risks. Adhering to a stringent credit management approach, we will prudently manage risks in key areas related to local government's hidden debt, group customers, and the real estate sector. We will implement strict risk classification. Focusing on key areas in innovative ways, we will accelerate the disposal of our existing non-performing loans. With closely monitoring changes in financial markets, we will strictly prevent and control risks derived from or affected by the market risks.

We will further deepen reform related to our operational systems and processes, to continuously strengthen the drivers of our development. The effective integration of reform, innovation, and Fintech has been a critical factor to the growth of our business over the past few years. We will further deepen reform to revitalize our operations. We will have the perseverance to hammer away until our planned reform initiatives are completely implemented. We will implement the reform of classification management, in which tier-1 branches, provincial capital city branches, and sub-branches in County Areas will be authorized sophisticatedly and streamline operations. We will continue to improve our corporate governance and access to our diversified capital sources, to continuously strengthen our sustainable development capability.

We will persevere in innovation-driven change to revitalize our operations. We will continue to implement the strategic transformation of our retail banking business and branch outlets, to continuously enhance the mobile, "scene-sensitive" and intelligent financial services of our retail banking business. The operating procedures for key areas will be streamlined. Following the trend of delivering financial services through online channels, we will launch more online products related to investment, financing, and payment and settlement. Through consolidating our traditional advantages and bolstering areas of weakness, we will revitalize the areas of intermediary businesses, customer management, and our capability to provide integrated services.

We will fully facilitate digital transformation to create new competitive advantages. Following the trend of rapid development in Fintech and profound changes in the business models in the financial sector, we regard digital transformation as the most important focus for the future. Our approach is to implement "internet-based, data-based, intelligent and open" digital transformation, which will be guided by a plan and driven by innovation. We will promote digital transformation and comprehensive integration of our online and offline channels in all areas which include, among others, products, marketing, channels, operations, and risk management. We aspire to develop a "smart bank" with a superior customer experience, and a best in class digital eco-bank in Sannong and inclusive finance areas, creating a digital ABC.

The year 2019 is the 70th anniversary of the People's Republic of China and the 40th anniversary of the resumption of establishment of ABC. These significant milestones create a special meaning for 2019. Through pursuing our mission, we will perform the obligations imposed on us by this new era. With our sense of responsibility, we will act as a pioneer to overcome challenges. With our dedication and tireless effort, we will be always ready to take tough steps. We will vigorously devote our best effort to add new luster to the great journey, which is to build ABC as an international first-class commercial banking group. We will present our outstanding achievements in celebration of the 70th anniversary of the People's Republic of China.

ZHOU Mubing
Chairman of the Board of Directors
29 March 2019

DISCUSSION AND ANALYSIS

Environment and Prospects

In 2018, the global economy continued its recovery in general, but divergence exists among different economies. Trade frictions intensified, and the vulnerability of the global economy and finance increased. Largely as a result of fiscal stimulation policies, such as tax cuts, the U.S. economy maintained strong growth, with increasing inflation and continued low unemployment rate. The growth of exports and industrial production of the Euro zone slowed, resulting in lower economic growth, albeit with an ongoing moderate level of inflation and improvement in the employment. The growth of Japanese economy also slowed down with continued weak inflation and low unemployment. Emerging economies generally experienced higher rates of growth, with increasingly diverse development trends. India experienced faster economic growth, while the economies of countries such as Brazil and South Africa underwent sluggishness. In 2018, the Dow Jones Industrial Average Index, European STOXX50 Index and Nikkei 225 Index decreased by 5.6%, 13.1% and 12.1%, respectively. The USD Index remained strong trend, increasing by 4.1%. Commodity prices decreased with fluctuations, and the CRB Spot Price Index decreased by 5.4% in 2018.

In 2018, China's economy experienced steady growth, while economic operations remained resilient, but economic growth encountered certain downward pressure. The annual GDP increased by 6.6%, representing a decrease of 0.2 percentage point compared to the previous year. Exports, fixed asset investment, and total retail sales of consumer goods increased by 7.1%, 5.9% and 9.0%, respectively, representing a decrease of 3.7, 1.3 and 1.2 percentage points, respectively. The quality and efficiency of economic development of China continued to improve. The fundamental role of consumption was further enhanced. Final consumption expenditure contributed 76.2% of the GDP growth, representing an increase of 18.6 percentage points compared to the previous year. Greater efforts were dedicated to bolster key areas of weakness. Supply-side structural reforms continued to achieve significant results. The development of new industries, products, and models accelerated. The consumer price index (CPI) rose moderately, by 2.1%. Inflationary pressure in the industrial sector decreased significantly with an annual increase of 3.5% in the producer pricing index (PPI), representing a decrease of 2.8 percentage points compared to the previous year. The money supply (M2) increased by 8.1% in 2018, and outstanding aggregate financing to the real economy amounted to RMB200.75 trillion at year-end.

In response to the complicated and challenging economic and financial environment at home and abroad, the PRC government adhered to the general principle of seeking progress while working to keep performance stable, and continued to adopt prudent and neutral monetary policies as well as proactive fiscal policies. By fully exploiting the counter-cyclical effects of the monetary policy and the structural guidance effect of macro-prudential assessment, four cuttings in reserve requirement ratio of financial institutions and three increases in re-financing and rediscount facilities were implemented. Financing support instrument for private enterprises bond was innovatively launched, and targeted medium-term loan facility was set up, so as to increase support to the real economy. New progress was made in the reform and opening up of the financial industry. Notably, the new regulations and its ancillary policies for asset management were formally promulgated. Restraint on the percentage of foreign ownership in financial institutions was relaxed and the scope of business in which foreign financial institutions are permitted to engage was expanded.

In 2019, global economic growth is expected to slow further. According to an estimate by the IMF in January 2019, global economic growth for 2019 will be 3.5%, representing a decrease of 0.2 percentage point compared to its previous estimate. This is the lowest level of growth in the recent three years. With a lower level of responsiveness to fiscal stimulus and ongoing multilateral trade frictions, US economic growth may gradually slow. Affected by uncertainties, such as the withdrawal of quantitative easing policy by the ECB and Brexit, growth of the Euro zone economy is expected to decline. The downward pressure of Japan will continue to be significant, as it constrained by structural problems such as an aging population. The economic growth of emerging economies will be under pressure as weakening major global growth forces. Decline in commodity prices will lead to reallocation effect, which is expected to benefit resource consuming economies, such as India, and create challenges for resource exporting countries, such as Russia and Brazil.

Changes exist in the generally stable economic performance of China, some of which causes concern. However, the fundamental positive long-term growth trajectory of China's economy remains unchanged. China's economy has ample resilience, enormous potential, and great creativity to unleash. It is expected that growth in real estate investment will decline in 2019, weakened profitability of industrial enterprises may drive down investment growth in the manufacturing sector, and adverse effects of China-US economic and trade frictions to exports will gradually emerge. However, driven by policies for stabilizing growth, infrastructure investment will rebound, and the reform for personal income tax will improve the consumption capability of residents. For these reasons, the performance of China's economy is not expected to fluctuate drastically. As economic structure will continue to optimize and the guiding effect of the new economy will be further enhanced, the foundation for sustainable long-term economic growth will be more solid. Industrial product prices are expected to decline. However, under the impact of deferred transmission of price rises in industrial products and the decrease in supply of certain agricultural products, consumer price is expected to remain stable.

In 2019, macro-control policies will be more focused on driving high-quality economic development through counter-cyclical adjustments. China will pursue a proactive fiscal policy with greater intensity and enhance its performance. Larger-scale taxes and surcharges cutting will be implemented to support key areas and consumption by residents. The scale of the issuance of special local government bonds will increase largely. Prudent Monetary policy will be eased or tightened to the right degree. The PBOC will maintain reasonably sufficient liquidity, and will guide financial institutions to increase support to small and micro enterprises, as well as private enterprises. Considering that the US economy will face both internal and external challenges, the US dollar will be less likely to strengthen further, so as pressure on the Renminbi to depreciate against US dollar will be reduced and the exchange rate is expected to remain stable.

China is still and will long remain within an important period of strategic opportunities for development. However, new changes in internal and external operating environments have also brought new challenges to the Bank's reform and development. In 2019, the Bank will adhere to the operation and management philosophy of "efficient service, controllable risks, commercial and sustainable development" and will focus on six areas, including "refining service, controlling risk, implementing reforms, exploring innovation, bolstering areas of weakness, and promoting transformation".

To refine service, we will focus on the decisions and planning of the central government to enhance and improve financial services to the real economy comprehensively. Significant effort will be dedicated to financial services in supporting supply-side structural reform, rural vitalization, poverty alleviation, private enterprises, small and micro enterprises, consumption and people's livelihood. To control risk, we will focus on highlighted problems and adhere to a strict approach to risk limitation. The quality of credit assets will be stabilized and improved, and full effort will be made to prevent the risks arising from abnormal market volatility and resonance. Risk management and control related to new businesses, products and models will be strengthened comprehensively. To implement reforms, we will continue to deepen various reforms and implement the promulgated reform measures practically. We will emphasize on promoting the reform of classification management. Reform of the management system for technology and product innovations will be implemented comprehensively. The market-oriented operating capabilities of direct operation entities will be enhanced. To explore innovation, we will practically enhance the motivation and vigor of business operations. We will enhance the mobile, "scene-sensitive", intelligent financial services of retail banking business, and innovations of integration with online, offline and long-distance channels. Process and product innovation in key areas will be further promoted. To bolster areas of weakness, we will break bottlenecks to enhance our capability to create value. Weaknesses in certain intermediate businesses will be remediated as soon as possible. The integrated service capabilities of subsidiaries and overseas institutions will be enhanced. To promote transformation, in line with the development of Fintech, the implementation of digital transformation will be launched. Driven by Fintech and business innovation, we will promote comprehensive digital transformation in products, marketing, channels, operation, internal control and decision-making, striving to develop a "smart bank" with a superior customer experience and a best in class digital eco-bank in Sannong and inclusive finance areas.

Implementation of Our Development Strategy

In 2018, the Bank adhered to the principle of seeking progress while working to keep performance stable, and continued implementation of the guidance related to the "Six Dimension Strategies" for governing and developing the Bank. The Bank's business grew steadily, asset quality continued to improve, net profit grew steadily, all required regulatory standards were met and our social image was further enhanced. Overall, progress and the effect of implementing the Bank's strategy were as expected. In this regard, our strategic positioning became more prominent, our strategic transformation continued, and our commitment to fully implement the Bank's strategy strengthened.

Strategic positioning became more prominent. We concentrated our pursuit of the "Three Major Positionings" to increase the impact of our services on the real economy.

We served "Sannong" to promote businesses in the County Areas. We implemented the "Seven Actions"[1] to serve the rural vitalization strategy. We also provided services tailored to address targeted poverty alleviation, poverty alleviation in the areas of extreme poverty and in the designated areas. We successfully accelerated our enhancement of the "No.1 Project" for Providing Internet Financial Service for Sannong and refined three major digital platforms – "Huinong e-loan", "Huinong e-payment" and "Huinong e-commerce" – to enable farmers to share in the convenience and benefits of digital finance. At the end of 2018, the balance of loans in the County Areas increased by RMB437,519 million, and the balance of loans in 832 key counties of national poverty alleviation increased by RMB108.8 billion. All CBIRC regulatory indicators in these areas met the required standards.

[1] The "Seven Actions" to serve rural vitalization strategy refer to the services provided in the areas related to integrated development of industries in rural areas, reform of the rural property rights system, ensuring national food security, fighting against poverty, constructing attractive and habitable rural areas, developing industries to support enjoyable county lifestyles, and the green development of "Sannong" and County Areas.

We focused on key areas to deliver better performance in Urban Areas. We proactively supported major national strategic initiatives, major engineering programs and key projects. New loans for key projects amounted to RMB570,901 million. Our support for targeted areas such as emerging industries, new businesses, green development, and upgrading consumption was strengthened throughout the year. Robust loan growth, for example, was achieved in our lending to strategic emerging industries, green credit, and retail consumers. Further, the Xiongan branch and the branch in the sub-center of Beijing were established to provide strong support in serving China's regional development strategy.

We enhanced synergies to achieve higher returns. By further broadening our integrated operations reform and focusing on synergistic marketing and cross-selling, both our profitability and capability to deliver comprehensive services were enhanced remarkably. By the end of 2018, our Macau, London and Hanoi branches, as well as a representative office in St. Paul, had opened for business, giving us operations in 23 overseas locations.

Our strategic transformation continued. By concentrating on the "Six Transformations" – the operations concept, organizational structure, profit model, business process, motivation approach, and business model – we accelerated transformation in key areas to revitalize our operations and management.

Transformation of business operations achieved steady progress. Strategic transformation of retail business and branch outlets was implemented. Key projects, such as a new generation of smart mobile banking and icons of retail customers were successfully implemented. Transformation of branch outlets through "Three Reductions, Two Improvements and One Modification" (i.e., reduction in space, counter staff and branch costs; improvements in marketing and risk management capability; and modification of our operating systems and processes) achieved steady progress. This resulted in the improvement of the capability of online and intelligent operations in our retail banking business. At the end of 2018, more than 50% of our branch outlets had completed their transformation objectives, focusing on optimizing their processes and innovating their business models. Motivated by Fintech and broader business innovations, significant effort was dedicated to developing a "smart bank" with a superior customer experience and a best in class digital eco-bank in Sannong and inclusive finance areas. The development of emerging businesses was accelerated. The number of credit cards issued exceeded 100 million, the number of active mobile banking customers passed 100 million, and assets managed under private banking business were more than RMB1 trillion. We were granted qualification as a professional annuity custodian for central government authorities.

Internal momentum fueled continuous development. Reforms were further implemented related to the organizational structure of the Head Office, direct operations processes, and integrated operation, further highlighting the leadership role of the Head Office. Reforms to the management process of urban branches in provincial capital cities were accelerated. The renaming and restructuring of those branch processes were commenced and completed ahead of our peers. The reform of asset management operations was started. The establishment of the wealth management subsidiary was approved. The management process for technology and product innovations achieved progress, with the product delivery cycle and technology R&D cycle shortened by 84 days and 71 days, respectively. Change in the private banking business progressed in an orderly manner, and professional service capabilities were further enhanced. Enhancements to internet finance was implemented, focusing on clearer positioning and smoother operation. A total of 37 projects for streaming process were launched, resulting in enhanced operational efficiency. These projects included digital transformation in the private banking business, credit approval for Group customers, and a credit card automobile loan instalments.

Profitability was enhanced continuously. The "Project of Improvement of Intermediary Businesses" made steady progress, addressing the underlying issues constraining the development of our intermediary businesses. Fee and commission income for the year was RMB78,141 million, an increase of 7.2% as compared to the previous year, with a positive growth trend. The "Efficiency Enhancement Plan" was actively implemented, and our operating income for the year was RMB602,557 million and net profit amounted to RMB202,631 million, representing increase of 11.0% and 4.9%, respectively, as compared to the previous year. Our cost-to-income ratio was 31.27%, representing a decrease of 1.69 percentage points as compared to the previous year and a decline for two consecutive years. Planned milestones in the "Capital Consolidation Plan" were achieved, as the private placement of RMB100 billion in A Shares was completed and RMB40 billion of tier-2 capital bonds were successfully issued, further enhancing our capability for sustainable development.

Our commitment to fully implement the Bank's strategy strengthened. We strengthened our support for the Bank's strategy in many areas.

Asset quality consistently improved. We implemented directives and measures for forestalling and defusing major risks promulgated by the Chinese government diligently throughout the year. Through the completion of the "Clean-up Plan", we focused on risk elimination in key areas and the collection and disposal of non-performing loans. At the end of the reporting period, we achieved declines both in the balance and ratio of our non-performing loans. Non-performing loans totalled RMB190,002 million, representing a decrease of RMB4,030 million as compared to the end of the previous year. The non-performing loan ratio was 1.59%, representing a decrease of 0.22 percentage point as compared to the end of the previous year. The allowance to non-performing loans was 252.18%, an increase of 43.81 percentage points as compared to the end of the previous year.

Our capabilities to effectively manage risk and prevent cases of compliance violations were further enhanced. We continued to implement actions to support the "Year to Strengthen Management Basics and Foundation-level Management" initiatives. We accelerated our investigation and rectification related to cases of compliance violations. We also stringently addressed market irregularities, commenced implementation of a global anti-money laundering compliance system, and completed comprehensive improvements to counter activities in our outlets. The "Three Lines and One Grid" model was promoted through a bottom-up approach. Its coverage expanded across our organization to effectively prevent cases of compliance violations. New measures and technology tools, such as big data, cloud computing and artificial intelligence, were fully utilized to effectively manage risk. Furthermore, our ability to prevent cases of compliance violations using technology were enhanced. The responsibilities related to risk compliance "management by dual lines" (i.e., by business and by staff) were strictly enforced in across business lines and branch outlets. The responsibility approach for the prevention of cases of compliance violations was further refined and the number of cases, as well as the amount of money involved, declined steadily.

Our management approach was continuously improved to support the Bank's strategy. Classification management for tier-1 branches and urban branches in provincial capital cities was enhanced. We also implemented more targeted and flexible policies related to performance appraisal, business authorization, and product innovation. We further proceeded to implement the "Four Major Projects", under which the staff achieved career development through the "dual channels" and more Fintech talents were recruited. A new corporate culture has become ingrained in our people, and the responsibility concepts of "performing obligations first, expanding virtues to benefit society, taking responsibility with courage, and contributing to the welfare of the community" were faithfully performed.

Financial Statement Analysis

Income statement Analysis

With the aim of enhancing the ability of value creation, promoting high-quality and high-efficiency business development, and advancing the "Efficiency Enhancement Plan" for three years steadily, the Bank focused on both increasing income and reducing costs. On one hand, we further fostered balanced growth of scale and price, boosted the Project of Improvement of Intermediary Businesses and further strengthening the synergies between the Bank and its subsidiaries, so as to promote a sound growth in income; on the other hand, we strengthened cost management and control through improving the policies on annual expense and fixed asset allocation, managing and controlling total expenses and optimizing the structure, fully promoting the disposal of idleness assets and continuously implementing the transformation of channels. During the reporting period, the cost efficiency of the Bank continued to improve, and the cost-to-income ratio reached our scheduled milestones. In 2018, the Bank achieved a net profit of RMB202,631 million, representing an increase of RMB9,498 million, or 4.9%, compared to the previous year.

Changes of Significant Income Statement Items

In millions of RMB, except for percentages

Item	2018	2017	Increase/ (decrease)	Growth rate (%)
Net interest income	**477,760**	441,930	35,830	8.1
Net fee and commission income	**78,141**	72,903	5,238	7.2
Other non-interest income	**46,656**	28,065	18,591	66.2
Operating income	**602,557**	542,898	59,659	11.0
Less: Operating expenses	**213,963**	205,268	8,695	4.2
Credit impairment losses	**136,647**	N/A	N/A	N/A
Impairment losses on other assets	**251**	N/A	N/A	N/A
Impairment losses on assets	**N/A**	98,166	N/A	N/A
Operating profit	**251,696**	239,464	12,232	5.1
Share of result of associate	**(22)**	14	(36)	-257.1
Profit before tax	**251,674**	239,478	12,196	5.1
Less: Income tax expense	**49,043**	46,345	2,698	5.8
Net Profit	**202,631**	193,133	9,498	4.9
Attributable to: Equity holders of the Bank	**202,783**	192,962	9,821	5.1
Non-controlling interests	**(152)**	171	(323)	-188.9

Net Interest Income

Net interest income was the largest component of our operating income, accounting for 79.3% of the total operating income in 2018. Our net interest income was RMB477,760 million in 2018, representing an increase of RMB35,830 million compared to the previous year. The changes in volume and interest rates resulted in an increase of RMB28,779 million and an increase of RMB7,051 million in net interest income, respectively.

In 2018, our net interest margin and net interest spread were 2.33% and 2.20%, respectively, both representing increases of 5 basis points compared to the previous year. The increases in net interest margin and net interest spread were primarily due to: (1) the upward in the average yield of loans and advances to customers, debt securities investments and amounts due from banks and other financial institutions as affected by the market environment and other factors; (2)we optimized structure of interest-earning assets continuously and increased loans to support the real economy, resulting in increased proportion of interest-earning assets of high average yield.

The table below presents the average balance, interest income/expense, and average yield/cost of interest-earning assets and interest-bearing liabilities.

In millions of RMB, except for percentages

	2018			2017		
Item	**Average balance**	**Interest income/ expense**	**Average yield/cost (%)**	Average balance	Interest income/ expense	Average yield/cost (%)
Assets						
Loans and advances to customers	**11,433,884**	**502,616**	**4.40**	10,373,827	441,475	4.26
Debt securities investments[1]	**5,796,234**	**216,118**	**3.73**	5,464,803	200,475	3.67
Non-restructuring-related debt securities	**5,421,191**	**204,593**	**3.77**	5,099,513	189,274	3.71
Restructuring-related debt securities[2]	**375,043**	**11,525**	**3.07**	365,290	11,201	3.07
Balances with central banks	**2,560,993**	**40,701**	**1.59**	2,620,442	41,604	1.59
Amounts due from banks and other financial institutions[3]	**750,474**	**25,289**	**3.37**	908,848	30,145	3.32
Total interest-earning assets	**20,541,585**	**784,724**	**3.82**	19,367,920	713,699	3.68
Allowance for impairment losses[4]	**(453,657)**			(413,876)		
Non-interest-earning assets[4]	**1,551,629**			1,143,042		
Total assets	**21,639,557**			20,097,086		
Liabilities						
Deposits from customers	**16,398,914**	**227,819**	**1.39**	15,599,797	209,782	1.34
Amounts due to banks and other financial institutions[5]	**1,441,140**	**40,228**	**2.79**	1,306,033	34,723	2.66
Other interest-bearing liabilities[6]	**1,123,025**	**38,917**	**3.47**	862,685	27,264	3.16
Total interest-bearing liabilities	**18,963,079**	**306,964**	**1.62**	17,768,515	271,769	1.53
Non-interest-bearing liabilities[4]	**1,025,371**			1,021,891		
Total liabilities	**19,988,450**			18,790,406		
Net interest income		**477,760**			441,930	
Net interest spread			**2.20**			2.15
Net interest margin			**2.33**			2.28

Notes:

1. Debt securities investments include debt securities investments at fair value through other comprehensive income and debt securities investments at amortized cost.
2. Restructuring-related debt securities include receivable from the MOF and special government bond.
3. Amounts due from banks and other financial institutions primarily include deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and financial assets held under resale agreements.
4. The average balances of non-interest-earning assets, non-interest-bearing liabilities and allowance for impairment losses are the average of their respective balances at the beginning and the end of the reporting period.
5. Amounts due to banks and other financial institutions primarily include deposits from banks and other financial institutions, placements from banks and other financial institutions as well as financial assets sold under repurchase agreements.
6. Other interest-bearing liabilities primarily include debt securities issued and borrowings from central banks.

The table below presents the changes in net interest income due to changes in volume and interest rate.

In millions of RMB

	Increase/(decrease) due to		Net increase/
	Volume	Interest rate	(decrease)
Assets			
Loans and advances to customers	46,598	14,543	61,141
Debt securities investments	12,358	3,285	15,643
Balances with central banks	(945)	42	(903)
Amounts due from banks and other financial institutions	(5,337)	481	(4,856)
Changes in interest income	52,674	18,351	71,025
Liabilities			
Deposits from customers	11,102	6,935	18,037
Amounts due to banks and other financial institutions	3,771	1,734	5,505
Other interest-bearing liabilities	9,022	2,631	11,653
Changes in interest expense	23,895	11,300	35,195
Changes in net interest income	**28,779**	**7,051**	**35,830**

Note: Changes due to the effects of both volume and interest rate have been allocated to the changes due to volume.

Interest Income

We achieved interest income of RMB784,724 million in 2018, representing an increase of RMB71,025 million over the previous year, which was primarily due to an increase of RMB1,173,665 million in the average balance and an increase of 14 basis points in the average yield of interest-earning assets.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers increased by RMB61,141 million, or 13.8%, over the previous year to RMB502,616 million, which was primarily due to an increase of RMB1,060,057 million in the average balance and an increase of 14 basis points in the average yield.

Interest income from corporate loans increased by RMB26,846 million, or 10.2%, to RMB290,437 million compared to the previous year, which was primarily due to an increase of RMB506,512 million in the average balance and an increase of 7 basis points in the average yield. Interest income from retail loans increased by RMB33,610 million, or 21.3%, to RMB191,775 million compared to the previous year, which was primarily due to an increase of RMB659,536 million in the average balance and an increase of 12 basis points in the average yield. The increase in the average yields of corporate loans and retail loans were primarily due to the upward in the average yield of loans as affected by the market environment and other factors.

Interest income from discounted bills decreased by RMB1,326 million, or 14.6%, to RMB7,787 million compared to the previous year, which was primarily due to a decrease of RMB91,589 million in the average balance, partially offset by an increase of 95 basis points in the average yield. The increase in the average yield was primarily due to the increase in the interest rate in the bills discount market.

Interest income from overseas and other loans increased by RMB2,011 million, or 19.0%, to RMB12,617 million compared to the previous year, which was primarily due to an increase of 58 basis points in the average yield. The increase in average yield was primarily due to the increase in the average yield of overseas loans as affected by the rises in US dollar interest rates.

The table below presents the average balance, interest income and average yield of loans and advances to customers by business type.

In millions of RMB, except for percentages

Item	2018 Average balance	2018 Interest income	2018 Average yield (%)	2017 Average balance	2017 Interest income	2017 Average yield (%)
Corporate loans	**6,497,777**	**290,437**	**4.47**	5,991,265	263,591	4.40
Short-term corporate loans	**2,323,836**	**98,664**	**4.25**	2,328,333	95,481	4.10
Medium- and long-term corporate loans	**4,173,941**	**191,773**	**4.59**	3,662,932	168,110	4.59
Discounted bills	**182,070**	**7,787**	**4.28**	273,659	9,113	3.33
Retail loans	**4,341,210**	**191,775**	**4.42**	3,681,674	158,165	4.30
Overseas and others	**412,827**	**12,617**	**3.06**	427,229	10,606	2.48
Total loans and advances to customers	**11,433,884**	**502,616**	**4.40**	10,373,827	441,475	4.26

Interest Income from Debt Securities Investments

Interest income from debt securities investments was the second largest component of our interest income. In 2018, our interest income from debt securities investments increased by RMB15,643 million to RMB216,118 million compared to the previous year, which was primarily due to an increase of RMB331,431 million in the average balance and an increase of 6 basis points in the average yield. The increase in the average yield was mainly due to the increase in interest rate in the debt securities market compared to the previous year as affected by market environment and other factors.

Interest Income from Balances with Central Banks

Interest income from balances with central banks decreased by RMB903 million to RMB40,701 million compared to the previous year, which was primarily due to a decrease of RMB59,449 million in the average balance.

Interest Income from Amounts Due from Banks and Other Financial Institutions

Interest income from amounts due from banks and other financial institutions decreased by RMB4,856 million to RMB25,289 million compared to the previous year, which was primarily due to a decrease of RMB158,374 million in the average balance, partially offset by an increase of 5 basis points in the average yield. The increase in the average yield was primarily due to the upward interest rate in the monetary market compared to the previous year as affected by market environment.

Interest Expense

Interest expense increased by RMB35,195 million to RMB306,964 million compared to the previous year, which was mainly due to an increase of RMB1,194,564 million in the average balance and an increase of 9 basis points in the average cost.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers increased by RMB18,037 million to RMB227,819 million compared to the previous year, which was primarily due to an increase of RMB799,117 million in the average balance and an increase of 5 basis points in the average cost. The increase in the average cost was primarily due to the increase in average cost of deposits as a result of changes in market environment and intensified market competition in deposit business.

Analysis of Average Cost of Deposits by Product

In millions of RMB, except for percentages

Item	**2018** Average balance	**2018** Interest expense	**2018** Average cost (%)	2017 Average balance	2017 Interest expense	2017 Average cost (%)
Corporate deposits						
Time	**2,279,545**	**58,406**	**2.56**	2,241,983	54,598	2.44
Demand	**4,559,749**	**32,384**	**0.71**	4,236,947	26,983	0.64
Sub-Total	**6,839,294**	**90,790**	**1.33**	6,478,930	81,581	1.26
Retail deposits						
Time	**4,514,210**	**111,283**	**2.47**	4,413,278	109,000	2.47
Demand	**5,045,410**	**25,746**	**0.51**	4,707,589	19,201	0.41
Sub-Total	**9,559,620**	**137,029**	**1.43**	9,120,867	128,201	1.41
Total deposits from customers	**16,398,914**	**227,819**	**1.39**	15,599,797	209,782	1.34

Interest Expense on Amounts Due to Banks and Other Financial Institutions

Interest expense on amounts due to banks and other financial institutions increased by RMB5,505 million to RMB40,228 million compared to the previous year, which was primarily due to an increase of RMB135,107 million in the average balance and an increase of 13 basis points in the average cost. The increase in the average cost was primarily due to the significant increase of the average cost of placements from banks and other financial institutions and financial assets sold under repurchase agreements as affected by the upward trend of interest rates in overseas money markets.

Interest Expense on Other Interest-bearing Liabilities

Interest expense on other interest-bearing liabilities increased by RMB11,653 million to RMB38,917 million compared to the previous year, primarily due to an increase of RMB260,340 million in the average balance and an increase of 31 basis points in the average cost. The increase in the average balances was mainly due to the interbank certificates of deposit issued by the Bank, the Bank's regular borrowing from the PBOC through Lending Facility and the issuance of tier-2 capital bonds. The increase in the average cost was mainly due to the higher interest rate in the Bank's borrowing from the PBOC through Lending Facility as compared with that of the previous year.

Net Fee and Commission Income

In 2018, we generated net fee and commission income of RMB78,141 million, representing an increase of RMB5,238 million, or 7.2%, compared to the previous year; of which, settlement and clearing fees decreased by 3.9%, mainly due to our reduction or exemption of certain service fees in response to the government policies related to financial service charges; agency commissions decreased by 8.1%, which was mainly due to the decreases in income from the wealth management business on behalf of customers and agency insurance business; bank card fees increased by 12.7%, which was mainly due to the increases in income from acquiring business and installment business of credit card; electronic banking service fees increased by 34.6%, which was primarily due to the increase in income from e-commerce banking services.

Composition of Net Fee and Commission Income

In millions of RMB, except for percentages

Item	**2018**	2017	Increase/ (decrease)	Growth rate (%)
Settlement and clearing fees	**10,680**	11,113	(433)	-3.9
Consultancy and advisory fees	**8,876**	8,358	518	6.2
Agency commissions	**20,929**	22,773	(1,844)	-8.1
Bank card fees	**25,586**	22,699	2,887	12.7
Electronic banking service fees	**19,640**	14,595	5,045	34.6
Credit commitment fees	**1,782**	2,094	(312)	-14.9
Custodian and other fiduciary service fees	**3,598**	3,368	230	6.8
Others	**434**	257	177	68.9
Fee and commission income	**91,525**	85,257	6,268	7.4
Less: Fee and commission expenses	**13,384**	12,354	1,030	8.3
Net fee and commission income	**78,141**	72,903	5,238	7.2

Other Non-interest Income

In 2018, other non-interest income amounted to RMB46,656 million, representing an increase of RMB18,591 million compared to the previous year. Net Trading gain increased by RMB24,898 million to RMB16,069 million compared to the previous year, which was primarily because part of interest income from financial assets at fair value through profit or loss held by us is recognized as net trading gain following the implementation of IFRS 9 Financial Instruments and the valuation surplus from investment in currency derivative financial instruments increased following fluctuation of the foreign exchange rate. Other operating income decreased by RMB17,905 million to RMB22,097 million compared to the previous year, which was primarily due to the decrease in insurance premium income of our subsidiary and the decrease in net gain on foreign exchange.

Composition of Other Non-interest Income

In millions of RMB

Item	2018	2017
Net trading gain/(loss)	**16,069**	(8,829)
Net gain/(loss) on financial instruments designated at fair value through profit or loss	**N/A**	(3,244)
Net gain on investments securities	**N/A**	136
Net gain on financial investments	**8,460**	N/A
Net gain on derecognition of financial assets measured at amortized cost	**30**	N/A
Other operating income	**22,097**	40,002
Total	**46,656**	28,065

Operating expenses

In 2018, our operating expenses increased by RMB8,695 million to RMB213,963 million compared to the previous year; cost-to-income ratio decreased by 1.69 percentage points to 31.27% compared to the previous year; of which, staff costs increased by 8.6% compared to the previous year, primarily due to the increase in staff costs in line with the market situation and our business performance, as well as the increase in social insurances and other costs; general operating and administrative expenses increased by 4.8%, which was primarily due to the increase in the scale of the business and the increase in investments in key projects; depreciation and amortization decreased by 10.2%, primarily because we strictly controlled our expenditure on fixed assets to reduce depreciation expenses.

Composition of operating expense

In millions of RMB, except for percentages

Item	2018	2017	Increase/ (decrease)	Growth rate (%)
Staff costs	**123,614**	113,839	9,775	8.6
General operating and administrative expenses	**47,173**	45,024	2,149	4.8
Insurance benefits and claims	**17,652**	22,552	(4,900)	-21.7
Depreciation and amortization	**16,413**	18,279	(1,866)	-10.2
Tax and surcharges	**5,330**	4,953	377	7.6
Others	**3,781**	621	3,160	508.9
Total	**213,963**	205,268	8,695	4.2

Credit Impairment Losses

In 2018, our credit impairment losses was RMB136,647 million, of which, impairment losses on loans increased by RMB37,247 million to RMB130,111 million compared to the previous year, primarily because the Bank made the allowance for impairment losses on loans with a prudent approach after full consideration of the uncertainties in the external environment.

Income Tax Expense

In 2018, our income tax expense increased by RMB2,698 million, or 5.8%, to RMB49,043 million compared to the previous year. The effective tax rate was 19.49%, which was lower than the statutory tax rate. This was primarily because the interest income from the PRC treasury bonds and local government debt held by the Bank was exempted from enterprise income tax by the relevant tax laws.

Segment Reports

We assessed our performance and determined the allocation of resources based on the segment reports. The segment information below had been presented in a same manner with that of internal management and reporting. At present, we manage our segments from the aspects of business lines, geographical regions and the County Area Banking Business.

The table below presents our operating income by business segment during the period indicated.

In millions of RMB, except for percentages

	2018		2017	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Corporate banking business	**274,658**	**45.6**	249,333	45.9
Retail banking business	**233,801**	**38.8**	205,930	37.9
Treasury operations	**65,628**	**10.9**	56,590	10.5
Other business	**28,470**	**4.7**	31,045	5.7
Total operating income	**602,557**	**100.0**	542,898	100.0

The table below presents our operating income by geographic segment during the period indicated.

In millions of RMB, except for percentages

Item	2018 Amount	2018 Percentage (%)	2017 Amount	2017 Percentage (%)
Head Office	**59,675**	**9.9**	21,973	4.0
Yangtze River Delta	**111,918**	**18.6**	108,026	19.9
Pearl River Delta	**84,055**	**13.9**	73,544	13.5
Bohai Rim	**86,126**	**14.3**	82,172	15.1
Central China	**85,363**	**14.2**	79,503	14.6
Western China	**122,886**	**20.4**	120,504	22.2
Northeastern China	**20,398**	**3.4**	21,245	3.9
Overseas and others	**32,136**	**5.3**	35,931	6.8
Total operating income	**602,557**	**100.0**	542,898	100.0

Note: Please refer to "Note IV. 40. Operating Segments" to the Consolidated Financial Statements for details of geographic segments.

The table below presents our operating income from the County Area Banking Business and Urban Area Banking Business during the period indicated.

In millions of RMB, except for percentages

Item	2018 Amount	2018 Percentage (%)	2017 Amount	2017 Percentage (%)
County Area Banking Business	**228,440**	**37.9**	211,600	39.0
Urban Area Banking Business	**374,117**	**62.1**	331,298	61.0
Total operating income	**602,557**	**100.0**	542,898	100.0

Balance Sheet Analysis

Assets

At 31 December 2018, our total assets amounted to RMB22,609,471 million, representing an increase of RMB1,556,089 million, or 7.4%, compared to the end of the previous year: of which, net loans and advances to customers increased by RMB1,145,231 million, or 11.1%; financial investments increased by RMB732,332 million, or 11.9%; cash and balances with central banks decreased by RMB91,512 million, or 3.2%; deposits and placements with and loans to banks and other financial institutions increased by RMB26,227 million, or 4.1%; financial assets held under resale agreements decreased by RMB169,385 million, or 31.3%, primarily due to the decrease in debt securities held under resale agreements.

Key Items of Assets

In millions of RMB, except for percentages

Item	**31 December 2018** Amount	Percentage (%)	31 December 2017 Amount	Percentage (%)
Total loans and advances to customers	**11,940,685**	**–**	10,720,611	–
Less: Allowance for impairment losses on loans	**479,143**	**–**	404,300	–
Loans and advances to customers, net	**11,461,542**	**50.7**	10,316,311	49.0
Financial investments	**6,885,075**	**30.5**	6,152,743	29.2
Cash and balances with central banks	**2,805,107**	**12.4**	2,896,619	13.8
Deposits and placements with and loans to banks and other financial institutions	**661,741**	**2.9**	635,514	3.0
Financial assets held under resale agreements	**371,001**	**1.6**	540,386	2.6
Others	**425,005**	**1.9**	511,809	2.4
Total assets	**22,609,471**	**100.0**	21,053,382	100.0

Loans and Advances to Customers

At 31 December 2018, our total loans and advances to customers amounted to RMB11,940,685 million, representing an increase of RMB1,220,074 million, or 11.4%, compared to the end of the previous year, the total loans and advances to customers (excluding accrued interest) increased by 11.1% compared to the end of the previous year.

Distribution of Loans and Advances to Customers by Business Type

In millions of RMB, except for percentages

Item	**31 December 2018** Amount	Percentage (%)	31 December 2017 Amount	Percentage (%)
Loans granted by domestic branches	**11,524,215**	**96.7**	10,335,359	96.4
Corporate loans	**6,514,383**	**54.7**	6,147,584	57.4
Discounted bills	**343,961**	**2.9**	187,502	1.7
Retail loans	**4,665,871**	**39.1**	4,000,273	37.3
Overseas and others	**389,410**	**3.3**	385,252	3.6
Sub-Total	**11,913,625**	**100.0**	10,720,611	100.0
Accrued interest	**27,060**		N/A	N/A
Total	**11,940,685**	**–**	10,720,611	–

Distribution of Corporate Loans by Maturity

In millions of RMB, except for percentages

Item	**31 December 2018** Amount	Percentage (%)	31 December 2017 Amount	Percentage (%)
Short-term corporate loans	**2,179,691**	**33.5**	2,311,991	37.6
Medium- and long-term corporate loans	**4,334,692**	**66.5**	3,835,593	62.4
Total	**6,514,383**	**100.0**	6,147,584	100.0

Distribution of Corporate Loans by Industry

In millions of RMB, except for percentages

Item	**31 December 2018** Amount	**Percentage (%)**	31 December 2017 Amount	Percentage (%)
Manufacturing	**1,195,669**	**18.3**	1,241,537	20.2
Production and supply of power, heat, gas and water	**839,578**	**12.9**	801,355	13.1
Real estate[1]	**611,456**	**9.4**	513,512	8.4
Transportation, logistics and postal services	**1,380,611**	**21.2**	1,223,618	19.9
Wholesale and retail	**323,345**	**5.0**	356,353	5.8
Water, environment and public utilities management	**432,320**	**6.6**	367,775	6.0
Construction	**239,574**	**3.7**	223,058	3.6
Mining	**195,954**	**3.0**	224,098	3.6
Leasing and commercial services	**916,926**	**14.1**	797,744	13.0
Finance	**162,029**	**2.5**	137,590	2.2
Information transmission, software and IT services	**30,167**	**0.5**	45,054	0.7
Others[2]	**186,754**	**2.8**	215,890	3.5
Total	**6,514,383**	**100.0**	6,147,584	100.0

Notes: 1. Classification of the loans in the above table is based on the industries in which the borrowers operate. Real estate loans include loans for the development of real estate projects granted to enterprises mainly engaged in the real estate industry, mortgage loans for operating properties and other non-real estate loans granted to enterprises in the real estate industry. As at the end of 2018, the balance of real estate loans to corporate customers amounted to RMB309,985 million, representing an increase of RMB71,914 million over the end of the previous year.

2. Others mainly include agriculture, forestry, animal husbandry, fishery, education, hotels and catering industries.

In 2018, we further strengthened in-depth research and targeted direction on industries. We formulated or revised the industry-specific credit policies for various industries including solar power, iron and steel, ship building and senior care service, and further clarified the warning area division of thermal power, wind power and solar power industries and the access standards for photovoltaic poverty alleviation power stations, in an effort to effectively prevent policy risks.

As at 31 December 2018, the five major industries of our corporate borrowers included: (1) transportation, logistics and postal services, (2) manufacturing, (3) leasing and commercial services, (4) production and supply of power, heat, gas and water, and (5) real estate. Aggregate loans to these five major industries accounted for 75.9% of our total corporate loans, representing an increase of 1.3 percentage points compared to the end of the previous year. The industry with the largest increase in proportion to our total corporate loans was transportation, logistics and postal services, while manufacturing recorded the largest decrease in proportion to our total corporate loans.

Distribution of Retail Loans by Product Type

At 31 December 2018, the retail loans increases by RMB665,598 million, or 16.6%, compared to the end of the previous year: of which, the residential mortgage loans increased by 16.8% compared to the end of the previous year, primarily because we implemented the differentiated housing credit policies, and actively supported purchase of residential properties for non-investment purpose; personal consumption loans increased by 14.9% compared to the end of the previous year, and such increase was mainly due to rapid growth in our short- and medium-term internet consumption loans such as "Internet Quick Loan" as we actively facilitated the transformation of our retail banking business; loans to private business increased by 5.3% compared to the end of the previous year, and such increase was mainly due to the healthy development of loans to private business as a result of proactive implementation of policies relating to serving the real economy and inclusive finance by the Bank; credit card balances increased by 19.9% compared to the end of the previous year, primarily due to the increase in both the number of credit cards issued and the transaction volume of credit cards; loans to rural households increased by 21.3% compared to the end of the previous year, mainly because we deepened "No. 1 Project" for Providing Internet Financial Service for Sannong, and continuously expanded "Huinong e-loan", a new internet credit product.

In millions of RMB, except for percentages

	31 December 2018		31 December 2017	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Residential mortgage loans	**3,660,574**	**78.4**	3,133,474	78.4
Personal consumption loans	**158,009**	**3.4**	137,525	3.4
Loans to private business	**215,616**	**4.6**	204,681	5.1
Credit card balances	**380,719**	**8.2**	317,547	7.9
Loans to rural households	**249,987**	**5.4**	206,044	5.2
Others	**966**	**–**	1,002	–
Total	**4,665,871**	**100.0**	4,000,273	100.0

Distribution of Loans by Geographic Region

During the reporting period, we further optimized the allocation of credits by geographic region. We allocated strategic credit resources to the regions related to national strategies, such as the "Belt and Road Initiative", the coordinated development of the Beijing-Tianjin-Hebei Region, the Yangtze River Economic Belt, the Guangdong-Hong Kong-Macao Greater Bay Region, Xiongan New Area, and the free trade zones. The Bank supported industrial transfer to Central and Western China as well as Northeastern China and investment in infrastructure projects in Central and Western China, and supported the high-tech development in Eastern China to facilitate balanced development of the regions.

In millions of RMB, except for percentages

	31 December 2018		31 December 2017	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Head Office	**303,703**	**2.5**	246,197	2.3
Yangtze River Delta	**2,674,175**	**22.4**	2,415,289	22.5
Pearl River Delta	**1,862,337**	**15.6**	1,635,306	15.2
Bohai Rim	**1,833,704**	**15.4**	1,682,564	15.7
Central China	**1,749,376**	**14.7**	1,519,322	14.2
Northeastern China	**460,207**	**3.9**	428,538	4.0
Western China	**2,640,713**	**22.2**	2,408,143	22.5
Overseas and others	**389,410**	**3.3**	385,252	3.6
Sub-Total	**11,913,625**	**100.0**	10,720,611	100.0
Accrued interest	**27,060**	**–**	N/A	N/A
Total	**11,940,685**	**–**	10,720,611	–

Financial investments

At 31 December 2018, our financial investments amounted to RMB6,885,075 million, representing an increase of RMB732,332 million, or 11.9% compared to the end of the previous year, financial investments (excluding accrued interest) increased by 10.3% compared to the end of the previous year, among which, non-restructuring-related debt securities increased by RMB669,637 million compared to the end of the previous year, which was primarily due to the increase in investment in debt securities of local government.

Distribution of Financial Investments by Product Type

In millions of RMB, except for percentages

Item	31 December 2018 Amount	31 December 2018 Percentage (%)	31 December 2017 Amount	31 December 2017 Percentage (%)
Non-restructuring-related debt securities	**6,160,441**	**90.8**	5,490,804	89.2
Restructuring-related debt securities	**384,249**	**5.7**	367,314	6.0
Equity instruments	**37,963**	**0.5**	19,025	0.3
Others[1]	**201,873**	**3.0**	275,600	4.5
Sub-Total	**6,784,526**	**100.0**	6,152,743	100.0
Accrued interest	**100,549**	**–**	N/A	–
Total	**6,885,075**	**–**	6,152,743	–

Note: 1. Primarily including assets generated by investment of proceeds from issuance of wealth management products by the Bank.

Distribution of Non-restructuring-related Debt Securities Investments by Issuer

In millions of RMB, except for percentages

Item	31 December 2018 Amount	31 December 2018 Percentage (%)	31 December 2017 Amount	31 December 2017 Percentage (%)
Government bonds	**3,039,646**	**49.3**	2,485,220	45.3
Bonds issued by policy banks	**1,460,989**	**23.8**	1,526,936	27.8
Bonds issued by other banks and financial institutions	**982,181**	**15.9**	889,472	16.2
Bonds issued by entities in public sectors	**228,640**	**3.7**	188,414	3.4
Corporate bonds	**448,985**	**7.3**	400,762	7.3
Total	**6,160,441**	**100.0**	5,490,804	100.0

Distribution of Non-restructuring-related Debt Securities Investments by Remaining Maturity

In millions of RMB, except for percentages

	31 December 2018		31 December 2017	
Remaining Maturity	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Overdue	**–**	**–**	–	–
Less than 3 months	**361,988**	**5.9**	489,001	8.9
3-12 months	**991,780**	**16.1**	515,278	9.4
1-5 years	**3,074,102**	**49.9**	2,815,757	51.3
More than 5 years	**1,732,571**	**28.1**	1,670,768	30.4
Total	**6,160,441**	**100.0**	5,490,804	100.0

Distribution of Non-restructuring-related Debt Securities Investments by Currency

In millions of RMB, except for percentages

	31 December 2018		31 December 2017	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
RMB	**5,861,326**	**95.1**	5,233,831	95.3
USD	**239,670**	**3.9**	190,976	3.5
Other foreign currencies	**59,445**	**1.0**	65,997	1.2
Total	**6,160,441**	**100.0**	5,490,804	100.0

Distribution of Financial Investments by Business Models and Characteristics of Contractual Cash Flows

In millions of RMB, except for percentages

Item	**31 December 2018** Amount	**Percentage (%)**	31 December 2017 Amount	Percentage (%)
Financial assets at fair value through profit or loss	**643,245**	**9.5**	577,965	9.4
Available-for-sale financial assets	**N/A**	**N/A**	1,426,420	23.2
Held-to-maturity investments	**N/A**	**N/A**	3,489,135	56.7
Debt securities classified as receivables	**N/A**	**N/A**	659,223	10.7
Debt investments at amortized cost	**4,422,090**	**65.2**	N/A	N/A
Other debts and other equity instruments investments at fair value through other comprehensive income	**1,719,191**	**25.3**	N/A	N/A
Sub-Total	**6,784,526**	**100.0**	6,152,743	100.0
Accrued interest	**100,549**	**–**	N/A	N/A
Total	**6,885,075**	**–**	6,152,743	–

Investment in Financial Bonds

Financial bonds refer to debt securities issued by the policy banks, commercial banks and other financial institutions, the principals and interests of which are to be repaid pursuant to a pre-determined schedule. At 31 December 2018, the balance of financial bonds held by the Bank was RMB2,443,170 million, including bonds of RMB1,460,989 million issued by the policy banks and bonds of RMB982,181 million issued by commercial banks and other financial institutions.

The table below presents the top ten financial bonds held by the Bank in terms of face value as at 31 December 2018.

In millions of RMB, except for percentages

Bond	Face value	Annual interest rate	Maturity date	Allowance[1]
2017 policy bank bond	30,100	3.85%	2027/1/6	–
2017 policy bank bond	25,721	3.83%	2024/1/6	–
2017 policy bank bond	25,700	4.39%	2027/9/8	–
2017 policy bank bond	21,165	4.11%	2027/3/20	–
2017 policy bank bond	19,287	4.13%	2022/4/21	–
2014 policy bank bond	18,167	5.44%	2019/4/8	–
2017 policy bank bond	17,704	4.30%	2024/8/21	–
2017 policy bank bond	17,653	3.70%	2022/1/6	–
2015 policy bank bond	17,222	2.65%	2019/10/20	–
2016 policy bank bond	16,896	3.97%	2025/2/27	–

Note: 1. Allowance in this table refers to impairment allowance in stage II and stage III, not including impairment allowance in stage I.

Liabilities

At 31 December 2018, our total liabilities increased by RMB1,310,699 million, or 6.7% compared to the end of the previous year to RMB20,934,684 million: of which, deposits from customers increased by RMB1,152,011 million, or 7.1%; deposits and placements from banks and other financial institutions increased by RMB195,072 million, or 15.5%, primarily due to the expansion of diversified sources of funding proactively; financial assets sold under repurchase agreements decreased by RMB162,688 million, or 50.9%, which was primarily due to the decrease in the debt securities sold under repurchase agreements; debt securities issued increased by RMB305,656 million, or 64.3%, which was primarily due to the increase in issuance of interbank certificates of deposit during the reporting period; financial liabilities at fair value through profit or loss decreased by RMB105,469 million, or 26.9%, which was primarily due to the decreased principal guaranteed wealth management after implementation of the new asset management regulations.

Key Items of Liabilities

In millions of RMB, except for percentages

Item	31 December 2018 Amount	31 December 2018 Percentage (%)	31 December 2017 Amount	31 December 2017 Percentage (%)
Deposits from customers	**17,346,290**	**82.9**	16,194,279	82.5
Deposits and placements from banks and other financial institutions	**1,449,863**	**6.9**	1,254,791	6.4
Financial assets sold under repurchase agreements	**157,101**	**0.8**	319,789	1.6
Debt securities issued	**780,673**	**3.7**	475,017	2.4
Financial liabilities at fair value through profit or loss	**286,303**	**1.4**	391,772	2.0
Other liabilities	**914,454**	**4.3**	988,337	5.1
Total liabilities	**20,934,684**	**100.0**	19,623,985	100.0

Deposits from Customers

At 31 December 2018, the balance of deposits from customers increased by RMB1,152,011 million, or 7.1%, compared to the end of the previous year to RMB17,346,290 million, the deposits from customers (excluding accrued interest) increased by 5.9% compared to the end of the previous year. In terms of customer structure, the proportion of retail deposits remained the same compared with the end of the previous year. In terms of maturity of deposits, the proportion of demand deposits decreased by 0.1 percentage point compared to the end of the previous year to 58.2%.

Distribution of Deposits from Customers by Business Lines

In millions of RMB, except for percentages

Item	31 December 2018 Amount	31 December 2018 Percentage (%)	31 December 2017 Amount	31 December 2017 Percentage (%)
Domestic deposits	**17,072,198**	**99.6**	16,118,044	99.5
Corporate deposits	**6,559,082**	**38.3**	6,379,447	39.4
Time	**1,889,911**	**11.0**	1,836,635	11.3
Demand	**4,669,171**	**27.3**	4,542,812	28.1
Retail deposits	**9,791,974**	**57.1**	9,246,510	57.1
Time	**4,473,942**	**26.1**	4,351,017	26.9
Demand	**5,318,032**	**31.0**	4,895,493	30.2
Other deposits[1]	**721,142**	**4.2**	492,087	3.0
Overseas and others	**73,448**	**0.4**	76,235	0.5
Sub-Total	**17,145,646**	**100.0**	16,194,279	100.0
Accrued interest	**200,644**	**–**	N/A	N/A
Total	**17,346,290**	**–**	16,194,279	–

Note: 1. Including margin deposits, remittance payables and outward remittance.

Distribution of Deposits from Customers by Geographic Region

In millions of RMB, except for percentages

	31 December 2018		31 December 2017	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Head Office	**73,421**	**0.4**	72,960	0.5
Yangtze River Delta	**3,898,571**	**22.7**	3,612,588	22.3
Pearl River Delta	**2,366,330**	**13.8**	2,250,015	13.9
Bohai Rim	**3,016,435**	**17.6**	2,870,864	17.7
Central	**2,945,676**	**17.2**	2,759,875	17.0
Northeastern China	**837,735**	**4.9**	792,119	4.9
Western China	**3,934,030**	**23.0**	3,759,623	23.2
Overseas and others	**73,448**	**0.4**	76,235	0.5
Sub-Total	**17,145,646**	**100.0**	16,194,279	100.0
Accrued interest	**200,644**	**–**	N/A	N/A
Total	**17,346,290**	**–**	16,194,279	–

Distribution of Deposits from Customers by Remaining Maturity

In millions of RMB, except for percentages

	31 December 2018		31 December 2017	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Demand	**10,561,889**	**61.6**	10,030,752	61.9
Less than 3 months	**1,744,274**	**10.2**	1,785,447	11.0
3-12 months	**2,629,576**	**15.3**	2,551,584	15.8
1-5 years	**2,209,312**	**12.9**	1,826,342	11.3
More than 5 years	**595**	**–**	154	–
Sub-Total	**17,145,646**	**100.0**	16,194,279	100.0
Accrued interest	**200,644**	**–**	N/A	N/A
Total	**17,346,290**	**–**	16,194,279	–

Shareholders' Equity

At 31 December 2018, our shareholders' equity amounted to RMB1,674,787 million, comprised ordinary shares of RMB349,983 million, preference shares of RMB79,899 million, capital reserve of RMB173,556 million, investment revaluation reserve of RMB18,992 million, surplus reserve of RMB154,257 million, general reserve of RMB239,190 million and retained earnings of RMB652,944 million. Net assets per ordinary share were RMB4.54, representing an increase of RMB0.39 compared to the end of the previous year.

The table below presents the composition of shareholders' equity as of the dates indicated.

In millions of RMB, except for percentages

	31 December 2018		31 December 2017	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Ordinary shares	**349,983**	**20.9**	324,794	22.7
Preference shares	**79,899**	**4.8**	79,899	5.6
Capital reserve	**173,556**	**10.4**	98,773	7.0
Investment revaluation reserve	**18,992**	**1.0**	(19,690)	(1.4)
Surplus reserve	**154,257**	**9.2**	134,348	9.4
General reserve	**239,190**	**14.3**	230,750	16.1
Retained earnings	**652,944**	**39.0**	577,573	40.4
Foreign currency translation reserve	**1,473**	**0.1**	(32)	–
Non-controlling interests	**4,493**	**0.3**	2,982	0.2
Total	**1,674,787**	**100.0**	1,429,397	100.0

Off-balance Sheet Items

Our off-balance sheet items primarily include derivative financial instruments, contingent liabilities and commitments. We enter into derivative transactions related to exchange rates, interest rates and precious metals for the purposes of trading, assets and liabilities management and business on behalf of customers. Our contingent liabilities and commitments include credit commitments, capital expenditure commitments, operating and finance lease commitments, bond underwriting and redemption commitments, mortgaged and pledged assets, legal proceedings and other contingencies. Credit commitments are the major components of the off-balance sheet items and comprised loan commitments, bank acceptances, guarantees and letters of guarantee, letters of credit and credit card commitments.

Composition of Credit Commitments

In millions of RMB, except for percentages

Item	**31 December 2018** Amount	**Percentage (%)**	31 December 2017 Amount	Percentage (%)
Loan commitments	**906,782**	**45.1**	727,562	41.6
Bank acceptances	**242,489**	**12.1**	233,788	13.4
Guarantees and letters of guarantee	**191,250**	**9.5**	220,826	12.6
Letters of credit	**131,414**	**6.5**	140,034	8.0
Credit card commitments	**538,870**	**26.8**	426,668	24.4
Total	**2,010,805**	**100.0**	1,748,878	100.0

Other Financial Information

Changes in Accounting Policies

The International Accounting Standards Board("IASB") issued the IFRS 9 Financial Instruments in 2014. The Bank has implemented the above new accounting standard since 1 January 2018 pursuant to the requirement on the implementation date of the above standard. For the key impacts of the implementation of the new standard on the Bank, please refer to "Appendix IV: Auditor's Report and Consolidated Financial Statements".

Differences between the Consolidated Financial Statements prepared under IFRSs and those prepared in accordance with CASs

There were no differences between the net profit or shareholder's equity in the Consolidated Financial Statements prepared under IFRSs and the corresponding figures prepared in accordance with CASs of the Bank.

Business Review

Corporate Banking

In 2018, the Bank accelerated the development of the corporate banking business model of "integrated marketing, integrated services and integrated pricing" and took a solid step towards the goal of becoming a differentiated and integrated corporate financial service provider. At the end of 2018, the balance of the domestic corporate deposits amounted to RMB6,559,082 million, representing an increase of RMB179,635 million over the end of the previous year. The balance of the domestic corporate loans and discounted bills amounted to RMB6,858,344 million, representing an increase of RMB523,258 million over the end of the previous year. 11,226 projects were included in our major marketing projects pool, up by 2,803 projects as compared to the end of the previous year. As at the end of 2018, we had 5.239 million corporate banking customers[1], representing an increase of 542.9 thousand compared to the end of the previous year; of which 82.5 thousand customers had outstanding loan balances, representing an increase of 25.9 thousand customers compared to the end of the previous year.

- The Bank provided services to support the national strategies and the key areas of the real economy. The Bank supported the "Belt and Road Initiative" and major national strategies such as the coordinated development of Beijing-Tianjin-Hebei Region, Yangtze Economic Belt, Xiongan New Area, Guangdong-Hong Kong-Macao Bay Region, with new loans of RMB431.8 billion for the year. Our loans for supporting industrial transformation and upgrading amounted to RMB52.2 billion, whose growth was higher than the average growth in loans of the Bank.

- The Bank provided services to the new economy and the emerging growth drivers. As at the end of 2018, the loans for emerging industries such as strategic emerging industries and modern service industries increased by RMB247.0 billion or 53.9% compared to the end of the previous year.

- The Bank provided services to the development of private enterprises. Through increasing credit, adopting differentiated credit polices, innovating products and service models, reducing charges and surrendering part of the profits and exploring direct financing channels, we provided high efficient services to quality private enterprises. At the end of 2018, private enterprises which had outstanding loan balances reached 67.745 thousand, representing an increase of 25.421 thousand compared to the end of the previous year.

- The Bank applied Fintech in accelerating the development of our product system to foster the online, chained and scene-sensitive products to corporate customers. The Bank continued to promote the development of our corporate banking platform based on big data, and expand the application of the corporate customer marketing management system (CMM) to enhance our insight of customers, targeted marketing, intelligent decision and synergy of marketing. Accordingly, the number of online customers has been expanding. Our active customers for corporate internet banking and corporate mobile banking increased by 733 thousand and 381 thousand, respectively.

- The Bank strengthened synergies of our business lines. Based on the diversified financing platform of the Group, the Bank developed the model of integrated services which covers synergies between equity and debt, investment and financing, corporate and retail businesses, the Bank and subsidiaries, and domestic and overseas businesses, respectively, so as to provide one-stop integrated financial services to our customers.

[1] The Bank had changed the criteria for corporate banking customers to "corporate customers with accounts in normal status during the reporting period".

Institutional Banking

In 2018, the Bank strengthened direct operating and marketing by the Head Office and tier-1 branches. The Bank changed marketing approaches through establishing customer circles, customer chains and product pools and promoted the integrated service model of "intelligence+technologies+resources". Accordingly, the Bank achieved continuous steady growth of the institutional banking business. As at the end of 2018, the Bank had 406 thousand institutional customers and 533 thousand accounts, respectively, representing an increase of 18.4% and 17.5%, respectively, compared to the end of the previous year.

- In terms of services to bancassurance, percentages of regular premium business and group insurance business with high premium to the bancassurance business were increased. The Bank continued to rank first among the four large commercial banks in terms of income from bancassurance business.

- In terms of services to the government, the agency of payment business authorized by the central government developed steadily. The Bank ranked first among the four large commercial banks for consecutive three years in the comprehensive assessment on agency banks by the MOF.

- In terms of services to the army, the Bank developed and launched the specific products system under the brand of "Supporting Our Army" and accelerated promotion of the brand.

- In terms of services with respect to people's livelihood, the capacity of serving the construction of smart hospital and smart campus improved significantly.

- In terms of services to financial institutions, the Bank developed and launched the product of "Tonglifeng". The contracted customers for third-party depositary services exceeded 40 million.

Transaction Banking

During the reporting period, the Bank continued to promote the construction of a transaction banking system, which was based on our accounts and payment settlement and mainly developed cash management business and supply chain financing. With online, automated and intelligent technologies, the Bank continued to promote digital transformation of the transaction banking business.

- The Bank explored more payment methods to promote synergy between online and offline businesses. Accordingly, the Bank achieved a rapid increase in accounts of corporate customers. As at the end of 2018, our corporate RMB-denominated settlement accounts reached 5,580.9 thousand, representing an increase of 10.7% compared to the end of the previous year.

- The Bank expanded transaction banking business to customers in various scenes. The Bank expanded the application of key products such as settlement cards for entities, guaranteed payment, easy collection and payment, online bill pool discounting and global cash management, so as to improve scene-sensitive, integrated and tailor-made services. As at 31 December 2018, the Bank had 2,542.9 thousand active transaction banking customers, representing an increase of 20.4% compared to the end of the previous year.

Investment Banking

In 2018, adhering to the principle of serving the real economy, the Bank focused on enhancing its innovation and service capabilities in investment banking business. By providing the "financing+talents" solution to the customers and investment banking services in the way of "debt+equity", the Bank satisfied the needs of our customers for investment and financing. Accordingly, the Bank furthered consolidated market competitiveness of its investment banking business.

- The competitiveness of the key products was improved steadily. The Bank underwrote debt financing instruments for non-financial enterprises at an amount of RMB345.6 billion, representing an increase of 66.7% compared to the previous year, ranking first among the four large commercial banks in terms of the growth rate. The Bank maintained its leading position in the market with the balance of the syndicated loans of nearly RMB1 trillion.

- The capability of product innovation was continuously improved. The Bank implemented a number of projects, including the first batch of Corporate Risk Mitigation Warrant (CRMW) for private enterprises and the first "Panda Bonds" for non-financial institutions in the inter-bank bond market, which were innovative or the first project in the market.

Retail Banking

In 2018, responding to the changes in customer demands and the development of Fintech, the Bank expanded in-depth application of new technologies, new concepts and new business models in retail banking business. The strategic transformation of the retail banking business in a new era was started.

- The smart marketing platform was started to construct in order to accelerate the digital and intelligent transformation of the retail banking business. Based on unified client profiles, the Bank strengthened classification and grouping management and enriched three-dimensional labels of customers. The Bank developed our financial ecosystem to provide customers with financial services that covered various scenes in daily life. Through strengthening big data mining and analysis, the Bank insighted the diversified, tailor-made and scene-sensitive financial demands of customers. The Bank conducted targeted marketing and direct marketing in serving 0.14 billion customer times.

- The synergy between the corporate and retail business was strengthened. We specified twelve key marketing areas, including payroll services and social security, to strengthen principal businesses. The Bank launched various marketing events, including "Supporting Our Army", "Doctor's Day" and "Business to Campus" and organized integrated marketing events of "Spring Campaign" and "Ten Thousand Horses Galloping", and developed the brand of "Study overseas Finance" continuously, which helped expand the market influence.

- The innovation system for retail banking products was optimized. The new products and services such as ABC smart investment, "Yinliduo" and paper certificate of deposits were launched. The Bank worked with the Palace Museum and Shanghai Animation Film Studio to launch precious metal products such as "Thousand Miles of Land" and "Gold as You Wish". Accordingly, the coverage ratio of the retail banking products was improved steadily.

- The trainings of product managers, data analysts and wealth management planners for our retail banking business were strengthened to further improve the professional capabilities of the marketing teams. The Bank established "the Voice of Customers", a mechanism which is intended to optimize the process of our retail businesses, to improve customer experience.

Retail Loans

At the end of 2018, the balance of retail loans of the Bank amounted to RMB4,665,871 million, representing an increase of RMB665,598 million over the end of the previous year.

- The Bank strictly implemented the regulatory requirements and adopted differentiated polices on retail residential mortgage loans. At the end of 2018, the balance of retail residential mortgage loans amounted to RMB3,660,574 million, representing an increase of RMB527,100 million over the end of the previous year.

- The Bank put effort into innovation of personal consumption loans, promoted integration of online and offline businesses and implemented the "Customers Expansion Project". The rapid development of the business was achieved, and the Bank ranked first among the four large commercial banks in terms of additional personal consumption loans in 2018.

- The Bank implemented the policies of supporting the real economy and inclusive finance areas, and adopted differentiated policies on loans to private business according to various regions and needs. The steady development of our loans to private business was realized and the Bank ranked second among the four large commercial banks in terms of additional loans to private business in 2018.

Retail Deposits

- Responding to changes in the financial market and adhering to the customer-oriented approach, the Bank consolidated the customer base in respect of both customers and accounts. The Bank pursued innovation and optimization in our products, enriched scenes of marketing, enhanced our capability of targeted marketing so as to satisfy diversified needs of the customers, including savings, investment and wealth management.

- As at the end of 2018, the balance of domestic retail deposits reached RMB9,791,974 million, maintaining the leading position among the peers.

Bank Cards

- As at the end of 2018, the number of debit cards cumulatively issued by the Bank amounted to 988 million, representing an increase of 79 million over the end of the previous year. The Bank ranked first among the four large commercial banks in terms of cumulative number of debit cards issued. The transaction activeness and brand influence of Jinsui debit cards continuously improved. Among them, the cumulative number of debit IC cards issued amounted to 651 million, representing an increase of 83 million compared to the end of the previous year.

- In 2018, the number of credit cards issued exceeds 100 million and the transaction volume of credit cards for the year continued to increase. Focusing on card customers and merchants as well as credit card revolving loans and retail consumption loans, the Bank substantially improved the quality of customer services. The Bank explored the other channels to obtain customers of credit cards, which fully covered scenes of branch outlets, mobile, internet, merchants and customer services, so as to provide customers with experience of applying for cards account any time and any place as they wish.

Item	**31 December 2018**	31 December 2017	Growth rate (%)
Number of debit cards issued (unit: 10,000)	**98,829.83**	90,964.16	8.7
Number of credit cards issued (unit: 10,000)	**10,282.06**	8,480.89	21.2

Item	**2018**	2017	Growth rate (%)
Transaction volume for debit cards (RMB100 million)	**58,842.05**	63,322.03	-7.1
Transaction volume for credit cards (RMB100 million)	**17,538.29**	15,163.02	15.7

Private Banking Business

As at the end of 2018, the number of our private banking customers was 106 thousand and the balance of their assets under the Bank's management amounted to RMB1,123.4 billion.

- The Bank continued to improve customer service system for private banking business and build the brands, so as to continuously enhance professional services and sophisticated management of private banking business.

- The Bank advanced R&D and marketing of exclusive products for private banking business. Through developing an open platform with a wide range of products and focusing on enhancing its asset allocation ability in terms of net worth and equity-linked assets, the Bank effectively meet the demands of high net worth customers for asset allocation. The existing scale of products amounted to RMB239.81 billion, representing an increase of RMB52.19 billion over the end of the previous year.

Treasury Operations

The treasury operations of the Bank include money market activities and investment portfolio management activities. Adhering to the principles of prudent operation and flexibly adapting to changes in the domestic and foreign financial markets, the Bank made timely adjustments to the investment strategies and continuously enhanced the risk management. The investment return on assets remained at a relatively high level among the peers.

Money Market Activities

- Based on research on monetary policies and forecast of market liquidity, the Bank expanded its financing channels by using various financial instruments to secure our liquidity while improving the efficiency of fund utilization.

- In 2018, our RMB-denominated financing transactions amounted to RMB32,232.016 billion, including RMB25,816.199 billion in lending and RMB6,415.817 billion in borrowing.

Investment Portfolio Management

At 31 December 2018, our financial investment amounted to RMB6,885,075 million, representing an increase of RMB732,332 million or 11.9%, compared to the end of the previous year.

Trading Activities

- The Bank held leading positions among the peers in respect of both the bond market-making business and the bond trading business in the inter-bank market.

- The yield of the domestic bond market experienced a sharp downward trend in 2018. By closely monitoring changes in the bond market, the Bank flexibly adjusted the position of bonds in the accounts of trading business. When the yields were on a rise at the beginning of the year, the Bank increased the position of bonds and moderately extended the duration of portfolios, achieving higher earnings.

Banking Book Activities

- The Bank further strengthened research and forecast of the trend of yields, and the monetary policies by U.S. Federal Reserve and the ECB. By rationally seizing investment opportunities, we increased investment when the yield was high. Taking account of various factors such as yield at maturity and income after taxation, the Bank actively allocated investment in bonds with higher return and moderately increased investment in local government debts and other government bonds.

- To serve the real economy, the Bank invested in credit bonds in line with the national strategies.

- The Bank dynamically adjusted the investment structure to reduce the portfolios' risk and increase their yields.

Asset Management

Wealth Management

At the end of 2018, the balance of the wealth management products in the Bank reached RMB1,660,125 million[1], which included personal wealth management products of RMB1,375,364 million and corporate wealth management products of RMB284,761 million.

- The Bank pushed forward the transformation of wealth management products towards net worth type and reduced the size of the existing products with expected yield. The Bank completed the development of the product system of net worth type with the scale of products amounting to over RMB500 billion.

- The fund from wealth management products mainly invested in areas related to the national strategies and the real economy and the Bank's core businesses and customers. With substantial customer base and diversified businesses, the Bank satisfied diverse needs of the customers for investment and financing. The Bank actively engaged in debt-equity swap, deleveraging and PPP Projects, so as to drive the development of loans and other businesses with synergy of debt and equity businesses.

[1] This amount excluded structural deposits, as the Bank no longer manages structural deposits as our asset management products according to the regulatory requirement.

- The application for the establishment of the wealth management subsidiary was approved by CBIRC on 4 January 2019. The preparatory work has been advancing smoothly.

Structure of wealth management products

In millions of RMB, except for percentages

	Item	**Balance of product**	**Percentage (%)**
By target	Personal wealth management	13,753.64	82.8
	Corporate wealth management	2,847.61	17.2
By type	Principal guaranteed products with expected income	2,521.69	15.2
	Non-principal guaranteed products with expected income	8,791.23	53.0
	Net worth products	5,288.33	31.8
	Total	16,601.25	100.0

Custody Service

- The Bank actively responded to changes in market conditions and promoted synergistic marketing, and improved the custody service continuously. Accordingly, the Bank's custody service achieved a rapid and healthy growth.

- At the end of 2018, the Bank had RMB9,220,094 million of assets under custody. The commission income from custody service and other fiduciary services amounted to RMB3,598 million, representing an increase of 6.8% over the previous year.

Pension

- In 2018, the Bank obtained the qualification of trustee for enterprise annuity fund.

- At the end of 2018, pension funds under the Bank's custody amounted to RMB492.1 billion, representing an increase of 12.61% over the end of the previous year.

Precious Metals

- By following the trends of price of precious metals, the Bank focused on promoting the products of account-based precious metals and steadily advanced the precious metal leasing business.

- In 2018, the Bank traded 5,069.63 tons of gold for its own account as well as on behalf of customers and 60,940.64 tons of silver for its own account as well as on behalf of customers, with steady increases in market shares.

Treasury Transactions on Behalf of Customers

- By optimizing quotation strategies for foreign exchange settlements, the Bank promoted the balanced development between foreign exchange settlements and foreign exchange sales, which resulted in a surplus in foreign exchange on behalf of customers. During the reporting period, the transaction volume of foreign exchange sales and settlements as well as foreign exchange trading on behalf of customers[1] amounted to USD385.5 billion, representing an increase of 10.7% over the previous year.

- Responding to development trend of the market, the Bank strengthened its efforts in marketing, which steadily promoted the development of the bond business on behalf of customers. In terms of the "Bond Connect", the spot transactions amounted to RMB73.4 billion and the number of customers totalled 164, holding the leading position in the market. The transactions with overseas institutions on behalf of other banks exceeded RMB200 billion. In terms of Zhaishibao, one of counter bond businesses, over RMB100 billion of bonds were distributed at the primary market and the trading volume at secondary market exceeded RMB80 billion, both ranked first among the peers.

Agency Distribution of Fund Products

- In 2018, the Bank closely co-operated with a number of outstanding fund companies to develop its brands of "Selective Fund". The Bank put effort in building research and investment teams to enhance its professional services.

- Responding to the development trend of Fintech, the Bank developed the product of "ABC Smart Investment" to enhance customer experience.

- The distributing fund products accumulated to RMB501.7 billion for the year, representing an increase of 48.7% compared to the previous year.

Agency Sales of PRC Government Bonds

- In 2018, as an agent to the PRC Government, the Bank distributed 18 tranches of savings treasury bonds in an amount of RMB47.816 billion, including 10 tranches of savings treasury bonds (in electronic form) of RMB27.779 billion and 8 tranches of savings treasury bonds (in certificate form) of RMB20.037 billion.

Internet Finance

During the reporting period, we responded positively to opportunities and challenges brought by Fintech. Aiming at establishing the "an internet smart bank", we focused our work on two main business lines, to "Strengthen Business-end Business" and to "Revitalize Consumer-end Business". By accelerating product innovations, improving the internet finance service platform, planning for financial service scenes and further promoting the "No. 1 Project" for Providing Internet Financial Services for Sannong, we enhanced our core competitiveness of internet finance business continuously.

[1] The transaction volume of foreign exchange sales and settlements as well as foreign exchange trading on behalf of customers includes that of spot foreign exchange sales and settlements as well as foreign exchange trading on behalf of customers, and the total contract amount of forward/swapped foreign exchange sales and settlements as well as foreign exchange trading.

Strengthen Business-end Business

- The corporate financial service platform was innovated and optimized to provide more comprehensive services. We launched the intelligent account opening service named "E-account Opening", featured financing products for small and micro enterprise named "Micro Quick Loans", and new online products including corporate insurance and bonds. Mobile financial services were innovated by launching an exclusive channel for "Inclusive Finance", developing an inclusive finance cloud service zone for providing services to medium and small as well as micro enterprises, and constructing an ecosystem providing one-stop comprehensive services to small and micro enterprises.

- The services provided by "ABC Huinong e-Tong" platform were improved. We improved the platform's functions and enriched online products, accelerating to achieve breakthroughs and upgrading in the "No. 1 Project" for Providing Internet Financial Services for Sannong. More efforts were exerted to develop the product lines including "Huinong Circle" and "Industrial Chain", and improve financial services in specific scenes related to production, livelihood and society in the rural areas.

- Connection to the "e-commerce poverty alleviation channel" of the Ministry of Commerce was done to develop an exclusive zone of "e-commerce poverty alleviation". It connected and supported 20 provincial and 46 national key counties for poverty alleviation as well as 51 enterprises in counties of poverty alleviation, which brought about the direct sales of over 300 featured agricultural products from places of production.

Revitalize Consumer-end Business

- We adhered to the strategy of giving priority to developing mobile banking and focused on "Intelligent + Mobile Banking". A brand new intelligent mobile banking version 1.0 was released, which meant the development of our mobile banking advanced to a new level. By focusing on intelligent engine, intelligent risk control, intelligent financing and intelligent account, we developed highlighted functions such as Smart Transfer, Smart Interaction and Payment without Password. Highlighted services including face recognition, voice search, smart investment consulting, asset profile and account QR code were launched. Inclusive financial products such as Quick Agriculture Loans were launched online. The number of monthly active users of the mobile banking increased by 63% on year-on-year basis.

- Following the development trend of scene-sensitive financial services, we accelerated the planning for a consumption scene ecosystem. The payment product system was improved to facilitate upgrading of "ABC Quick E Pay" and integrated cashier's desk. We commenced to expand consumption scenarios to widen channels to obtain customers. We integrated financial services deeply with the consumption scenes to build smart ecosystems such as Smart Bill Payment, Smart Parking and Smart City. During the reporting period, the bill payment merchants of the Bank reached 38,945, increased by 285% as compared to the end of the previous year, and total transaction amount for the year was RMB85.9 billion, increased by 237.3% on year-on-year basis.

Strengthen Supporting System

- The digital management processes were established to improve customers' experience. An innovative experience center for internet finance business was completed, counting customers' experience as a key to our product innovation.

- The comprehensive business operation system was built. The operation system for internet finance business comprising platform operation, risk operation, fund operation and information management was constructed to enhance automatic level of the operation management.

- Smart risk control was strengthened. A risk monitoring system for internet finance business was established. Big data technology was used to conduct real-time monitoring, detection and analysis for various businesses to secure the transactions of internet banking and mobile banking effectively.

- Focusing on "Finance Brain", a centralized platform for research and development, operation and management of intelligent models was constructed to support AI applications in key businesses of the Bank to realize "Intelligent Centralization" across the Bank.

Inclusive Finance

In 2018, we continued to advance the development of our inclusive finance organizational structure, improve the operating mechanism and optimize customer services. Accordingly, significant progress had been made in our inclusive finance services. In 2018, the Bank's inclusive finance business met the requirement by CBIRC in achieving the "two growth objects and two control objects"[1] and the requirement by PBOC for the second level of "depository reserve ratio to be targetedly deducted". We are holding the leading position among the peers in terms of performance indicators. At the end of 2018, based on the regulatory requirement of "two growth objects and two control objects" by the CBIRC, aggregate loans for inclusive finance reached RMB493.7 billion, representing an increase of RMB110.7 billion or 28.9% compared to the end of the previous year, with the growth rate higher than that of loans of the Bank. The number of loan customers was 2.445 million, representing an increase of 284 thousand compared to the end of the previous year. We realized declines in both the balance and ratio of non-performing loans. The total borrowing cost was in the reasonable level, which met the regulatory requirement. Based on the regulatory requirement by the PBOC for the targeted reduction, the additional loans for inclusive finance for the year accounted for 11.6% of the total additional loans in RMB granted by the Bank, which exceeded the requirement by PBOC for the second level of "depository reserve ratio to be targetedly deducted". The Bank's inclusive finance business ranked first in terms of credit policy efficiency assessed by the PBOC in respect of both agriculture-related loans and loans to small and micro enterprises for the year.

[1] The "two growth objects and two control objects" means the following objectives: (1) growth objectives: the year-on-year growth rate of small and micro enterprise loans with a total credit line for each borrower not more than RMB10 million is not lower than that of total loans, and the borrowers with loan balances are not less than those for the same period of the previous year; and (2) control objectives: the quality of small and micro enterprise loan and the total borrowing cost (including interest rates and charges for loan-related banking services) shall be reasonably controlled.

Organizational structure

- The Head Office established the business structure of "Inclusive Banking Division + 8 Back Office Centers". 37 tier-1 branches (branches directly managed by the Head Office) and major tier-2 branches established their Inclusive Banking Divisions to form the inclusive finance service system supported by "Sannong + Small and Micro Enterprises" with our own feature. For details of the County Area Banking Division and County Area Banking Business, please refer to "Discussion and Analysis – County Area Banking Business".

- We leveraged the leading role of specialized institutions in small and micro enterprise banking services through establishing 799 specialized institutions in tier-2 or lower branches and developed 100 Small and Micro Enterprise Financial Services Demonstration Branch in hubs of small and micro enterprises to enhance our capabilities to provide professional and tailored services.

Operating mechanism

- We established the "Five Specialties" management mechanism of inclusive finance, which included integrated service mechanism, statistical and accounting mechanism, risk management mechanism, resource allocation mechanism and assessment mechanism.

- We developed a separate credit plan for small and micro enterprise, which focused on supporting small loan customers who obtained our loans with a total credit line for each borrower not more than RMB10 million.

- We delegated the power of approval of granting additional loans, use of credit and pricing for loans to tier-2 branches, which significantly streamlined the procedure for loans and enhanced the efficiency.

- We implemented the prioritized policy of economic capital evaluation for small and micro enterprises, and established strategic expenses for special incentive.

- We diligently implemented the regulatory requirement related to reduction of interest rate charged to small and micro enterprises to formulate differentiated pricing policies. We strictly implemented the provisions related to reduction or exemption of certain fees to reduce the financial burden on small and micro enterprises.

Customer Service

- We continued to step up innovation in financial services and products for small and micro enterprises. We applied Fintech for innovation in online financing products. We launched our online credit product for small and micro enterprises, namely "Micro Quick Loan", which enables instant "application, approval and granting of loans". At the end of 2018, the number of customers for *Weijiedai* exceeded 20,000 and the total amount of loan exceeded RMB10 billion.

- We promoted innovative models for supply chain finance and developed the Internet Loans Based on Big Data in providing online financing services to small and micro enterprises on the upstream and downstream of key enterprises. At the end of 2018, the number of loans we provided to a number of small and micro enterprises on the upstream and downstream of key enterprises reached 23 thousand and the total amount reached RMB9.1 billion.

- We innovated the loans with credit enhancement by government and fully leveraged the mechanisms of risk compensation fund, industry guidance fund, finance discount fund and finance-revolving fund to effectively solve the problems in securing guarantee for financing facing the small and micro enterprises.

Green Finance

Green Credit

Green development was the key area of our efforts to actualize strategic transformation of the Bank. As at the end of 2018, the balance of loans in green credit business of the Bank surpassed RMB1 trillion for the first time, with its growth rate higher than that of corporate loans during the same period.

- Through the annual guidelines for credit policies and merging green credit indicators with industrial policies deeply, credit funds will be guided to flow into quality green projects and industries in the energy conservation and environmental protection sectors.

- The requirements for managing environmental and social risks will be embedded in all segments of the credit business to implement strict and whole process management and control.

- Evaluation indicators and allocation plans will be determined in a scientific manner to enhance the motivation of our branches for green development.

Green Products of Investment Banking

We introduced the "green" concept into all types of products and services of the investment banking business and strived to develop into a "leading bank in green investment banking" with leading service model, product system and market share.

- In 2018, we performed underwriting of RMB60 billion bonds for customers in green industries to support mainly clean energy and railway transportation sectors. Acting as a lead underwriter, we underwrote RMB3 billion medium term notes issued by the Three Gorges Corporation, being the largest amount of green debt financing instrument for a single deal in the market.

- We issued green asset-backed notes for China Resources Leasing Co., Ltd. in the amount of RMB1.347 billion, which was awarded "Jie Fu Asset Securitization Awards – Largest Size of Green Financial Asset Securitization Product".

Use of proceeds from sales of Green Finance Bonds

On 13 October 2015, the Bank issued the green finance bonds at an equivalent amount of USD1 billion at the London Stock Exchange. As at 31 December 2018, the 3-year bond in USD and the 2-year bond in RMB reached maturity and the 5-year bonds in USD did not reach maturity.

- The total net proceeds from sales of the green finance bonds were invested in loans for projects of green industries and there was no idle fund. The projects of green industries involved clean transportation and renewable energy. The clean transportation projects involved subway construction projects and the renewable energy projects involved wind, photovoltaic and biomass power projects.

- The estimated environmental benefits from the investment with net proceeds in renewable energy projects were alternative fossil energy of 1.2865 million tons per year and reduction in carbon dioxide emission of 3.0876 million tons per year, from 13 October 2015 to 30 September 2018.[1]

[1] The data comes from *Agricultural Bank of China Report on the Use of Proceeds from Green Bond* and *Independent Limited Assurance Statement to the Directors of Agricultural Bank of China*.

Cross-border Financial Service

In 2018, we proactively served China's economic and diplomatic strategies and steadily advanced the institutional layout in major international and regional financial hubs as well as countries and territories which maintained close business relationships with China to establish a featured and differentiated overseas service platform, and steadily improved our comprehensive capability of integrated financial services at global markets. At the end of December 2018, the total assets of our overseas branches and subsidiaries reached USD132.97 billion. Net profit for the year was USD0.66 billion.

- During the reporting period, our branches in Macao, Hanoi and London and representative office in Sao Paulo commenced operation. At the end of December 2018, we established 22 overseas institutions and a bank through equity joint venture in 17 countries and regions.

- We have achieved healthy development in our international settlement and trade financing businesses. In 2018, the total volume of international trade financing (including finance with domestic letter of credit) conducted by the domestic branches reached USD90.96 billion. The total volume of international settlement conducted by the domestic branches reached USD964.4 billion.

- We recorded a rapid development in our cross-border RMB business with a total volume of RMB1,106.63 billion, representing an increase of 30% compared to the corresponding period of the previous year. The Bank was qualified as one of the first-batch depository banks for crude oil futures. We were among the first-batch banks listed on the RMB Cross-border Interbank Payment System (CIPS) II. With the Bank's Dubai Branch and RMB clearing bank in United Arab Emirates that serves as the platform, we strengthened the cooperation with United Arab Emirates in the bilateral currency settlement business under the comprehensive strategic partnership between China and United Arab Emirates.

- We launched the "Easy Construction Finance" series that cover eight products, including surety bond in construction, financing and overseas services, to meet the needs of overseas contractors for financial services at all stages of their construction work.

Integrated Operation

We have established an integrated business platform consisting of fund management, securities and investment banking, financial leasing, life insurance and debt-to-equity swap business, in an effort to continuously implement our integrated operation strategy.

- In 2018, our five subsidiaries of integrated operation (namely ABC-CA Fund Management Co., Ltd., ABC International Holdings Limited, ABC Financial Leasing Co., Ltd., ABC Life Insurance Co., Ltd. and ABC Financial Asset Investment Co., Ltd.) focused on principal businesses, delved into respective professional territory and operated prudently. Their market competitiveness steadily improved and synergy of the Group's integrated operation was achieved gradually. As at the end of 2018, total assets of our five subsidiaries of integrated business operations amounted to RMB204.4 billion. Net profit for 2018 amounted to RMB337 million.

- The total assets managed by ABC-CA Fund Management Co., Ltd. amounted to over RMB572,357 million, representing an increase of 6.4% compared to the end of the previous year. The core investment banking business of ABC International Holdings Limited has been developing with an expanding scale. Concurrently, ABC Financial Leasing Co., Ltd. advanced its business transformation and promoted asset structure adjustment. ABC Life Insurance Co., Ltd. has expanded its business steadily and continued to optimize its product offering with remarkable results in business transformation. Its new insurance regular premiums income reached RMB7.24 billion, representing an increase of 42.0% compared to the end of the previous year. The total assets of ABC Financial Asset Investment Co., Ltd. expanded rapidly in line with a developing business model, and implemented debt-to-equity swap business amounted to a total of over RMB91.63 billion in 2018. Its total assets reached RMB33.45 billion, representing an increase of 231.21% compared to the end of the previous year.

Distribution Channels

Offline Channels

During the reporting period, following the development of Fintech and the changes in customer's demand, the Bank facilitated to transform our branch outlets towards more intelligent ones with less labor forces and promoted integrated development of online and offline businesses. The marketing, risk management and control, value creation capabilities and market competitiveness of our branch outlets were improved comprehensively.

- Comprehensive reform of counter activities in our outlets was completed. E-voucher, e-signature and e-seal for counter activities in our outlets were realized. A new generation of super counter was expanded with smarter services, resulting in increased ratio of replacement by super counters in the counter activities in our outlets and more efficient processing of businesses.

- We implemented branch outlets transformation, which included "hard transformation" and "soft transformation". The "hard transformation" focused on optimizing the network layout and business zones in the branch outlets and the "soft transformation" focused on optimizing processes and innovating business models, which helped to transform our branch outlets towards more intelligent ones with less labor forces. As at the end of 2018, 2,089 branch outlets completed "hard transformation" and 10,988 ones completed "soft transformation".

- Effective segregation of "cash, blank vouchers and seals" from operating staff was realized. Management on site was enhanced to prevent the risk of "conducting unauthorized transactions" in the branch outlets.

Online Channels

We enhanced product innovation, enriched scenes, and accelerated to provide products and business through online channels. The number of customers using online channels continued to grow, and the transaction volume increased steadily. During the reporting period, we conducted 57.8 billion financial transactions through electronic channels, representing a year-on-year increase of 29.1%.

Internet Banking

As at the end of the reporting period, the number of registered customers in personal internet banking was 265 million, representing an increase of 18.8% as compared to the end of the previous year, and transaction amount for the year reached RMB41.87 trillion. The number of customers of the corporate financial service platform reached 6.20 million, representing an increase of 16.6% as compared to the end of the previous year, and the transaction amount through the platform for the year reached RMB172.1 trillion, representing a year-on-year increase of 15.6%.

Mobile Banking

As at the end of the reporting period, the total number of personal mobile banking users reached 257 million, increased by 24.8% as compared to the end of the previous year, and transaction amount for the year was RMB49 trillion, representing a year-on-year increase of 54.1%. The total number of corporate mobile banking users reached 0.93 million with an increase of 0.635 million during the year, and the total transaction amount for the year was RMB132.86 billion.

Telephone Banking

During the reporting period, we continued to improve call-answering and self-service audio customer services of telephone banking and accelerate smart transformation of the customer service system, resulting in continuously improved customer experience. In 2018, a total of 424 million calls were received by our telephone banking from customers, among which 102 million calls were transferred to the customer service center and 95 million calls were handled by customer service staff, with the completion rate and satisfaction rate of 93.05% and 99.25%, increased by 9.29 and 0.41 percentage point as compared to the previous year, respectively.

Self-service Banking

We widely promoted the unified development platform related to our self-service banking facilities and the system of managing facilities in the branch outlets further promoted unified management of facilities in branch outlets. Applications of Fintech such as voice navigation and face recognition were increased to equip our branch outlets with smarter facilities. As at the end of 2018, we had 96.9 thousand sets of cash-related self-service facilities and 44.8 thousand sets of self-service terminals, and the daily average transaction volume was 22.40 million.

Information Technology

We stepped up innovation in Fintech and provided strong technical support for our operation and management. Progress was achieved in transforming and implementing the innovative mechanism for technologies and products, which further enhanced the innovative efficiency and quality of products. We formulated the three-year action plan of Fintech innovation, specified the major tasks and implementation paths to facilitate digital transformation throughout the Bank.

Progress in Fintech Innovation

- Regarding application of mobile internet technology, a new generation of intelligent mobile banking service was launched to actualize functions such as voice-activated transfer between accounts, intelligent registration, intelligent account opening and intelligent marketing, and intelligent applications such as online account opening, recommendations for all products and customer groupings were built up. Integrated code scanning payment products were launched. "Micro Quick Loan", being the first financing product for small and micro enterprises operated fully online, was launched by the Bank.

- Regarding application of artificial intelligence technology, the "Finance Brain", being our artificial intelligence (AI) platform, commenced operation smoothly. It had biometric recognition capabilities, including face recognition, voice recognition and semantic recognition, enabling the provision of intelligent services such as voice navigation, semantic recognition and face verification for the new generation of intelligent mobile banking business. The self-service voice-activated intelligent interactive navigation project was completed and commenced operation, advancing the intelligent transformation of customer service. A intelligent voice joint innovative laboratory was established with iFlytech Co., Ltd. to enhance the Bank's technological level in voice recognition, semantic understanding and other areas.

- Regarding application of big data technology, we consolidated the infrastructure of big data platform. By improving data analysis and building of mining platform, we further enhanced the efficiency of data extraction service and the level of automatic management. Phase 1 of branch databank commenced pilot operation, and the big data service capability was applied in management and operation.

- Regarding application of cloud computing technology, progress was made in constructing a new generation of infrastructure for the cloud platform and realized an IT infrastructure allowing flexible scheduling, flexible adjustment for changing needs, flexible scalability and intensive utilization. We continued improving the service contents, optimizing the service process and enriching the application scenes of the cloud platform.

- Regarding application of cyber security technologies, we formulated the IPv6 task deployment plan to facilitate construction of projects, including the basic platform for trend sensor of cyber security, analysis platform for threatening information and the new generation of terminal security and protection.

Improvement of Technological Level of Our Operation and Management

- By concentrating on the strategic focus of the Bank, we dedicated full efforts to promote key IT projects, including the "Huinong e-Tong" platform, integrated reforms of counter activities in our outlets, new generation of super counters, retail loan intelligent operating system and marketing system, and intelligent investment platform for funds, for providing strong support to the "Three Major Projects", which included "Providing Internet Financial Services for Sannong", the "Strategic Transformation of the Retail Banking Business and Branch Outlets", and the "Improvement of Intermediary Businesses.

- We continued enhancing the technological level for prevention and control of cases of compliance violations by making further progress in the construction of the "Three Lines and One Grid" system to build a grid management model for staff behaviour.

- We optimized and improved the construction of management systems for unified overview of credit risk, smart monitoring and control of credit risk, and anti-fraud watch list. We promoted the construction of systems for smart credit, aggregation of effective risk data, pricing for interest rate of foreign currency. Accordingly, we enhanced the level of management and control on risk, asset and liability areas.

Ensuring the Safe Running of Information System

- Progress was achieved in the construction project of "two cities and three centers" (including a production center in Shanghai, a City-wide Disaster Recovery Center in Shanghai and a Remote Disaster Recovery Center in Beijing).

- We upgraded our host system by using the disaster recovery framework for the first time, and all the channels and businesses maintained normal operation in the meantime, indicating that the remote disaster recovery of the core business of the Bank was elevated to a new level.

- During the reporting period, the transaction volume generated by our operations increased rapidly. The daily average transaction volume handled by our core system reached 544 million transactions and the highest daily transaction volume reached 662 million transactions. The utilization rate during major business hours of our core system reached 100%, maintaining stable and sustainable service operating capabilities.

Human Resources Management and Organization Management

Human Resources Management

Human Resources Reform

During the reporting period, persevering with a market-oriented approach, we continued to deepen the reform of human resources, so as to refine the personnel development system, optimize the structure of employees and improve the efficiency of our human resources continuously.

- A research and development center was reorganized and established, a research and development division was established in Beijing, and a local data disaster recovery system was constructed.

- A credit monitoring center was established, and an international settlement center for vouchers and certificates (Suzhou) and a domestic clearing branch center (Shenzhen) were established.

- A global anti-money laundering center was established. We implemented management of compliance risk in respect of business units and staff as the "Double Lines" approach, so as to the responsibility system for prevention and control of cases of compliance violations for the entire Bank was constructed.

- The distribution of branches and sub-branch operating entities was optimized. The change of names of branches in capital cities of provinces was fully completed. Xiong'an branch in Hebei was established. Eleven tier-2 branches were established including Sansha branch in Hainan, realizing 100% coverage of all prefecture-level administrative regions in China.

During the reporting period, we issued the supporting policies on human resources by focusing on the key areas of reforms of the Bank.

- To stimulate innovative energy of Fintech, we formulated supporting policies for the development of talents in the technological organization of the Head Office and for compound technological talents. A grading system for IT-related positions in research and development centers and data centers was established, and a special incentive plan for technology and product innovations was introduced.

- The guiding opinions on optimization and adjustment to positions at branch outlets was formulated for the strategic transformation of retail banking business and branch outlets to facilitate optimization of labor forces at branch outlets and provide guidance on job transfer of tellers in an orderly manner, so as to revitalize the human resources at foundation-level branch outlets.

- The opinion on human resources reform in entities operated directly by the Head Office was formulated to establish human resources management system and mechanism with reciprocity of responsibilities, powers and rights, matching incentive and restraint and matching risks and income, so as to facilitate the transformation and upgrading of the directly operated businesses.

Development and Cultivation of Human Resources

During the reporting period, we accelerated the implementation of "Four Major Projects" in talent development, including the cultivation of leaders, the development of professional staff, transformation and optimization of foundation-level staffs, and "retention of staff by captivating their hearts". Training on national policies was enhanced and business training was strengthened by focusing on business transformation and Fintech.

- Cultivation of leadership team was strengthened. Efforts were exerted to nurture outstanding young leaders. A young talent development project was implemented bank-wide to enable identification of excellent young talents.

- Cultivation of professional staff and talent reserves in various areas, such as private banking, internal control and legal compliance, was promoted. A new round of cultivating an international talent reserve base and practical training program overseas were started.

- The career path for development of employees in foundation-level branch outlets was widened, professional positions such as senior manager, senior deputy manager and senior specialist were created to actualize the project of "retention of staff by captivating their hearts".

- Training programs by category and by level were commenced, and overseas training programs were expanded. Beijing Advanced-level Academy was established. Joint education between Agricultural Bank of China University and its various branches was achieved. In 2018, a total of 16 thousand sessions of various training programs were organized by the Bank and attended by 0.98 million participants, qualification examinations for job positions in 38 business lines were held and attended by 0.178 million participants.

Management of Remuneration and Benefit

- During the reporting period, the overall remuneration level of the Bank was determined in accordance with factors including the efficiency and personnel of the Bank, as required by the national authorities. Pursuant to our remuneration management system, the total remuneration allocated to institutions at all levels under the Bank was determined on the basis of their operating efficiency, performance assessment result and completion status of key tasks, while the individual remuneration of employees was determined on the basis of the performance assessment results of the institutions and the employee himself.

- We continued to deepen the reform of remuneration allocation mechanism, to optimize the allocation of resources and to reinforce the centralized management and control on total salary of branch outlets and subsidiaries. We also formulated annual remuneration plan in strict compliance with the regulatory requirements and corporate governance. We strengthened incentives for major strategies, advanced the reforms in key areas, increase and linked remuneration allocation to value creation, business transformation and risk management, to facilitate our high quality development.

- We adopted the more sophisticated approach of remuneration allocation for employees. By strengthening incentives for performance contribution, improving long-term incentives and restraints, and implementing the deferred payment system of remuneration, we linked employees' current and long-term responsibilities and contribution to the development of the Bank and follow-on risk. We improved benefits, strengthened targeted incentives and increased the payroll incentives for key posts and skeleton staff in order to promote the development of talents. The remuneration allocation was more favorable to employees in foundation-level institutions by the establishment of minimum wages and differentiated allowance policies to improve sense of belonging and loyalty of these employees.

- We improved the management mechanism for annuity scheme and retirement benefits fund and steadily pushed forward the market-oriented management of annuity scheme, so as to increase the long-term investment return. The benefits for retired staff of the Bank were borne by the retirement benefits fund and the annuity scheme.

Information on Employees

We had a total of 473,691 employees (and 7,670 dispatched employees) as at the end of 2018, representing a decrease of 13,616 employees as compared to the end of the previous year. Among them, 668 employees were employed by our overseas branches, subsidiaries and representative offices, and 8,299 employees were employed by the subsidiaries with integrated operations and by the rural banks.

Distribution of Employees by Regions

	31 December 2018	
	Number of Employees	**Percentage (%)**
Head Office	**10,060**	**2.12**
Yangtze River Delta	**64,430**	**13.60**
Pearl River Delta	**51,525**	**10.88**
Bohai Rim	**68,172**	**14.39**
Central China	**98,464**	**20.79**
Northeastern China	**48,060**	**10.15**
Western China	**124,013**	**26.18**
Overseas Branches, Subsidiaries and Representative Offices	**668**	**0.14**
Subsidiaries with integrated operations and Rural Banks	**8,299**	**1.75**
Total	**473,691**	**100.00**

Distribution of Employees by Education Background

	31 December 2018 Number of Employees	Percentage (%)
Doctorate Degree	**506**	**0.11**
Master's Degree	**26,587**	**5.61**
Bachelor's Degree	**229,785**	**48.51**
College and Vocational School	**173,652**	**36.66**
Below College	**43,161**	**9.11**
Total	**473,691**	**100.00**

Distribution of Employees by Departments

	31 December 2018 Number of Employees	Percentage (%)
Management	**120,600**	**25.46**
Risk Management	**17,584**	**3.71**
Finance	**21,678**	**4.58**
Administration	**17,540**	**3.70**
Sales/Marketing	**111,250**	**23.49**
Trading	**328**	**0.07**
Information Technology	**6,190**	**1.31**
Tellers/Counter Staff	**120,819**	**25.51**
Technicians	**32,019**	**6.76**
Others	**25,683**	**5.42**
Total	**473,691**	**100.00**

Distribution of Employees by Age

	31 December 2018 Number of Employees	Percentage (%)
30 or below	**94,801**	**20.01**
31 – 40	**81,696**	**17.25**
41 – 50	**177,802**	**37.54**
51 or above	**119,392**	**25.20**
Total	**473,691**	**100.00**

Organization Management

Domestic Branch Outlets

As at the end of 2018, we had 23,381 domestic branch outlets, including the Head Office, Business Department of the Head Office, three specialized institutions managed by the Head Office, four training institutes, 37 tier-1 branches (including five branches directly managed by the Head Office), 386 tier-2 branches (including business departments of branches in capital cities of provinces and provincial branches), 3,455 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the Head Office and business departments of tier-2 branches), 19,442 foundation-level branch outlets and 52 other establishments.

Number of Domestic Branch and Sub-branch Outlets by Regions

	31 December 2018	
	Number of Domestic Branch Outlets	**Percentage (%)**
Head Office[1]	**9**	**0.04**
Yangtze River Delta	**3,069**	**13.13**
Pearl River Delta	**2,542**	**10.87**
Bohai Rim	**3,357**	**14.36**
Central China	**5,228**	**22.36**
Northeastern China	**2,275**	**9.73**
Western China	**6,901**	**29.51**
Total Number of Domestic Outlets	**23,381**	**100.00**

Note: 1. Organization of the Head Office includes the Head Office, Business Department of the Head Office, Private Banking Division, Credit Card Center, Bills Business Department, Beijing Advanced-Level Academy, Changchun Training Institute, Tianjin Training Institute and Wuhan Training Institute

Overseas Branch Outlets

As at the end of 2018, we had a total of 13 overseas branches and 4 overseas representative offices, including the branches in Hong Kong, Singapore, Seoul, New York, Dubai International Financial Centre (DIFC), Tokyo, Frankfurt, Sydney, Luxemburg, Dubai, London, Macau and Hanoi, and the representative offices in Vancouver, Hanoi, Taipei and Sao Paulo.

Major Subsidiaries

ABC-CA Fund Management Co., Ltd.

ABC-CA Fund Management Co., Ltd. was established in March 2008. Its registered capital was RMB1.75 billion, 51.67% of which was held by the Bank. Its businesses include fund-raising, sales of fund and asset management, and its major products include stock funds, mixed funds, bond funds and monetary market funds.

At 31 December 2018, the total assets and net assets of ABC-CA Fund Management Co., Ltd. amounted to RMB3.297 billion and RMB2.9 billion, respectively. It recorded a net profit of RMB439 million for 2018.

ABC International Holdings Limited

ABC International Holdings Limited was established in Hong Kong in November 2009. The registered capital of ABC International Holdings Limited was HKD4.113 billion, 100% of which was held by the Bank. ABC International Holdings Limited is eligible to engage in providing comprehensive and integrated financial services in Hong Kong, including sponsor and underwriter for listing, issuance and underwriting of bonds, financial consultation, asset management, direct investment, institutional sales, securities brokerage and securities consultation, and is also eligible to engage in various capital market businesses in mainland China, except for acting as a sponsor of A-share listing.

At 31 December 2018, the total assets and net assets of ABC International Holdings Limited amounted to HKD43.453 billion and HKD7.244 billion, respectively. It recorded a net profit of HKD282 million for 2018.

ABC Financial Leasing Co., Ltd.

ABC Financial Leasing Co., Ltd. was established in September 2010 and its registered capital was RMB9.5 billion, 100% of which was held by the Bank. The principal scope of business includes financial leasing, transfer and acceptance of financial leasing assets, fixed-income securities investment business, acceptance of leasing deposits from lessees, absorbing time deposit with a maturity of three months or above from non-bank shareholders, interbank lending, borrowing from financial institutions, overseas borrowings, selling and disposal of leased items, economic consultation, establishment of project companies in domestic bonded zones to carry out financial leasing business, provision of guarantee for external financing to subsidiaries and project companies, and other businesses approved by the CBIRC.

At 31 December 2018, the total assets and net assets of ABC Financial Leasing Co., Ltd. amounted to RMB45.625 billion and RMB9.497 billion, respectively. It recorded a net profit of RMB169 million for 2018.

ABC Life Insurance Co., Ltd.[1]

The registered capital of ABC Life Insurance Co., Ltd. was RMB2.95 billion, 51% of which was held by the Bank. Its principal scope of business includes various types of personal insurance such as life insurance, health insurance and accident insurance; reinsurance business for the abovementioned businesses; businesses with the application of insurance funds as permitted by the laws and regulations of the PRC; and other businesses approved by the CBIRC.

At 31 December 2018, the total assets and net assets of ABC Life Insurance Co., Ltd. amounted to RMB83.993 billion and RMB4.599 billion, respectively. It recorded a net loss of RMB760 million for 2018.

China Agricultural Finance Co., Ltd.

The registered capital of China Agricultural Finance Co., Ltd. was HKD588.79 million, 100% of which was held by the Bank.

ABC Financial Asset Investment Company Limited

The registered capital of ABC Financial Asset Investment Company Limited is RMB10 billion, which is 100% held by the Bank. Its principal scope of business includes: focusing on debt-to-equity conversion and ancillary supporting business, conducting public fund raising from qualified public investors for debt-to-equity conversion in accordance with relevant laws and regulations, issuance of financial bonds specifically for debt-to-equity conversion, as well as other businesses as approved by the CBIRC.

At 31 December 2018, the total assets and net assets of ABC Financial Asset Investment Company Limited amounted to RMB33.45 billion and RMB10.348 billion, respectively. It recorded a net profit of RMB248 million for 2018.

Agricultural Bank of China (UK) Limited

Agricultural Bank of China (UK) Limited is a wholly-owned subsidiary of the Bank incorporated in the United Kingdom, with a registered capital of USD100 million. Its scope of business includes corporate financial business such as corporate deposits, bilateral loans, syndicated loans, trade financing, international settlement, foreign exchange trading and derivatives. At 31 December 2018, Agricultural Bank of China (UK) Limited had total assets of USD110 million. It recorded a net profit of USD3.35 million for 2018.

Note 1: Financial information of this subsidiary is in accordance with the group's accounting policies.

Agricultural Bank of China (Luxembourg) Limited

Agricultural Bank of China (Luxembourg) Limited is a wholly-owned subsidiary of the Bank incorporated in Luxembourg, with a registered capital of EUR20 million. Its scope of business includes corporate banking businesses such as wholesale and treasury transactions. At 31 December 2018, Agricultural Bank of China (Luxembourg) Limited had total assets of USD25 million. It recorded a net profit of USD0.97 million for 2018.

Agricultural Bank of China (Moscow) Limited

Agricultural Bank of China (Moscow) Limited is a wholly-owned subsidiary of the Bank incorporated in Russia, with a registered capital of RUB1.4 billion. Its scope of business includes corporate banking business such as international settlement, corporate deposits, syndicated loans, bilateral loans, trade financing and foreign exchange trading. At 31 December 2018, Agricultural Bank of China (Moscow) Limited had total assets of USD0.18 billion. It recorded a net loss of USD1.13 million for 2018.

ABC Hubei Hanchuan Rural Bank Limited Liability Company

ABC Hubei Hanchuan Rural Bank Limited Liability Company was established in August 2008 in Hanchuan, Hubei Province, with a registered capital of RMB31 million, 50% of which was held by the Bank. At 31 December 2018, the total assets and net assets of ABC Hubei Hanchuan Rural Bank Limited Liability Company amounted to RMB308 million and RMB62 million, respectively. It recorded a net profit of RMB0.3267 million for 2018.

ABC Hexigten Rural Bank Limited Liability Company

ABC Hexigten Rural Bank Limited Liability Company was established in August 2008 in Hexigten Banner, Chifeng City, Inner Mongolia Autonomous Region, with a registered capital of RMB19.60 million, 51.02% of which was held by the Bank. At 31 December 2018, the total assets and net assets of ABC Hexigten Rural Bank Limited Liability Company amounted to RMB162 million and RMB35 million, respectively. It recorded a net profit of RMB0.1192 million for 2018.

ABC Ansai Rural Bank Limited Liability Company

ABC Ansai Rural Bank Limited Liability Company was established in March 2010 in Ansai County, Yanan City, Shaanxi Province, with a registered capital of RMB40 million, 51% of which was held by the Bank. At 31 December 2018, the total assets and net assets of ABC Ansai Rural Bank Limited Liability Company amounted to RMB502 million and RMB65 million, respectively. It recorded a net profit of RMB7.3702 million for 2018.

ABC Jixi Rural Bank Limited Liability Company

ABC Jixi Rural Bank Limited Liability Company was established in May 2010 in Jixi County, Xuancheng City, Anhui Province, with a registered capital of RMB29.40 million, 51.02% of which was held by the Bank. At 31 December 2018, the total assets and net assets of ABC Jixi Rural Bank Limited Liability Company amounted to RMB214 million and RMB42 million, respectively. It recorded a net profit of RMB0.2279 million for 2018.

ABC Zhejiang Yongkang Rural Bank Limited Liability Company

ABC Zhejiang Yongkang Rural Bank Limited Liability Company was established in June 2012 in Yongkang City, Jinhua City, Zhejiang Province, with a registered capital of RMB210 million, 51% of which was held by the Bank. At 31 December 2018, the total assets and net assets of ABC Zhejiang Yongkang Rural Bank Limited Liability Company amounted to RMB610 million and RMB249 million, respectively. It recorded a net profit of RMB5.6408 million for 2018.

ABC Xiamen Tong'an Rural Bank Limited Liability Company

ABC Xiamen Tong'an Rural Bank Limited Liability Company was established in June 2012 in Tong'an District, Xiamen City, Fujian Province, with a registered capital of RMB100 million, 51% of which was held by the Bank. At 31 December 2018, the total assets and net assets of ABC Xiamen Tong'an Rural Bank Limited Liability Company amounted to RMB1.022 billion and RMB157 million, respectively. It recorded a net profit of RMB15.2081 million for 2018.

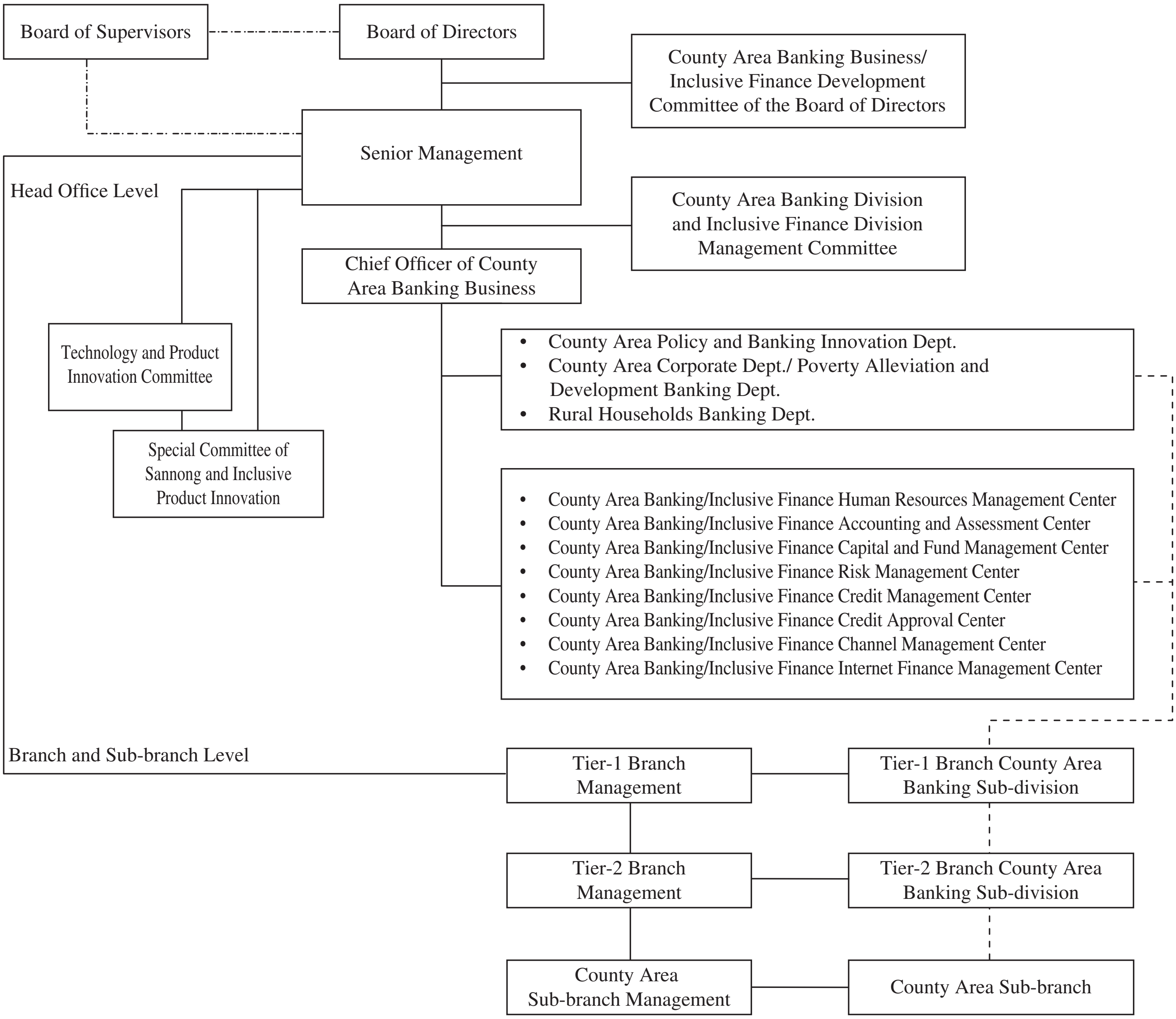
Major Investee

Sino-Congolese Bank for Africa was established by the Bank in the Republic of Congo, in which the Bank invested XAF26.67140 billion, with a shareholding of 50%.

County Area Banking Business

We provide customers in County Areas with comprehensive financial services through all our branch outlets in counties and county-level cities (i.e. County Areas) in China. We refer to such business as the County Area Banking Business or Sannong Banking Business. During the reporting period, following our business positioning of serving Sannong to promote businesses in County Areas, we promoted the Sannong services and financial poverty alleviation steadily, further refined the operating mechanism and policy system of the County Area Banking Division, practically innovated Sannong products and built channels. The development of County Area Banking Business was stable with a favorable trend, and service capabilities and market competitiveness were effectively enhanced.

Management Structure and Management Mechanism



Management Structure Chart of County Area Banking Division

We constructed the management system and mechanism of the County Area Banking Division with the following features: "County + Agriculture-related" as our areas of management, "Departments + Centers" as our organizational structure, "Double Committees + Double assessment"[1] as our governance mechanism, "Internal + External"[2] as our supporting policies, "qualitative and quantitative analysis" as our monitoring and appraisal methods, and "Six Separate"[3] as our management mechanism.

- We continued to refine the Sannong credit policy system. Closely following the implementation of rural vitalization strategy of the government, we formulated annual guidelines on Sannong credit policy, revised agricultural-related industry-specific credit policy and refined region-specific credit policy. We also promoted to build a separate channel for County Area Banking Business to approve loans, which practically enhanced the efficiency of credit examination and approval for the key areas related to rural vitalization.

- We kept on strengthening risk management and control for County Area Banking Business. We formulated annual risk management policy for loans in the County Areas strengthened management on rating Sannong customers, and refined the risk identification mechanism for loans to rural households. More efforts were exerted in mitigating risks and disposal of non-performing loans to ensure that the overall risk of County Area Banking Business was under control.

County Area Corporate Banking Business

During the reporting period, we exerted more efforts into financial services for key areas related to the rural vitalization strategy, strengthened product innovations, and promoted business transformation, so as to continuously consolidate and improve the competitive advantages of the County Area Corporate Banking Business. As at the end of 2018, the balance of corporate customer deposits in County Areas was RMB2,098.2 billion, representing an increase of RMB39.1 billion as compared to the end of the previous year. Loans for corporate customers in County Areas (excluding discount bills) amounted to RMB2,278.6 billion, representing an increase of RMB149.4 billion as compared to the end of the previous year.

- The "Seven Actions" were commenced and implemented to provide services for key areas related to the rural vitalization strategy, and the "Eight Marketing Campaigns"[4] were actively conducted. The balance of urbanization loans, tourism loans and green credit in County Areas increased by RMB100.2 billion, RMB14.7 billion and RMB80.3 billion, respectively.

1 "Double Committees" refer to the County Area Banking Business/Inclusive Finance Development Committee established at the level of Board of Directors and the County Area Banking Division and Inclusive Finance Division Management Committee established at the level of senior management. "Double assessment" means that 8 centres are appraised for their department performances in respect of, both the businesses across the Bank and their supporting to "Sannong" business.

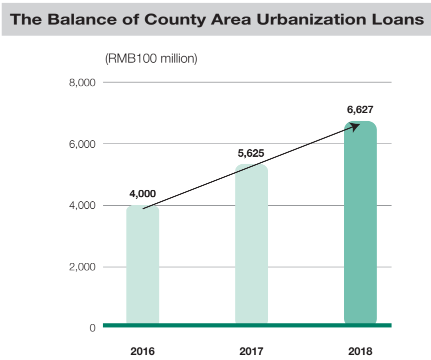
2 "Internal Policies" refer to the supportive preferential policies for the County Area Banking Division implemented by us, including separate credit plans of County Areas, separate arrangements for Sannong fixed assets investment budget, separate approval for total wages of County Area Banking Division. "External Policies" refers to the special supportive policies for us implemented by the Chinese government, including preferential value-added tax rates, differentiated deposit reserve ratio.

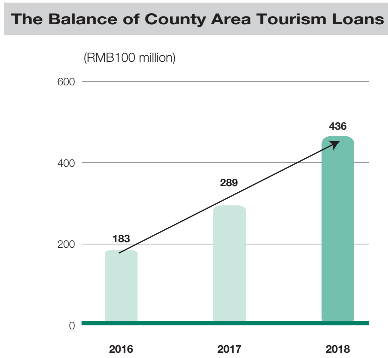
3 "Six Separate Management Mechanisms" refer to separate credit management mechanism, separate capital management mechanism, separate accounting mechanism, separate risk allowance and write-off mechanism, separate resources allocation mechanism, separate assessment and incentive & constraint mechanism.

4 The "Eight Marketing Campaigns" refer to the campaign of "Ten Billion Financing for a Hundred Companies" that supports the leading agricultural industrialization enterprises, the campaign of "Deepening Promotion of 10 Thousand Cooperatives" that supports specialized cooperatives of rural people, the campaign of "Hundred Cities and Thousand Towns" that supports new-type urbanization in the County Areas, the campaign of "Top 100 Markets" that supports merchants in the commodity markets of the County Areas, the campaign of "100 Tourism Counties" that supports the development of tourism industry in County Areas, the "Major Water Marketing Campaign" that supports infrastructure construction of major water conservancy, the campaign of "Top 100 featured agriculture production areas" that supports the featured agriculture and the campaign of "New-type Industrialization Demonstration Base in the County Areas" that supports new-type industrialization in County Areas.

• We focused to consolidate the competitiveness of corporate products in County Areas. New products such as loans for pension institutions in the County Areas were developed and launched. Optimization and improvement were also made to the products such as loans for specialized cooperatives of rural people, urbanization construction loans. We promoted the businesses such as loans backed by income rights of tourism areas in the County Areas and mortgage loans secured by forestry rights. The pilot program of financing business pledged with land use rights of the collectively operated land for construction use was launched.

• Efforts were actively dedicated to develop emerging businesses such as investment banking and internet finance business in in County Areas. We provided financial services, including underwriting service for super short-term commercial papers and Internet Loans Based on Big Data to customers such as New Hope Group and Shenzhen Agricultural Products Co., Ltd.. Our capability of delivering comprehensive services was improved and transformation and development of county area corporate banking business was facilitated.





County Area Retail Banking Business

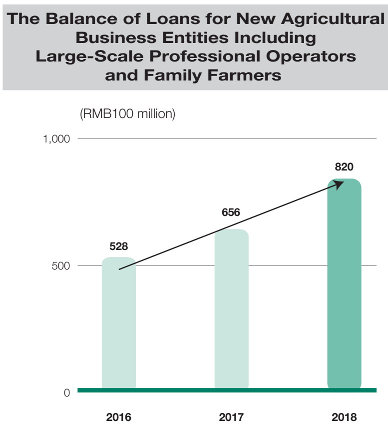
During the reporting period, to satisfy financial needs of retail customers in the modern agriculture operating system, we promoted innovations in products, models and channels by Fintech to enhance our County Area retail banking service capabilities. At the end of 2018, the balance of retail customer deposits in County Areas amounted to RMB5,049.7 billion, representing an increase of RMB327.1 billion as compared to the end of the previous year. Loans for retail customers in County Areas amounted to RMB1,640.3 billion, representing an increase of RMB234.5 billion as compared to the end of the previous year.

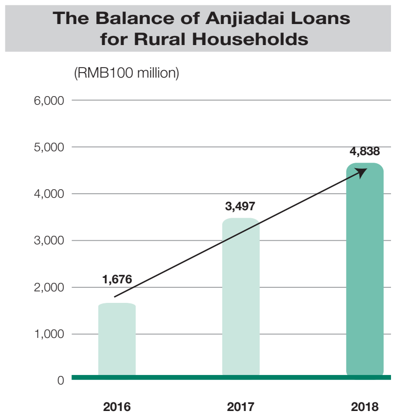
• We had effectively satisfied the financing needs of new-type agricultural operating entities for scaled-up operations in key areas including modern agricultural industrial parks, technology parks, entrepreneurship and innovation parks and rural complexes. As at the end of 2018, the balance of loans extended to new agricultural business entities including large-scale professional operators and family farmers amounted to RMB82.0 billion with an increase of 158,000 customers.

• We continued promoting the loans pledged with "Two Rights" (rural land contractual operation rights and property rights of rural households' houses) in the rural areas. As at the end of 2018, the balance of mortgage loans secured by rural land contractual operation rights amounted to RMB4.02 billion, increased by RMB2.11 billion as compared to the end of the previous year. The balance of mortgage loans secured by property rights of rural households' houses amounted to RMB3.09 billion, increased by RMB2.05 billion as compared to the end of the previous year.

• Innovation and Entrepreneurship loans were developed for rural population. More efforts were exerted to promote featured products such as Nongjiale loans and Anjiadai loans for rural households. As at the end of 2018, the balance of Anjiadai loans for rural households increased by RMB134.1 billion as compared to the end of the previous year, with a growth rate of 38.35%.

• We continued to upgrade Huinongtong service stations with Internet. By targeting at the code scanning payment market in the rural areas, we actively facilitated to connect Huinongtong service stations with "Huinong e-payment" comprehensively. A new service model of "equipment + Huinong e-tong + QR code" was also developed. As at the end of 2018, 471 thousand Huinongtong service stations completed Internet-based upgrades, representing an increase of 237 thousand as compared to the end of the previous year, and the number Huinongtong service stations with QR codes was 523 thousand. The APP of rural households version for County Areas was promoted, which covered 7.16 million rural households.





“No.1 Project” for Providing Internet Financial Services for Sannong Achieved Breakthrough in Innovation

The Bank proactively served the rural vitalization strategy by refining the platform of “Huinong e-Tong”, which provided internet financial service for Sannong. By fully leveraging mobile internet, block chain, big data and other technologies, we continued to strengthen the supporting system, optimize platform functions and increase online product offerings, in order to provide customers in all the links of agriculture industrial chain(including production, circulation and consumption) with comprehensive services for supply, sales and operation, online and offline payment, e-commerce poverty alleviation and internet financing. During the reporting period, the number of merchants on the “Huinong e-Tong” was 2.67 million, representing an increase of 1.11 million as compared to the end of the previous year. The transaction amount for the year amounted to RMB586.3 billion, representing an increase of 135% compared to the previous year.

“Huinong e-loan”: We streamlined the business process, optimized the credit policies and carried out marketing activities in various forms to achieve breakthrough in our “Huinong e-loan” business, which covered all the tier-1 branches and 96% of the county-level sub-branches. As at the end of 2018, the balance of “Huinong e-loan” amounted to RMB101.8 billion, representing an increase of RMB86.6 billion as compared to the end of the previous year.

“Huinong e-payment”: We developed a service model of “smart terminal + APP” to effectively improve payment conditions in the rural areas. To meet rural households’ needs in various scenes related to daily financial transactions, social activities and contract farming, a variety of payment functions were launched, including online QR code collection/payment, fund transfers to good friends, daily payments and on-line orderings to support financial transactions of rural households, key enterprises, wholesale markets and specialized cooperatives. The financial products were enriched including loans, “Huinong bao” fund and wealth management to enhance our capabilities of providing financial services to Sannong customers.

“Huinong e-commerce”: We developed differentiated service interfaces for different customers in the agriculture industrial chain. Based on scenes of services related to agriculture-related policies, inclusive finance, convenient lifestyles and contract farming, the “Rural Household” interface provided rural households with comprehensive services for clothing, food, housing, transportation, employment and entertainment. The “Specialized Market” interface launched QR code payment, which provided services of convenient payment and settlement, clear financial reconciliation and user-friendly booth management. The “Huinongtong” interface focused on APP service channels to facilitate internet-based upgrade of “Huinongtong” service stations in respect of channels, services and management. The Bank launched a variety of functions, including onsite cashier, online store and collection/payment, transfers and quick payment with various types of bank cards. The “Supply Chain” interface provided enterprises on upstream and downstream of supply chains with comprehensive “production-sales-management” solutions, which was fully optimized and upgraded on 4 systems including customer, stock inventory, price and marketing systems. The “ERP” interface provided three connection models including payment channels, order data and tailored to industries, in order to meet the needs of key enterprises for payment and settlement, order processing and upgrading of ERP system.

Financial Poverty Alleviation

2018 Annual Plan

- In 2018, we formulated an implementation plan of services for poverty alleviation action for 2018 and a 3-year action plan of financial support for fighting against poverty (2018-2020), which set up the goals including no less than RMB80.0 billion of new loans to 832 key counties of national poverty alleviation and no less than RMB40.0 billion of new loans to targeted poverty alleviation in 2018.

- In terms of organizational structure, leading (advancement) groups for financial poverty alleviation were established in the Head Office and the branches, and the rules of procedure for the groups were refined. In terms of customers and projects access, the facts of benefiting poor people will continue to be the focus in investigation for credit granting and lending, in order to make accurate choices to help customers and projects. In terms of resource allocation, we continued to allocate a separate scale of loans, and prioritize business expenses, fixed assets and donation resources to 832 key counties of national poverty alleviation. In terms of assessment and incentives, the statistics for targeted poverty alleviation loans was improved, which was monitored and analyzed on quarterly basis. Financial poverty alleviation would continue to be part of the assessment of the County Area Banking Business Division, and special assessment for the financial poverty alleviation work of the sub-branches in the 832 key counties of national poverty alleviation continued to be carried out. In terms of channel construction, the functions of branch outlets and Huinongtong service stations in poor areas were improved, and "No.1 Project" for Providing Internet Financial Service for Sannong was accelerated to be implemented in poor areas.

Measures and Achievements

- Loans to poor areas continued to increase. The total amount of new loans accumulatively granted to 832 key counties of national poverty alleviation reached RMB373.9 billion in 2018. At the end of 2018, the balance of loans in the 832 key counties of national poverty alleviation was RMB923.9 billion, representing an increase of RMB108.8 billion, or 13.3%, which was higher than that of loans of the Bank, as compared to the end of the previous year.

- The precision of targeted financial poverty alleviation continued to improve. The total amount of new loans accumulatively granted for target poverty alleviation loans in 2018 was RMB173.8 billion, which benefited 2.71 million ratified and registered poor people. At the end of 2018, the balance of targeted poverty alleviation loans was RMB341.5 billion, representing an increase of RMB53.8 billion, or 18.7%, which was higher than that of loans of the Bank, as compared to the end of the previous year. The businesses for ratified and registered poor people were developed actively. At the end of 2018, the balance of loans for ratified and registered poor people was RMB23.2 billion, which supported 0.39 million poor households to develop their production. Among which, the balance of small loans for poverty alleviation was RMB11.0 billion, representing an increase of 17.9% as compared to the end of the previous year. Targeted support was provided to industries and customers with capabilities to alleviate poverty. The customers capability to benefit poor people was an important consideration in credit approval and lending. At the end of 2018, the balance of loans for poverty alleviation to industries and other individuals with capabilities to alleviate poverty was RMB100 billion, representing an increase of 25.9% as compared to the end of the previous year, which benefited 0.48 million poor people to increase their income. Active support was given to infrastructure and livelihood projects in poor areas. At the end of 2018, the balance of loans related to projects for targeted poverty alleviation was RMB218.3 billion, representing an increase of 17.3% as compared to the end of the previous year, which benefited 4.89 million poor people.

- Financial services in extreme poverty areas were strengthened. The total amount of new loans accumulatively granted to extreme poverty areas in 2018 was RMB132.8 billion. At the end of 2018, the balance of loans in extreme poverty areas was RMB332.5 billion, representing an increase of RMB38.5 billion, or 13.11%, which was higher than that of loans of the Bank, as compared to the end of the previous year. Among which, the balance of targeted poverty alleviation loans was RMB91.1 billion, representing an increase of RMB15.8 billion, or 20.97%, as compared to the end of the previous year, which benefited 818,000 ratified and registered people.

- Poverty alleviation in designated areas was promoted steadily. The total amount of new loans accumulatively granted to the four designated counties for poverty alleviation, namely Raoyang County and Wuqiang County in Hebei, Huangping County in Guizhou and Xiushan County in Chongqing, in 2018 was RMB3.32 billion. At the end of 2018, the balance of loans of the four designated poverty alleviation counties as mentioned above was RMB8.84 billion, representing an increase of 26.7% as compared to the end of the previous year. The total amount of assistance funds in 2018 was RMB17,835 million. Xiushan County in Chongqing was lifted out of poverty in 2017, so as Raoyang County in Hebei did in 2018.

- Great efforts were exerted to improve basic financial service in poor areas. As at the end of 2018, we had 3,475 branch outlets and 0.143 million Huinong financial service stations in key counties of national poverty alleviation with 96.8% coverage over townships and 69.8% coverage over administrative villages. "No.1 Project" for Providing Internet Financial Service for Sannong in poor areas was accelerated. We cooperated with the "e-commerce poverty alleviation channel" of the Ministry of Commerce, and 46 designated counties for national poverty alleviation in 20 provinces settled in the "e-commerce poverty alleviation" zone on the "Huinong e-Tong" platform.

- Education for poverty alleviation was actively developed. The "Jinsui Yuanmeng" activity was carried out to provide education assistance to ratified and registered poor university students. Donations from organizations and employees amounted to RMB51.78 million. On the basis of RMB5,000 per person, targeted assistance was provided to 3,996 freshmen in 2018 from extreme poverty counties.

2019 Annual Plan

- In 2019, the Bank will strive to achieve the goals of providing no less than RMB100 billion new loans to 832 key counties for national poverty alleviation and no less than RMB40 billion new loans for targeted poverty alleviation.

- We will focus on targeted financial poverty alleviation. We will provide more loans and financial services to poor people with work capacity, income and demand for loans. Targeted loans with preferential conditions will be provided to quality customers and key projects with capability to alleviate poverty, which will combine both poor households and industry entities' interest. "Three Regions and Three Prefectures" will be designated to be the most important areas for financial poverty alleviation in extreme poverty areas. Great efforts were dedicated to designated poor counties for poverty alleviation. For Xiushan County and Raoyang County counties which were lifted out of poverty, the policies for them will remain unchanged and our efforts for poverty alleviation will not be reduced.

- Innovations in financial poverty alleviation will be promoted. In view of the diversified financial demands in poor areas, innovation in featured poverty alleviation products and policy will be promoted. The typical models of financial poverty alleviation, such as small loan for poverty alleviation, credit enhancement by the government for poverty alleviation and featured industry for poverty alleviation will be promoted, so as to increase loans for poverty alleviation.

- Capabilities of delivering basic financial services will be enhanced. Through various channels, such as branch outlets, Huinongtong service stations and internet banking, we will further increase the coverage of channels over administrative villages in poor areas. The Jinsui Huinongtong Project and "No.1 Project" for Providing Internet Financial Service for Sannong will be strongly promoted to extend our service networks continuously.

Financial Position

Assets and Liabilities

As at 31 December 2018, the total assets of the County Area Banking Business reached RMB8,067,374 million, representing an increase of 6.4% compared to the end of the previous year. The total loans and advances to customers reached RMB4,005,882 million, representing an increase of 12.3% compared to the end of the previous year. The balance of deposits from customers reached RMB7,380,598 million, representing an increase of 6.7% compared to the end of the previous year.

The table below presents the major items of assets and liabilities of the County Area Banking Business as of the dates indicated.

In millions of RMB, except for percentages

	31 December 2018		31 December 2017	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Total loans and advances to customers	**4,005,882**	**–**	3,568,363	–
Allowance for impairment losses on loans	**(210,395)**	**–**	(163,246)	–
Loans and advances to customers, net	**3,795,487**	**47.0**	3,405,117	44.9
Intra-bank balance[1]	**3,603,324**	**44.7**	3,561,280	46.9
Other assets	**668,563**	**8.3**	619,246	8.2
Total assets	**8,067,374**	**100.0**	7,585,643	100.0
Deposits from customers	**7,380,598**	**97.7**	6,915,672	97.4
Other liabilities	**173,006**	**2.3**	182,302	2.6
Total liabilities	**7,553,604**	**100.0**	7,097,974	100.0

Note: 1. Intra-bank balance refers to funds provided by our County Area Banking Business to other business segments within the Bank through internal funds transfers.

Profit

In 2018, the profit before tax of our County Area Banking Business decreased by 17.0% to RMB69,100 million compared to the previous year, which was primarily due to the increase in provision of allowance to enhance the risk resistance ability of County Area Banking Business.

The table below presents the major income items of the County Area Banking Business for the years indicated.

In millions of RMB, except for percentages

	2018	2017	Increase/ (decrease)	Growth Rate (%)
External interest income	**175,438**	157,305	18,133	11.5
Less: External interest expense	**93,223**	86,537	6,686	7.7
Interest income from intra-bank balance[1]	**111,567**	106,176	5,391	5.1
Net interest income	**193,782**	176,944	16,838	9.5
Net fee and commission income	**30,405**	30,019	386	1.3
Other non-interest income	**4,253**	4,637	(384)	-8.3
Operating income	**228,440**	211,600	16,840	8.0
Less: Operating expenses	**86,542**	83,915	2,627	3.1
Credit Impairment losses	**72,661**	N/A	N/A	N/A
Impairment losses on other assets	**137**	N/A	N/A	N/A
Impairment losses on assets	**N/A**	44,474	N/A	N/A
Total profit before tax	**69,100**	83,211	(14,111)	-17.0

Note: 1. Interest income from intra-bank balance represents the interest income earned on funds provided by our County Area Banking Division to our other divisions at internal funds transfer pricing, which is determined based on the market interest rate.

Key Financial Indicators

In 2018, the return on average total assets of the County Area Banking Business was 0.71%, representing a decrease of 21 basis points compared to the previous year. The interest spread between deposits and loans was 3.30%, 29 basis points higher than that of the Bank. At 31 December 2018, the non-performing loan ratio of the County Area Banking Business was 2.08%, representing a decrease of 0.09 percentage point compared to the end of previous year. The allowance to non-performing loans was 252.94% and the allowance to loan ratio was 5.25%.

The tables below set out the key financial indicators of our County Area Banking Business at the dates or for the years indicated.

Unit: %

Item	**2018**	2017
Return on average total assets	**0.71**	0.92
Average yield of loans	**4.60**	4.55
Average cost of deposits	**1.30**	1.28
Net fee and commission income to operating income	**13.31**	14.19
Cost-to-income ratio	**37.25**	39.18

Item	**31 December 2018**	31 December 2017
Loan-to-deposit ratio	**54.28**	51.60
Non-performing loan ratio	**2.08**	2.17
Allowance to non-performing loans	**252.94**	211.30
Allowance to loan ratio	**5.25**	4.57

Risk Management and Internal Control

Risk Management

Comprehensive Risk Management System

Comprehensive risk management refers to the timely identification, measurement, monitoring, control and reporting of all types of risks in business operation, processes and staff through the integration of elements, including risk appetite, policies, organizations, tools and models, data systems and risk culture, so as to ensure effective risk management in decision-making, implementation and supervision.

In 2018, the Bank continued to improve the comprehensive risk management system to enhance effective risk identification and control in practice. The *Risk Appetite Statement* was further revised by adjusting some descriptions and quantitative indicators. The "Clean-up Plan" was further implemented with our asset quality further improved. Management of provisions was reinforced and our risk resilience level was increased. Credit exposure limit management was applied to industries with excessive production capacity and higher risk level to optimize the industrial structure. The market risk management system was further improved to control risk exposures arising from various types of transactions on the Bank's behalf, so that our total risk exposure from market business was within control. Prevention and control of operation risk and cases of compliance violations were strengthened, and business continuity management was further enhanced to ensure stable operation of the IT system.

Risk Appetite

Risk appetite is a term that refers to the types and levels of risks acceptable to the Bank as determined by the Board of Directors, which depends on the expectations and constraints of our major stakeholders, external operating environment and actual conditions of the Bank, in order to achieve strategic targets and effective risk management. In 2018, the Bank further amended the *Risk Appetite Statement* by supplementing and improving qualitative descriptions, optimizing quantitative indicators, and adjusting the management requirements for risk appetite for offshore institutions and subsidiaries.

The Bank adopts a prudent risk appetite, operates strictly in compliance with laws and regulations, and insists on maintaining a balance among capital, risk and gains, as well as consistency in security, profitability and liquidity. At the same time, by adopting a neutral risk bearing policy which is neither aggressive nor conservative, we seek to achieve moderate returns through undertaking an appropriate level of risk, and maintain sufficient risk provisions and capital adequacy for risk resilience. We improve the comprehensive risk management system continuously and actively facilitate the implementation of advanced approaches of capital management to maintain good regulatory ratings and external ratings to provide assurance for realizing the strategic objectives and operation plans of the Bank.

Risk Management Organization Structure

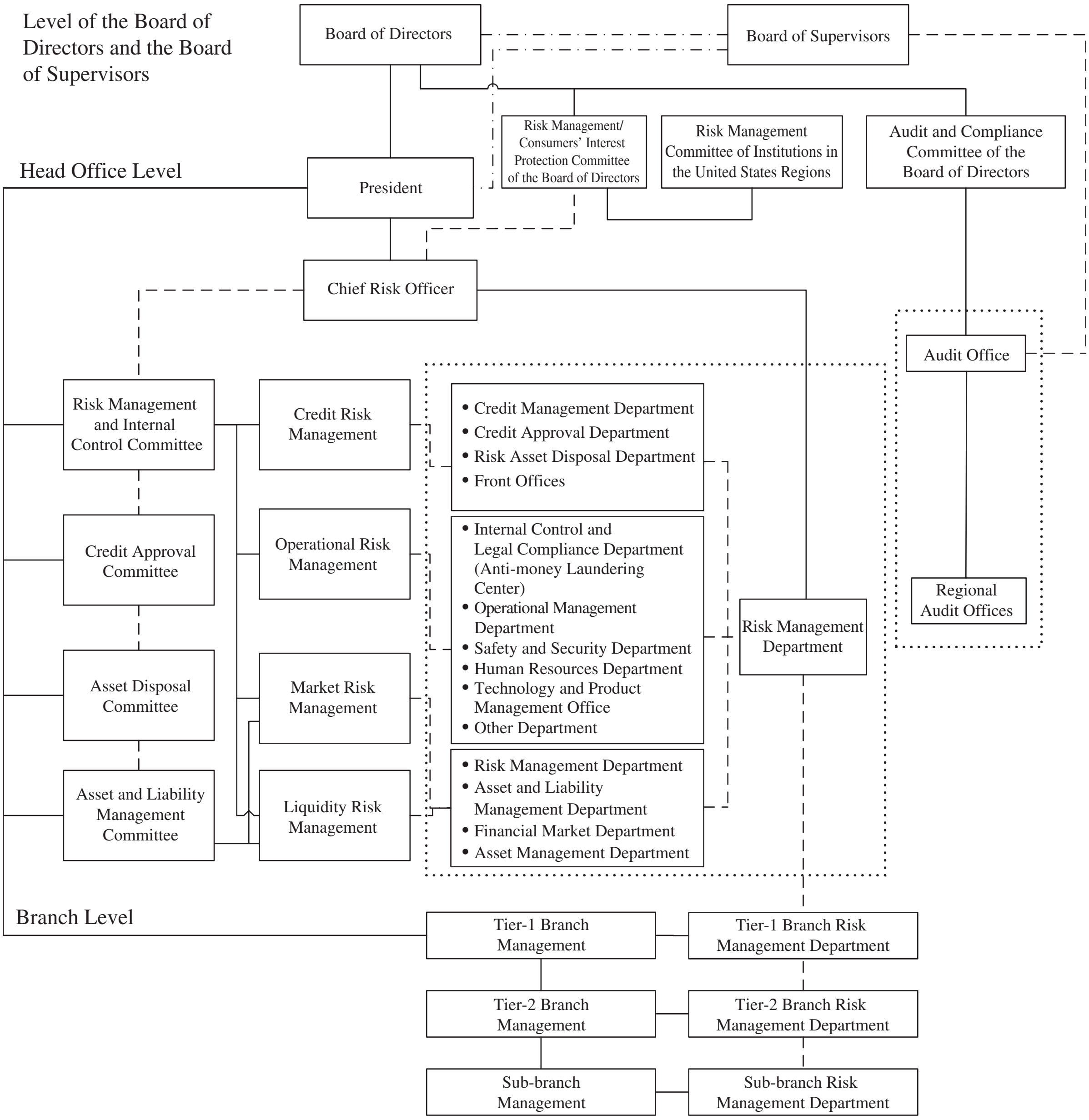
The Board of Directors assumes the ultimate responsibility for risk management. The Risk Management/ Consumers' Interest Protection Committee, the Audit and Compliance Committee and the Risk Management Committee of Institutions in the United States Regions under the Board of Directors perform the relevant risk management functions, review the key risk management issues and supervise and evaluate the establishment of risk management system and the risk condition of the Bank.

Senior management is the organizer and executor of risk management of the Bank. Under the senior management, we have various risk management committees with different functions, including Risk Management and Internal Control Committee, Credit Approval Committee, Asset and Liability Management Committee and Asset Disposal Committee. Among them, the Risk Management and Internal Control Committee is primarily responsible for organizing and coordinating risk management and compliance management tasks across the Bank, considering and approving material risk management and compliance management matters.

The Board of Supervisors is responsible for supervising the Board of Directors and the senior management in respect of the establishment and implementation of risk management and internal control of the Bank.

Based on the principles of "centralized management, matrix distribution, comprehensive coverage and full participation", the Bank established the "Three Lines of Defense" of risk management which are comprised of the business departments (the risk bearing departments), risk management departments and internal audit departments. In 2018, the Risk Management Committee under the Board of Directors changed its name to Risk Management/Consumers' Interest Protection Committee. We integrated the management needs and established the Risk Management and Internal Control Committee under the Senior Management. We further optimized the management frameworks of credit risk, market risk and operation risk. Continuous improvements were also made to the audit and internal control management system and the risk management mechanism for direct operation departments in the Head Office.

Risk Management Organizational Structure of the Bank



Risk Management Rules System

In 2018, the Bank continued to refine its risk management rules system. We formulated the working rules for the Risk Management and Internal Control Committee under the senior management. For credit risk management, we formulated measures on the measurement and management of large risk exposure so as to implement the requirements of management and control on large risk exposure from CBIRC. We amended the administrative measures on credit granting to foreign financial institutions and the administrative measures on credit granting for treasury transactions and investment business, in order to unify the management of credit granting. We amended the administrative measures on commercial bills acceptance business and the administrative measures on commercial bills discounting business, which enhanced verification on the authenticity of the transactions. For market risk management, we formulated the measures on risk management in the personal wealth management business, and amended the administrative measures on segregated management of trading book and banking book, the administrative measures on measurement of VaR and the measures on risk management in business with other financial institutions. For operational risk management, we amended the operational risk management policy, the administrative measures on operational risk assessment, the administrative measures on operational risk monitoring and reporting, and the administrative measures on business continuity, to refine the operational risk management mechanism.

Risk Analysis and Reporting

In 2018, our credit risk mainly included the risk on credit assets as a result of the combined effect of complicated external environment and excessive borrowing from banks. Our credit risk also included structural credit risk arising from certain industries, regions and customers as a result of macro-policies, economic transformation and adjustments to industrial distribution. As for the market risk, with the effects of various factors such as successive rate hike by the Federal Reserve, the escalating Sino-US trade friction and gradual adjustments to the monetary policies, there was a significant fluctuation in the exchange rate of RMB to USD, which led to our higher foreign exchange risk. As for liquidity risk, with synchronous adoption of tightening monetary policies by major developed economics and the deepening deleverage for financial industries in China, we faced increased fluctuation of debts and higher pressure on managing term mismatching, so that our constraints of liquidity funds became more apparent.

In 2018, we analysed conditions of various types of risk based on the macroeconomic background of cutting overcapacity and de-leveraging and the regulatory policies and requirements. We strengthened risk identification, monitoring and pre-warning for key areas, industries, customers and businesses, so as to enhance the timeliness, accuracy and comprehensiveness of risk analysis and reporting. We actively utilized internal rating, risk limits, economic capital, stress test as well as other tools and methods to enhance the effectiveness of risk analysis and reporting.

Credit Risk

Credit risk is the risk of economic loss arising from the failure of a debtor (or counterparty) to fulfill his obligations or the downgrade of his credit rating or diminished capability to perform contractual liabilities. Our Bank's credit risk is primarily originated from loan portfolio, investment portfolio, guarantee business and various other on- and off-balance sheet credit risk exposures.

Credit Risk Management

In 2018, we improved the credit risk management system and continued optimizing the credit structure. We strengthened risk prevention and control in key areas and limit management of industry-specific credit exposures, thereby timely mitigating various potential risks. We diversified the channels for collection and disposal of non-performing loans, thus maintaining stable assets quality.

Credit Risk Management Structure

The organizational structure of our credit risk management mainly comprises the Board of Directors and its Risk Management/Consumers' Interest Protection Committee, the senior management and its Risk Management and Internal Control Committee, Credit Approval Committee, Asset Disposal Committee, as well as Credit Management Department, Credit Approval Department, Risk Management Department and various front offices, forming a credit risk management structure characterized with centralized and unified management and multi-level authorization.

Risk Management of Corporate Banking Business

We refined the rules system for risk management. We optimized our basic operating rules for corporate loans business and formulated the rules for unsecured loans to corporate customers. We revised and issued credit policies related to solar power, steel, ship building, urban railway traffic, pension and information services. We optimized the procedure for credit granting to group customers and regulated the credit concentration management for corporates.

We adopted an innovative service model to minimize occurance of risks. We formulated the normative documents in relation to promoting our industrial chains banking business. We provided financial services for customers in chains, in replace of the traditional way of providing credit services to separate customer, which changed the service models, reduced the risks and enhanced the effectiveness of risk management.

We continued to strengthen our management on risk quantification for key areas. We strengthened the standardized management on business to small and micro enterprises by improving functions of IT system to manage the business by templates and in batches, which provided the basis for statistics in relation to measurement of risks for small and micro enterprises. We continued to apply the RAROC (Risk Adjusted Return on Capital) model in directing our loans to invest in key areas, so as to enhance the value of our credit assets.

We continued to strictly implement customer list-based management and strengthened limit management of industry-specific credit exposures. We strengthened group customers list-based management and improved the management mechanism of credit granting to group customers. We strengthened the limit management of industry-specific credit exposures through continuously reducing loans to customers in the overcapacity industries such as steel and iron industries. We strictly controlled the new hidden debts to continuously optimize the structure of existing loans to government financing vehicles.

We strengthened the post-disbursement management and the collection and disposal of non-performing assets. We continued to strengthen post-disbursement management of key customers and monitoring customers with large credit exposures, to mitigate potential risks timely. For state-owned enterprises with high asset-liability ratio, we lowered the enterprises leverage levels to control the risks and supported them to mitigate risk by acquisition and merger businesses. We continued to strengthen the collection and disposal of non-performing loans. While based on self-collection and accelerating write-offs, we actively expanded ways of disposal, including transferring out the non-performing loans in batches, securitization of the non-performing assets and debt-to-equity swaps.

Risk Management of Retail Banking Business

We developed the IT system of exposure limit management for retail banking business. We strictly implemented the requirements by the PBOC in relation to the limit management on residential mortgage loans and set monthly plans for those loans. We developed the IT system for identification of fraud risk related to retail loans to accurately identify false applications for residential mortgage loans and inappropriate use of fund ought to be used in loans to rural households. We launched the credit assessment model for customers to achieve precise profiles of individual customers. We continued to strengthen the collection and write-offs of non-performing loans and collection of overdue loans. We innovated the way of disposal on non-performing assets in the retail banking business and promoted the securitization of those assets.

Risk Management of Credit Card Business

We strengthened centralized operation and management of the credit card business, by establishing the risk control mechanism which was equipped with centralized phone investigation, approval, monitoring and collection. Through the establishment of target customer database and the target customer database for instalment business, we focused on exploring high-quality customers for our credit card business and reducing the risks.

Risk Management of Treasury Business

We refined the administrative measures of risk management for treasury business and improved the whole process risk management mechanism for treasury business. By constantly monitoring the risks related to our existing customers and their transaction counterparties and timely updating the list of customers that required special attention, the measures in response to risks were dynamically adjusted. We monitored the transaction prices of financial market business and established a management platform for unifiedly managing market risk limits, and improved our management of credit bond before, during and after investment.

Loan Risk Classification

We formulated and refined relevant regulations on loan risk classification in accordance with the *Guidelines of Loan Credit Risk Classification* issued by the CBIRC. We comprehensively assessed the recoverability of loans and classified the loans by taking into account of principle factors, including the borrower's repayment ability, repayment record, willingness to repay the loan, profitability of the loan project, and the reliability of the secondary repayment sources.

We adopted two classification management systems for loans: (1) the five-category classification system and (2) the 12-category classification system. Corporate loans were mainly managed with 12-category classification system. Comprehensive evaluations of customer default risk and debt transaction risk objectively reflected the risk level of loans. The evaluations were made with more details in preparing the annual classification policy at the beginning of the year. Specified requirements for standards and management of loans to corporate customers were provided to improve the foreseeability and sensitivity of risk identification. Retail loans were managed with the five-category classification system. The credit management system automatically classified the loans based on the length of period by which payments of principal or interest were overdue and the types of collaterals, allowing for a more objective risk assessment. Large retail loans to private business were classified manually on quarterly basis to enhance risk sensitivity. In addition, the classification was timely adjusted based on the information collected in the credit management to reflect loan quality objectively.

Credit Risk Analysis

Distribution of Loans by Collaterals

In millions of RMB, except for percentages

	31 December 2018		31 December 2017	
Item	**Amount**	**Percentage of total loans (%)**	Amount	Percentage of total loans (%)
Loans secured by mortgages	**5,452,275**	**45.8**	4,945,683	46.1
Loans secured by pledges	**1,884,346**	**15.8**	1,499,489	14.0
Guaranteed loans	**1,366,955**	**11.5**	1,359,512	12.7
Unsecured loans	**3,210,049**	**26.9**	2,915,927	27.2
Sub-Total	**11,913,625**	**100.0**	10,720,611	100.00
Accrued interest	**27,060**	**–**	N/A	N/A
Total	**11,940,685**	**–**	10,720,611	–

Distribution of Overdue Loans by Overdue Period

In millions of RMB, except for percentages

Item	31 December 2018 Amount	31 December 2018 Percentage of total loans (%)	31 December 2017 Amount	31 December 2017 Percentage of total loans (%)
Overdue for less than 90 days (including 90 days)	**79,458**	**0.7**	91,100	0.8
Overdue for 91 to 360 days	**57,026**	**0.5**	49,520	0.5
Overdue for 361 days to 3 years (including 3 years)	**50,632**	**0.4**	65,325	0.6
Overdue for more than 3 years	**15,816**	**0.1**	18,121	0.2
Total	**202,932**	**1.7**	224,066	2.1

Loan Concentration

In millions of RMB, except for percentages

Top ten single borrowers	Industry	Amount	Percentage of total loans (%)
Borrower A	Transportation, logistics and postal services	114,708	0.96
Borrower B	Finance	28,000	0.24
Borrower C	Transportation, logistics and postal services	27,453	0.23
Borrower D	Transportation, logistics and postal services	26,575	0.22
Borrower E	Transportation, logistics and postal services	24,090	0.20
Borrower F	Transportation, logistics and postal services	20,868	0.18
Borrower G	Transportation, logistics and postal services	19,648	0.16
Borrower H	Production and supply of power, heat, gas and water	19,336	0.16
Borrower I	Transportation, logistics and postal services	18,542	0.16
Borrower J	Transportation, logistics and postal services	16,976	0.14
Total		316,196	2.65

At 31 December 2018, we fulfilled the regulatory requirements as total loans to our largest single borrower represented 5.53% of our net capital and total loans to our ten largest single borrowers represented 15.25% of our net capital.

Large Risk Exposures

In 2018, pursuant to the requirements of the *Administrative Measures for Large Risk Exposures of Commercial Banks* issued by the CBIRC, we implemented various infrastructural work for the measurement and management of large risk exposures. We formulated our measures for the measurement and management of large risk exposures and developed the IT system for measuring large risk exposures, and thus an initial management mechanism for large risk exposures was established.

Distribution of Loans by Five-category Classification

In millions of RMB, except for percentages

	31 December 2018		31 December 2017	
Item	**Amount**	**Percentage of total loans (%)**	Amount	Percentage of total loans (%)
Normal	**11,397,204**	**95.67**	10,175,764	94.92
Special mention	**326,419**	**2.74**	350,815	3.27
Non-performing loans	**190,002**	**1.59**	194,032	1.81
Substandard	**45,388**	**0.38**	38,877	0.36
Doubtful	**126,274**	**1.06**	131,479	1.23
Loss	**18,340**	**0.15**	23,676	0.22
Sub-Total	**11,913,625**	**100.00**	10,720,611	100.00
Accrued interest	**27,060**	**–**	N/A	N/A
Total	**11,940,685**	**–**	10,720,611	–

In 2018, we attached importance to maintain high-quality of our credit assets and continued to implement the "Clean-up Plan" firmly. With the principle of high-quality development, we persisted in serving the real economy. Focusing on "Sannong" and inclusive financial services, and supporting the new drivers for economic development, we actively optimized the credit structure to improve quality of loans continuously. Actively supporting the supply-side structural reform, we effectively controlled the risk exposures of overcapacity industries, and insisted on "supporting the good and limiting the bad", thus the structure of customers in different industries continued to be optimized. We improved the monitoring by strengthening the daily monitoring and analysis on key industries, regions, products and customers as well as risk alerts, in order to provide identification and preventions of potential risks in advance. We firmly implemented specific governance and risk alleviation in credit business, conducted sophisticated management on customers under risk resolving process. We created tailored solutions for different problems and controlled the occurrence of additional non-performing loans. We increased the disposal efforts for our non-performing loans by adopting multiple measures and expansion of disposal channels. Market measures were actively utilized to dispose of our non-performing loans, including transfer in batches, securitization and debt-to-equity swaps, in order to dispose of the existing non-performing loans actively. Through our continuous efforts, our assets quality improved remarkably, and the non-performing loan ratio was lower than the average level in the banking industry.

At 31 December 2018, the balance of our non-performing loans was RMB190,002 million, representing a decrease of RMB4,030 million compared to the end of the previous year. The non-performing loan ratio decreased by 0.22 percentage point to 1.59% compared to the end of the previous year. The balance of special mention loans was RMB326,419 million, representing a decrease of RMB24,396 million compared to the end of the previous year. Special mention loans accounted for 2.74% of total loans, representing a decrease of 0.53 percentage point compared to the end of the previous year.

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

	31 December 2018			31 December 2017		
Item	**Amount**	**Percentage (%)**	**Non-performing loan ratio (%)**	Amount	Percentage (%)	Non-performing loan ratio (%)
Corporate loans	**154,548**	**81.3**	**2.37**	156,380	80.6	2.54
Of which: Short-term corporate loans	**98,184**	**51.7**	**4.50**	113,076	58.3	4.89
Medium- and long-term corporate loans	**56,364**	**29.6**	**1.30**	43,304	22.3	1.13
Discounted bills	**–**	**–**	**–**	–	–	–
Retail loans	**30,196**	**15.9**	**0.65**	34,204	17.6	0.86
Residential mortgage loans	**11,285**	**5.9**	**0.31**	11,268	5.8	0.36
Credit card balances	**6,310**	**3.3**	**1.66**	6,335	3.3	1.99
Personal consumption loans	**1,276**	**0.7**	**0.81**	1,732	0.9	1.26
Loans to private business	**5,516**	**2.9**	**2.56**	8,753	4.5	4.28
Loans to rural households	**5,759**	**3.1**	**2.30**	6,044	3.1	2.93
Others	**50**	**–**	**5.18**	72	–	7.19
Overseas and others	**5,258**	**2.8**	**1.35**	3,448	1.8	0.89
Total	**190,002**	**100.0**	**1.59**	194,032	100.0	1.81

Distribution of Corporate Non-Performing Loans by Industry

In millions of RMB, except for percentages

Item	31 December 2018 Amount	31 December 2018 Percentage (%)	31 December 2018 Non-performing loan ratio (%)	31 December 2017 Amount	31 December 2017 Percentage (%)	31 December 2017 Non-performing loan ratio (%)
Manufacturing	**72,033**	**46.6**	**6.02**	70,771	45.3	5.70
Production and supply of power, heat, gas and water	**4,561**	**3.0**	**0.54**	4,234	2.7	0.53
Real estate	**8,450**	**5.5**	**1.38**	5,789	3.7	1.13
Transportation, logistics and postal services	**7,045**	**4.6**	**0.51**	4,734	3.0	0.39
Wholesale and retail	**34,687**	**22.4**	**10.73**	42,925	27.4	12.05
Water, environment and public utilities management	**1,082**	**0.7**	**0.25**	1,051	0.7	0.29
Construction	**4,935**	**3.2**	**2.06**	5,674	3.6	2.54
Mining	**5,994**	**3.9**	**3.06**	10,348	6.7	4.62
Leasing and commercial services	**7,871**	**5.1**	**0.86**	5,502	3.5	0.69
Finance	**142**	**0.1**	**0.09**	224	0.1	0.16
Information transmission, software and IT service	**111**	**0.1**	**0.37**	147	0.1	0.33
Others	**7,637**	**4.8**	**4.09**	4,981	3.2	2.31
Total	**154,548**	**100.0**	**2.37**	156,380	100.0	2.54

Distribution of Non-Performing Loans by Geographic Region

In millions of RMB, except for percentages

Item	31 December 2018 Amount	31 December 2018 Percentage (%)	31 December 2018 Nonperforming loan ratio (%)	31 December 2017 Amount	31 December 2017 Percentage (%)	31 December 2017 Nonperforming loan ratio (%)
Head Office	**7**	**–**	**–**	7	–	–
Yangtze River Delta	**27,776**	**14.6**	**1.04**	29,460	15.2	1.22
Pearl River Delta	**19,249**	**10.1**	**1.03**	26,957	13.9	1.65
Bohai Rim	**53,114**	**27.9**	**2.90**	39,031	20.1	2.32
Central China	**28,691**	**15.1**	**1.64**	27,377	14.1	1.80
Northeast China	**9,419**	**5.0**	**2.05**	8,438	4.3	1.97
Western China	**46,488**	**24.5**	**1.76**	59,314	30.6	2.46
Overseas and others	**5,258**	**2.8**	**1.35**	3,448	1.8	0.89
Total	**190,002**	**100.0**	**1.59**	194,032	100.0	1.81

Changes to the Allowance for Impairment Losses on Loans

In millions of RMB

Item	**Year ended 31 December 2018** Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses	**Total**
1 January 2018	**221,755**	**57,209**	**152,311**	**431,275**
Transfer[1]:				
Stage I to stage II	(10,229)	10,229	–	–
Stage II to stage III	–	(23,472)	23,472	–
Stage II to stage I	5,087	(5,087)	–	–
Stage III to stage II	–	2,628	(2,628)	–
Originated or purchased financial assets	84,006	–	–	84,006
Remeasurement	18,474	33,398	72,629	124,501
Repayment and transfer-out	(49,929)	(6,441)	(30,237)	(86,607)
Write-offs	–	–	(66,563)	(66,563)
31 December 2018	**269,164**	**68,464**	**148,984**	**486,612**[2]

Note 1: For details of the impairment models of three stages, please refer to "Note IV.18 Loans and Advance to customers" to the Consolidated Financial Statements.

Note 2: It includes the allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income.

Market Risk

Market risk refers to the risk of losses in the on- and off-balance sheet businesses of banks as a result of an adverse change in market prices. Market risk comprises, but are not limited to, interest rate risk, exchange rate risk, stock price risk and commodity price risk. The Bank is exposed to market risks, primarily including interest rate risk and exchange rate risk. The Bank's organizational structure of market risk management comprises the Board of Directors and its Risk Management/Consumers' Interest Protection Committee, senior management and its Risk Management and Internal Control Committee, the Risk Management Department, the Asset and Liability Management Department and other departments (institutions) bearing market risks.

During the reporting period, we formulated the market risk management policies for the year, and further improved our market risk management system. We continued to enhance various functions of our market risk management IT system including limits computation, capital measurement and parameter management. We also continued to carry out comprehensive validation of Internal Model Approach. We strengthened the management over derivative transactions and continued to secure customers' performance of derivative transaction contracts. Moreover, we kept exposures from different proprietary transactions at relatively low levels. As a result, our exposures to market risk were under control.

Market Risk Exposure Limit Management

Our market risk exposure limits are classified into directive limits and indicative limits.

In 2018, we further enhanced market risk exposure limit management, and refined the categorization of limits by setting different market risk exposure limits based on the types of products and risks. We also continued to optimize the functions of the IT system to measure, monitor and report risk exposure limits automatically, in order to improve the coverage of the automated management on exposure limits. During the reporting period, our market risk exposure limits were all kept within the designated ranges.

Segregation of Trading Book and Banking Book

To enhance the effectiveness of the market risk management and the accuracy of the measurement of regulatory capital for market risk, we classified all of the on- and off-balance sheet assets and liabilities into either the trading book or the banking book. The trading book includes the financial instruments and commodity positions held for trading or hedging purposes. Any other positions are classified into the banking book.

Market Risk Management for Trading Book

We managed the market risk of the trading book through various approaches such as Value at Risk (VaR), exposure limit management, sensitivity analysis, duration analysis, exposure analysis and stress testing.

We adopted a historical simulation method with a confidence interval of 99% based on a holding period of 1 day and historical data for 250 days to measure the VaR for the trading book of the Head Office and domestic and overseas branches of the Bank. Based on the domestic and overseas markets, we selected different applicable parameters for the models and risk factors in order to reflect the actual levels of market risks. We verified the accuracy and reliability of the risk measurement models through data analysis, parallel modeling and back-testing.

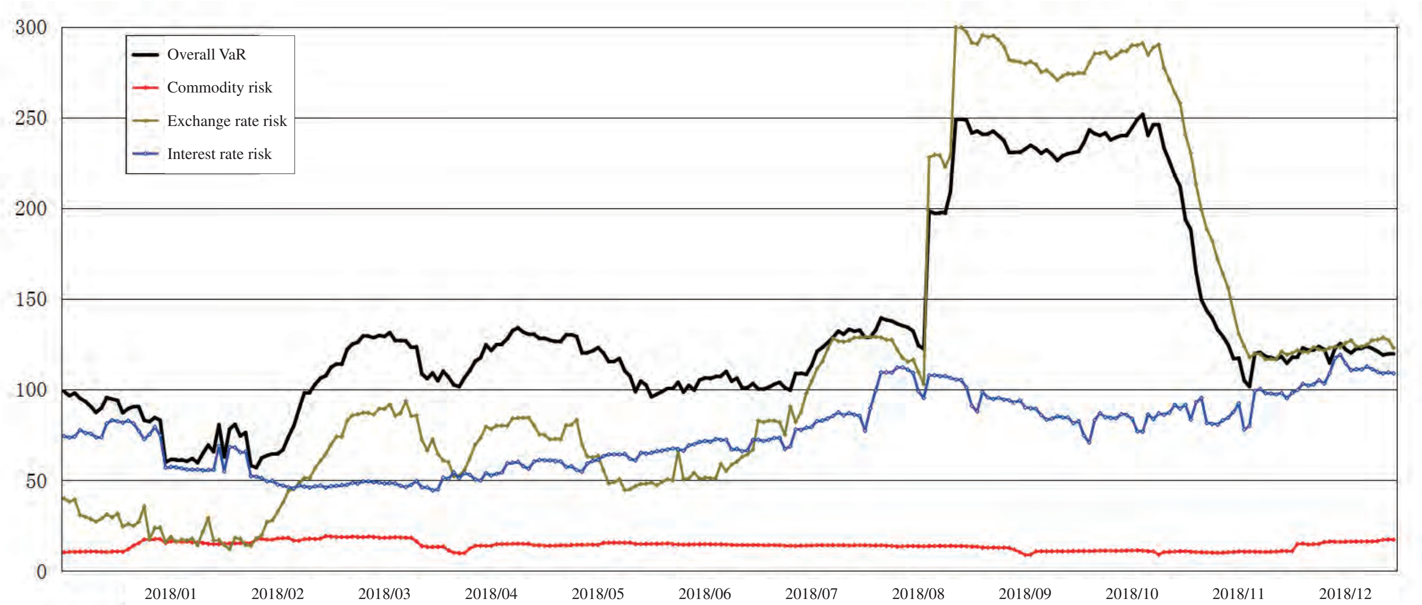
VaR Analysis for the Trading Book

In millions of RMB

	2018				2017			
Item	**At the end of the period**	**Average**	**Maximum**	**Minimum**	At the end of the period	Average	Maximum	Minimum
Interest rate risk	**109**	**76**	**119**	**44**	32	49	72	32
Exchange rate risk[1]	**123**	**117**	**300**	**12**	33	51	105	18
Commodity risk	**17**	**14**	**19**	**9**	8	11	20	6
Overall VaR	**120**	**134**	**252**	**57**	56	73	153	40

Note: 1. According to the *Capital Rules for Commercial Banks (Provisional)*, VaR relating to gold was reflected in exchange rate risk.

Change in VaR of Trading Book in 2018



During the reporting period, the average balance of the bond portfolio increased. Coupled with changes in extreme scenarios, our VaR of interest rate risk increased. With greater fluctuation in foreign and domestic gold prices with the widened spread, our VaR of exchange rate risk was higher than that of the previous year. The size of silver portfolio remained stable, resulting in the VaR of commodity risk maintaining at the same level as the previous year.

Market Risk Management for Banking Book

We managed market risk of the banking book through comprehensive use of technical measures such as exposure limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

The interest rate risk refers to risk of losses in income or economic value of the Bank arising from adverse changes of the benchmark or market interest rate. The interest rate risk of the banking book of the Bank primarily arises from the mismatch of the maturity or re-pricing dates of interest-rate-sensitive assets and liabilities in the banking book and inconsistencies in the change of the benchmark interest rate on which assets and liabilities are based.

In 2018, proactively responding to the tightened regulation on interest rate risk, we strengthened management of interest rate risk arising from overseas institutions and subsidiaries. With efforts in enhancing the ability of market-oriented pricing and adjusting the internal funds transfer pricing (FTP) dynamically, we maintained a stable net interest margin. During the reporting period, the overall interest rate risk for the banking book remained stable with all risk exposure limits were kept within the designated ranges.

Exchange Rate Risk Management

Exchange rate risk refers to the risk arising from currency mismatches from assets and liabilities of the banks. Exchange rate risk mainly consists of the trading exchange rate risk that could be hedged, and the exchange rate risk caused by assets and liabilities (the "non-trading exchange rate risk"), which are difficult to be prevented in operations.

In 2018, we performed to monitor exchange rate risk exposure and analyze exchange rate sensitivity regularly, and continued to refine our mechanism of measuring exchange rate risk. Through proper matching of foreign currencies, we flexibly adjusted the trading exchange rate risk exposure, while maintaining the non-trading exchange rate risk exposure stable. Therefore, our risk exposure of exchange rate was controlled within a reasonable range.

Interest Rate Risk Analysis

At 31 December 2018, the accumulative negative gap with interest rate sensitivity due within one year amounted to RMB1,597.5 billion, representing a decrease of RMB262.7 billion in absolute terms compared to the end of the previous year.

Interest Rate Risk Gap

In millions of RMB

	Within 1 month	**1-3 Months**	**3-12 Months**	**Sub-total of 1 year and below**	**1-5 years**	**Over 5 years**	**Non-interest earning**
31 December 2018	(3,394,064)	385,096	1,411,500	(1,597,468)	1,214,752	1,830,838	34,524
31 December 2017	(3,415,357)	430,009	1,125,165	(1,860,183)	1,141,827	2,040,189	(123,398)

Note: Please refer to "Note IV.45 Financial risk management: Market Risk" to the Consolidated Financial Statements for more details.

Interest Rate Sensitivity Analysis

In millions of RMB

	31 December 2018		31 December 2017	
Movements in basis points	**Movements in net interest income**	**Movements in other comprehensive income**	Movements in net interest income	Movements in other comprehensive income
Increased by 100 basis points	**(24,024)**	**(67,879)**	(24,928)	(37,095)
Decreased by 100 basis points	**24,024**	**67,879**	24,928	37,095

The interest rate sensitivity analysis above indicates the movements within the next twelve months in net interest income and other comprehensive income under various interest rate conditions, assuming that there is a parallel shift in the yield curve and without taking into account any risk management measures adopted by the management to reduce interest rate risk.

Based on the composition of our assets and liabilities at 31 December 2018, if the interest rates instantaneously increase (or decrease) by 100 basis points, our net interest income and other comprehensive income would decrease (or increase) by RMB24,024 million and RMB67,879 million, respectively.

Exchange Rate Risk Analysis

Our exchange rate risk is mainly the exposure risk arising from the exchange rate of USD against RMB.

In 2018, the mid-point rate of RMB against USD depreciated accumulatively by 3,290 basis points or 5.04%. At 31 December 2018, our foreign exchange positive exposure of on-and off-balance sheet was USD2,253 million, representing an decrease of USD1,195 million in absolute terms compared to the end of the previous year.

Foreign Exchange Exposure

In millions of RMB (USD)

	31 December 2018		31 December 2017	
	RMB	**USD equivalent**	RMB	USD equivalent
Net foreign exchange exposure of on-balance sheet financial assets/liabilities	**13,131**	**1,913**	(40,320)	(6,171)
Net foreign exchange exposure of off-balance sheet financial assets/liabilities	**2,335**	**340**	62,851	9,619

Note: 1. Please refer to "Note IV.45 Financial risk management: Market Risk" to the Consolidated Financial Statements for more details.

Exchange Rate Sensitivity Analysis

In millions of RMB

Currency	**Increase/decrease in Exchange rate of foreign Currency against RMB**	**Impact on profit before tax**	
		31 December 2018	31 December 2017
USD	+5%	**(110)**	(122)
	-5%	**110**	122
HKD	+5%	**(644)**	673
	-5%	**644**	(673)

Our Non-RMB denominated assets and liabilities were primarily denominated in USD and HKD. Based on the exchange exposure of on-and off-balance sheet at the end of the reporting period, the profit before tax would decrease (or increase) by RMB110 million if USD appreciates (or depreciates) by 5% against RMB.

Liquidity Risk

Liquidity risk refers to the risk of being unable to timely acquire sufficient funds at a reasonable cost to settle amounts due, fulfill other payment obligations and satisfy other funding needs during the ordinary course of business. Major factors affecting liquidity risk include: negative impacts of market liquidity, deposit withdrawal by customers, loans withdrawal by customers, imbalance between asset and liability structure, debtor's default, difficulty in asset realization, weakening in financing ability, etc.

Liquidity Risk Management

Liquidity risk management governance structure

The liquidity risk management of the Bank consists of the decision-making system, the execution system and the supervision system. Among which, the decision-making system consists of the Board of Directors and its Risk Management/Consumers' Interest Protection Committee, and the senior management; the execution system consists of liquidity management departments, departments managing asset and liability businesses, and information and technology departments; and the supervision system consists of the Board of Supervisors, the audit office and the internal control and legal compliance department. The above systems conduct decision-making, execution and supervision functions, respectively, in accordance with their responsibilities.

Liquidity risk management strategy and policy

We adhered to a prudent liquidity management strategy and stipulated general goals, management model, major policies and procedures of liquidity management. Following regulatory requirements, external macroeconomic environment and business development, we formulated our liquidity risk management policy. We effectively maintained balance among liquidity, security and profitability, on condition of the guaranteed security of liquidity.

Liquidity risk management objectives

The objectives of our liquidity risk management were to effectively identify, measure, monitor and report liquidity risk by establishing a scientific and refined liquidity risk management system; to timely fulfill the liquidity needs of assets, liabilities and off-balance sheet businesses and for the payment obligations under ordinary operating conditions or under stress, while effectively balancing both capital efficiency and security of its liquidity; to strengthen the liquidity risk management and monitoring of our branches, subsidiaries and all business lines to effectively prevent the overall liquidity risk of the Group.

Liquidity risk management method

By developing indicators which can be sensitive to monitor and alert the changes in liquidity of market and the Bank, we continued to monitor the operation of asset and liability businesses and the liquidity condition across the Bank. We refined our asset and liability structure, and managed cash flows brought by maturing fund to mitigate risk related to mismatch of maturity. We secured the sources of core deposits, and facilitated the use of financial instruments such as tier-2 capital bonds and interbank certificate of deposit, to expand our financing channels. We improved the mechanism of forecasting transactions with large amount and assessing liquidity management for branches to strengthen the real-time monitoring, alerting and flexible allocation of fund. With more diverse financing channels from market, adequate high liquid asset reserve and moderate buffers, we satisfied various payment demands. In addition, we continued to refine the liquidity management IT system, improve the effectiveness of monitoring, alerting and control, and constantly enhance our sophisticated management.

Stress test situation

Based on the market condition and operation practice, we set liquidity risk stress scenarios on full consideration of various risk factors which may affect liquidity. We conducted stress test quarterly. According to the test results, under the prescribed stress scenarios, we have passed all the shortest survival period tests as required by regulatory authorities.

Main factors affecting liquidity risk

The liquidity situation faced by us became more complex and dynamic in 2018. Major foreign developed economies simultaneously tightened monetary policy, which gradually impacted on the liquidity of domestic market. Financial deleveraging continued, financial regulations were tightened, and liberalization of the interest rate was accelerated. As a result, the Bank was confronted with increased fluctuations in our debt, more stress on maturity mismatch management and much more difficulties in balancing exposure brought by our incremental capital.

Liquidity Risk analysis

During the reporting period, we managed cash flows brought by maturing fund properly and our overall liquidity was sufficient, secured and under control. At the end of 2018, we fulfilled the regulatory requirements as the liquidity ratios for RMB and foreign currency were 55.17% and 101.77%, respectively. The average of the liquidity coverage ratio over the fourth quarter in 2018, increased by 8.5 percentage points to 126.6% compared to the last quarter. At the end of 2018, the net stable funding ratio was 127.4%, with available net stable fund of RMB15,646.9 billion in numerator and the total net stable fund required of RMB12,282.2 billion in denominator.

Liquidity Gap Analysis

The table below presents our net position of liquidity as of the dates indicated.

In millions of RMB

	Past due	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
31 December 2018	20,466	(10,794,068)	221,913	(979,235)	(71,719)	3,467,506	7,108,745	2,509,038	1,482,646
31 December 2017	29,774	(10,417,627)	169,469	(689,320)	(155,304)	3,009,691	6,494,599	2,757,153	1,198,435

Note: Please refer to "Note IV.45 Financial risk management: Liquidity Risk" to the Consolidated Financial Statements for more details.

For details of our liquidity coverage ratio information, please refer to "Appendix I Liquidity Coverage Ratio Information".

Operational Risk

Operational Risk Management

Operational risk refers to the risk of loss resulting from inadequate or problematic internal control procedures, from human or information system related factors, or from external affairs, including legal risk, but not including strategy risk or reputation risk.

During the reporting period, we continued to strengthen professionality of the operational risk management. We integrated the operational risk management tools and performed the operational risk assessment properly, which enhanced the initiative and foreseeability of risk prevention and control. By monitoring, analyzing, tracking and supervising major operational risk events, we reinforced the pertinence and effectiveness of operational risk management. We strengthened supervision and guidance on operational risk management to domestic and foreign institutions and subsidiaries. We optimized the economic capital measurement policies for operational risk and strengthened the measurement of risks related to cases of compliance violations and regulatory compliance. We implemented the security upgrading and transformations for IT infrastructure, continued to carry out assessment and security inspections for IT risk. We strengthened our operation management to effectively ensure the continuous and stable operation of our core system. We continued to promote the construction of the disaster recovery system of the "two cities and three centers", and strengthened disaster recovery and emergency drills, to enhance business continuity.

Legal Risk Management

Legal risk refers to any risk of banks suffering from adverse consequences including legal liabilities, loss of rights and reputational damage due to the breach of laws, administrative rules and regulations, or terms of contracts of its business operations and legal failure to duly regulate and exercise rights or external legal factors. Legal risk includes risk directly resulted from legal factors, as well as the risk associated with other forms of risks.

In 2018, we conducted the comprehensive clean-up of our administrative measures to continue to improve our system of administrative measures. We optimized the contract management mechanism and continuously improved our contract texts. We standardized the qualifications, rights and obligations, working institutions and working mechanisms of our legal counsels. We conducted qualification examinations for legal personnel for the first time and held multilevel training specialized on legal risk management,to enhance the professionality of our legal personnel. We conducted in-depth research on legal issues related to asset management, Internet Loan Based on Big Data, innovative guarantee innovation and other related business, in order to be fully committed to support the transformation and development of our business. We monitored intellectual property rights risk and organized the investigation to address risks related to illegal use of intellectual property rights. We strengthened the management of litigation cases, formulated the normative documents for the collection and management of litigation cases, to provide legal support for the collection of non-performing assets.

Reputation Risk

Reputation risk refers to the risk resulting from negative feedback from related stakeholders due to the operation, management or other acts of the Bank or external events.

In 2018, we organized reputation risk investigations to identify potential reputation risk in branches and related business lines, and focused on strengthening risk pre-warning and response. We exerted more efforts in public opinion monitoring and specified the reporting path and response procedure, in order to rapidly collect public opinion clues and address reputation events in advance. We strengthened the emergency plan management of major reputation events, to improve the prevention and control mechanism and actively respond to public concern.

Country Risk

Country risk represents risk due to changes and incidents occurred in the economy, politics and society of a specific country or region, which results in the borrowers or debtors in that country or region incapable of or unwilling to pay their debts owed to the Bank or otherwise leads to business losses or other losses to the Bank in that country or region.

In 2018, confronted with intricate international environment, we closely followed and monitored country risk situation. We enhanced the effectiveness of country risk management through tools and approaches such as country risk rating, limit approval and adjustment, risk exposure statistics, research and analysis of market, and stress test.

Risk Consolidated

In 2018, we improved the comprehensive risk management mechanism from the group level, formulated the risk management plan and the basic rules of risk management, and stipulated the management requirements for our subsidiaries. We improved concentration and limit management at a group level, by including our subsidiaries into the assessment of credit concentration risk, and setting industrial limits for each subsidiary. We established the mechanism in which risk information was shared and response strategies were coordinated as for corporate customers with large credit exposure, between the branches and subsidiaries. We stipulated the requirements of business continuity for our subsidiaries.

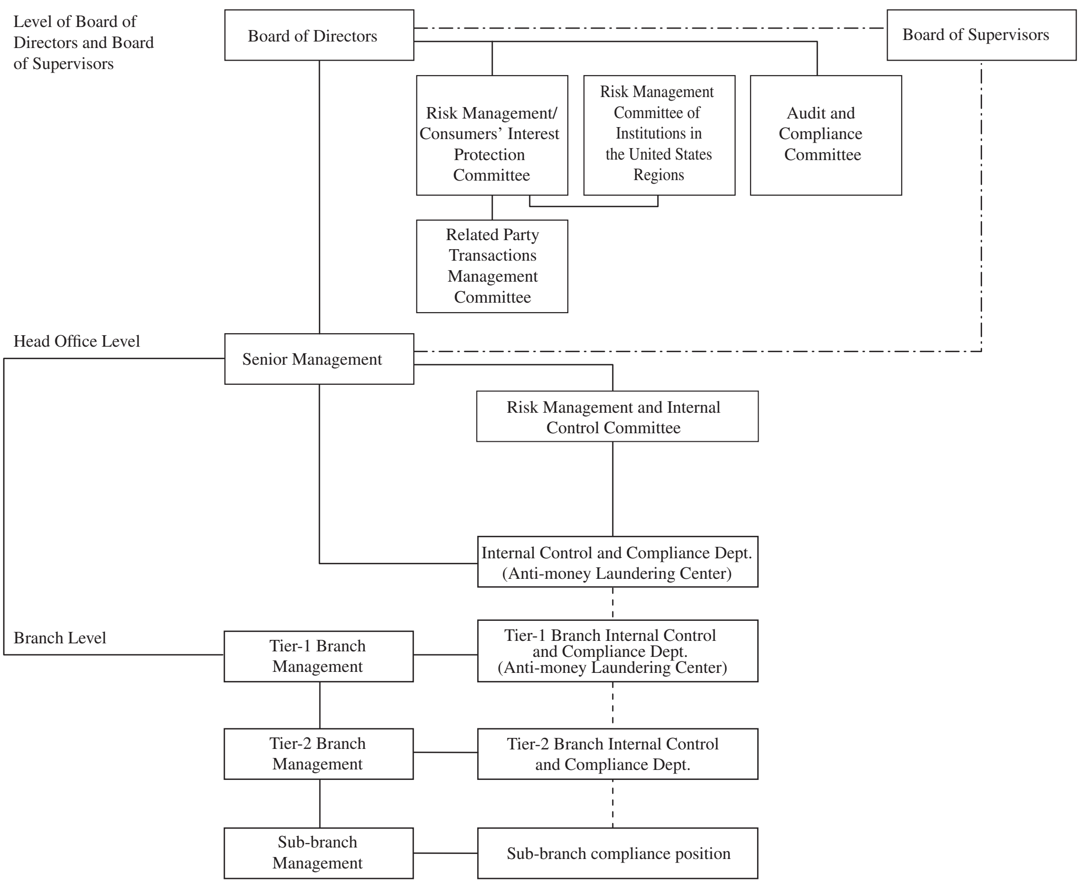
We continued to strengthen to guide, supervise and evaluate the risk management of our subsidiaries. We guided our subsidiaries to develop their own risk appetite and risk management policies within the unified framework of the Group's risk appetite. We continuously monitored, pre-warned and informed of the risk situation of our subsidiaries, and regularly reported to the senior management on the risk level and risk management of our subsidiaries.

Internal Control

The objectives of our internal control are to reasonably ensure operation and management legal and compliant, make financial reporting and related information truthful and complete, assure effective risk management and asset security, improve operational efficiency and effectiveness, and promote us to fulfill our business objectives and development strategies.

The Board of Directors is responsible for establishing sound internal control, implementing it effectively, evaluating its effectiveness, and truthfully disclosing internal control evaluation reports. The Audit and Compliance Management Committee, the Risk Management/Consumers' Interest Protection Committee, the Risk Management Committee of Institutions in the United States Regions, and the Related Party Transactions Management Committee established under the Board of Directors are responsible for performing the corresponding duties related to internal control management. Senior management is responsible for the daily operation of internal control. The Board of Supervisors supervises the establishment and implementation of internal control by the Board of Directors and the senior management.

Our Internal Control Management Structure



During the reporting period, we continued to promote the reform related to the internal control mechanism to improve the effectiveness of internal control and ensure legal compliance of the operation.

- Developing a compliance culture. We revised the code of conduct for employees and developed the code of conduct for each business line. We attached importance on value of compliance culture to make it exerting the orientating, restricting, cohering and inspiring roles.

- Optimizing the internal control system. We completed the comprehensive clean-up of our administrative measures, and revised the basic rules of internal control and administrative measures on the internal control evaluation and defect identification. We constantly optimized our multi-level system which consists of the articles of association, basic rules, administrative measures, and operating rules. We promoted the standardized review of system and improved its quality.

- Implementing responsibilities of risk compliance management. We issued rules on strengthening the responsibility of risk compliance management, which horizontally clarified the boundaries of departments' responsibilities and focused on strengthening the construction of the "Three Lines of Defense". It vertically clarified the "Two-line" risk compliance management responsibilities of business lines and personnel. We made efforts to achieve sophisticated and differentiated authorization for different positions to make authorization management exerting its control role in risk prevention and control and resource allocation.

- Building a new management mechanism related to prevention of cases of compliance violations. A work conference related to prevention of cases of compliance violations was held to stipulate the guiding principles, objectives and tasks, and governance measures for prevention of cases of compliance violations in the new circumstances. We could effectively leverage the roles of "Two-line" management responsibilities, "Management Basics and Foundation-level Management", "Three Line and One Grid" and "prevention of cases of compliance violations by means of technology". We continued to strengthen handling of cases and related rectification and accountability, to establish and improve the working mechanism of prevention of cases of compliance violations in which case could be strictly prevented from its origination and in the business process, related risk could be strictly controlled and incompliance staff could be held accountable.

- Promoting information construction. We continuously optimized the functions of the IT system of internal control compliance management and the monitoring platform of compliance risk. We strengthened the research and development of risk monitoring models in key business areas, and accelerated the full-process online operations including model development, data retrieval, clue verification, problem rectification, information generation and collection, thus improving our capabilities of monitoring, alerting and handling risk in advance.

- Continuing to effectively improve inspection and rectification. We strengthened co-ordinating management of inspection and supervision, avoiding multi-headed and repeated inspections and effectively using inspection resources. We revised the administrative measures on rectification, refined the rectification requirements, and established a mechanism of inspection- rectification -verification evaluation. We fully implemented the rectification of inspected problems to promote business improvement.

Anti-money Laundering

In 2018, we adopted risk-oriented approach in our anti-money laundering, implemented new regulations such as money laundering risk management and customer identification, exerted all efforts to support the fourth round mutual assessment on anti-money laundering and anti-terrorist financing in China launched by the Financial Activity Special Working Group, and made great efforts to build a global management mechanism of anti-money laundering compliance. We set out our goal in establishing this mechanism. We established a global anti-money laundering center, optimized the responsibilities and positioning of internal institutions, and refined administrative measures related to a global anti-money laundering compliance projects. We carried on monitoring and analysis of financial information. By actively promoting technology innovation related to anti-money laundering compliance, successfully launching the "new generation" anti-money laundering platform, and continuously optimizing the monitoring model of suspicious transaction, the effectiveness of monitoring and analysis were improved. We closely tracked the dynamics of international economic sanctions and optimized the management mechanism of sanction compliance. We strengthened the synergy mechanism between institutions at home and abroad related to anti-money laundering, promoted the communication of work teams, and vigorously promoted the construction of anti-money laundering systems for overseas institutions. We strengthened the publicity of anti-money laundering trainings and firmly carried forward anti-money laundering inspection and evaluation.

Self-appraisal Report on Internal Control

The Board of Directors has considered and approved the 2018 *Self-appraisal Report on Internal Control*, details of which are published on the website of the Shanghai Stock Exchange.

Internal Control Audit Report

PricewaterhouseCoopers Zhong Tian LLP issued an unqualified *Internal Control Audit Report* based on its audit of the effectiveness of the Group's internal control over financial reporting as at 31 December 2018 in accordance with the relevant regulations, details of which are published on the website of the Shanghai Stock Exchange.

Capital Management

During the reporting period, the Bank implemented our *Capital Plan for 2016-2018* and *Capital Adequacy Ratio Plan for 2013-2018* in accordance with the regulatory requirements of the *Capital Rules for Commercial Banks (Provisional)*. The Bank also adhered to the principles of capital management and the target of capital adequacy ratios, enhanced the management of capital constraint and capital returns, and improved its long-term mechanism of capital management to ensure that the capital adequacy ratios are adequate to cover risk exposure, create value and meet regulatory requirements.

As one of the Global Systemically Important Banks, the Bank completed the annual updates of the *Recovery Plan of Agricultural Bank of China Limited* and the *Disposal Plan of Agricultural Bank of China Limited* in accordance with the requirements of the Financial Stability Board (FSB) and other relevant international and domestic regulatory requirements, which have been submitted to and approved by the working group for cross-border crisis management which is comprised of domestic and overseas regulatory authorities. During the reporting period, the Bank continued to improve the establishment of internal capital adequacy assessment process (ICAAP), completed the internal capital adequacy assessment for 2018, and carried out the specialized audit of ICAAP for 2018, in order to continuously consolidate the foundation for capital management.

To improve capital adequacy, the Bank has formulated the *Three Year Action Plan of Improving the Bank's Capital Adequacy Ratio* (the "Capital Consolidation Plan"), which specified the target capital adequacy ratio for 2017-2019. Focusing on both capital replenishment and capital conservation, the Bank formulated the working plan for improving capital adequacy ratios, which proposed specific measures to further improve the capital management system. During the reporting period, the Bank implemented the Capital Consolidation Plan to fulfill the requirements for capital constraint, strengthen our capability of accumulating internal capital, accelerate to replenish external capital and implement capital conservation measures to enhance capital efficiency. The "Capital Consolidation Plan" achieved its milestone objective. As a result, the Bank's capital adequacy ratios increased steadily, which provided strong support to business development and operation transformation of the Bank.

Management of Capital Financing

During the reporting period, the Bank improved the capital replenishment system by proactively exploring sources to replenish external capital, except for retaining profit. In pursuant to its capital plan and capital replenishment plan, the Bank successfully completed the issuance of RMB40 billion tier-2 capital bonds in the inter-bank bond market of China in April 2018. The bonds are 10-year fixed rate bonds with a coupon rate of 4.45%. The Bank has a conditional right to redeem the bonds following the fifth anniversary of the issuance date. The proceeds from the issuance of the bonds, after deducting expenses in relation to the issuance, were fully used to replenish our Tier 2 capital. In June 2018, the Bank issued A Shares to specified investors through private placement. The net proceeds amounted to RMB99,989,198,827 (excluded interest accrued from the subscriptions in the frozen period and the relevant taxes) after deducting expenses in relation to the issuance. The proceeds from the private placement were fully used to replenish the CET1 capital of the Bank.

Management of Economic Capital

The Bank improved the long-term mechanism for capital management to further optimize the allocation of economic capital. Emphasizing on ideas of value return, requirement of structural optimization and guidance of strategic objectives, the Bank constrained total capital and facilitated business transformations across the Bank meanwhile. During the reporting period, in addition to optimizing the allocation of economic capital to the branches, the Bank continued to improve the assessment and evaluation system for economic capital, to consolidate the capital constraint and enhance the efficiency of capital allocation.

Capital Adequacy Ratio and Leverage Ratio

For details of the capital adequacy ratio of the Bank and credit risk exposures after risk mitigation, please refer to the *2018 Capital Adequacy Ratio Report* published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange by the Bank. For details of the leverage ratio of the Bank, please refer to "Appendix II Leverage Ratio Information".

CORPORATE SOCIAL RESPONSIBILITY

In 2018, following the responsibility concepts of "performing obligations first, expanding virtues to benefit the world, taking responsibilities with courage and contributing welfare to community", the Bank actively performed social responsibilities, continued promoting coordinated and sustainable development of economy, environment and society, and strived to achieve harmony and mutual progress with each of the stakeholders.

Economic Responsibility

We supported the fight against poverty. We actively explored financial poverty alleviation models, such as extending small loans, supporting featured industries, providing internet finance, and promoting government credit enhancement, to expand our financial service according to local conditions. We vigorously support poverty alleviation in areas of extreme poverty by utilising featured resources and industries in areas of poverty. Focusing on key enterprises in the characteristic industrial chain, we created exclusive products to help rural households to increase their income, in order to realize "supporting an industry, prospering a region, and enriching one area of rural households". In 2018, the balance of loans for targeted poverty alleviation was RMB341.5 billion, which benefited for 2.71 million ratified and registered poor people. We helped the designated poverty alleviation counties to eliminate poverty by increasing credit support, upgrading basic financial services, and increasing assistance funds. We strived to supply financial resources to help true poverty people to truly get rid of poverty. In 2018, a total of 29.7 thousand poor people in the four designated poverty alleviation counties, such as Wuqiang County in Hebei Province, were successfully lifted out of poverty.

We served for the rural vitalization strategy. By initiating the "Seven Actions" of rural vitalization services, we promoted agricultural transformation and upgrading, enhanced beauty and progress of the rural areas, and increased income and wealth of farmers. We spared no effort to promote the "No.1 Project" for Providing Internet Financial Service for Sannong, particularly on enhancing the "Huinong e-Tong" platform, so that the farmers were able to "use the ABC APP, scan the ABC code and borrow the ABC loans". At the end of 2018, the loan balance of "Huinong e-loans" was RMB101.8 billion, "Huinong e-payment" had coverage for 7.16 million rural households, and the number of online merchants of "Huinong e-commerce" was more than 2.67 million.

We supported for the country's stability and the people's wellbeing. We deeply supported the "Belt and Road" Initiative and continuously promoted the synergetic development of Beijing, Tianjin and Hebei, the development of the Yangtze River economic belt and the construction of Xiong'an New Area and Guangdong-Hong Kong-Macao Greater Bay Area. In 2018, we established the Xiong'an Branch which became the first financial institution listed for operation in Xiong'an New Area among the four large commercial banks. The *Opinions on Increasing Efforts to Support Healthy Development of Private Enterprises* were issued, and 22 specific measures were proposed to focus on exploring solutions for the problems of difficulty in seeking financing and high cost of financing encountered by private enterprises. We launched the product "Micro Quick Loan", developed the business of Internet Loans Based on Big Data and innovating financing channels for small and micro enterprises. As at the end of 2018, more than 130 credit products with small and micro enterprise features were launched by the Bank.

Social Responsibility

We enhanced service quality. We launched new generation of super counter smart service platform. We promoted branch outlets "smarter", "lighter", and more integrated of online and offline, in order to provide better service for customers. The layout of mobile banking was optimized constantly, product innovation for internet banking was promoted and WeChat banking was constructed to widen customer service channels. As at the end of 2018, the number of mobile banking customers reached 257 million and the volume of visits to "ABC WeChat service" reached 31 million. By improving the complaint and synergistic mechanism with smooth communication and timely responsiveness, we strive to settle down complaints from customers and improve customer satisfaction.

We attached importance on employees' development. *The Opinions on Deepening the Reforms on Personnel System and Mechanism* were implemented actively, recruitment of professional positions was normalized and the "dual channels" of horizontal and vertical development of personnel were enabled. The County Area Young Talent Development Project upgraded version 2.0 continued to implement, and 6,017 youths in County Areas were selected into our talents database. Trainings by level and by business lines were organized for the leadership level, professional level and foundation skeleton level to further enhance the capabilities of employees.

We promoted social harmony. We actively organized public welfare volunteer activities. In 2018, our volunteer team of caring for the blind won the "Silver Prize in the Fourth China Young Volunteer Service Project" through the voluntary service project of "Our Voice, Your Eyes". We contributed to the construction of a harmonious society by exerting full efforts to provide assistance in disaster relief and rescue and post-disaster reconstruction financial services after the flooding occurred in Shouguang, Shandong, and in reconstruction in Wenchuan, Sichuan, for 10 years.

Environmental Responsibility

We developed green finance. The green credit policy system continued improving and innovations for products and services were strengthened, through which more financial resources were allocated to the green industries. The balance of loans in the green credit business was RMB1,050.4 billion at the end of the year.

We practiced green operation. We adhered to the operation concept of "low-carbon finance" by adopting centralized printer and green office practice, and insisted on green purchasing. Under equivalent conditions, we considered adopting the suppliers in priority, who adopted clean production and logistics models, provided environmental protection products and services, and promoted the green corporate culture.

We organized green activities. We put the environmental protection concepts into practice proactively and organized activities such as afforestation and protection of wetland ecosystem. In 2018, we organized a total of 3,483 events of green public welfare activities with a total of 56,247 participants.

In addition, due to our business nature, current environmental laws and regulations do not have a significant impact on the Bank.

For further details of the environmental information and performance of social responsibility of the Bank, please refer to the 2018 Corporate Social Responsibility Report of the Bank published separately.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

Changes in Share Capital of Ordinary Shares

Details of Changes in Share Capital

Unit: Share

	31 December 2017		Increase/decrease during the reporting period (+, -)			31 December 2018	
	Number of Shares	Percentage[4] (%)	New Shares Issued	Others[3]	Subtotal	Number of Shares	Percentage[4] (%)
I. Shares subject to restrictions on sales[1]	**–**	**–**	**+25,188,916,873**	**–**	**+25,188,916,873**	**25,188,916,873**	**7.20**
1. State-owned[2]	–	–	+19,959,672,543	–	+19,959,672,543	19,959,672,543	5.70
2. State-owned legal entity[2]	–	–	+5,037,783,373	–	+5,037,783,373	5,037,783,373	1.44
3. Other domestic shares[2]	–	–	+191,460,957	–	+191,460,957	191,460,957	0.05
II. Shares not subject to restrictions on sales	**324,794,117,000**	**100.00**	**–**	**–**	**–**	**324,794,117,000**	**92.80**
1. RMB-dominated ordinary shares	294,055,293,904	90.54	–	–	–	294,055,293,904	84.02
2. Foreign-invested shares listed overseas[2]	30,738,823,096	9.46	–	–	–	30,738,823,096	8.78
III. Total number of shares	**324,794,117,000**	**100.00**	**25,188,916,873**	**–**	**25,188,916,873**	**349,983,033,873**	**100.00**

Notes:

1. "Shares subject to restrictions on sales" refers to the shares held by shareholders who are subject to restrictions on sales in accordance with laws, regulations, rules or commitments.

2. "State-owned" in this table refers to the shares held by the MOF and Huijin. "State-owned legal entity" refers to the shares held by China National Tobacco Corporation, Shanghai Haiyan Investment Management Company Limited, Zhongwei Capital Holding Company Limited and China National Tobacco Corporation Hubei Province Company. "Other domestic shares" refer to the shares held by New China Life Insurance Company Limited. "Foreign-invested shares listed overseas" refer to the H shares as defined in the No.5 Standards on the Content and Format of Information Disclosure of Companies with Public Offerings – Content and Format of the Report of Change in Shareholding (Revision 2007) of the CSRC.

3. "Others" in this table refers to the shares that have been released after the end of the lock-up period. The positive number represents transferred-in and the negative one represents transferred-out.

4. Rounding errors may arise in the "Percentage" column of the table above as the figures are rounded to the nearest decimal number.

The trading date of shares subject to restrictions on sales

Unit: Share

Date	Number of new shares for trading upon the expiry of the restrictions on sales	Balance of shares subject to restrictions on sales	Balance of shares not subject to restrictions on sales	Description
2 July 2021	5,229,244,330	19,959,672,543	330,023,361,330	China National Tobacco Corporation, Shanghai Haiyan Investment Management Company Limited, Zhongwei Capital Holding Company Limited, China National Tobacco Corporation Hubei Province Company and New China Life Insurance Company Limited
2 July 2023	19,959,672,543	–	349,983,033,873	Huijin, MOF

The shareholdings of the shareholders subject to restrictions on sales and the terms of restrictions on sales

Unit: Share

No	Shareholders subject to restrictions on sales	Number of shares subject to restrictions on sales held	Date of trading	Number of new shares for trading	Restrictions on sales
1	Huijin	10,082,342,569	2 July 2023	10,082,342,569	Five years from the date of acquisition of equity
2	MOF	9,877,329,974	2 July 2023	9,877,329,974	Five years from the date of acquisition of equity
3	China National Tobacco Corporation	2,518,891,687	2 July 2021	2,518,891,687	36 months from the date of the end of the private placement
4	Shanghai Haiyan Investment Management Company Limited	1,259,445,843	2 July 2021	1,259,445,843	36 months from the date of the end of the private placement
5	Zhongwei Capital Holding Company Limited	755,667,506	2 July 2021	755,667,506	36 months from the date of the end of the private placement
6	China National Tobacco Corporation Hubei Province Company	503,778,337	2 July 2021	503,778,337	36 months from the date of the end of the private placement
7	New China Life Insurance Company Limited	191,460,957	2 July 2021	191,460,957	36 months from the date of the end of the private placement

Details of Issuance and Listing of Securities

Issuance of Securities

During the reporting period, in order to fulfill regulatory standards in respect of capital for commercial banks sustainably and promote steady and healthy development of the Bank's business, the Bank issued 25,188,916,873 ordinary A Shares at nominal value of RMB1.00 each to seven specified subscribers by way of private placement, including Huijin, the MOF, China National Tobacco Corporation, Shanghai Haiyan Investment Management Company Limited, Zhongwei Capital Holding Company Limited, China National Tobacco Corporation Hubei Province Company and New China Life Insurance Company Limited, at the issue price of RMB3.97 per share (closing price of the A Shares on the date of entering into the subscription agreements, i.e. 12 March 2018: RMB4.03 per share), and total proceeds of RMB100,000,000,000 were raised. Net proceeds amounted to RMB99,989,198,827 (excluded interest accrued from the subscriptions in the frozen period and the relevant taxes) after deducting expenses in relation to the issuance. The proceeds from the private placement were fully used to replenish the CET1 capital of the Bank as stated in the issuance proposal of the Bank.

Following the completion of the issuance, the total number of shares of the Bank is 349,983,033,873, comprising 319,244,210,777 A Shares and 30,738,823,096 H Shares. For details of the private placement, please refer to the relevant announcements published on the websites of Shanghai Stock Exchange (www.sse.com.cn) and the Hong Kong Stock Exchange (www.hkexnews.hk).

For issuance of other securities of the Bank during the reporting period, please refer to "Note IV. 31 Debt Securities Issued" to the Consolidated Financial Statements for details.

Employee shares

The Bank had no employee shares.

Particulars of Shareholders of Ordinary Shares

Number of Shareholders and Particulars of Shareholdings

As at the end of the reporting period, the Bank had a total of 436,589 shareholders, including 23,162 holders of H Shares and 413,427 holders of A Shares. As at 28 February 2019 (being the last day of the month preceding the month in which the Bank's A Share annual report is published), the Bank had a total of 422,259 shareholders, including 23,136 holders of H Shares and 399,123 holders of A Shares.

Particulars of shareholdings of the top 10 shareholders (the shareholdings of holders of H Shares are based on the number of shares as set out in the register of members of the Bank maintained by its H Share registrar)

Unit: Share

Total number of shareholders 436,589 (based on the number of registered holders of A Shares and H Shares as at 31 December 2018)

Particulars of shareholdings of the top 10 shareholders (the data below are based on the shareholders registered as at 31 December 2018)

Name of shareholder	Nature of shareholder	Type of shares	Increase/ decrease during the reporting period (+, -)	Shareholding percentage (%)	Total number of shares held	Number of shares held subject to sales restriction	Number of shares pledged or locked up
Huijin	State-owned	A Shares	+10,082,342,569	40.03	140,087,446,351	10,082,342,569	None
MOF	State-owned	A Shares	+9,877,329,974	39.21	137,239,094,711	9,877,329,974	None
HKSCC Nominees Limited	Overseas legal entity	H Shares	+30,603,520	8.73	30,570,099,291	–	Unknown
SSF	State-owned	A Shares	–	2.80	9,797,058,826	–	None
China National Tobacco Corporation	State-owned legal entity	A Shares	+2,518,891,687	0.72	2,518,891,687	2,518,891,687	None
China Securities Finance Corporation Limited	State-owned legal entity	A Shares	-4,098,980,621	0.53	1,842,751,186	–	None
China Life Insurance Company Limited – Dividend distribution – Individual dividend – 005L – FH002 Hu	Others	A Shares	+1,113,523,901	0.50	1,742,746,390	–	None
Shanghai Haiyan Investment Management Company Limited	State-owned legal entity	A Shares	+1,259,445,843	0.36	1,259,445,843	1,259,445,843	None
Central Huijin Asset Management Ltd.	State-owned legal entity	A Shares	–	0.36	1,255,434,700	–	None
Wutongshu Investment Platform Co., Ltd.	State-owned legal entity	A Shares	–	0.28	980,723,700	–	None

Notes: 1. The total number of shares held by HKSCC Nominees Limited represents the number of H Shares in aggregate held by it as a nominee on behalf of all institutional and individual investors registered with it as at 31 December 2018.

2. Among the shareholders listed above, apart from Central Huijin Asset Management Ltd. which is a wholly-owned subsidiary of Huijin and China National Tobacco Corporation which is the de facto controller of Shanghai Haiyan Investment Management Company Limited, the Bank is not aware of any connection between the shareholders listed above or whether they are parties acting in concert. The number of shares in aggregate held by Huijin and Central Huijin Asset Management Ltd., a wholly-owned subsidiary of Huijin, amounted to 141,342,881,051 shares, representing 40.39% of the total share capital of the Bank. The number of shares in aggregate held by China National Tobacco Corporation and Shanghai Haiyan Investment Management Company Limited amounted to 3,778,337,530 shares, representing 1.08% of the total share capital of the Bank.

Particulars of shareholdings of the top 10 shareholders not subject to sales restriction (the data below are based on the shareholders registered as at 31 December 2018)

Unit: Share

Name of shareholder	Number of shares held not subject to sales restriction	Type of shares
Huijin	130,005,103,782	A Shares
MOF	127,361,764,737	A Shares
HKSCC Nominees Limited	30,570,099,291	H Shares
SSF	9,797,058,826	A Shares
China Securities Finance Corporation Limited	1,842,751,186	A Shares
China Life Insurance Company Limited – Dividend distribution – Individual dividend – 005L – FH002 Hu	1,742,746,390	A Shares
Central Huijin Asset Management Ltd.	1,255,434,700	A Shares
Wutongshu Investment Platform Co., Ltd.	980,723,700	A Shares
Hong Kong Securities Clearing Company Limited	879,217,031	A Shares
China Shuangwei Investment Corporation Limited	746,268,000	A Shares

Notes:

1. The total number of shares held by HKSCC Nominees Limited represents the number of H Shares in aggregate held by it as a nominee on behalf of all institutional and individual investors registered with it as at 31 December 2018.

2. Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Huijin. China Shuangwei Investment Corporation Limited is a wholly-owned subsidiary of China National Tobacco Corporation. China National Tobacco Corporation is the de facto controller of Shanghai Haiyan Investment Management Company Limited. Save as mentioned above, the Bank is not aware of any connection between the shareholders listed above, and between the shareholders listed above and the top 10 shareholders, or whether they are parties acting in concert.

3. The number of shares held by the Hong Kong Securities Clearing Company Limited represents the A Shares (northbound shares of Shanghai-Hong Kong Stock Connect) held by it as a nominee for and on behalf of investors from Hong Kong and overseas.

Particulars of Substantial Shareholders

During the reporting period, the Bank's substantial shareholders and controlling shareholder remained unchanged. The Bank had no *de facto* controller.

MOF

The MOF, established in October 1949, is a ministry under the State Council and is empowered to be responsible for macro-economic control and regulation of state finance and taxation policies.

As at 31 December 2018, the MOF held 137,239,094,711 shares of the Bank, representing 39.21% of the total share capital of the Bank.

Huijin

Huijin was established on 16 December 2003 as a wholly state-owned company through state investment in accordance with the Company Law of the PRC with a registered capital of RMB828,209 million. The registered address of Huijin is New Poly Plaza, 1 Chaoyangmen Beidajie, Dongcheng District, Beijing. The unified social credit code of Huijin is 911000007109329615 and its legal representative is Mr. DING Xuedong[1]. The State Council has authorized Huijin to make equity investments in major state-owned financial institutions to preserve and increase the value of these state-owned financial assets. Huijin can exercise rights and assume obligations on major state-owned financial institutions as an investor on behalf of the state to the extent of its capital contribution. Huijin does not engage in other commercial activities nor intervene in the normal operations of major state-owned financial institutions which are controlled by Huijin.

As Huijin is not able to provide its audited financial report for 2018 until the completion of the audits of the financial statements of its investees, the following financial data are the audited data for 2017. As of 31 December 2017, the total assets of Huijin amounted to RMB4,486,794,667.1 thousand, total liabilities were RMB541,750,809.4 thousand, and the owners' equity was RMB3,945,043,857.7 thousand. The net profit for 2017 was RMB489,012,144.9 thousand. The net cash flows generated from operating activities, investment activities and financing activities for 2017 amounted to RMB35,506,155.5 thousand.

1 Mr. DING Xuedong has been re-designated as the Deputy Secretary General of the State Council (minister-level). He has authorized Mr. TU Guangshao to act as the legal representative of CISC as well as the chairman and legal representative of Huijin, with effect from 2 March 2017 until any new appointment to be made by the State Council. Mr. TU Guangshao is currently the vice-chairman and general manager of CISC.

As of 31 December 2018, the direct shareholdings of Huijin in its investees were as follows:

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

Notes: 1. ★ represents A share listed company; ☆ represents H share listed company.

2. On 6 June 2018, through the public listing process on Beijing Financial Assets Exchange, Huijin signed an equity transfer agreement with Haier Group (Qingdao) Financial Holdings Co, Ltd. and transferred 398.5 million domestic shares of CICC. As of the end of 2018, relevant procedures were being processed. After the completion of the transfer, the shareholding ratio of CICC directly held by Huijin will be changed to approximately 46.2%.

3. Apart from the above investees, Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Huijin. Central Huijin Asset Management Ltd. was established and incorporated in Beijing in November 2015 with a registered capital of RMB5 billion. It is engaged in asset management business.

As at the end of the reporting period, Huijin held 140,087,446,351 shares of the Bank, representing 40.03% of the total share capital of the Bank. During the reporting period, Huijin nominated Mr. HU Xiaohui as Non-executive Director of the Bank.

Except for MOF and Huijin, there was no other corporate shareholder who held a shareholding of 10% or above in the Bank as at 31 December 2018.

Interests and Short Positions Held by Substantial Shareholders and Other Persons

As at 31 December 2018, the Bank received notifications from the following persons regarding their interests or short positions in shares and underlying shares of the Bank. Such interests or short positions were recorded in the register required to be kept pursuant to Section 336 of the Securities and Futures Ordinance of Hong Kong, details of which are set out below:

Unit: Share

Name	Capacity	Interests and short positions	Nature	Percentage of issued class shares (%)	Percentage of total issued shares (%)
MOF	Beneficial owner/nominee[1]	147,036,153,537(A Shares)[2]	Long position	46.06	42.01
Huijin	Beneficial owner	140,087,446,351 (A Shares)	Long position	43.88	40.03
	Interest of controlled entity	1,255,434,700 (A Shares)	Long position	0.39	0.36
The Bank of New York Mellon Corporation	Interest of controlled entity	2,463,016,560 (H Shares)	Long position	8.01	0.70
		2,396,222,250 (H Shares)	Shares available for lending	7.80	0.68
Qatar Investment Authority	Interest of controlled entity	2,448,859,255 (H Shares)[3]	Long position	7.97	0.70
Qatar Holding LLC	Beneficial owner	2,408,696,255 (H Shares)[3]	Long position	7.84	0.69
QSMA1 LLC	Beneficial owner	40,163,000 (H Shares)[3]	Long position	0.13	0.01
BlackRock, Inc.	Interest of controlled entity	2,235,870,728 (H Shares)	Long position	7.27	0.64
		5,018,000 (H Shares)	Short position	0.02	0.00

Notes:

1. 9,797,058,826 A Shares are held by the SSF, but the voting rights of these shares were transferred to the MOF according to the share subscription agreement dated 21 April 2010 and the *Approval on the Proposed Transfer of State-owned Shares of the Agricultural Bank of China* issued by the MOF on 5 May 2010.

2. According to the register of members of the Bank as at 31 December 2018, the MOF held 137,239,094,711 A Shares of the Bank, representing 42.99% of the issued A Shares and 39.21% of the total issued shares of the Bank, respectively.

3. Qatar Investment Authority is deemed to be interested in 2,448,859,255 H Shares in aggregate held by Qatar Holding LLC and QSMA1 LLC, both of which are wholly-owned subsidiaries of Qatar Investment Authority.

DETAILS OF PREFERENCE SHARES

Issuance and Listing of Preference Shares

Stock code of preference shares	Stock name of preference shares	Issuance date	Issuance price (in RMB)	Coupon rate of the initial dividend period	Number of preference shares issued	Listing date	Number of preference shares approved to be listed	Transfer deadline	Proceeds raised (in RMB)	Use of proceeds
360001	農行優1	2014/10/31	100 per share	6.00%	400 million shares	2014/11/28	400 million shares	N/A	40 billion	Replenish the additional Tier 1 capital
360009	農行優2	2015/3/6	100 per share	5.50%	400 million shares	2015/3/27	400 million shares	N/A	40 billion	Replenish the additional Tier 1 capital

For the terms and details of the issuance of the preference shares above, please refer to the announcements published by the Bank on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Bank.

Number of Holders of Preference Shares and their Shareholdings

As at the end of the reporting period, we had a total of 25 holders[1] of the preference shares "農行優1" (stock code: 360001). As at 28 February 2019 (being the last day of the month preceding the month in which the Bank's A Share annual report is published), we had a total of 25 holders of the preference shares "農行優1"(stock code: 360001).

Particulars of Shareholding of the Top 10 Holders of Preference Shares "農行優1" (Stock Code: 360001)

Unit: Share

Name of shareholders[1]	Nature of shareholders[2]	Type of shares	Increase/ decrease during the reporting period[3] (+,-)	Number of preference shares held	Shareholding percentage[4] (%)	Number of preference shares subject to pledge or lock-up
Bank of Communications Schroder Fund Management Co., Ltd.	Other	Domestic preference shares	–	60,000,000	15.00	None
China Merchants Fund Management Co., Ltd.	Other	Domestic preference shares	–	49,000,000	12.25	None
Beijing Tiandi Fangzhong Asset Management Co., Ltd.	Other	Domestic preference shares	–	35,000,000	8.75	None
PICC Life Insurance Company Limited	Other	Domestic preference shares	–	30,000,000	7.50	None
Ping An Life Insurance Co., Ltd.	Other	Domestic preference shares	–	30,000,000	7.50	None
Hexie Health Insurance Co.,Ltd.	Other	Domestic preference shares	+30,000,000	30,000,000	7.50	None
Beijing International Trust Co., Ltd.	Other	Domestic preference shares	–	30,000,000	7.50	None
Zhonghai Trust Co., Ltd.	Other	Domestic preference shares	–	20,000,000	5.00	None
Bank of Ningbo Co., Ltd.	Other	Domestic preference shares	–	15,000,000	3.75	None
Bank of Beijing Scotiabank Asset Management Co., Ltd.	Other	Domestic preference shares	–	12,000,000	3.00	None

Notes:

1. The Bank is not aware of any connections between the above holders of preference shares, and between the above holders of preferences shares and the top 10 holders of ordinary shares, or whether they are parties acting in concert.

2. According to the *No.2 Standards on the Content and Format of Information Disclosure of Companies with Public Offerings – Content and Format of the Annual Report (Revision 2017)*, "Particulars of holders of preference shares should indicate the entities which hold shares on behalf of the states and foreign holders". Except for the entities which hold shares on behalf of the states and foreign holders, the nature of other preference shareholders are "others".

3. "Increase/decrease during the reporting period (+,-)" refers to the change of shareholding due to secondary market transactions.

4. "Shareholding percentage" refers to the percentage of "農行優1" held by the shareholders of preference shares to the total number of "農行優1" (i.e. 400 million shares).

[1] The number of the holders of preference shares was calculated by the number of qualified investors that hold the preference shares. When calculating the number of qualified investors, an asset management institution that purchases or transfer the preference shares through two or more products under its control will be counted as one.

As at the end of the reporting period, the Bank had a total of 28 holders of preference shares "農行優2" (stock code: 360009). As at 28 February 2019 (being the last day of the month preceding the month in which the Bank's A Share annual report is published), the Bank had a total of 28 holders of preference shares "農行優2" (stock code: 360009).

Particulars of Shareholding of the Top 10 Holders of Preference Shares "農行優2" (Stock Code: 360009)

Unit: Share

Name of shareholders[1]	Nature of shareholders[2]	Type of shares	Increase/ decrease during the reporting period[3] (+,-)	Number of preference shares held	Shareholding percentage[4] (%)	Number of preference shares subject to pledge or lock-up
China Life Insurance Company Limited	Other	Domestic preference shares	–	50,000,000	12.50	None
China National Tobacco Corporation	Other	Domestic preference shares	–	50,000,000	12.50	None
Beijing Chance Capital Management Co., Ltd.	Other	Domestic preference shares	–	25,000,000	6.25	None
Maxwealth Fund Management Co., Ltd.	Other	Domestic preference shares	–	25,000,000	6.25	None
China Mobile Communications Corporation	Other	Domestic preference shares	–	20,000,000	5.00	None
Shanghai Wisdom Asset Management Co., Ltd.	Other	Domestic preference shares	–	20,000,000	5.00	None
Bank of Communications Schroder Fund Management Co., Ltd.	Other	Domestic preference shares	–	20,000,000	5.00	None
Bank of China Limited, Shanghai Branch	Other	Domestic preference shares	–	20,000,000	5.00	None
China National Tobacco Corporation Jiangsu Province Company	Other	Domestic preference shares	–	20,000,000	5.00	None
China National Tobacco Corporation Yunnan Province Company	Other	Domestic preference shares	–	20,000,000	5.00	None

Notes: 1. China Shuangwei Investment Corporation Limited, China National Tobacco Corporation Jiangsu Province Company and China National Tobacco Corporation Yunnan Province Company are wholly-owned subsidiaries of China National Tobacco Corporation. China National Tobacco corporation is the *de facto* controller of Shanghai Haiyan Investment Management Co., Ltd. China Life Insurance Company Limited – Dividend distribution – Individual dividend – 005L – FH002 Hu is managed by China Life Insurance Company Limited. Save as mentioned above, the Bank is not aware of any connections between the above shareholders of preference shares, and between the above shareholders of preferences shares and the top 10 shareholders of ordinary shares, or whether they are parties acting in concert.

2. According to the *No.2 Standards on the Content and Format of Information Disclosure of Companies with Public Offerings – Content and Format of the Annual Report (Revision 2017)*, "Particulars of holders of preference shares should indicate the entities which hold shares on behalf of the states and foreign holders". Except for the entities which hold shares on behalf of the states and foreign holders, the nature of other preference shareholders are "others".

3. "Increase/decrease during the reporting period (+,-)" refers to the change of shareholding due to secondary market transactions.

4. "Shareholding percentage" refers to the percentage of "農行優2" held by the shareholders of preference shares to the total number of "農行優2" (i.e. 400 million shares).

The preferences shares “農行優1” and “農行優2” of the Bank are shares not subject to restrictions on sale, and the top 10 holders of preferences shares “農行優1” and “農行優2” who are not subject to restrictions on sale are the same as the top 10 holders of preferences shares.

Profit Distribution of Preference Shares

Dividends on our preference shares will be paid in cash and shall be paid annually. When we resolves to cancel part or all of the dividends to holders of preference shares, the undistributed dividends of current period shall not be accumulated to subsequent dividend periods. The holders of our preference shares, upon receiving dividends at the agreed rate, shall not participate in the distribution of the remaining profit attributable to the holders of ordinary shares.

During the reporting period, on 12 March 2018, we paid cash dividends of RMB5.50 (tax inclusive) per preference share and RMB2.2 billion (tax inclusive) in aggregate (calculated by a coupon rate of 5.50%) to all holders of “農行優2” (stock code: 360009) whose names appeared on the register of members at the close of business on 9 March 2018. On 5 November 2018, we paid cash dividends of RMB6.00 (tax inclusive) per preference share and RMB2.4 billion (tax inclusive) in aggregate (calculated by a coupon rate of 6.00%), to all holders of “農行優1” (stock code: 360001) whose names appeared on the register of members at the close of business on 2 November 2018.

On 11 March 2019, we paid cash dividends of RMB5.50 (tax inclusive) per preference share and RMB2.2 billion (tax inclusive) in aggregate (calculated by a coupon rate of 5.50%) to all holders of “農行優2” (stock code: 360009) whose names appeared on the register of members at the close of business on 8 March 2019.

For details of the distribution of dividends above, please refer to our announcements published on the websites of the Shanghai Stock Exchange and the Bank.

Redemption and Conversion of Preference Shares

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

Accounting Policies

In accordance with *Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprises No.37 – Presentation of Financial Instruments and the Provisions on Differentiating Financial Liabilities and Equity Instruments and Related Accounting Treatment* issued by the MOF, we are of the view that the terms of preference shares “農行優1” (stock code: 360001) and “農行優2” (stock code: 360009) meet the definition of equity instruments.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Basic Information

Name	Position	Gender	Age	Tenure
Incumbent Directors				
ZHOU Mubing	Chairman of the Board of Directors, Executive Director	Male	61	2016.07-2019.07
WANG Wei	Executive Director, Executive Vice President	Male	56	2018.02-2021.02
XU Jiandong	Non-executive Director	Male	55	2015.02-2020.12
CHEN Jianbo	Non-executive Director	Male	55	2015.01-2020.12
LIAO Luming	Non-executive Director	Male	55	2017.08-2020.08
LI Qiyun	Non-executive Director	Male	55	2018.06-2021.06
WEN Tiejun	Independent Non-executive Director	Male	67	2011.05-present
Francis YUEN Tin-fan	Independent Non-executive Director	Male	66	2013.03-present
XIAO Xing	Independent Non-executive Director	Female	48	2015.03-2021.05
WANG Xinxin	Independent Non-executive Director	Male	66	2016.05-2019.05
HUANG Zhenzhong	Independent Non-executive Director	Male	54	2017.09-2020.09
Incumbent Supervisors				
WANG Jingdong	Chairman of the Board of Supervisors, Supervisor Representing Shareholders	Male	56	2018.11-2021.11
WANG Xingchun	Supervisor Representing Shareholders	Male	55	2014.06-2020.06
LIU Chengxu	Supervisor Representing Employees	Male	56	2016.07-2019.07
XIA Taili	Supervisor Representing Employees	Male	56	2018.08-2021.08
SHAO Lihong	Supervisor Representing Employees	Male	46	2018.08-2021.08
LI Wang	External Supervisor	Male	55	2015.06-2021.11
ZHANG Jie	External Supervisor	Male	54	2018.11-2021.11
LIU Hongxia	External Supervisor	Female	55	2018.11-2021.11

Name	Position	Gender	Age	Tenure
Incumbent Senior Management				
WANG Wei	Executive Director, Executive Vice President	Male	56	2013.12-
ZHANG Keqiu	Executive Vice President	Female	55	2017.07-
LI Zhicheng	Chief Risk Officer	Male	56	2017.02-
ZHOU Wanfu	Secretary to the Board of Directors	Male	53	2018.04-
Former Directors, Supervisors and Senior Management				
ZHAO Huan	Former Vice Chairman of the Board of Directors, Executive Director and President	Male	55	2016.03-2018.09
GUO Ningning	Former Executive Director, Executive Vice President	Female	48	2018.02-2018.10
ZHAO Chao	Former Non-executive Director	Male	60	2012.02-2018.02
ZHANG Dinglong	Former Non-executive Director	Male	62	2015.01-2018.05
HU Xiaohui	Former Non-executive Director	Male	59	2015.01-2019.01
XIA Zongyu	Former Supervisor Representing Employees	Male	54	2016.07-2018.08
LV Shuqin	Former External Supervisor	Female	68	2015.06-2018.11
GONG Chao	Former Secretary of the Party Discipline Committee	Male	59	2012.03-2019.01
KANG Yi	Former Executive Vice President	Male	52	2017.01-2018.01

Notes: 1. Please refer to "Changes in Directors, Supervisors and Senior Management" in this section for information related to the changes in Directors, Supervisors and senior management of the Bank.

2. The term of office of each of Mr. WEN Tiejun and Mr. Francis YUEN Tin-fan has been expired. Each of Mr. WEN Tiejun and Mr. Francis YUEN Tin-fan continues to perform his duties as an Independent Non-executive Director until the new Independent Non-executive Directors take office, to meet the requirement that the members of the Audit and Compliance Committee shall be no less than 3 and Independent Non-executive Directors represent at least half of that.

3. The term of office of Ms. GUO Ningning as the former Executive Director is set out in the table above. Her term of office as the former Executive Vice President began in June 2016.

Biography of Directors, Supervisors and Senior Management

Biography of Directors

ZHOU Mubing   Chairman of the Board of Directors, Executive Director

Mr. ZHOU Mubing received a doctor's degree in economics from Renmin University of China and holds a certificate of senior economist. Mr. ZHOU has served as the Chairman of the Board of Directors and an Executive Director of the Bank since July 2016. Mr. ZHOU successively worked in several places, including the production team of Rongchang County of Sichuan Province, Sichuan Rongchang County No. 4 Middle School and Sichuan Finance and Economics College as a teacher, and the State Commission for Restructuring the Economic Systems. Mr. ZHOU served successively in several positions in Industrial and Commercial Bank of China, including an assistant president of the Hainan Branch and concurrently the president of the Yangpu Branch, a director of Policy and Research Department of the head office and the president of the Fujian Branch. Mr. ZHOU served successively as a deputy chief executive, an acting chief executive and a chief executive of Yubei District in Chongqing Municipality, the director general of General Office of Chongqing Municipal Government, and the secretary general of Chongqing Municipal Government. Mr. ZHOU was appointed as a vice mayor of Chongqing Municipal Government in March 2004 and a vice chairman of the China Banking Regulatory Commissions in December 2010.

WANG Wei   Executive Director, Executive Vice President

Mr. WANG Wei received a doctor's degree in economics from Southwestern University of Finance and Economics and is a senior economist. He has served as a member of senior management of the Bank since December 2011 and an Executive Vice President of the Bank since December 2013. Mr. WANG has also served as an Executive Director and an Executive Vice President of the Bank since February 2018. Mr. WANG previously served in several positions in the Bank, including a deputy president of Ningxia Branch, a deputy president of Gansu Branch, the president of Gansu Branch, the president of Xinjiang Branch and the president of Xinjiang Production and Construction Corps Branch, the general manager of the Office of the Bank and the president of Hebei Branch, the general manager of the Internal Control and Compliance Department, the general manager of the Human Resources Department and the chief officer of the Sannong Business. He is concurrently the vice chairman of the fifth committee of Chinese Society of Financial Ideological and Political Work, an executive member of the fifth national standing committee of Chinese Financial Association and a vice chairman of Asian Financial Cooperation Association.

XU Jiandong   Non-executive Director

Mr. XU Jiandong holds a bachelor's degree. He currently works with Central Huijin Investment Ltd. Mr. XU has served as a Non-executive Director of the Bank since February 2015. Mr. XU successively served in several positions in the State Administration of Foreign Exchange (the "SAFE"), including a deputy director of the Market Exchange Rate Division of the Balance of Payment Department, a director of the Banking Foreign Exchange Balance of Payment Management Division of the Balance of Payment Department, and a deputy counsel of the Balance of Payment Department. He also previously served as a deputy director of the Financial Affairs Office of Jilin Province and a deputy counsel of the Management and Inspection Department of the SAFE.

CHEN Jianbo Non-executive Director

Mr. CHEN Jianbo received a doctor's degree in management from Renmin University of China. He currently works with Central Huijin Investment Ltd. Mr. CHEN has served as a Non-executive Director of the Bank since January 2015. He previously served as an assistant research fellow and deputy director of the Rural Policy Research Office of the Secretariat of the Central Committee and the Enterprise Research Division of the Development Research Department of the Rural Development Research Center of the State Council; a director and research fellow of the Rural Department of the Development Research Center of the State Council; and, a counsel of the Central Financial Affairs Leading Group Office and the Rural Group 1 of the Central Rural Affairs Leading Group Office.

LIAO Luming Non-executive Director

Mr. LIAO Luming received a doctor's degree in public finance from the Public Finance Science Institute of the MOF. He currently works with Central Huijin Investment Ltd. Mr. LIAO has served as a Non-executive Director of the Bank since August 2017. He started working at the MOF in August 1985, and served successively as a director clerk of the Research Division, a deputy director and a director of the Information Division, and a director of the News Division at the General Office of MOF. He was appointed as a deputy director of the General Office of MOF in January 2003, a bureau level cadre of the Party Committee of MOF in January 2012 and an executive vice secretary (bureau level) of the Party Committee of MOF in February 2012.

LI Qiyun Non-executive Director

Mr. LI Qiyun holds a master's degree in quantitative economics from the Information Department of Renmin University of China, and is a senior engineer. He currently works with Central Huijin Investment Ltd. Mr. LI has served as a Non-executive Director of the Bank since June 2018. He previously served as an assistant engineer and engineer at the Computing Center of the MOF, a deputy director, senior engineer, deputy chief engineer (director level) and deputy general manager of the Information Network Center of the MOF.

WEN Tiejun Independent Non-executive Director

Mr. WEN Tiejun holds a Ph.D. degree in management. He has served as an Independent Non-executive Director of the Bank since May 2011. He currently serves as a deputy director of the Academic Committee of Renmin University of China, the executive dean of the Institute for New Rural Development of Fujian Agriculture and Forestry University, a member of the National Environment Advisory Committee, a member of the Expert Committee on Food Security, the vice president of the Chinese Association of Agricultural Economics, a member of the Disciplinary Assessment Team under the State Council Academic Degrees Committee, as well as a ministerial adviser and a policy advisory expert of the Ministry of Commerce, the Ministry of Civil Affairs, the State Forestry Administration, Beijing Municipality and Fujian Province. He previously served as an assistant researcher of the Rural Development Research Center of the State Council, a researcher of the Research Center for Rural Economy of Ministry of Agriculture, a deputy secretary general of the China Society of Economic Reform and the dean of School of Agricultural Economics and Rural Development of Renmin University of China.

Francis YUEN Tin-fan   Independent Non-executive Director

Mr. Francis YUEN Tin-fan received a bachelor's degree in economics from the University of Chicago. He is now a non-executive vice chairman of Pacific Century Regional Developments Limited and the chairman of Ortus Capital Management Limited, and has served as an Independent Non-executive Director of the Bank since March 2013. Mr. YUEN previously served as the chief executive officer of the Hong Kong Stock Exchange, a vice chairman and an executive director of Pacific Century Group, the chairman and board representative of Pacific Century Group Japan Co., Ltd., a vice chairman and an executive director of PCCW Limited, a vice chairman of Pacific Century Premium Developments Limited, an executive chairman of Pacific Century Insurance Holdings Limited, a vice chairman and an executive director of Pacific Century Regional Developments Limited and a non-executive director of Kee Shing (Holdings) Limited (currently known as Gemini Investments (Holdings) Limited), an independent non-executive director of China Pacific Insurance Group Co., Ltd. and an independent non-executive director of China Foods Limited. Mr. YUEN currently serves as the chairman of the board of directors of the Hong Kong Centre for Economic Research, a member of the board of trustees of the University of Chicago and Fudan University in Shanghai, an independent non-executive director of Shanghai Industrial Holdings Limited and an independent non-executive director of Yixin Group Limited.

XIAO Xing   Independent Non-executive Director

Ms. XIAO Xing holds a Ph.D. degree in accounting. She is currently the head of Accounting Department, a professor and a supervisor for Ph.D. candidates of School of Economics and Management of Tsinghua University and a vice dean of the Institute for Global Private Equity of Tsinghua University. She has served as an Independent Non-executive Director of the Bank since March 2015. She visited Harvard University, Massachusetts Institute of Technology as well as University of Wisconsin for study and as a senior visiting scholar. She was elected as a Fulbright scholar in 2011. Ms. XIAO Xing previously served as a member of the expert panel of China Development Bank, an independent advisory expert for the World Bank and an independent director of Beijing Thunisoft Corporation Limited, etc. She concurrently serves as a member of China National MPAcc Education Steering Committee, a member of the MPAcc Education Steering Committee of the Ministry of Education, an external director of State-owned Assets Supervision and Administration Commission of Beijing and an independent director of GoerTek Inc.

WANG Xinxin   Independent Non-executive Director

Mr. WANG Xinxin holds a master's degree in law and is currently a teacher in the Economic Law Teaching and Research Office of the School of Law, professor and supervisor for Ph.D. candidates of Renmin University of China. He has served as an Independent Non-executive Director of the Bank since May 2016. He previously worked in NPC Financial and Economic Committee as a member of the Drafting Group for Enterprise Bankruptcy Law. He concurrently serves as the director of Bankruptcy Law Research Center of Renmin University of China, the president of Beijing Bankruptcy Law Society, the honorary president of Enterprise Bankruptcy and Reorganization Panel of Shandong Law Society, the honorary president of Bankruptcy Law Panel of Guangdong Law Society, the honorary president of Bankruptcy and Reorganization Panel of Shanxi Law Society, the honorary president of Enterprise Bankruptcy and Reorganization Panel of Hunan Law Society, a consultant for the Bankruptcy Law Research Institute of the Shanghai Law Society, a consultant for the Bankruptcy Law Research Institute of the Henan Law Society, an executive member of Economic Law Research Institute of the China Law Society and an executive member of the Beijing Law Society. Mr. WANG Xinxin is a consultant in the Drafting Group for Judicial Interpretations of Bankruptcy Law, one of the first chief researchers of Judicial Case Research Institute of the Supreme People's Court. He has been serving in the United Nations Commission on International Trade Working Group V (Insolvency Law) as an expert advisor to PRC delegation since 2015. He also serves as an independent director of each of Unisplendour Corporation Limited, Hainan Jingliang Holdings Co., Ltd. and Cnano Technology Limited (a private company).

HUANG Zhenzhong Independent Non-executive Director

Mr. HUANG Zhenzhong holds a doctor's degree in law. He is currently a professor and a supervisor for Ph.D. candidates of the School of Law in Beijing Normal University, and a deputy director of Chinese Entrepreneurs Crime Prevention Research Center. He has been serving as an Independent Non-executive Director of the Bank since September 2017. He previously served as a vice director and a senior economist of the Enterprise Reform Division at the Asset Management Department of Sinopec Group, a deputy head of School of Law and a director of the Legal Counsel Office in School of Law of Beijing Normal University, and a deputy chief prosecutor and a member of the Committee of Inspection of the Procuratorate of Tibet Autonomous Region. He is currently the vice chairman of China – ASEAN Legal Cooperation Center, an executive director of the Energy Law Research Committee of China Law Society, an arbitrator of China International Economic and Trade Arbitration Commission, a panel mediator with the Mediation Center of China Chamber of International Commerce, an arbitrator of Tianjin Arbitration Commission, an arbitrator of Hainan Arbitration Commission, a lifetime honorary director of Beijing Jingshi Law Firm, a member of the Chartered Institute of Arbitrators, and an independent director of Sinopec Oilfield Equipment Corporation, CECEP Solar Energy Technology Co., Ltd. and Ciwen Media Co., Ltd.

Biography of Supervisors

WANG Jingdong Chairman of the Board of Supervisors, Supervisor Representing Shareholders

Mr. WANG Jingdong holds a bachelor's degree in agronomy from Huazhong Agricultural College and is a senior engineer. He has served as the Chairman of the Board of Supervisors of the Bank since November 2018. He worked in the Ministry of Agriculture, Animal Husbandry and Fisheries after graduating from college in August 1983 and later served in the State Economic Commission and State Agriculture Investment Corporation. He joined China Development Bank in March 1994 and served as an executive vice president of the Heilongjiang branch and a vice general manager of the human resources department of the head office, and he later served as the general manager of the project appraisal department III of the head office, the president of Beijing branch and the general manager of human resources department of the head office of China Development Bank from July 2006, December 2008, and December 2010, respectively. He served as an executive vice president of Industrial and Commercial Bank of China Limited since December 2013 and an executive director and executive vice president of Industrial and Commercial Bank of China Limited since December 2016.

WANG Xingchun   Supervisor Representing Shareholders

Mr. WANG Xingchun received a master's degree in economics from the Graduate School of the PBOC and is a senior economist. He has served as a Supervisor Representing Shareholders of the Bank since June 2014. Mr. WANG previously served successively in several positions in the Bank, including a deputy director of the Policy Research Division of the Research Office, a director of the Policy Research Division of the Development Planning Department, an assistant to general manager of the Development Planning Department and the Market Development Department, a deputy general manager of the Market Development Department and a deputy general manager of Training Department. He was appointed as a vice president of Tianjin Training Institute of the Bank in February 2002, the general manager of the Legal Affairs Department of the Bank in November 2003, the general manager of the Legal and Compliance Department of the Bank in June 2006, the general manager of the Legal Affairs Department of the Bank in July 2008, a Supervisor Representing Employees and the general manager of the Legal Affairs Department of the Bank in April 2009, a Supervisor Representing Employees and the director general of the Audit Office's Affiliated Office of the Bank in March 2011, the director general of the Audit Office's Affiliated Office of the Bank in July 2011, and the director of Office of the Board of Supervisors in March 2014.

LIU Chengxu   Supervisor Representing Employees

Mr. LIU Chengxu holds a master's degree and is a senior economist. He has served as a Supervisor Representing Employees of the Bank since July 2016. Mr. LIU Chengxu served as a deputy director of the Science, Research and Foreign Affairs Division, Education Department of the State Ministry of Machinery and Electronics Industry, and a deputy director of the College Division, Education Department of the Ministry of Machinery Industry. He then served in several positions in the State Administration of Machinery Industry, including a deputy director of the Education Division of the Enterprise Reform Department, a director-level consultant, and a vice director of the Intellectual Property Rights Office. Mr. LIU Chengxu also served as the director level consultant of the Enterprise Cadre Office in the Organization Department of the CPC Central Committee, and a director-level consultant and concurrently a deputy director, a director and the vice counsel of the Fifth Cadre Bureau of the Organization Department of the CPC Central Committee. Mr. LIU Chengxu was appointed as the general manager of the Human Resources Department of the Bank in April 2012, and the chief officer and the general manager of the Human Resources Department of the Bank in February 2017, and the chief officer of the Bank in September 2018.

XIA Taili Supervisor Representing Employees

Mr. XIA Taili graduated with a college diploma and has served as a Supervisor Representing Employees of the Bank since August 2018. He previously served as a deputy director, a director level inspector and a supervisor of the General Division in the Third Discipline Inspection Office of the Central Commission for Discipline Inspection, a director of the Second Division and the General Division in the Second Discipline Inspection Office of the Central Commission for Discipline Inspection, a deputy bureau level discipline inspection commissioner and a supervisor in the Second Discipline Inspection Office of the Central Commission for Discipline Inspection, a deputy bureau level discipline inspection commissioner and a supervisor in the Seventh Discipline Inspection Office of the Central Commission for Discipline Inspection. Mr. XIA previously served successively in several positions in the Bank, including the dean of the Office of the Leading Group of Inspection Work in February 2013, the deputy secretary of the Party Discipline Committee and the general manager of the Inspection and Supervision Department in April 2014, and a Supervisor Representing Employees, the deputy secretary of the Party Discipline Committee and the general manager of the Inspection and Supervision Department in December 2014, and a Supervisor Representing Employees, the deputy secretary of the Party Discipline Committee and the president of the Inspection and Supervision Bureau in March 2015, and a Supervisor Representing Employees, the deputy secretary of the Party Discipline Committee, the president of the Inspection and Supervision Bureau and the dean of the Office of the Leading Group of Inspection Work in September 2015, and a Supervisor Representing Employees, the deputy secretary of the Party Discipline Committee, the president of the Inspection and Supervision Bureau and the dean of the Office of the Party Discipline Committee/the Leading Group of Inspection Work in January 2017, and the deputy secretary of the Party Discipline Committee and the president of the Inspection and Supervision Bureau and the dean of the Office of the Party Discipline Committee/the Leading Group of Inspection Work in December 2017.

SHAO Lihong Supervisor Representing Employees

Mr. SHAO Lihong, holds a master's degree in economics and is a senior economist. He has served as a Supervisor Representing Employees of the Bank since August 2018. Mr. SHAO previously served successively in several positions in the Bank, including the deputy director level secretary of the Secretariat of the Office, the deputy director of the Real Estate Development Division, the Real Estate Development Division II and the General Business Division of the Real Estate Credit Department, the director of the Individual Housing Business Division of the Real Estate Credit Department, the director of the Housing Credit Division of the Individual Business Department, the director of the Housing Credit Division of the Housing Finance and Retail Credit Department, the deputy general manager of the Housing Finance and Retail Credit Department, the deputy general manager of the Retail Banking Department. He served as the director of the Trade Union Affairs Department/United Front Work Department of the Bank in April 2018.

LI Wang External Supervisor

Mr. LI Wang holds a doctor's degree in law. He has served as an External Supervisor of the Bank since June 2015. He has worked in the School of Law of Tsinghua University since November 1997 and is now a professor and supervisor for Ph.D. candidates. He previously worked as a teaching assistant at the Faculty of Law of Kyoto University and as a lawyer at Sakamoto Law Firm in Japan, Oh-Ebashi LPC & Partners in Japan and J&R Law Firm in Beijing. He concurrently serves as a lawyer at the Tiantai Law Firm in Beijing and an independent director of Beijing Capital Land Ltd.

ZHANG Jie External Supervisor

Mr. Zhang Jie, holds a doctor's degree in economics. He has served as an External Supervisor of the Bank since November 2018. He is a distinguished professor of the "Changjiang Scholars Programme" of the Ministry of Education, an Outstanding Teacher in the national "Ten Thousand Talent Program", and an expert entitled to Government Special Allowance granted by the State Council. He currently serves as a second-level professor, a supervisor for Ph.D. candidates, the director of the Academic Committee and the president of the International Monetary Institute (IMI) of the School of Finance of Renmin University of China. He previously served as the dean of the School of Finance of Shaanxi Finance and Economic Institute, a deputy dean of the School of Economics and Finance of Xi'an Jiaotong University and a deputy dean of the School of Finance of Renmin University of China, etc. He currently serves as an executive member of China Society for Finance and Banking, China Society for International Financial, China Urban Financial Society and China Rural Financial Society, etc.

LIU Hongxia External Supervisor

Ms. LIU Hongxia, holds a doctor's degree in management. She has served as an External Supervisor of the Bank since November 2018. From 1999 until now, she has been working as a professor, a supervisor for Ph.D. candidates, and a co-advisor for postdoctoral at the School of Accounting of Central University of Finance and Economics. She previously worked as a teaching assistant at Beijing Institute of Finance and Trade, a lecturer of Shandong University of Finance, an auditor of Zhongzhou Certified Public Accountants in Beijing, and a deputy professor of Central Financial Management Cadre College. She previously served as independent director for China Merchants Bank, Fangda Special Steel Technology Co., Ltd., Beijing AriTime Intelligent Control Co., Ltd and Shanghai New Huang Pu Real Estate Co., Ltd., etc. She currently serves as a vice executive member of Beijing Senior Accountant Assessment Committee as well as an independent director of Cinda Real Estate Co., Ltd., Langold Real Estate Co. Ltd. and Nanjing Tanker Corporation of China Changjiang National Shipping Group Co. Ltd..

Biography of Senior Management

Please see "Biography of Directors" for biographical details of Mr. WANG Wei. The biographical details of other members of senior management are as follows:

ZHANG Keqiu Executive Vice President

Ms. ZHANG Keqiu received a master's degree in economics from Nankai University. Ms. ZHANG is a senior accountant and an expert entitled to Government Special Allowance granted by the State Council. She was appointed as the secretary to the Board of Directors of the Bank in June 2015, as an Executive Vice President and the secretary to the Board of Directors of the Bank in July 2017, and as the Executive Vice President of the Bank in April 2018. Ms. ZHANG had previously served in various positions in the Bank, including the general manager of Asset and Liability Management Department, the general manager of Finance and Accounting Department and the chief financial officer. Ms. ZHANG is concurrently a director of our Shanghai Management Department, a deputy secretary-general of executive committee of the Banking Accounting Society of China and the vice chairperson of the fifth session of the board of directors of China National Bond Association.

LI Zhicheng   Chief Risk Officer

Mr. LI Zhicheng received a master's degree in economics from Shaanxi College of Finance and Economics. Mr. LI has served as the Chief Risk Officer of the Bank since February 2017. Mr. LI previously served in several positions in the Bank, including an assistant president of Wuhan Cadre Management College of the Bank, a deputy director of Research Office of the Head Office and a vice president of Hebei Branch. From June 2005, Mr. LI successively served as the director of Research Office of the Bank, the president of Jilin Branch and the president of Jiangsu Branch. From July 2014, Mr. LI served as Chief Investment Officer of the Bank and concurrently held the position of general manager of Hong Kong Branch.

ZHOU Wanfu   Secretary to the Board of Directors

Mr. ZHOU Wanfu, received a master's degree in economics from the Postgraduate School of the People's Bank of China and a master's degree in business administration from Nanyang Technological University, Singapore. Mr. ZHOU has served as the Secretary to the Board of Directors of the Bank since April 2018. Mr. ZHOU previously served as the executive vice president of Ningbo Branch, deputy general manager of the Assets and Liabilities Management Department and deputy general manager of Planning and Finance Department of the Bank. From October 2008, Mr. ZHOU successively served as the general manager of Assets and Liabilities Management Department, the executive vice president of Chongqing Branch, the general manager of Strategic Planning Department and the president of Tianjin Training Institute of the Bank. Mr. ZHOU was appointed as the general manager of Strategic Planning Department of the Bank in September 2015.

Changes in Directors, Supervisors and Senior Management

Changes in Directors

On 15 December 2017, Mr. WANG Wei and Ms. Guo Ningning were elected as Executive Directors of the Bank at the First Extraordinary General Meeting of the Bank for 2017. The qualifications of Mr. WANG Wei and Ms. Guo Ningning were ratified by the CBIRC on 13 February 2018.

On 28 February 2018, Mr. ZHAO Chao ceased to be a Non-executive Director of the Bank due to the expiration of his term of office.

On 29 March 2018, Mr. LI Qiyun was elected as a Non-executive Director of the Bank at the First Extraordinary General Meeting of the Bank for 2018. The qualifications of Mr. LI Qiyun was ratified by the CBIRC on 1 June 2018.

On 11 May 2018, Mr. Hu Xiaohui was reelected as a Non-executive Director of the Bank and Ms. Xiao Xing was reelected as an Independent Non-executive Director of the Bank at the 2017 Annual General Meeting.

On 11 May 2018, Mr. ZHANG Dinglong resigned as a Non-executive Director of the Bank due to his age.

On 29 September 2018, Mr. ZHAO Huan resigned as the Vice Chairman of the Board of Directors and an Executive Director of the Bank due to work arrangements.

On 22 October 2018, Ms. GUO Ningning resigned as an Executive Director of the Bank due to work arrangements.

On 9 January 2019, Mr. HU Xiaohui resigned as a Non-executive Director of the Bank due to his age.

On 1 March 2019, Ms. ZHANG Keqiu was elected as an Executive Director of the Bank, Ms. LEUNG KO May Yee and Mr. LIU Shouying were elected as Independent Non-executive Directors of the Bank and Mr. LI Wei was elected as a Non-executive Director of the Bank at the First Extraordinary General Meeting of the Bank for 2019. The qualifications of Ms. ZHANG Keqiu, Ms. LEUNG KO May Yee, Mr. LIU Shouying and Mr. LI Wei are subject to ratifications by the CBIRC.

Changes in Supervisors

On 21 August 2018, Mr. XIA Taili and Mr. SHAO Lihong were elected as Supervisors Representing Employees of the Bank at the Employee Congress of the Bank.

On 22 August 2018, Mr. XIA Zongyu resigned as a Supervisor Representing Employees of the Bank due to work arrangements.

On 12 November 2018, Mr. WANG Jingdong was elected as a Supervisor Representing Shareholders of the Bank, Mr. LI Wang, Mr. ZHANG Jie and Ms. LIU Hongxia were elected as External Supervisors of the Bank at the Second Extraordinary General Meeting of the Bank for 2018. Ms. LV Shuqin ceased to be an External Supervisor of the Bank.

On 13 November 2018, Mr. WANG Jingdong was elected as the Chairman of the Board of Supervisors by the Board of Supervisors of the Bank.

Changes in Senior Management

On 22 January 2018, Mr. KANG Yi resigned as an Executive Vice President of the Bank due to adjustment in work arrangements.

On 12 March 2018, Mr. ZHOU Wanfu was appointed as the secretary to the Board of Directors of the Bank, the company secretary and an authorised representative of the Bank by the Board of Directors of the Bank. On 12 April 2018, the appointment of Mr. ZHOU Wanfu took effect and Ms. ZHANG Keqiu ceased to be the secretary to the Board of Directors, the company secretary and an authorized representative of the Bank.

On 29 September 2018, Mr. ZHAO Huan resigned as the President of the Bank due to work arrangements. Mr. ZHOU Mubing, the Chairman of the Bank, performs the duties of the President.

On 22 October 2018, Ms. GUO Ningning resigned as an Executive Vice President of the Bank due to work arrangements.

On 2 January 2019, Mr. GONG Chao ceased to be the Secretary of the Party Discipline Committee of the Bank.

On 20 February 2019, Mr. ZHAN Dongsheng was appointed as an Executive Vice President of the Bank by the Board of Directors of the Bank. His qualification is subject to ratification by the CBIRC.

Annual Remuneration

According to relevant government regulations, since 1 January 2015, the remuneration of the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors as well as the Executive Vice Presidents of the Bank shall be paid in line with the *Interim Administration Measures for the Remuneration of Person in-charge in State-controlled Financial Enterprises*, which we followed accordingly. Final remuneration of Directors, Supervisors and senior management for 2018 is still subject to confirmation and will be disclosed in further announcement.

The remuneration paid to Directors, Supervisors and senior management of the Bank for 2018 is set out in the table below.

			Remuneration paid in 2018 (Unit: RMB Ten Thousand)				
Name	**Position**	**Tenure**	**Salaries paid (before tax) (1)**	**Social insurance, enterprise annuity and housing fund payable by the Bank (2)**	**Director's fee/ Supervisor's Fee (3)**	**Total (4)=(1)+(2)+(3)**	**Whether receiving remuneration from shareholders or other related parties (Y/N)**
ZHOU Mubing	Chairman of the Board of Directors, Executive Director	2016.07-2019.07	54.60	15.79	–	70.39	N
WANG Wei	Executive Director, Executive Vice President	2018.02-2021.02	49.14	15.46	–	64.60	N
XU Jiandong	Non-executive Director	2015.02-2020.12	–	–	–	–	Y
CHEN Jianbo	Non-executive Director	2015.01-2020.12	–	–	–	–	Y
LIAO Luming	Non-executive Director	2017.08-2020.08	–	–	–	–	Y
LI Qiyun	Non-executive Director	2018.06-2021.06	–	–	–	–	Y
WEN Tiejun	Independent Non-executive Director	2011.05-present	–	–	41.00	41.00	Y
Francis YUEN Tin-fan	Independent Non-executive Director	2013.03-present	–	–	38.00	38.00	Y
XIAO Xing	Independent Non-executive Director	2015.03-2021.05	–	–	38.00	38.00	Y
WANG Xinxin	Independent Non-executive Director	2016.05-2019.05	–	–	36.00	36.00	Y

Name	Position	Tenure	Remuneration paid in 2018 (Unit: RMB Ten Thousand) Salaries paid (before tax) (1)	Social insurance, enterprise annuity and housing fund payable by the Bank (2)	Director's fee/ Supervisor's Fee (3)	Total (4)=(1)+(2)+(3)	Whether receiving remuneration from shareholders or other related parties (Y/N)
HUANG Zhenzhong	Independent Non-executive Director	2017.09-2020.09	–	–	36.00	36.00	Y
WANG Jingdong	Chairman of the Board of Supervisor, Supervisor Representing Shareholders	2018.11-2021.11	18.20	5.99	–	24.19	N
WANG Xingchun	Supervisor Representing Shareholders	2014.06-2020.06	–	–	–	–	N
LIU Chengxu	Supervisors Representing Employees	2016.07-2019.07	–	–	5.0	5.0	N
XIA Taili	Supervisors Representing Employee	2018.08-2021.08	–	–	2.08	2.08	N
SHAO Lihong	Supervisor Representing Employees	2018.08-2021.08	–	–	2.08	2.08	N
LI Wang	External Supervisor	2015.06-2021.11	–	–	28.00	28.00	Y
ZHANG Jie	External Supervisor	2018.11-2021.11	–	–	4.25	4.25	Y
LIU Hongxia	External Supervisor	2018.11-2021.11	–	–	4.11	4.11	Y
ZHANG Keqiu	Executive Vice President	2017.07-	49.14	15.46	–	64.60	N
LI Zhicheng	Chief Risk Officer	2017.02-	94.87	21.52	–	116.39	N
ZHOU Wanfu	Secretary to the Board of Directors	2018.04-	63.23	14.11	–	77.34	N

Notes: 1. The Directors, Supervisors and senior management members of the Bank who are also our employees are entitled to receive remuneration from the Bank. The remuneration includes salary, bonus and contributions to all kinds of social insurance and housing fund payable by the Bank. The Independent Non-executive Directors of the Bank are entitled to receive director's fee. The External Supervisors of the Bank are entitled to receive supervisor's fee. The Chairman of the Board of the Directors, Executive Directors and senior management members of the Bank did not receive any remuneration from any subsidiary of the Bank. For Supervisors Representing Employees of the Bank, the amount set forth above only includes fee for their services as Supervisors.

2. Mr. XU Jiandong, Mr. CHEN Jianbo, Mr. LIAO Luming and Mr. LI Qiyun, as our Non-executive Directors, did not receive any remuneration from the Bank.

3. Mr. ZHAO Huan, the former Vice Chairman of the Board of Directors, Executive Director and President of the Bank, received a remuneration of RMB526.1 thousand during his term of office in the Bank in 2018.

4. Ms. GUO Ningning, the former Executive Director and Executive Vice President of the Bank, received a remuneration of RMB537.1 thousand during her term of office in the Bank in 2018.

5. Mr. ZHAO Chao, Mr. ZHANG Dinglong and Mr. HU Xiaohui, former Non-executive Directors, did not receive any fee from the Bank.

6. Mr. WANG Xingchun did not receive any fee from the Bank in 2018 as our Supervisor Representing Shareholders.

7. The supervisor's fee of Mr. XIA Zongyu, a former Supervisor Representing Employees, was RMB33.6 thousand in 2018.

8. The supervisor's fee of Ms. LV Shuqin, a former External Supervisor, was RMB241.6 thousand in 2018.

9. Mr. GONG Chao, the former Secretary of the Party Discipline Committee, received a remuneration of RMB646.0 thousand during his term of office in the Bank in 2018.

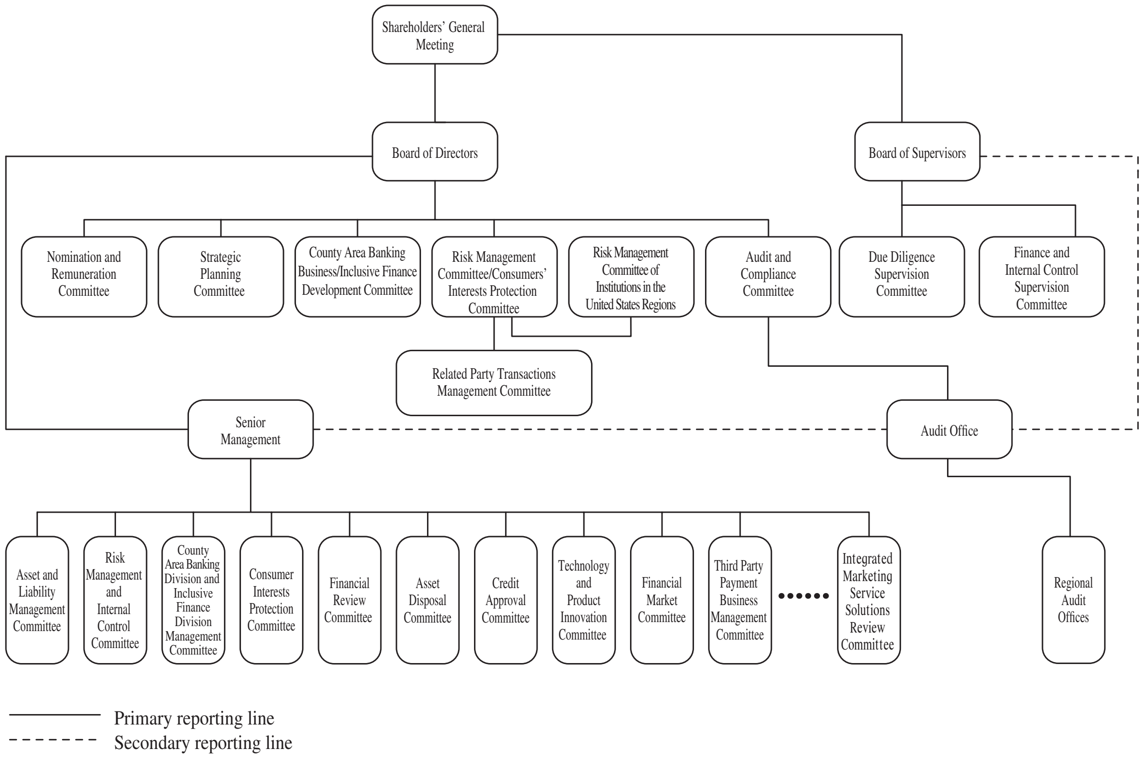
10. Mr. KANG Yi, a former Executive Vice President, received a remuneration of RMB53.2 thousand during his term of office in the Bank in 2018.

11. The total remuneration (before tax) paid to the Directors, Supervisors and senior management, including former Directors, Supervisors and Senior Management, by the Bank in 2018 was RMB8,557.9 thousand.

12. The term of office of each of Mr. WEN Tiejun and Mr. Francis YUEN Tin-fan expired. Each of Mr. WEN Tiejun and Mr. Francis YUEN Tin-fan continues to perform his duties as an Independent Non-executive Director until the new Independent Non-executive Directors take office, to meet the requirement that the members of the Audit and Compliance Committee shall be no less than 3 and Independent Non-executive Directors represent at least half of that.

As at the end of reporting period, Mr. ZHOU Wanfu, the secretary to the Board of Directors of the Bank, held 10,000 A share of the Bank. Other than him, no Directors, Supervisors or senior management members of the Bank held or purchased any share of the Bank. During the reporting period, none of the Directors, Supervisors and senior management members of the Bank held any share option of the Bank, or was granted restricted shares of the Bank.

Corporate Governance Structure



Note: Responsibilities of the Risk Management Committee of Institutions in the United States Regions are concurrently assumed by the Risk Management Committee/Consumers' Interest Protection Committee

Corporate Governance Structure Chart of the Bank

Responsibilities of the Shareholders' General Meeting

As our authority of power, our shareholders' general meeting is formed by all shareholders. Our shareholders' general meeting is responsible for, among others, deciding on our business policies and investments plans; electing, replacing and dismissing directors and deciding on matters concerning the remuneration of the relevant directors; electing, replacing and dismissing external supervisors and supervisors representing shareholders, and deciding on matters concerning the remuneration of the relevant supervisors; examining and approving work report of the Board of Directors and work report of the Board of Supervisors; examining and approving annual financial budget and final accounts, and profit distribution and loss appropriation plans; adopting resolutions concerning the increase or reduction of our registered capital, the issue and listing of corporate bonds and other securities, merger, division, dissolution, liquidation, change of corporate form and repurchase of ordinary shares; and amending the Articles of Association as well as considering and adopting the Rules of Procedures of the Shareholders' General Meeting, the Rules of Procedures of the Board of Directors' and the Rules of Procedures of the Board of Supervisors, etc.

Responsibilities of the Board of Directors

As our decision-making organ, the Board of Directors is accountable to, and shall report its work to, the shareholders' general meeting. The Board of Directors is responsible for, among others, convening the shareholders' general meeting and reporting to the shareholders' general meeting; implementing the resolutions of the shareholders' general meeting; deciding on our development strategies, business plans and investment proposals; formulating annual financial budget and final accounts, proposals on profit distribution and loss appropriation, proposals on the increase or reduction of registered capital and financial restructuring, the capital replenishment plans including, among others, the issue and listing of corporate bonds and other securities; formulating proposals on merger, division, dissolution or change of the corporate form; formulating proposals on the ordinary share repurchase; establishing and supervising the implementation of our basic management systems and policies; establishing and improving basic management systems for risk management and internal control; considering and approving the general risk management report and the plan on allocation of risk-based capital, and evaluating the effectiveness of our risk management; formulating amendments to the our Articles of Association, the rules of procedures for a shareholders' general meeting and the rules of procedures for the Board of Directors and establishing the relevant corporate governance system; appointing or dismissing the President and the the Secretary to the Board of Directors; appointing and dismissing the Vice President and other senior management members (excluding the Secretary to the Board of Directors) nominated by the President; assessing and improving our corporate governance; and managing the affairs related to our information disclosure.

Responsibilities of the Board of Supervisors

As our supervisory organ, the Board of Supervisors is accountable to, and shall report its work to, the shareholders' general meeting. The Board of Supervisors is responsible for, among others, supervising the performance of the Board of Directors and senior management, supervising and questioning the duty of performance of Directors and senior management members, and urging Directors and senior management members to correct their acts which impair our benefits; conducting audit on resigning Directors and senior management members as necessary; formulating the compensation and allowance distribution plan for supervisors and submitting the plan to the shareholders' general meeting for approval; supervising the financial activities, business decisions, risk management and internal control, and advising on our internal auditing work; reviewing financial and accounting reports, operation reports and profit distribution proposals submitted by the Board of Directors to the shareholders' general meeting; supervising the implementation of development strategic plan, policies and general management system of County Area Banking Business; submitting proposals to the shareholders' general meeting; nominating supervisors representing shareholders, external supervisors and independent directors; formulating amendment to the rules of procedures of the Board of Supervisors; supervising the compliance of the appointment, dismissal and reappointment of external auditing firms and the fairness of the terms of engagement and remunerations, as well as the independence and effectiveness of external audit.

Responsibilities of the Senior Management

As our executive organ, the senior management is accountable to the Board of Directors and shall submit themselves to the supervision of the Board of Supervisors. The senior management is responsible for, among others, taking charge of our operation and management, and making arrangements to implement board resolutions; formulating our basic management systems and policies, and establishing our specific rules and regulations (other than internal audit rules and regulations); formulating our operation plans and investment plans, and to make arrangements for their implementation after they are approved by the Board of Directors; formulating the annual financial budget plans and final accounts, risk capital allocation plans, profit distribution plans, loss appropriation plans, plans for increase or reduction of registered capital, plans for issuance of corporate bonds or other negotiable securities and listing plans, and shares repurchase plans, and making proposals to the Board of Directors.

For detailed responsibilities of the shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management, please refer to the Articles of Association.

Development of Corporate Governance

With the target of building ourselves into an international first-class commercial banking group, we continued to modernize our corporate governance through optimizing the structure, mechanism and policy system for corporate governance, so as to continuously consolidate our foundation of corporate governance in respect of managing risks, improving our return and achieving our sustainable development. In compliance with laws and regulations, we strictly followed the principle that each governance body operates independently, counterbalances effectively, and cooperates and coordinates efficiently. We constantly optimize the mechanism in which the Board of Directors rationally makes decision, the Board of Supervisors strictly makes supervision and the senior management efficiently makes execution. During the reporting period, the bank was awarded the Outstanding Prize for Corporate Governance in the 14th Gold Round Table Forum of the Chinese Board of Listed Companies by *Directors & Boards* for our excellent performance in corporate governance.

Organizational Structure of Corporate Governance

During the reporting period, we appointed and re-appointed certain Directors and Supervisors, and made adjustments to the composition of the Board of Directors, Board of Supervisors and the special committees of each of them, so as to improve the organizational structure and optimize the functions. We attached greater strategic importance on consumers' interest protection by renaming the "Risk Management Committee of the Board of Directors" to the "Risk Management/Consumers' Interest Protection Committee" to strengthen its responsibility for consumers' interest protection. We continued to improve our corporate governance at group level through authorization mechanism, and strengthened the strategic synergy from subsidiaries for corporate governance.

Mechanism of Corporate Governance

We fully leveraged the role of the Board of Directors in making strategic decisions. During the reporting period, the Board of Directors fully leveraged its key role in corporate governance with enhancing efficiency for corporate governance as its target to promote value creation of the Bank. Following the principle of seeking progress while working to keep performance stable, adopting a new vision for development and following the requirement for high-quality development, the Board of Directors vigorously promoted reforms and innovation as well as business transformation. With a focus on areas such as serving Sannong, inclusive finance and targeted poverty alleviation, the Board of Directors persevered with serving the real economy. The Board of Directors strengthened comprehensive risk management and internal control, and increased our efforts in controlling risks in the United States regions. The Board of Directors also focused on enhancing capital management capability by improving our capital adequacy level through various channels, including external financing and internal funding. The Board of Directors also strengthened compliance management at group level and its responsibilities for audit, prevention of cases of compliance violations and anti-money laundering.

Our Board of Supervisors fully performed its supervisory duties. During the reporting period, focusing on serving the supply-side structural reform, serving the real economy, preventing financial risks, advancing business transformation and deepening reforms on a continuous basis and etc., the Board of Supervisors emphasized its supervision over the quality and efficiency of our services in the areas such as supporting national key strategies, serving Sannong, financial poverty alleviation and supporting private and small and micro enterprises, and provided advice accordingly. The Board of Supervisors strengthened due diligence supervision on the Board of Directors, the senior management and their members, as well as audit on resigning Directors and senior management members. The Board of Supervisors also enhanced financial supervision to promote business transformation and improve the quality and efficiency of our services. The Board of Supervisors strengthened supervision on risks and internal control to continuously improve the effectiveness of its risk management and internal control.

We strived to enhance the execution capabilities of our senior management. During the reporting period, strictly abiding by the authorization from the Board of the Directors, the senior management has effectively executed all decisions made by the Board of Directors, under the comprehensive supervision by the Board of Supervisors. Focusing on serving the supply-side structural reform, the senior management emphasized key areas and comprehensively upgraded its quality and efficiency in serving Sannong and the real economy. The senior management continued to deepen the reforms related to the operation system and mechanism and continued to strengthen our internal growth driver. The senior management also explored new ways to serve Sannong with Fintech and achieved remarkable results in business transformation. In addition, the senior management continued to improve effectiveness of our risk management and internal control and adhered to our risk limitation and compliance.

Improving Corporate Governance System

We further improved our documentation system for corporate governance. During the reporting period, the private placement of A Shares resulted in a change in our shareholding structure and registered capital. We completed the amendments of the relevant provisions of the Articles of Association and filed such amendments to the CBIRC. In order to meet needs of business development, we revised relevant provisions of the *Authorization Plan to the Board of Directors by the Shareholders' General Meeting* and the *Authorization Plan to the President by the Board of Directors*.

Corporate Governance Code

We fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules during the reporting period.

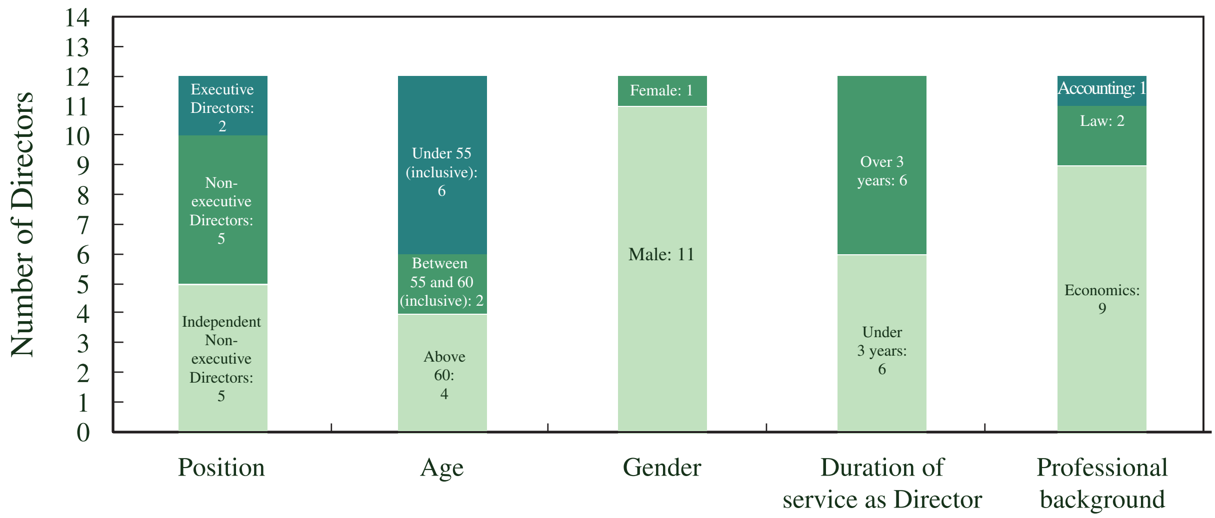
The Board of Directors actively performed its corporate governance duties, formulated the amendments to the Articles of Association, continuously refined the relevant administrative measures for corporate governance, and continuously evaluated and improved our corporate governance. The committees under the Board of Directors performed their duties strictly in accordance with the applicable requirements of corporate governance.

Board of Directors and Special Committees

Composition of the Board of Directors

As at the end of the reporting period, the Board of Directors comprised 12 directors, including two Executive Directors, namely Mr. ZHOU Mubing and Mr. WANG Wei; five Non-executive Directors, namely Mr. XU Jiandong, Mr. CHEN Jianbo, Mr. HU Xiaohui, Mr. LIAO Luming and Mr. LI Qiyun; and five Independent Non-executive Directors, namely Mr. WEN Tiejun, Mr. Francis YUEN Tin-fan, Ms. XIAO Xing, Mr. WANG Xinxin and Mr. HUANG Zhenzhong. Details of the incumbent Directors are set out in "Directors, Supervisors and Senior Management".

We have formulated diversity policy related to the composition of the Board of Directors, which specifies our opinions of upholding the diversity of the composition of the Board of Directors, and the approaches adopted by us to achieve such diversity. We acknowledged and appreciated the benefits of diversity of the composition of the Board of Directors, and regarded the diversity of the composition of the Board of Directors as a critical factor in achieving our strategic goals, maintaining our competitive strengths and achieving our sustainable development. We considered the diversity of the composition of the Board of Directors from various aspects, including talents, skills, industry experience, cultural and education background, gender, age, race and other factors, when deciding the composition of the Board of Directors. All appointments of Directors shall be decided after taking into consideration of talents, skills and experience required for the overall operation of the Board of Directors. Two female Directors were elected at the extraordinary general meeting held on 1 March 2019.[1] When they take office, the number of female Directors of the Bank will reach three. The Board of Directors will be further diversified in terms of gender, age and expertise.



Particulars of Diversity of the Board of Directors

1 The qualifications of Ms. ZHANG Keqiu and Ms. LEUNG KO May Yee are subject to ratifications by the CBIRC.

Meetings of the Board of Directors

The Board of Directors considers matters by way of meetings of the Board of Directors. During the reporting period, the Board of Directors convened a total of 17 meetings, at which 89 proposals, including the final financial account for 2017, the appointment of auditors for 2018 and the nominations of Directors, were considered.

During the reporting period, the attendance of Directors at the Shareholders' General Meetings, meetings of the Board of Directors and special committees of the Board of Directors is listed below:

Number of attendance in person[1]/meetings requiring attendance

			Meetings of Special Committees of the Board of Directors						
Directors	Shareholders' General Meetings	Meetings of the Board of Directors	Strategic Planning Committee	County Area Banking Business/ Inclusive Finance Development Committee	Nomination and Remuneration Committee	Audit and Compliance Committee	Risk Management Committee/ Consumers' Interest Protection Committee	Related Party Transactions Management Committee	Risk Management Committee of Institutions in the United States Regions
Executive Directors									
ZHOU Mubing	3/3	17/17	10/10						
WANG Wei	3/3	13/15	8/9						
Non-executive Directors									
XU Jiandong	3/3	15/17			6/7		4/5		4/4
CHEN Jianbo	3/3	17/17	10/10	1/1			5/5		4/4
HU Xiaohui	3/3	17/17	10/10	1/1		6/6			
LIAO Luming	3/3	16/17		1/1	7/7		5/5		4/4
LI Qiyun	1/1	8/8	5/5				3/3		2/2
Independent Non-executive Directors									
WEN Tiejun	3/3	16/17	9/10	1/1	7/7	6/6			
Francis YUEN Tin-fan	3/3	16/17				6/6	5/5	1/1	4/4
XIAO Xing	3/3	14/17		1/1	7/7	6/6			
WANG Xinxin	3/3	14/17			6/7		3/5	0/1	3/4
HUANG Zhenzhong	3/3	14/17			7/7		4/5	1/1	3/4
Resigned Directors									
ZHAO Huan	2/2	12/14	5/7	1/1	6/6				
GUO Ningning	2/2	10/12	4/6				1/2		1/2
ZHAO Chao		3/3	1/1						1/1
ZHANG Dinglong	2/2	9/9	5/5	1/1		3/3			

Note: 1. Attendance in person includes attendance on site and attendance by way of electronic communication such as telephone and video conference. During the reporting period, the Directors who did not attend the meetings of the Board of Directors or special committees thereof had designated other Directors as proxies to attend and to vote on their behalf at the meetings.

Independence of and Performance of Duties by Independent Non-executive Directors

As of the end of the reporting period, the qualification, number and composition of the Independent Non-executive Directors were in full compliance with the applicable regulatory requirements. The Independent Non-executive Directors were not involved in any business or financial interests of the Bank or its subsidiaries, and did not take any managerial position in the Bank. We have received annual independence confirmations from all Independent Non-executive Directors and confirmed their independence.

During the reporting period, the Independent Non-executive Directors attended the meetings of the Board of Directors and the special committees thereof, and provided independent and objective advice on various important decisions, such as risk management and annual audit project plan by taking advantage of their professional capabilities and working experiences. The Independent Non-executive Directors actively strengthened the communication with the senior management, specialized departments and external auditors and thoroughly studied our operation and management by attending important work meetings, listening to special reports of important businesses and having seminars with external auditors. They earnestly performed their duties with integrity and diligence, complied with the work measures for Independent Non-executive Directors, provided strong support to the Board of Directors for making rational decisions, and safeguarded the interest of the Bank and its shareholders. We highly valued the opinions and advice from the Independent Non-executive Directors and actively pressed ahead with such opinions and advice.

During the reporting period, the Independent Non-executive Directors did not raise objection to any resolution of the Board of Directors or special committees. Details of the performance of the Independent Non-executive Directors were disclosed in the *Working Report of Independent Non-executive Directors for the Year*, which was published on the website of the Shanghai Stock Exchange.

Special Committees of the Board of Directors

The Board of Directors has established the Strategic Planning Committee, the County Area Banking Business/Inclusive Finance Development Committee, the Nomination and Remuneration Committee, the Audit and Compliance Committee, the Risk Management/Consumers' Interest Protection Committee (with the Related Party Transactions Management Committee thereunder) and the Risk Management Committee of Institutions in the United States Regions (responsibilities of which are concurrently assumed by the Risk Management/Consumers' Interest Protection Committee). During the reporting period, the adjustments to the composition of the special committees of the Board of Directors were listed below:[1]

Mr. ZHAO Huan resigned as a member of the Strategic Planning Committee, the Chairman and a member of the County Area Banking Business/Inclusive Finance Development Committee and a member of the Nomination and Remuneration Committee;

Mr. WANG Wei was appointed as a member of the Strategic Planning Committee and the County Area Banking Business/Inclusive Finance Development Committee;

1 In January 2019, Mr. HU Xiaohui resigned as a member of the Strategic Planning Committee, the County Area Banking Business/Inclusive Finance Development Committee and the Audit and Compliance Committee.

Ms. GUO Ningning had been appointed as a member of the Strategic Planning Committee, the Risk Management/Consumers' Interest Protection Committee and the Risk Management Committee of Institutions in the United States Regions since 26 March 2018 and resigned from the aforesaid positions on 22 October 2018;

Mr. ZHAO Chao resigned as a member of the Strategic Planning Committee, the Risk Management/ Consumers' Interest Protection Committee, the Risk Management Committee of Institutions in the United States Regions and the Related Party Transactions Management Committee;

Mr. ZHANG Dinglong resigned as a member of the Strategic Planning Committee, the County Area Banking Business/Inclusive Finance Development Committee and the Audit and Compliance Committee;

Mr. LI Qiyun was appointed as a member of the Strategic Planning Committee, the Risk Management/ Consumers' Interest Protection Committee, the Risk Management Committee of Institutions in the United States Regions and the Related Party Transactions Management Committee.

Strategic Planning Committee

As at the end of the reporting period, the Strategic Planning Committee of the Board of Directors comprised six Directors, including Mr. ZHOU Mubing (Chairman), Mr. WANG Wei (Executive Director), Mr. CHEN Jianbo, Mr. HU Xiaohui, Mr. LI Qiyun (all are Non-executive Directors) and Mr. WEN Tiejun (Independent Non-executive Director). Mr. ZHOU Mubing, the Chairman of the Board of Directors, is the chairman of the Strategic Planning Committee of the Board of Directors. The primary duties of the Strategic Planning Committee are to review the overall strategic development plan and specific strategic development plans, major investment and financing plans, to establishment of legal person entities and other material matters critical to our development and to make suggestions to the Board of Directors.

During the reporting period, the Strategic Planning Committee of the Board of Directors convened ten meetings and considered twenty five proposals, including the operation plan for 2018 and the fixed assets investment budget for 2018. The Strategic Planning Committee provided relevant advice and suggestions on aspects including the amendments to plan for our reform and development in the interim period of implementation thereof, the capital plan, the establishment of subsidiaries, written-off of bad debts and capital planning.

County Area Banking Business/Inclusive Finance Development Committee

As at the end of the reporting period, the County Area Banking Business/Inclusive Finance Development Committee of the Board of Directors comprised six Directors, including Mr. WANG Wei (Executive Director), Mr. CHEN Jianbo, Mr. HU Xiaohui, Mr. LIAO Luming (all are Non-executive Directors), Mr. WEN Tiejun and Ms. XIAO Xing (both are Independent Non-executive Director). The primary duties of the County Area Banking Business/Inclusive Finance Development Committee are to review the strategic development plan, policies and basic management rules, risk management plan and other major matters in relation to the development of the County Area Banking Business/Inclusive Finance, as well as supervise the implementation of the strategic development plan, policies and basic management rules of the County Area Banking Business/Inclusive Finance, and to provide suggestions to the Board of Directors.

During the reporting period, the County Area Banking Business/Inclusive Finance Development Committee of the Board of Directors convened one meeting and listened to reports on the forecast of the County Area Banking Division's financial target in 2018. The County Area Banking Business/Inclusive Finance Development Committee conducted thorough discussions and studies on the operating income of the County Area Banking Business, its contribution to our profit as well as the opportunities and challenges facing by the County Area Banking Business, and provided relevant advice and suggestions.

Nomination and Remuneration Committee

As at the end of the reporting period, the Nomination and Remuneration Committee of the Board of Directors comprised six Directors, including Mr. Xu Jiandong, Mr. LIAO Luming (both are Non-executive Directors), Mr. WEN Tiejun, Ms. XIAO Xing, Mr. WANG Xinxin and Mr. HUANG Zhenzhong (all are Independent Non-executive Directors). Mr. WEN Tiejun is the chairman of the Nomination and Remuneration Committee of the Board of Directors. The primary duties of the Nomination and Remuneration Committee are to formulate standards and procedures for election of directors, chairman and members of special committees and senior management members, and to make recommendations regarding the proposed candidates for directors and senior management members and their qualifications to the Board of Directors, as well as to formulate the remuneration policies for directors and senior management members, and to submit the remuneration packages to the Board of Directors for consideration.

The Articles of Association set out the procedures and methods of the nomination of Directors and have specific requirements for the appointment of Independent Non-executive Directors. Please refer to, among others, articles 138 and 148 of the Articles of Association for details. The Articles of Association are published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Bank. During the reporting period, the Bank elected its Directors in strict compliance with the Articles of Association.

When nominating candidates of Directors, the Nomination and Remuneration Committee of the Board of Directors mainly takes into account their qualifications, compliance record with laws, administrative regulations, rules and the Articles of Association, capability of diligent performance, understanding of our operation and management and willingness to accept supervision of their performance by the Board of Supervisors and the requirement of the diversity of the composition of the Board of Directors. Please refer to *Board of Directors and Special Committees – Composition of the Board of Directors* for the details of our policy on diversity of the composition of the Board of Directors.

The quorum of the meeting of the Nomination and Remuneration Committee shall be more than half of all its members, and any resolution at such meeting shall be passed by favorable votes from more than half of its members.

During the reporting period, the Nomination and Remuneration Committee of the Board of Directors convened seven meetings and considered nine proposals including the nominations of Directors and confirmation on appointments of members of the special committees of the Board of Directors.

Audit and Compliance Committee

As at the end of the reporting period, the Audit and Compliance Committee of the Board of Directors comprised four Directors, including Mr. HU Xiaohui (Non-executive Director), Mr. WEN Tiejun, Mr. Francis YEUN Tin-fan and Ms. XIAO Xing (all are Independent Non-executive Directors). Ms. XIAO Xing is the chairman of the Audit and Compliance Committee of the Board of Directors. The primary duties of the Audit and Compliance Committee are to review the our internal control and management system, material financial and accounting policies, audit general managements systems and regulations, medium- and long-term audit plan and annual work plan, and to make suggestions to the Board of Directors; as well as to review and approve our general policy on prevention and control of cases of compliance violations, and to effectively review and supervise our prevention and control of cases of compliance violations.

The performance of the Audit and Compliance Committee was disclosed in the *Annual Performance Report of Audit and Compliance Committee*, which was published on the website of the Shanghai Stock Exchange.

Risk Management/Consumers' Interest Protection Committee

On 21 December 2018, the Board of Director resolved to rename the Risk Management Committee as the Risk Management/Consumers' Interest Protection Committee. As at the end of the reporting period, the Risk Management/Consumers' Interest Protection Committee of the Board of Directors comprised seven Directors, including Mr. XU Jiandong, Mr. CHEN Jianbo, Mr. LIAO Luming, Mr. LI Qiyun (all are Non-executive Directors), Mr. Francis YUEN Tin-fan, Mr. WANG Xinxin and Mr. HUANG Zhenzhong (all are Independent Non-executive Directors). Mr. Francis YUEN Tin-fan is the chairman of the Risk Management/Consumers' Interest Protection Committee of the Board of Directors. The primary duties of the Risk Management/Consumers' Interest Protection Committee are to review our strategic plan of risk management, risk appetite, material risk management policies, risk management report and allocation plan of risk-based capital, to review our strategies, policies and objectives of consumer protection, to continuously supervise the risk management system, to supervise and evaluate our work in risk management and consumers' interest protection, and to provide suggestions to the Board of Directors.

During the reporting period, the Risk Management/Consumers' Interest Protection Committee of the Board of Directors convened five meetings, reviewed fifteen proposals including the basic measure for risk management, the risk management plan for 2018-2020 and Basel III implementation plan, and listened to eight reports including management of liquidity risk in 2017, the operation of IRB system and the validation of the advanced approach on capital management and the work for protecting customers' interest in 2017 and the work plan for protecting customers' interest in 2018. The Risk Management/Consumers' Interest Protection Committee reviewed our overall risk condition regularly and provided relevant advice and suggestions on the risk control, which including credit risks, market risks and operating risks and etc.

Related Party Transactions Management Committee

As at the end of the reporting period, the Related Party Transactions Management Committee of the Board of Directors comprised four Directors, including Mr. LI Qiyun (Non-executive Director), Mr. Francis YUEN Tin-fan, Mr. Wang Xinxin and Mr. HUANG Zhenzhong (all are Independent Non-executive Directors). Mr. Francis YUEN Tin-fan is the chairman of the Related Party Transactions Management Committee. The primary duties of the Related Party Transactions Management Committee are to identify our related parties, review our general management system for related party transactions, review and record the related party transactions, and make suggestions to the Board of Directors.

During the reporting period, the Related Party Transactions Management Committee of the Board of Directors convened one meeting, reviewed two proposals including the revision of administrative measures on internal transactions and the list of related parties, and listened to the report in relation to our related party transactions management for 2017. The Related Party Transactions Management Committee reviewed and approved the information of our related parties and provided relevant advice and suggestions on the enhancement of the management of our related parties and the transactions.

Risk Management Committee of Institutions in the United States Regions

As at the end of the reporting period, the Risk Management Committee of Institutions in the United States Regions of the Board of Directors consisted of seven Directors, including Mr. XU Jiandong, Mr. CHEN Jianbo, Mr. LIAO Luming, Mr. LI Qiyun (all are Non-executive Directors), Mr. Francis YUEN Tin-fan, Mr. WANG Xinxin and Mr. HUANG Zhenzhong (all are Independent Non-executive Directors). Mr. Francis YUEN Tin-fan is the chairman of the Risk Management Committee of Institutions in the United States Regions. The primary duties of the Risk Management Committee of Institutions in the United States Regions are to review and approve the risk management policies in relation to businesses in the United States regions and supervise its implementation, as well as to review issues identified in the internal and external inspection of institution in the United States regions and the report on relevant rectification, and other matters authorized by the Board of Directors. Responsibilities of the Risk Management Committee of Institutions in the United States Regions are concurrently assumed by the Risk Management/Consumers' Interest Protection Committee.

During the reporting period, the Risk Management Committee of Institutions in the United States Regions of the Board of Directors convened four meetings, reviewed two proposals including the basic risk management policies as well as risk appetite and policies of the New York Branch, and listened to eight reports including the rectification progress on anti-money laundering problem of the New York Branch and management of liquidity risk of the New York Branch in 2017. The Risk Management Committee of Institutions in the United States Regions reviewed the risks in relation to business in the United States regions and their rectification progress regularly, and provided relevant advice and suggestions.

Specific Statement and Independent Opinion of Independent Non-executive Directors on the Guarantee Business of the Bank

Specific Statement and Independent Opinion of Independent Non-executive Directors on the Guarantee Business of the Bank

Pursuant to the relevant provisions set forth in *the Notice Regarding Certain Issues of Regulating Fund Transfers Between Listed Companies and Their Related Parties and the Guarantee Business of Listed Companies (Zheng Jian Fa [2003] No. 56)* issued by the CSRC and the relevant requirements of the Shanghai Stock Exchange, as the Independent Non-executive Directors of Agricultural Bank of China Limited, we have reviewed the guarantee business of the Bank based on the principles of justice, fairness and objectivity, and hereby issue our specific statements and opinions as follows:

According to our review, the guarantee business of the Bank is mainly to issue letters of guarantee, which has been approved by the PBOC and the CBIRC as one of the ordinary businesses of the Bank. At 31 December 2018, the balance of the guarantee business of the Bank (including letters of guarantee issued and guarantees by the Group) amounted to RMB191,250 million.

The Bank has attached great importance to the risk management of the guarantee business and formulated strict regulations in respect of the credit standard of guarantees, and the operational procedure and approval process of the guarantee business. We believe that the Bank has effectively controlled the risks on the guarantee business.

Independent Non-executive Directors of Agricultural Bank of China Limited
WEN Tiejun, Francis YUEN Tin-fan, XIAO Xing, WANG Xinxin and HUANG Zhenzhong

Responsibilities of Directors on Consolidated Financial Statements

The Directors are responsible for supervising the preparation of the consolidated financial statements of each accounting period so that such consolidated financial statements can give a true and fair view of the financial position, operating results and cash flows of the Group. In preparation for the consolidated financial statements for the year ended 31 December 2018, the Directors have adopted and applied appropriate accounting policies consistently, and made judgments and estimates prudently and reasonably.

During the reporting period, we complied with relevant laws, regulations and the requirements of the listing rules of places where our shares are listed, and published the annual report for 2017 and the first quarterly report, interim report and third quarterly report for 2018.

Risk Management and Internal Control

The Board of Directors is responsible for establishing sound and effective risk management and internal control measures and supervising and assessing the implementation of the our internal control and risk management systems and the risk level, as well as reviewing the effectiveness of such systems. Such systems are in place to provide reasonable, though not absolute, assurance against material misstatement or loss, and to manage rather than eliminate the risk of failure to achieve business objectives. During the reporting period, the Board of the Directors reviewed the adequacy and effectiveness of our risk management and internal control measures through the Audit and Compliance Committee, Risk Management/Consumers' Interest Protection Committee, Risk Management Committee of Institutions in the United States Regions and Related Party Transactions Management Committee established under it. Based on consideration and review of reports from the relevant special committees of the Board of Directors, the Board of the Directors considered that our risk management and internal control were adequate and effective.

For details of our risk management and internal control, please refer to "Discussion and Analysis-Risk Management and Internal Control".

Training of Directors and Secretary to the Board of Directors

In 2018, the Directors actively participated in trainings organized by us and shareholders on, among others, the new regulation on asset management, innovative business development and hot topics of the banking reform, in accordance with the Hong Kong Listing Rules and the domestic regulatory requirements. The Directors also improved their professional expertise through various ways, including compiling and publishing professional books and articles, attending forums and seminars, giving public lectures and conducting field research on domestic and overseas industry peers as well as our branch outlets. During the reporting period, Mr. ZHOU Wanfu, our secretary to the Board of Directors and company secretary, attended relevant professional trainings of more than fifteen hours, which was in compliance with the relevant regulatory requirements.

Shareholders' General Meeting

During the reporting period, we held one annual general meeting and two extraordinary general meetings at which 27 proposals were considered and approved, and three reports were listened. Detailed information is as follows:

On 29 March 2018, we held the First Extraordinary General Meeting for 2018 in Beijing, at which ten proposals were considered and approved, including the fixed assets investment budget for 2018 and the private placement plan of A Shares.

On 11 May 2018, we held the 2017 Annual General Meeting in Beijing, at which nine proposals were considered and approved, including the final financial accounts for 2017 and the profit distribution plan for 2017, and listened to three reports including the 2017 work report of Independent Non-executive Directors and the report on the management of related transactions.

On 12 November 2018, we held the Second Extraordinary General Meeting for 2018 in Beijing, at which eight proposals were considered and approved, including the final remuneration plan for directors and supervisors for 2017 and the election of Supervisors.

The above shareholders' general meetings were convened and held in strict compliance with the laws, regulations and listing rules of Hong Kong and the PRC. The Directors, Supervisors and the senior management members attended the meetings and discussed with shareholders about matters concerned by the shareholders. We published the announcements on the poll results and legal advice of the above general meetings in a timely manner in accordance with regulatory requirements. The announcements on the poll results of general meetings were published on the website of the Hong Kong Stock Exchange on 29 March 2018, 11 May 2018 and 12 November 2018, respectively, and on the website of the Shanghai Stock Exchange and in the newspaper designated by us for information disclosure on 30 March 2018, 12 May 2018 and 13 November 2018, respectively.

Chairman and President of the Bank

Pursuant to code provision A.2.1 of the *Corporate Governance Code* in Appendix 14 to the Hong Kong Listing Rules and the Articles of Association, the roles of the Chairman and the President shall be separate. The Chairman shall not be held concurrently by the legal representative or the person-in-charge of any controlling shareholder of the Bank.

Mr. ZHOU Mubing serves as the Chairman of the Board of Directors and our legal representative, and is responsible for material matters such as business strategies and our overall development.

During the reporting period, due to work arrangements for Mr. ZHAO Huan, our former president, the fourteenth meeting of the Board of Directors in 2018 considered and approved the proposal that Mr. ZHOU Mubing, the Chairman of the Board of Directors, performed the duties of the President. His term of office shall expire at the date our new president is appointed and the qualification of the new president is ratified by the CBIRC.

The President of the Bank is in charge of our management of business operation. The President is appointed by, and accountable to, the Board of Directors, and shall perform duties in accordance with the Articles of Association and the authorization of the Board of Directors.

The roles of the Chairman and the President are separate and independent, with clear division of responsibilities.

Securities Transactions by Directors and Supervisors

We have adopted a code of conduct for securities transactions by Directors and Supervisors with terms no less strictly than those set out in the *Model Code for Securities Transactions by Directors of Listed Issuers* in Appendix 10 to the Hong Kong Listing Rules. The Directors and Supervisors of the Bank have confirmed that they have complied with such code of conduct throughout the year ended 31 December 2018.

Terms of Directors

We strictly comply with the requirements of the Hong Kong Listing Rules and the Articles of Association in respect of the election and term of Directors. Each Director shall be elected at the Shareholders' General Meetings with a term of three years from the date of ratification by the CBIRC. A Director may serve consecutive terms if being re-elected upon the expiration of the previous term, and the consecutive term shall commence from the date of approval at the Shareholders' General Meeting. The term of an Independent Non-executive Director shall not exceed six years on an aggregated basis.

Appraisal and Incentive Mechanisms for Senior Management

For the details of the appraisal and incentive systems for senior management during the reporting period, please refer to "Report of the Board of Directors – Remuneration of Directors, Supervisors and Senior Management".

Auditors' Engagement and Remuneration

As approved by the 2017 Annual General Meeting of the Bank, we engaged PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as our domestic and international auditor for 2018, respectively. These auditors have provided audit services for us for six consecutive years from 2013 to 2018.

In 2018, a total fee of RMB122.3 million was paid to PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers by us for the Group's financial statements audit service, including RMB9.78 million for internal control audit service. In 2018, a total fee of RMB7.83 million was paid to PricewaterhouseCoopers and its network member firms by us for providing financial statement audit service to our subsidiaries, and overseas branches. In 2018, a total fee of RMB67.13 million was paid to PricewaterhouseCoopers and its network member firms by us for providing non-audit professional service, which including compliance advisory service.

Shareholders' Rights

Convening of Extraordinary General Meetings

We protect shareholders' rights strictly in compliance with the regulatory requirements and basic corporate governance rules. Shareholders who individually or jointly hold more than 10% of the total voting shares of the Bank (the "Requesting Shareholders") may propose to the Board of Directors to convene an extraordinary general meeting in writing. If the Board of Directors refuses to convene an extraordinary general meeting or fails to give its responses within 10 days upon receipt of the proposal, the Requesting Shareholders may propose to the Board of Supervisors to convene an extraordinary general meeting in writing. If the Board of Supervisors fails to give the notice of such extraordinary general meeting within the prescribed period, it shall be deemed to have failed to convene and preside over such meeting, and shareholders who individually or jointly hold 10% or more of the total voting shares of the Bank for not less than 90 consecutive days shall be entitled to convene and preside over an extraordinary general meeting.

Enquiries to the Board of Directors

Shareholders may deliver enquiries to the Board of Directors and have the right to obtain the relevant information pursuant to the Articles of Association. Shareholders may inspect copies of the minutes of the Shareholders' General Meetings free of charge during the business hours of the Bank. If any shareholder requests to obtain from the Bank a copy of the relevant minutes, we shall send such copy within seven days after receiving reasonable fees. Shareholders who request to inspect or obtain the relevant information shall provide us with written documents evidencing the class and number of shares held by them, and we shall provide such information so requested upon verification of such shareholders' identities. The Office of the Board of Directors is responsible for aiding the Board of Directors in its day to day affairs. If shareholders have any enquiries, please contact the Office of the Board of Directors.

Proposals to the Shareholders' General Meetings

Shareholders who individually or jointly hold more than 3% of the total voting shares of the Bank (the "Proposing Shareholders") may submit proposals to the Shareholders' General Meetings. Proposing Shareholders shall submit proposals in writing 10 days prior to the date of Shareholders' General Meetings. The Office of the Board of Directors is responsible for organizing Shareholders' General Meetings, preparing documents and taking minutes of the meetings.

Special Regulations of Holders of Preference Shares

The holders of preference shares are entitled to vote in the event of the following: (1) any amendments to the provisions regarding preference shares in the Articles of Association; (2) any decrease or series of decreases representing in aggregate more than 10% of the registered capital of the Bank; (3) any merger, division, dissolution or change in corporate form of the Bank; (4) any issuance of preference shares by the Bank; (5) any other circumstances specified by laws, regulations and the Articles of Association.

Upon the occurrence of any of the circumstances above, holders of preference shares shall have the right to attend Shareholders' General Meetings and the Bank shall provide online voting. The notice of such meetings shall be delivered to holders of preference shares prior to convention of the meeting following notice procedure for holders of ordinary shares set forth in the Articles of Association.

When the Bank fails to pay dividends on preference shares for a total of three financial years or for two consecutive financial years, holders of preference shares shall have the right to attend the Shareholders' General Meetings and vote with holders of ordinary shares jointly, starting from the day following the date on which the Shareholders' General Meeting resolves to not distribute dividends on preference shares as agreed in the profit distribution plan of that year. The voting rights shall be restored until the date on which all dividends for such preference shares of that year are distributed.

Significant Changes to the Articles of Association during the reporting period

During the reporting period, there were changes in shareholding structure and registered capital following our private placement plan of A Shares. Accordingly, we amended the provisions in the Articles of Association related to shareholding structure and registered capital, as well as reported to the CBIRC for archival filing.

Information Disclosure and Investor Relations

Information Disclosure

During the reporting period, we prepared and disclosed periodic reports and temporary announcements in accordance with laws and regulations. We increased voluntary disclosures to continuously enhance pertinence and validity of information disclosure. We continued to improve the system for information disclosure and dynamically optimized the operating procedures of information disclosures, to continuously make the information disclosure more standardized and regular. In 2018, we published over 320 documents for information disclosure on the Shanghai Stock Exchange and the Hong Kong Stock Exchange in aggregate.

We continued to strengthen the management of inside information and enhance the compliance awareness of insiders. We also arranged annual examination on inside tradings and carried out registration and filling for insiders.

During the reporting period, we had no rectification for any material accounting errors, no omission of material information and no amendment required for any preliminary results announcement.

Investor Relationship

We have established comprehensive and effective communication channels connecting our large, medium and small shareholders. In 2018, we continued to strengthen the management of investor relationship. We delivered our development strategies, financial and operation indicators and hot topics in market in a timely and efficient manner, through results announcement press conferences, roadshows, participating in capital market summits, investors' visits to us, investors hotlines, the Shanghai Securities E-platform and our email address open to investors. In 2018, we held approximately one hundred investors' meetings and held the investors greeting day on the website of Shang Stock Exchange, which effectively enhanced recognition of our value in the capital market.

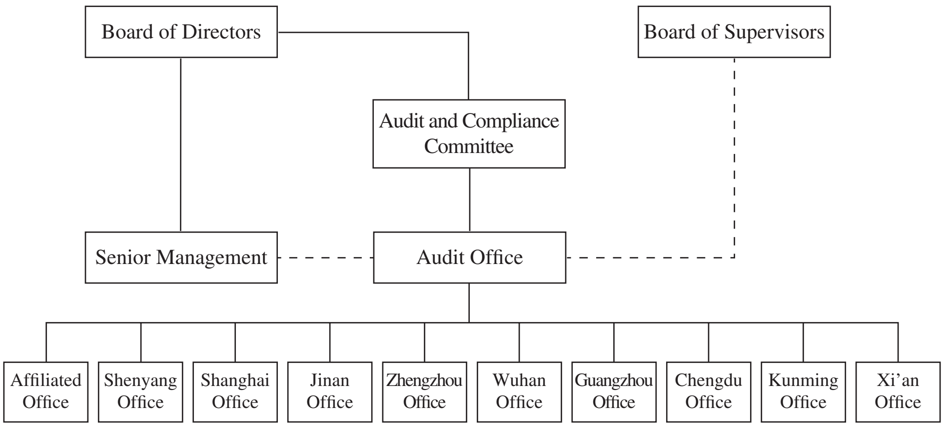
If investors have any enquiries, or if shareholders have any aforesaid suggestions, enquiries or proposals, please contact:

The Office of the Board of Directors of Agricultural Bank of China Limited
Address: No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, China
Telephone: 86-10-85109619
Facsimile: 86-10-85108557
E-mail: ir@abchina.com

Internal Audit

We have established an audit department which is accountable to and shall report the work to the Board of Directors and its Audit and Compliance Committee. Such audit department is under the guidance of and shall report the audit results to the Board of Supervisors and the senior management. The audit department performs audits and assessments on operations and management, business activities and performance across the Bank based on the risk-oriented principles. The audit department consists of the Audit Office at the Head Office and ten regional offices. The Audit Office is responsible for the organization, management and reporting of internal audit works across the Bank. The regional offices under the Audit Office perform internal audit for their respective branches and shall be accountable to and report to the Audit Office.

The chart below shows our organizational structure of internal audit:



During the reporting period, in accordance with the strategic decisions of the Board of Directors and the external regulatory requirements, based on the risk-oriented principles, we carried out the risk audit with a focus on credit, finance and accounting, new business, internal control and prevention and control of cases of compliance violations. We conducted specific audit on various aspects, including targeted poverty alleviation, anti-money laundering, protection of interests of consumers, performance appraisal and remuneration management, consolidated management at group level, wealth management products, general control of IT. We steadily promoted the audit on overseas institutions and standardized the audit on responsibilities of the senior management. We also carried out continuous supervision on the rectification of problems identified during the audit.

REPORT OF THE BOARD OF DIRECTORS

Principal Business and Business Review

Our principal business is to provide banking and related financial services. Details of our business operations and business review as required by Schedule 5 to the *Hong Kong Companies Ordinance* are set out in relevant sections including "Discussion and Analysis", "Corporate Governance", "Significant Events", "Notes to the Consolidated Financial Statements" and this "Report of the Board of Directors".

In particular, please refer to "Discussion and Analysis – Business Review" and "Discussion and Analysis – Risk Management and Internal Control" for our business review, discussion and analysis of the performance for the reporting year, principal risks and uncertainties faced by us and future business development. Please refer to "Discussion and Analysis – Financial Statement Analysis" for the analysis of the financial key performance indicators. Please refer to "Report of the Board of Directors – Consumer Interests Protection" and "Corporate Social Responsibility" for the environmental and social performance and policies of the Bank. Please refer to "Discussion and Analysis- Risk Management and Internal Control" for the compliance with the relevant laws and regulations that would have a significant impact on the Bank. Please refer to "Discussion and Analysis – Business Review – Human Resources Management and Organization Management", "Report of the Board of Directors – Consumer Interests Protection" and "Corporate Governance – Investor Relationship" for the Bank's key relationships with its employees, clients and shareholders.

Profits and Dividends Distribution

Our profit for the year ended 31 December 2018 is set out in "Discussion and Analysis – Financial Statement Analysis".

Upon approval at the 2017 Annual General Meeting, we distributed cash dividend of RMB1.783 (tax inclusive) per ten shares, with a total amount of RMB57,911 million (tax inclusive), to shareholders of A Shares and H Shares on our registers of members at the close of business on 24 May 2018.

The Board of Directors proposed distribution of cash dividends of RMB1.739 (tax inclusive) for each ten shares of 349,983,033,873 ordinary shares for 2018 with a total amount of approximately RMB60,862 million (tax inclusive). The distribution plan will be submitted for approval at the 2018 Annual General Meeting. Once approved, the above mentioned dividends will be paid to the holders of A Shares and H Shares, whose names appear on our share registers on 18 June 2019. The register of transfers of H Shares will be closed from 13 June 2019 to 18 June 2019 (both days inclusive). In order to qualify for the proposed distribution of cash dividends, holders of H Shares are required to deposit the transfer documents together with the relevant share certificates at our H Share registrar, Computershare Hong Kong Investor Services Limited located at Rooms 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on 12 June 2019. Dividends of A Shares are expected to be paid on 19 June 2019 and dividends of H Shares are expected to be paid before or on 12 July 2019. A separate announcement will be published if there is any change to the aforesaid dates.

The table below sets out the our cash dividend payment for the preceding three years.

In millions of RMB, except for percentages

	2017	2016	2015
Cash dividend (tax inclusive)	**57,911**	55,215	54,176
Cash dividend payment ratio[1] (%)	**30.0**	30.0	30.0

Note: 1. Representing cash dividend (tax inclusive) divided by the net profit attributable to shareholders of ordinary shares of the Bank for the reporting period.

Pursuant to the *Notice of the State Administration of Taxation on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045* (Guo Shui Han [2011] No. 348), individuals who are resident outside the PRC and who hold shares issued in Hong Kong by domestic non-foreign invested enterprises enjoy preferential tax rate in accordance with the tax conventions between Mainland China and the country where the residents reside and the tax arrangements between the Mainland China and Hong Kong (Macau). Individual shareholders will be generally subject to a withholding tax rate of 10% when domestic non-foreign invested enterprises which issue shares in Hong Kong distribute dividends to their shareholders, unless otherwise required by the regulations of relevant tax laws and tax conventions.

Pursuant to the *Notice on the Issues Concerning Withholding the Enterprises Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Non-resident Enterprises* (Guo Shui Han [2008] No. 897) of the State Administration of Taxation, we are obliged to withhold and pay enterprise income tax at the rate of 10% from dividends paid or payable for H Shares when distributing dividends to non-resident enterprise shareholders of H Shares.

No tax is payable in Hong Kong in respect of dividends paid by us according to the current practice of the Hong Kong Inland Revenue Department.

Shareholders are recommended to consult their tax advisers regarding the tax implication in the PRC, Hong Kong and other tax implications arising from their holding and disposal of H Shares of the Bank.

The Dividends Distribution Policy and Implementation of the Cash Dividend Policy

We make profit distribution with a focus on providing reasonable return on investments by the investors, and maintaining continuity and consistency of the profit distribution policy, as well as having interest of all shareholders and our sustainable development. We may make dividends distribution in cash or shares or by a combination of both. Our profit distribution prioritizes cash dividend distribution. We may also make interim profit distribution when we meet the conditions to do so.

The formulation and implementation of our cash dividend policy comply with our Articles of Association and the resolutions of the Shareholders' General Meetings. The procedure and mechanism of relevant resolutions are complete, and the distribution standards and proportion are clearly stated. Independent Non-executive Directors have diligently fulfilled their duties and expressed their opinions. The minority shareholders have opportunities to fully express their opinions and appeals, and their legitimate interests have been adequately protected.

Reserves

Details of the changes of reserves for the year ended 31 December 2018 are set out in "Consolidated Statement of Changes in Equity" in the consolidated financial statements.

Financial Summary

Summary of operating results, assets and liabilities for each of the three years ended 31 December 2018 is set out in "Basic Corporate Information and Major Financial Indicators".

Donations

During the year ended 31 December 2018, our external donations (domestic) amounted to RMB66.86 million.

Property and Equipment

Details of changes of property and equipment for the year ended 31 December 2018 are set out in "Note IV. 22 Property and Equipment" to the Consolidated Financial Statements.

Subsidiaries

Particulars of our principal subsidiaries as at 31 December 2018 are set out in "Discussion and Analysis – Business Review".

Share Capital and Public Float

As at 31 December 2018, our total share capital of ordinary shares amounted to 349,983,033,873 shares, including 319,244,210,777 A Shares and 30,738,823,096 H Shares. As at the date of this annual results announcement, we maintained sufficient public float in compliance with the minimum requirement of the Hong Kong Listing Rules and the waiver granted by the Hong Kong Stock Exchange upon our listing.

Purchase, Sale or Redemption of the Bank's Shares

For the year ended 31 December 2018, neither the Bank nor its subsidiaries purchased, sold or redeemed any of its listed shares.

Pre-emptive Rights

There is no mandatory provision in relation to pre-emptive rights in the Articles of Association. According to the Articles of Association, we are entitled to increase its registered capital by issuing shares through public or non-public offering, allotting new shares to the existing shareholders (except holders of the our preference shares), transferring the capital reserve funds to increase share capital and through other methods as permitted by laws, administrative regulations and relevant authorities.

Major Customers

For the year ended 31 December 2018, the five largest customers of the Bank accounted for less than 30% of the interest income and other operating income of the Bank.

Use of Proceeds

All the proceeds were used to supplement capital to support the ongoing growth of our business as disclosed in the relevant prospectuses, offering documents and other documents.

Significant Projects Invested by Non-raised Capital

For the year ended 31 December 2018, we had no significant projects invested by non-raised capital.

Directors' and Supervisors' Interests in Material Transactions, Arrangements or Contracts

For the year ended 31 December 2018, none of our Directors or Supervisors or parties related to such Directors and Supervisors had any material interests, either directly or indirectly, in any material transaction, arrangement or contract regarding our business to which the Bank or any of its subsidiaries was a party. None of our Directors or Supervisors has entered into any service contract with the Bank or any of its subsidiaries, pursuant to which the Bank needs to pay compensation (other than statutory compensation) for terminating the contract within one year.

Directors' Interests in Competing Businesses

None of our Directors held any interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Bank.

Directors' and Supervisors' Rights to Subscribe for Shares or Debentures

For the year ended 31 December 2018, we did not grant any right to acquire shares or debentures to any Director or Supervisor, nor were any of such rights exercised by any Director or Supervisor. Neither the Bank nor its subsidiaries entered into any agreement or arrangement enabling the Directors or Supervisors to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other body corporate.

Interests in Shares, Underlying Shares and Debentures Held by Directors and Supervisors

None of our Directors or Supervisors of the Bank had any interests or short positions (including interests and short positions in which they are deemed to have under such provisions of the *Securities and Futures Ordinance* of Hong Kong) in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Part XV of the *Securities and Futures Ordinance* of Hong Kong) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the *Securities and Futures Ordinance* of Hong Kong, or any interests or short positions which were required to be recorded in the register referred to in Section 352 of the *Securities and Futures Ordinance* of Hong Kong, or any interests or short positions which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 to the Hong Kong Listing Rules. For the interests and short positions of substantial shareholders of the Bank and other persons, please refer to "Changes in Share Capital and Shareholdings of Substantial Shareholders".

Related Party Transactions

In 2018, we implemented regulation and management of related party transactions strictly in compliance with the regulatory requirements of CBIRC and the securities laws of the PRC and the listing rules of Shanghai and Hong Kong. During the reporting period, our related party transactions were conducted on normal commercial terms and in accordance with laws and regulations. Our pricing for interest rates followed fair business principles, and no impairment of the interest of the Bank or the minority shareholders was identified.

We extended loan to related natural persons (as defined in the *Administrative Measures on Information Disclosure of Listed Companies* issued by the CSRC) in 2018. As at 31 December 2018, the balance of such loan amounted to RMB8,538.8 thousand. Such loans were in compliance with our pricing policies and guarantees were provided for such loans.

For the related party transactions defined under applicable accounting standards, please refer to "Note IV. 41 Related Party Transactions" to the Consolidated Financial Statements.

In 2018, we conducted various connected transactions with connected persons (as defined in the Hong Kong Listing Rules) of the Bank in the ordinary course of business. Such transactions and/or the transactions mentioned in the Consolidated Financial Statements did not constitute connected transactions under the Hong Kong Listing Rules or satisfied the applicable exemption conditions set out in Rule 14A.73 under the Hong Kong Listing Rules, and therefore were fully exempted from compliance with the requirements of shareholders' approval, annual review and all requirements in relation to disclosures.

Remuneration of Directors, Supervisors and Senior Management

The remuneration of senior management shall be reviewed and approved by the Board of Directors and the remuneration of Directors and Supervisors shall be considered and approved by the Shareholders' General Meetings. For details of the detailed remuneration standards, please refer to "Directors, Supervisors and Senior Management – Annual Remuneration". After annual assessment, performance-based annual remunerations of Directors, Supervisor and senior management members shall be determined with reference to the assessment results. After their terms for performance assessment, term incentive bonus shall be determined with reference to the assessment results in their terms of office. We did not formulate any share incentive plan for Directors, Supervisors and senior management members.

Permitted Indemnity Provisions

According to the Articles of Association, we will undertake the civil liability arising from the discharge of the duties of its Directors, Supervisors and senior management members to the largest extent permitted by, or without prejudice against, the applicable laws and administrative regulations, unless such Directors, Supervisors and senior management members were proven to have failed to perform their duties honestly or in good faith. We have maintained liability insurance for potential liabilities that may arise from the indemnification clams against the misconducts of Directors, Supervisors and senior management members.

During the reporting period, we have renewed the liability insurance for our Directors, Supervisors and senior management members.

Equity-linked Agreement

We issued preference shares 農行優1 (stock code: 360001) and 農行優2 (stock code: 360009) on 31 October 2014 and 6 March 2015, respectively.

We set the events triggering mandatory conversion of the preference shares of 農行優1 and 農行優2 into ordinary A Shares, respectively, in accordance with relevant regulations, including:

(i) If our Common Equity Tier 1 ("CET1") capital adequacy ratio decreases to 5.125% (or below), the preference shares will be fully or partially converted into ordinary A Shares, in order to restore our CET1 capital adequacy ratio to above 5.125%.

(ii) All preference shares issued will be converted into ordinary A Shares upon the earlier occurrence of the following two situations:

  (a) the CBIRC is of the view that we can no longer subsist if the preference shares are not converted;

  (b) relevant authorities consider that we could not subsist without capital injection from public sector or any support to the same effect.

If any of the triggering events above happens and all the preference shares of 農行優1 and 農行優2 are converted into ordinary A Shares at the conversion price, the number of ordinary A Shares upon conversion will not exceed 32,520,325,204. No events have happened so far which would trigger the mandatory conversion of the preference shares of 農行優1 or 農行優2 into ordinary A Shares.

In addition, in order to sustainably fulfill regulatory standards in respect of capital for commercial banks and promote steady and healthy development of our business, we issued 25,188,916,873 A share ordinary shares of RMB1.00 each by way of private placement to seven specified subscribers, namely Huijin, the MOF, China National Tobacco Corporation, Shanghai Haiyan Investment Management Company Limited, Zhongwei Capital Holding Company Limited, China National Tobacco Corporation Hubei Province Company and New China Life Insurance Company Limited, at the issuance price of RMB3.97 per share with a total proceeds of RMB100,000,000,000 raised. As for the above private placement, we entered into the conditional share subscription agreements with each of the subscribers on 12 March 2018. The subscription agreements shall take effect since the date of the satisfaction of all the conditions set out below:

(i) The private placement plan and relevant matters have been reviewed and approved by the Board and the shareholders' general meeting of the Bank.

(ii) In accordance with the articles of association of the subscribers, the subscribers' competent decision-making bodies have resolved to approve the subscription of the A Shares under the private placement by subscribers and other relevant matters; and approvals from relevant state-owned assets regulatory authorities, if necessary, have been obtained by the subscribers.

(iii) The CBIRC has approved the Private Placement.

(iv) The CSRC has approved the Private Placement.

As at 31 December 2018, except for the above disclosure, we did not enter into, nor did there subsist, any other equity-linked agreement.

Issued debentures

For details of issued debentures during the reporting period, please refer to "Note IV. 31 Debt Securities Issued" to the Consolidated Financial Statements.

Financial, Business and Family Relationship among Directors

The Directors had no relationship (including financial, business, familial or other material relationships) with each other.

Employee Benefit Plans

For details of employee benefit plans, please refer to "Note IV. 32 Other Liabilities" to the Consolidated Financial Statements.

Management Contracts

Except for the service contracts with our management personnel, we have not entered into any contract with any person, company or legal entity to manage or handle the whole or any material part of its businesses.

Auditors

The consolidated financial statements of the Group for 2018 prepared in accordance with CASs and IFRSs have been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, respectively, in accordance with the China Standards on Auditing and International Standards on Auditing, both of which are unqualified audit opinions.

Consumer Interests Protection

Following the philosophy of "Consistently Putting Customers First", we proactively protect legitimate interests of consumers. We continued to improved our communication network and IT system of customer service to improve the efficiency of the response to the customer complains. We diligently performed our obligations in protecting client information through improving comprehensive management regarding the collection, use, enquiry and storage of client information. We provided integrated accessible services to consumers with special needs through "Window of Benevolence", sign language services and access for the disabled. We continued to launch over 46,000 educational activities aimed at popularizing financial knowledge, in which over 22,000 branch outlets and over 350,000 staffs were engaged. These activities reached over 50 million persons. In 2018, we were entitled as an Excellent Institution in "Financial Knowledge for the Public" by CBIRC, and was granted an award for Best Achievements in "Popularization of Financial Knowledge by Chinese Banking Industry" by China Banking Association.

By Order of the Board of Directors
ZHOU Mubing
Chairman of the Board of Directors

29 March 2019

REPORT OF THE BOARD OF SUPERVISORS

Composition of the Board of Supervisors

As at the end of the reporting period, the Board of Supervisors comprised eight Supervisors, including two Supervisors Representing Shareholders, namely Mr. WANG Jingdong and Mr. WANG Xingchun, three Supervisors Representing Employees, namely Mr. LIU Chengxu, Mr. XIA Taili and Mr. SHAO Lihong, and three External Supervisors, namely Mr. LI Wang, Mr. ZHANG Jie and Ms. LIU Hongxia. Details of the incumbent Supervisors are set out in "Directors, Supervisors and Senior Management".

Operation of the Board of Supervisors

The Board of Supervisors considers matters by way of meetings of the Board of Supervisors. The meetings of the Board of Supervisors consist of regular meetings and extraordinary meetings. Regular meetings of the Board of Supervisors shall be convened at least four times each year.

The Office of Board of Supervisors is the office to carry out regular tasks of the Board of Supervisors. It is responsible for arranging meetings of the Board of Supervisors and special committees thereof and preparing documents and minutes for those meetings, as well as conducting daily supervision according to the requirements of the Board of Supervisors.

We have established the Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee under the Board of Supervisors.

Due Diligence Supervision Committee

At the end of the reporting period, the Due Diligence Supervision Committee comprised six Supervisors, namely Mr. WANG Jingdong, Mr. WANG Xingchun, Mr. LIU Chengxu, Mr. XIA Taili, Mr. LI Wang and Mr. ZHANG Jie. The Due Diligence Supervision Committee is chaired by Mr. WANG Jingdong.

The Due Diligence Supervision Committee shall operate under the authorization of the Board of Supervisors and report to the Board of Supervisors.

The main responsibilities of the Due Diligence Supervision Committee are as follows:

- to formulate and carry out the implementation plans for supervising the duty of due diligence performance of the Board of Directors, senior management and their members upon approval of the Board of Supervisors;

- to submit a review report on the duty of due diligence performance of the Board of Directors, senior management and their members and to provide advices in respect thereof to the Board of Supervisors;

- to formulate the audit report of any resigning director and senior management member, if so required, and make suggestions to the Board of Supervisors;

- to provide recommendations on the candidates of supervisors representing shareholders, external supervisors, independent directors and members of each specialized committee to the Board of Supervisors;

- to formulate the assessment policy and assess the performance of supervisors, and provide recommendations in respect thereof to the Board of Supervisors;

- to make proposals on the compensation and allowance distribution plan for supervisors and submit the plan to the Board of Supervisors for approval;

- to review and handle the relevant matters or documents or information reported or provided by the Board of Directors, senior management or any of their members;

- to perform other duties as required by the laws, administrative regulations and departmental rules, or as authorised by the Board of Supervisors.

Finance and Internal Control Supervision Committee

At the end of the reporting period, the Finance and Internal Control Supervision Committee comprised six Supervisors, namely Mr. WANG Jingdong, Mr. WANG Xingchun, Mr. XIA Taili, Mr. SHAO Lihong, Mr. ZHANG Jie and Ms. LIU Hongxia. The Finance and Internal Control Supervision Committee is chaired by Ms. LIU Hongxia.

The Finance and Internal Control Supervision Committee shall operate under the authorization of the Board of Supervisors and report to the Board of Supervisors.

The main responsibilities of the Finance and Internal Control Supervision Committee are as follows:

- to formulate and carry out the working and implementation plans of the Finance and Internal Control Supervision Committee upon approval of the Board of Supervisors;

- to supervise the implementation of the development strategy plan, policy and basic management system of the County Area Banking Business of the Bank and evaluate the effectiveness and provide recommendation in respect thereof to the Board of Supervisors;

- to oversee and review the financial and accounting reports, operation reports and profit distribution proposals formulated by the Board of Directors and provide recommendations in respect thereof to the Board of Supervisors;

- to formulate and implement the plans of the Board of Supervisors to monitor the financial activities, business decisions, risk management and internal control of the Bank upon the approval of the Board of Supervisors, and recommend to the Board of Supervisors for engagement of an external auditing firm to perform audit on the Bank when necessary;

- to monitor the performance of internal audit department;

- to review and handle the relevant matters or documents or information reported or provided by the Board of Directors, senior management or any of their members;

- to supervise the compliance of the appointment, dismissal and reappointment of external auditing firms and the fairness of the terms of engagement and remunerations, as well as the independence and effectiveness of external audit, and make suggestions to the Board of Supervisors; and

- to perform other duties as required by the laws, administrative regulations and departmental rules, or as authorised by the Board of Supervisors.

Meetings of the Board of Supervisors and its Special Committees

During the reporting period, the Board of Supervisors held six meetings, considered and approved 30 proposals including the annual report for 2017 and its abstract, and listened to 17 work reports.

The Due Diligence Supervision Committee held two meetings to consider and approve three proposals including the work report of the Board of Supervisors for 2017, and listened to two work reports.

The Finance and Internal Control Supervision Committee held two meetings to listen to eight work reports.

The attendance of Supervisors at meetings of the Board of Supervisors and its special committees during the reporting period is listed below:

Number of attendance in person[1]/meeting requiring attendance

		Special Committees under the Board of Supervisors	
Supervisors	**Meeting of the Board of Supervisors**	**Due Diligence Supervision Committee**	**Finance and Internal Control Supervision Committee**
Supervisors			
WANG Jingdong	1/1	1/1	0/1
WANG Xingchun	6/6	1/1	1/1
LIU Chengxu	5/6	2/2	
XIA Taili	4/4	1/1	1/1
SHAO Lihong	4/4		1/1
LI Wang	5/6	1/1	
LIU Hongxia	1/1		1/1
ZHANG Jie	0/1	1/1	1/1
Former Supervisors			
XIA Zongyu	2/2		1/1
LV Shuqin	5/5		1/1

Notes: 1. Attendance in person includes attendance on site and attendance by way of electronic communication such as telephone and video conference. During the reporting period, the Supervisors who did not attend the meetings of the Board of Supervisors or special committees thereof had designated other Supervisors as proxies to attend and to vote on their behalf at the meetings.

2. For details of changes in Supervisors, please refer to "Changes in Directors, Supervisors and Senior Management".

Work of Board of Supervisors

During the reporting period, focusing on our reform and development as well as risk prevention and control,the Board of Supervisors performed its duties of supervision pursuant to the requirements of the relevant laws and regulations, regulatory requirements and the Articles of Association, so as to enhance corporate governance and facilitate our stable development in compliance with laws and regulations.

Carrying out supervision on our implementation of national economic and financial policies

Centring on serving the real economy, preventing and controlling financial risks, deepening operation transformation and continuously deepening reforms, as well as serving the supply-side structural reforms, the Board of Supervisors emphasized its supervision over our performance as well as the quality and effectiveness of services related to supporting key national strategies, serving Sannong and financial poverty alleviation, providing financial resources to the development of private, small and micro enterprises, and providing services to support the conversion of old drivers for Chinese economic growth to new ones, and put forward relevant supervisory recommendations accordingly.

Carrying out supervision on the duty performance of the Board of Directors and the senior management and their members

The Board of Supervisors carried out supervision over duty performance of the Board of Directors and the senior management and their members through various methods, including monitoring and analysis, attending meetings, listening to reports, reviewing proposals, investigative surveys and interviews, referring to minutes of meetings, and taking advantage of useful results from internal and external inspections. Supervision and evaluation were conducted on the collective performance of the Board of Directors, the Board of Supervisors and the senior management and on the individual performance of their members pursuant to the requirements of the Company Law and the Articles of Association. Departure audit was conducted upon Mr. ZHAO Huan, our former Vice Chairman of the Board of Directors, Executive Director and President.

Enhancing financial supervision and promoting the transformation of business operations

The Board of Supervisors carried out various financial supervision tasks diligently, playing an active role in facilitating the transformation and enhancing quality and effectiveness of operations. The Board of Supervisors also carefully reviewed various reports, including periodic reports, final financial accounts, profit distribution plans, capital adequacy ratio reports as well as special reports on the deposit and actual utilization of the proceeds raised from the private placement of A Shares during the first half of 2018, and expressed its independent opinions. The Board of Supervisors was also concerned about financial activities, decisions and execution of significant financial matters, with focus on the disposal and management of our idle fixed assets, return on investment of subsidiaries under the integrated business platform, compliance and risks management, the synergy between the Bank and its subsidiaries and technological support. It also listened to reports on the audit on our remuneration management and proposed relevant recommendations, to facilitate improving our management.

Strengthening supervision on risks and internal control and enhancing the effectiveness of internal control

The Board of Supervisors strengthened supervision work on the prevention and control of cases of compliance violations by focusing its attention on the implementation and effectiveness of, dual accountability, management basics and foundation-level management, Three Lines and One Grid, and prevention of cases of compliance violations by technology, and put forward supervisory recommendations on enhancing the prevention and control of risks of cases of violation. The Board of Supervisors continued carrying out supervision on the relevant rectification work with focus on the progress of rectification for inspection projects conducted by external regulatory authorities and on problems discovered in inspection projects organized and conducted by the Board of Directors and the senior management, such as risk audit, follow-up audit and examination for risks of cases of violation, and put forward supervisory recommendations on strengthening rectification work. The Board of Supervisors continued to monitor compliance risk in oversea institutions, increased supervision efforts on anti-money laundering and put forward supervisory recommendations on strengthening anti-money laundering.

Work of External Supervisors

During the reporting period, The External Supervisors performed their supervisory duties diligently in accordance with the Articles of Association. They reviewed the relevant proposals, listened to working reports, and carried out supervising inspections. They attended all meetings of the Board of Supervisors and special committees thereof, and provided professional, rigorous and independent advice and opinions. The External Supervisors played active roles in enhancing the corporate governance and improving our operation management.

Independent Opinions of the Board of Supervisors

Operation Compliance

During the reporting period, we strictly adhered to operation compliance in accordance with applicable laws and regulations, and continuously optimized our internal control system. The Directors and the senior management members performed their duties diligently. The Board of Supervisors did not find any act by the Directors and the senior management members in performance of their duties that might breach the laws, regulations and the Articles of Association or impair the interest of the Bank.

Annual Results Announcement

The preparation and review procedures of this annual results announcement were in compliance with laws, administrative regulations and regulatory requirements. The annual results announcement gives a true, accurate and complete view of the consolidated financial position and operating results of the Group.

County Area Banking Business

During the reporting period, our indicators of County Area Banking Businesses met the regulatory standards.

Asset Acquisition and Disposal

During the reporting period, the Board of Supervisors did not find any insider trading or any act which might result in the impairment of the interests of the shareholders or loss of our assets in the process of asset acquisition or disposal by the Bank.

Related Party Transactions

During the reporting period, the Board of Supervisors did not find any act in the related party transactions that might result in the impairment of the interests of the Bank.

Internal Control

The Board of Supervisors had no objection to the conclusion of the 2018 Internal Control Assessment Report of Agricultural Bank of China Limited.

Due Diligence Evaluation of Directors, Supervisors and Senior Management Members

The due diligence evaluation results of all the incumbent Directors, Supervisors and senior management members for 2018 were satisfactory.

Save as disclosed above, the Board of Supervisors had no objection to the matters subject to its supervision during the reporting period.

By Order of the Board of Supervisors
WANG Jingdong
Chairman of the Board of Supervisors

29 March 2019

SIGNIFICANT EVENTS

Material Litigations and Arbitrations

During the reporting period, there were no litigations or arbitrations with material impact on our business operation.

At 31 December 2018, the value of the claims of the pending litigations or arbitrations in which we was involved as a defendant, a respondent or a third person amounted to approximately RMB5,705 million. Our management believes that we have fully accrued provision for potential losses arising from the aforesaid litigations or arbitrations, and they will not have any material adverse effect on our financial position or operating results.

Major Asset Acquisition, Disposal and Merger

During the reporting period, we did not carry out any major asset acquisition, disposal or merger.

Implementation of Share Incentive Plan

During the reporting period, we did not implement any share incentive scheme, including share appreciation rights scheme of the management and employee share ownership scheme.

Material Related Party Transactions

During the reporting period, we did not enter into any material related party transaction.

Details and Performance of Material Contracts

Material custody, contract and lease

During the reporting period, we did not enter into any material custody, contracting or leasing arrangements on the assets of other companies, which were subject to disclosure, and no other companies entered into any material custody, contracting or leasing arrangements on our assets, which were subject to disclosure.

Material guarantees

The provision of guarantees is one of our off-balance-sheet businesses in its ordinary and usual course of business. During the reporting period, we did not have any material guarantee that was required to be disclosed, except for the financial guarantee services within the business scope as approved by the PBOC and the CBIRC.

Major Centralised Procurement

There were no centralised procurement which had material impact on our cost and expenses.

Misappropriation of Funds by Controlling Shareholders and Other Related Parties

None of our controlling shareholders or other related parties misappropriated any of our funds. PricewaterhouseCoopers Zhong Tian LLP issued the *Special Report on Misappropriation of Funds by Controlling Shareholders and Other Related Parties of Agricultural Bank of China Limited for the year of 2018*.

Penalties Imposed on the Bank and Directors, Supervisors, Senior Management Members and Controlling Shareholders of the Bank

In the recent three years, there was no penalty from securities regulatory authorities in relation to incumbent Directors, Supervisors and senior management members, or former Directors, Supervisors and senior management members o during the reporting period.

During the reporting period, neither the Bank nor any of our Directors, Supervisors, senior management members and controlling shareholders was investigated by competent authorities, subject to compulsory measures imposed by authorities or disciplinary authorities, or to be transferred to judicial authorities for prosecution or held criminally liable, investigated, punished, barred from the market or disqualified by the CSRC, subject to material administrative punishments imposed by environmental protection, safe production supervision, tax or other administrative authorities, or publicly denounced by any stock exchanges.

Integrity of the Bank and Controlling Shareholder

There were no judicial decisions in effect to be performed, or any outstanding debt with large amount matured and to be paid, by the Bank or its controlling shareholders.

Material Equity Investments and material non-equity investments in progress

On 13 April 2018, the Board of Directors considered and approved the capital injection of RMB6.5 billion to ABC Financial Leasing Co., Ltd., our subsidiary. We completed the aforesaid capital injection in August 2018 and still maintained 100% shareholding.

In July 2018, we entered into the *Promoters' Agreement on the National Financing Guarantee Fund Limited Liability Company*, and would invest RMB3 billion in the National Financing Guarantee Fund Co., Ltd. for 4.5386% of its registered capital, which will be paid up in four years since 2018. In November 2018, we completed the initial payment of RMB0.75 billion for the capital injection.

On 26 November 2018, upon the approval by the Board of Directors, we proposed to establish Agricultural Bank of China Wealth Management Co., Ltd., which would be 100% held by the Bank, with a total capital contribution of no more than RMB12 billion. The application for establishment of Agricultural Bank of China Wealth Management Co., Ltd. was approved by CBIRC on 4 January 2019, and the preparatory work has been advancing smoothly.

During the reporting period, we did not have any material non-equity investment.

Targeted Poverty Alleviation

For the details of targeted poverty alleviation carried out by the Bank during the reporting period, please refer to "Discussion and Analysis – County Area Banking Business – Financial Poverty Alleviation".

Private Placement of A Shares

For details of the private placement of A Shares by the Bank, please refer to "Changes in Share Capital and Shareholdings of Substantial Shareholders – Details of Issuance and Listing of Securities".

The Issuance of Tier-2 Capital Bonds

In March 2019, we issued tier-2 capital bonds of RMB60 billion in the national inter-bank bond market, which are divided into two categories. The first one is 15-year fixed rate bonds with a total amount of RMB10 billion and coupon rate of 4.53%, for which we have a conditional right to redeem following the tenth anniversary of the issuance date. The second one is 10-year fixed rate bonds with a total amount of RMB50 billion and coupon rate of 4.28%, for which we have a conditional right to redeem following the fifth anniversary of the issuance date. The proceeds from the issuance of the bonds, after deducting expenses in relation to the issuance, were fully used to replenish our Tier 2 capital.

Write-down Undated Capital Bonds

The Bank proposed to issue write-down undated capital bonds of not exceeding RMB120 billion. The proceeds from the issuance of the bonds will be used to replenish the additional Tier 1 capital of the Bank. This proposed issuance had been considered and approved at the meeting of the Board of Directors held on 29 March 2019, and will be subject to the approval by the shareholders' general meeting. In addition, it shall be subject to the approval of the relevant regulatory authorities.

Commitments

Subject of Commitment	Commitment	Details of commitment	Date of commitment	Due date of commitment	Performance up to date
Huijin	Non-competition commitment	(1) So long as Huijin continues to hold any of our shares or is deemed to be a controlling shareholder or a connected person of a controlling shareholder or de facto controller of the Bank in accordance with the laws or listing rules of China or of the place where our shares are listed, it will not engage or participate in any competing commercial banking activities in China or abroad. If Huijin engages or participates in any competing commercial banking activities or activities which evolve into competing commercial banking activities in China or abroad, it will immediately cease to participate in, manage or engage in such competing commercial banking activities. (2) If Huijin obtains any governmental approval, authorization or license to operate commercial banking activities directly, or obtains any other opportunities to operate commercial banking activities, Huijin will immediately relinquish such approval, authorization or license, and will not operate any commercial banking activities.	15 July 2010	Valid for long-term	Continuous commitment and duly performed

Subject of Commitment	Commitment	Details of commitment	Date of commitment	Due date of commitment	Performance up to date
		(3) Notwithstanding the above provisions (1) and (2), Huijin, as a state-owned investment vehicle established by the PRC government to invest in financial/banking industry, may through its investments in other companies and in any form (including but not limited to its wholly-owned entities, joint ventures, contractual joint ventures, or through its direct or indirect ownership of shares or other interests in such companies), operate or participate in any competing commercial banking activities in China or abroad. (4) Huijin, as a state-owned investment vehicle established by the PRC government to invest in financial/banking industry, will treat its investments in commercial banks on an equal footing, and will not confer upon any commercial banks any governmental approval, authorization or license to operate commercial banking activities or any business opportunities it obtains or may obtain, nor will it take advantage of its status as a holder of our shares or the information obtained by virtue of such status to make decisions or judgments against us or in favor of other commercial banks, and will avoid such circumstances' arising. It will exercise its shareholder's rights in our maximum or best interests as if we were its sole investment in a commercial bank, and will exercise its commercial judgment as our shareholder to maximize our best interests, and such judgment shall not be affected by its investments in other commercial banks.			
Huijin and MOF	Commitment related to re-financing	During the reporting period, we issued 25,188,916,873 A share ordinary shares of RMB1.00 each by way of private placement to seven specified subscribers, including Huijin, and the MOF. Each of Huijin and MOF, undertook that there was/will be no decrease in the shares of the Bank held by it or any such plan during the period commencing from the six months prior to the price determination date to the end of the six months following the private placement completion.	12 March 2018	During the period commencing from the six months prior to the price determination date to the end of the six months following the private placement	Duly performed and completed

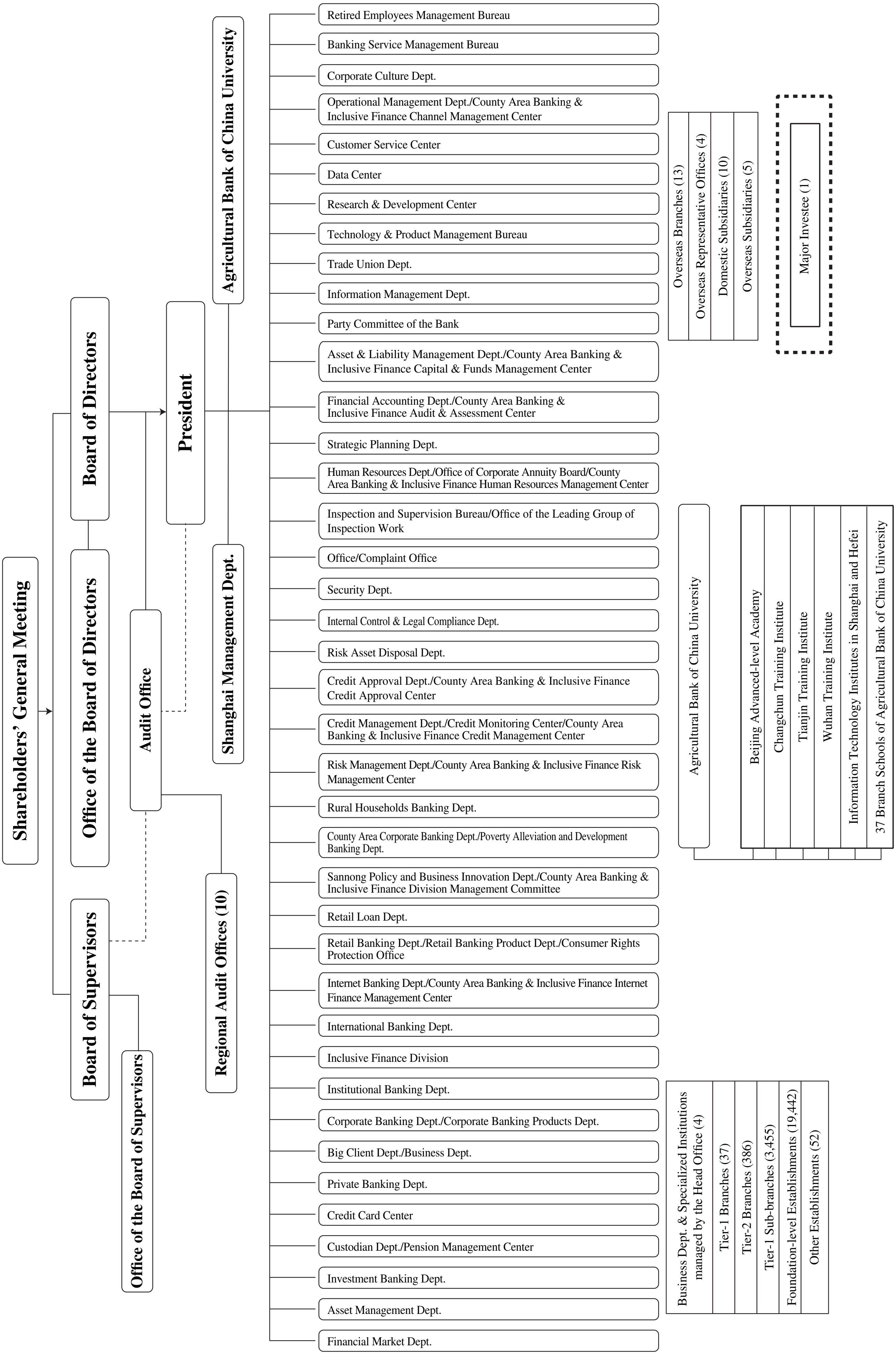
At the First Extraordinary Annual Meeting for 2018 held on 29 March 2018, the proposal for dilution of current returns by the Private Placement of A Shares and compensatory Measures was considered and approved. According to the requirement by CSRC, the Directors and senior management made the commitments on the effective implementation of compensatory measures. For details of these commitments, please refer to our announcements published on the websites of Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Bank. As at the end of the reporting period, there was no breach of these commitments by us, our directors and members of the senior management.

HONORS AND AWARDS

Organizations	Honors and Awards
Asiamoney	Best State-owned Retail Bank Best Private Bank in Product Development in China Most Innovative Green Bank New Silk Road Finance Awards 2018 Middle East and Africa: Best Chinese Bank in the region for Belt & Road Initiative (BRI)
The Asset	2017 Top Bank in Corporate Bond 2017 Top Investment House 2017 Digital Bank of the Year 2017 Best Service Provider – Cash Management (Rising Star)
Wall Street China	Excellent Retail Bank for the Year of 2018
Finance China	Largest Product Award in Green Financial Asset Securitization
www.cnr.cn	First Choice of Listed Companies by Investors for 2018 – Outstanding
finance.sina.com.cn	Golden Lion Award for Listed Companies in Hong Kong-Best Investment Value Award for Listed Companies; Most Appreciated Mobile Bank
PBOC	First prize of the Banking Science and Technology Development Award for the year of 2017
Shanghai Stock Exchange	Outstanding Participating Institution for Asset Securitization
China Central Depository & Clearing Co., Ltd.	Outstanding Proprietary Trader; Outstanding Clearing Agent; Top 100 Settlement-Excellent Proprietary Trader; Outstanding National Debt Market-making Settlement Award; Outstanding Agency Award for Over-the-Counter Circulating Bonds; Outstanding Institution Award for Saving Bonds (Electronic)
Interbank Market Clearing House Co., Ltd.	Excellent Client Clearing Agency for Commodity; Excellent Foreign Exchange Proprietary Clearing Award for the year of 2017
China Foreign Exchange Trading System	Core Trader in the Inter Bank Domestic Currency Market; Excellent Bond Market Trader; Trading Mechanism Innovation Award; Outstanding Contribution Award to Opening-up
China Banking Association	Best Performance Prize for Syndication Loans; Best International Settlement Bank; 2017 Best Financial Institution Prize for Social Responsibility Performance; Green Banks Overall Evaluation Outstanding Units
Bond Connect Company Limited	Best Bond Connect Participating Dealers

Organizations	**Honors and Awards**
Directors & Boards	the 14th Gold Round Table Forum of the Chinese Board of Listed Companies
21st Century Business Herald	Excellent Commercial Bank in Asia for the Year; Best Bank in Asset Management; Bank for Inclusive Finance Business; Best Corporate Culture Award for the Year
Financial News	Best Bank for Sannong Services for the Year
Shanghai Securities News	"Golden Wealth" Awards: Excellent Asset Management Award for the Year; Excellent Innovative Wealth Management Award
China Securities Journal	Golden Bull Award: Bank of Wealth Management
Securities Times	2018 "Golden Wing" Award for the Valued Company in HK Stock Connect; 2018 Investment Banking Junding Award among All-round Banks in China; 2018 Junding Award for Excellent Wealth Management Institutions in China; 2018 Junding Award among Banking Wealth Management Brand in China; 2018 Banking Junding Award among Financial Advisors in China
China Times	Bank for Inclusive Finance Services
Investor Journal Weekly	Trustworthy Corporate Bank
Financial Computerizing	Outstanding Contribution Award for Product Innovation; Outstanding Contribution Award for Fintech Management Innovation
Trade Finance	Best Bank in International Business
The Institute of Asset Securitization in China	The Most Potential Institution
China Business Journal, Chinese Academy of Social Sciences	2018 Inclusive Financial Service Bank of Excellent Competitiveness
China Gold Coin Incorporation	Outstanding Performer in Precious Metal Coin Business
China Information Technology Industry Federation	Best Demonstration Bank in Integration of Industry and Finance for the Year
ChinaHR.com	16th Top 50 Employers for University Graduates in China; Top 15 Employers of Financial Industry

ORGANIZATIONAL CHART



LIST OF BRANCHES AND INSTITUTIONS

Domestic Institutions

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FAX: 022-23338733

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- **SHANXI BRANCH**

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- **INNER MONGOLIA BRANCH**

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- **LIAONING BRANCH**

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- **JILIN BRANCH**

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- **HAINAN BRANCH**

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- **SICHUAN BRANCH**

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- **CHONGQING BRANCH**

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- **GUIZHOU BRANCH**

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- **YUNNAN BRANCH**

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- **TIBET BRANCH**

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- **NINGXIA BRANCH**

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- **XINJIANG BRANCH**

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- **XINJIANG PRODUCTION AND CONSTRUCTION CORPS BRANCH**

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- **ABC FINANCIAL LEASING CO., LTD.**

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- **ABC LIFE INSURANCE CO., LTD.**

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- **ABC FINANCIAL ASSET INVESTMENT COMPANY LIMITED**

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- **ABC XIAMEN TONG'AN RURAL BANK LIMITED LIABILITY COMPANY**

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- **ABC ZHEJIANG YONGKANG RURAL BANK LIMITED LIABILITY COMPANY**

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- **HONG KONG BRANCH**

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- **SEOUL BRANCH**

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- **NEW YORK BRANCH**

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- **DUBAI BRANCH**

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- **TOKYO BRANCH**

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- **FRANKFURT BRANCH**

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FAX: 0049-69-401255-209

- **SYDNEY BRANCH**

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- **LUXEMBOURG BRANCH**

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FAX: 00352-279550005

- **LONDON BRANCH**

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FAX: 0044-20-73746425

- **MACAU BRANCH**

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FAX: 00853-8599-5590

- **HANOI BRANCH**

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- **AGRICULTURAL BANK OF CHINA (LUXEMBOURG) LIMITED**

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FAX: 00352-279550005

- **AGRICULTURAL BANK OF CHINA (MOSCOW) LIMITED**

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the Russian Federation
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FAX: 007-499-9290180

- **ABC INTERNATIONAL HOLDINGS LIMITED**

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FAX: 00852-36660009

- **CHINA AGRICULTURAL FINANCE CO., LTD**

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FAX: 00852-28661936

- **VANCOUVER REPRESENTATIVE OFFICE**

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- **HANOI REPRESENTATIVE OFFICE**

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APPENDIX I LIQUIDITY COVERAGE RATIO INFORMATION

The Bank disclosed the following information of liquidity coverage ratio in accordance with relevant regulations of the CBIRC.

Regulatory Requirements of Liquidity Coverage Ratio

In accordance with the Rules on Liquidity Risk Management of Commercial Banks issued by the CBIRC, it is required that the liquidity coverage ratio of commercial banks should be no less than 100%. In addition, in accordance with the Rules on Disclosure for Liquidity Coverage Ratio Information of Commercial Banks, commercial banks are required to disclose the liquidity coverage ratio information at the same frequency as issuing the financial report, and to disclose the simple arithmetic average of the liquidity coverage ratios based on daily data in every quarter from 2017 and the number of daily data adopted in calculation of such average.

Liquidity Coverage Ratio

The Bank calculated the liquidity coverage ratio in accordance with the Rules on Liquidity Risk Management of Commercial Banks and applicable calculation requirements. The average of daily liquidity coverage ratio of the Bank was 126.6% in the fourth quarter of 2018, representing an increase of 8.5 percentage points over the previous quarter. The number of days used in calculating such average was 92 days. Our high-quality liquid assets are mainly cash, central bank surplus reserves which are able to be drawn down under stress scenarios and securities fall within the definition of Level 1 and Level 2 assets under the Rules on Liquidity Risk Management of Commercial Banks.

The averages of the daily liquidity coverage ratio and individual line items over the fourth quarter in 2018 are as follows:

In ten thousands of RMB, except for percentages

Item		Total Unweighted Value	Total Weighted Value
HIGH-QUALITY LIQUID ASSETS			
1	Total high-quality liquid assets (HQLA)		447,287,542
CASH OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	1,076,237,124	99,052,225
3	*Stable deposits*	171,424,775	8,570,990
4	*Less Stable deposits*	904,812,349	90,481,235
5	Unsecured wholesale funding, of which:	663,104,647	269,929,526
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	202,709,384	49,377,004
7	*Non-operational deposits (all counterparties)*	456,452,017	216,609,276
8	*Unsecured debt*	3,943,246	3,943,246
9	Secured wholesale funding		2,104,219
10	Additional requirements, of which:	223,558,526	70,600,808
11	*Outflows related to derivative exposures and other collateral requirements*	57,851,658	57,851,658
12	*Outflows related to loss of funding on debt products*	12,517	12,517
13	*Credit and liquidity facilities*	165,694,351	12,736,633
14	Other contractual funding obligations	28,990,091	28,990,091
15	Other contingent funding obligations	140,287,127	6,118,116
16	TOTAL CASH OUTFLOWS		476,794,985
CASH INFLOWS			
17	Secured lending (e.g. reverse repos and borrowed securities)	28,317,992	27,870,652
18	Inflows from fully performing exposures	85,688,778	47,068,326
19	Other cash inflows	60,455,216	60,455,216
20	TOTAL CASH INFLOWS	174,461,986	135,394,194
			Total Adjusted Value
21	TOTAL HQLA		432,117,856
22	TOTAL NET CASH OUTFLOWS		341,400,790
23	LIQUIDITY COVERAGE RATIO (%)		126.6%

APPENDIX II LEVERAGE RATIO INFORMATION

As at 31 December 2018, the Bank's leverage ratio, calculated in accordance with the Rules for the Administration of the Leverage Ratio of Commercial Banks (amended) by the CBIRC, was 6.76%.

In millions of RMB, except for percentages

Item	31 December 2018	30 September 2018	30 June 2018	31 March 2018
Tier 1 capital, net	1,663,833	1,623,903	1,558,787	1,453,250
Adjusted on-and off-balance sheet assets	24,611,669	24,330,241	23,561,983	23,309,581
Leverage ratio	6.76%	6.67%	6.62%	6.23%

In millions of RMB

No.	Item	Balance
1	Total consolidated assets	22,609,471
2	Adjustment for consolidation	(81,116)
3	Adjustment for clients' assets	0
4	Adjustment for derivatives	3,881
5	Adjustment for securities financing transactions	0
6	Adjustment for off-balance sheet items	2,086,882
7	Other adjustments	(7,449)
8	Adjusted on-and off-balance sheet assets	24,611,669

In millions of RMB, except for percentages

No.	Item	Balance
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	22,121,107
2	Less: deductions from Tier 1 capital	(7,449)
3	**Adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)**	22,113,658
4	Replacement cost of all derivatives (net of eligible margin)	26,569
5	Potential exposure of all derivatives	14,255
6	Gross-up of collaterals deducted from the balance sheet	0
7	Less: receivables assets resulting from providing eligible margin	0
8	Less: derivative assets resulting from transactions with the central counterparty when providing clearance services to client	0
9	Notional principal amount of written credit derivatives	0
10	Less: deductible amounts of written credit derivative assets	0
11	**Derivative assets**	40,824
12	Securities financing transaction assets for accounting purpose	370,305
13	Less: deductible amounts of securities financing transaction assets	0
14	Counterparty credit risk exposure for securities financing transaction	0
15	Securities financing transaction assets resulting from agent transaction	0
16	**Securities financing transaction assets**	370,305
17	Off-balance sheet items	4,267,350
18	Less: Adjustments for conversion to credit equivalent amounts	(2,180,468)
19	**Adjusted off-balance sheet items**	2,086,882
20	Tier 1 capital, net	1,663,833
21	Adjusted on-and off-balance sheet assets	24,611,669
22	**Leverage ratio**	6.76%

APPENDIX III THE INDICATORS FOR ASSESSING GLOBAL SYSTEMATIC IMPORTANCE OF COMMERCIAL BANKS

The following disclosure was made in accordance with the relevant requirements of the Guidelines for the Disclosure of Indicators for Assessing Global Systematic Importance of Commercial Banks promulgated by the CBIRC.

Assessment Indicators of the Global Systematic Importance of Commercial Banks

In millions of RMB

Category	**Item**	**Balance/Amount in 2018**
Size	1. Total adjusted on- and off-balance sheet assets	24,611,669
Interconnectedness	2. Intra-financial system assets	1,685,883
	3. Intra-financial system liabilities	1,482,716
	4. Securities outstanding	2,178,559
Substitutability	5. Payments activity (from the beginning of the year to the end of the reporting period)	251,035,415
	6. Assets under custody	9,220,094
	7. Underwritten transactions (from the beginning of the year to the end of the reporting period)	600,773
Complexity	8. Notional amount of OTC derivatives	3,405,697
	9. Trading and available-for-sale securities	226,061
	10. Level 3 assets	58,761
Global (cross-jurisdictional activity)	11. Cross-jurisdictional claims	458,000
	12. Cross-jurisdictional liabilities	565,762

AGRICULTURAL BANK OF CHINA LIMITED

(Incorporated in the People's Republic of China with Limited Liability)

Auditor's Report and Consolidated Financial Statements
For the year ended 31 December 2018
(Prepared under International Financial Reporting Standards)

Independent Auditor's Report

To the Shareholders of Agricultural Bank of China Limited
(Incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of Agricultural Bank of China Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 1 to 188, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- 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 International Standards on Auditing ("ISAs"). 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 summarized as follows:

- Measurement of expected credit losses for loans and advances to customers
- Consolidation of structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers Refer to Note II 12.5, Note III 1, Note IV 8, Note IV 18 and Note IV 45.1 to the consolidated financial statements. As at 31 December 2018, the carrying amount of Group's loans and advances to customers was RMB11,461.54 billion, of which RMB11,027.38 billion were measured at amortized cost and RMB433.91 billion were measured at fair value through other comprehensive income. A loss allowance of RMB 479.14 billion was recognized for loans and advances to customers measured at amortized cost and a loss allowance of RMB7.47 billion was recognized for loans and advances to customers measured at fair value through other comprehensive income in the Group's consolidated statement of financial position. The credit impairment losses on loans and advances to customers recognized in the Group's consolidated income statement for the year ended 31 December 2018 amounted to RMB 130.11 billion.	We evaluated and tested the design and operating effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, primarily including: (1) Internal controls over ECL models, including the selection, approval and application of modelling methodology; and ongoing monitoring and optimization of the models; (2) Review and approval of significant management judgements and assumptions, including portfolio segmentation, model selections, key parameters estimation, determination of significant increase in credit risk, identification of default and credit-impaired assets and forward-looking measurement;

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers (Continued)	
The loss allowances for loans and advances to customers represent the management's best estimates at the balance sheet date of expected credit losses under International Financial Reporting Standard 9: Financial Instruments expected credit losses ("ECL") models. The Group assessed whether the credit risk of loans and advances to customers had increased significantly since their initial recognition, and applied a three-stage impairment approach to calculate their ECL. For corporate loans and advances classified into stages I and II and for all personal loans, management assessed ECL using the risk parameter modelling approach that incorporated key parameters (including probability of default, loss given default, exposure at default, etc.). For corporate loans and advances in stage III, management assessed ECL by estimating the future cash flows from the loans.	(3) Internal controls over the accuracy and completeness of data used by the models; (4) Internal controls relating to estimated future cash flows and calculations of present values of such cash flows for corporate loans and advances in stage III; (5) Internal controls over the information systems for ECL measurement; (6) Review and approval of the measurement result of expected credit losses for loans and advances to customers. We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the significant judgements and assumptions involved, including portfolio segmentation, models selections, key parameters estimation (including probability of default, loss given default, exposure at default etc.) and so on. We examined the ECL calculation engines on a sample basis, to validate whether or not the ECL calculation engines reflect the management's modelling methodologies. We performed substantive testing over a sample of loans and advances to customers, and considered financial and non-financial information, relevant external evidence and other factors of the borrowers, to assess the appropriateness of management's identification of significant increase in credit risk, defaults and credit-impaired loans.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers (Continued)	
The measurement of ECL for loans and advances to customers involves significant management judgments and assumptions, primarily including: (1) Segmentation of portfolio based on credit risk characteristics, selection of appropriate models and determination of relevant key parameters; (2) Determination of whether or not there was a significant increase in credit risk, default or credit-impaired; (3) Inputs and assumptions used to estimate the impact of forward looking information and multiple economic scenarios; (4) Estimation of future cash flows for corporate loans and advances in stage III. The Group established internal controls for the measurement of ECL. Measurement of ECL for loans and advances to customers involved complex models and significant management judgements over parameters and data inputs, and hence was identified as a key audit matter.	For forward-looking measurement, we reviewed management's analysis of their selection of economic indicators, economic scenarios and weightings assigned. We assessed the reasonableness of the parameters and inputs used in the forward looking and multiple economic scenarios models. We performed sensitivity analysis of the economic indicators, economic scenarios and weightings assigned. For corporate loans and advances in stage III, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance. We examined critical data elements to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. We also tested the interfaces of the major data transfer between the ECL calculation engines and relevant information systems, to verify their accuracy and completeness. Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of ECL for loans and advances to customers, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of structured entities	
Refer to Note II 5, Note III 5 and Note IV 42 to the consolidated financial statements.	
Structured entities primarily included Wealth Management Products ("WMPs"), securitization products, funds, trust investment plans and asset management plans issued, managed and/or invested by the Group. As at 31 December 2018, total assets of the consolidated structured entities and the carrying amount of unconsolidated structured entities invested by the Group included in the consolidated statement of financial position amounted to RMB363.25 billion and RMB60.66 billion, respectively. In addition, as at 31 December 2018, total assets of non-principal guaranteed WMPs, funds and asset management plans sponsored and managed by the Group which were not consolidated and not included in the consolidated statement of financial position amounted to RMB1,706.49 billion and RMB684.65 billion, respectively. Management had determined whether the Group had control of certain structured entities based on their assessment of the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities. The significant judgement exercised by management in assessing whether the Group had control of structured entities and the amount of such structured entities resulted in this matter being identified as a key area of audit focus.	We evaluated and tested the design and operating effectiveness of the Group's relevant controls over consolidation assessment of structured entities, including approval of transaction structure, review and approval of contractual terms, variable return computations, and consolidation assessment results. We selected samples of structured entities and assessed the Group's contractual rights and obligations in light of the transaction structures, and evaluated the Group's power over the structured entities. We performed independent analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned by the Group as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. We also assessed whether the Group acted as a principal or an agent, through analysis of the scope of the Group's decision-making authority over the sampled structured entities, the remuneration to which the Group was entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities. Based on the procedures performed, we found management's consolidation judgment of these structured entities acceptable.

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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, 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.

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 Leung Wai Kin.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2019

AGRICULTURAL BANK OF CHINA LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Year ended 31 December	
	IV	2018	2017
Interest income	1	784,724	713,699
Interest expense	1	(306,964)	(271,769)
Net interest income	1	477,760	441,930
Fee and commission income	2	91,525	85,257
Fee and commission expense	2	(13,384)	(12,354)
Net fee and commission income	2	78,141	72,903
Net trading gain/(loss)	3	16,069	(8,829)
Net gain/(loss) on financial investments	4	8,460	(3,108)
Net gain on derecognition of financial assets measured at amortized cost		30	N/A
Other operating income	5	22,097	40,002
Operating income		602,557	542,898
Operating expenses	6	(213,963)	(205,268)
Credit impairment losses	8	(136,647)	N/A
Impairment losses on other assets		(251)	N/A
Impairment losses on assets	9	N/A	(98,166)
Operating profit		251,696	239,464
Share of result of associates and joint ventures	21	(22)	14
Profit before tax		251,674	239,478
Income tax expense	10	(49,043)	(46,345)
Profit for the year		202,631	193,133
Attributable to:			
Equity holders of the Bank		202,783	192,962
Non-controlling interests		(152)	171
		202,631	193,133
Earnings per share attributable to the ordinary equity holders of the Bank (expressed in RMB yuan per share)			
- Basic and diluted	12	0.59	0.58

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2018	**2017**
Profit for the year	202,631	193,133
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on financial assets at fair value through other comprehensive income	35,360	N/A
Loss allowance on financial assets at fair value through other comprehensive income	3,243	N/A
Income tax impact for fair value changes and loss allowance on financial assets at fair value through other comprehensive income	(9,290)	N/A
Net losses from fair value changes on available-for-sale financial assets	N/A	(31,443)
Income tax impact for fair value changes on available-for-sale financial assets	N/A	7,588
Foreign currency translation differences	1,505	(1,657)
Subtotal	30,818	(25,512)
Items that will not be reclassified subsequently to profit or loss:		
Fair value changes on other equity investments designated at fair value through other comprehensive income	196	N/A
Income tax impact for fair value changes on other equity investments designated at fair value through other comprehensive income	(47)	N/A
Subtotal	149	N/A
Other comprehensive income, net of tax	30,967	(25,512)
Total comprehensive income for the year	233,598	167,621
Total comprehensive income attributable to:		
Equity holders of the Bank	233,079	168,037
Non-controlling interests	519	(416)
	233,598	167,621

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	As at 31 December 2018	2017
Assets			
Cash and balances with central banks	13	2,805,107	2,896,619
Deposits with banks and other financial institutions	14	109,728	130,245
Precious metals		21,268	32,008
Placements with and loans to banks and other financial institutions	15	552,013	505,269
Derivative financial assets	16	36,944	28,284
Financial assets held under resale agreements	17	371,001	540,386
Loans and advances to customers	18	11,461,542	10,316,311
Financial investments	19		
Financial assets at fair value through profit or loss		643,245	N/A
Debt instrument investments at amortized cost		4,503,698	N/A
Other debt instrument and other equity investments at fair value through other comprehensive income		1,738,132	N/A
Financial assets held for trading		N/A	194,640
Financial assets designated at fair value through profit or loss		N/A	383,325
Available-for-sale financial assets		N/A	1,426,420
Held-to-maturity investments		N/A	3,489,135
Debt instruments classified as receivables		N/A	659,223
Investment in associates and joint ventures	21	4,005	227
Property and equipment	22	152,452	155,258
Goodwill		1,381	1,381
Deferred tax assets	23	113,293	97,751
Other assets	24	95,662	196,900
Total assets		22,609,471	21,053,382
Liabilities			
Borrowings from central banks	25	561,195	465,947
Deposits from banks and other financial institutions	26	1,124,322	974,730
Placements from banks and other financial institutions	27	325,541	280,061
Financial liabilities at fair value through profit or loss	28	286,303	391,772
Derivative financial liabilities	16	34,554	30,872
Financial assets sold under repurchase agreements	29	157,101	319,789
Due to customers	30	17,346,290	16,194,279
Debt securities issued	31	780,673	475,017
Deferred tax liabilities	23	139	87
Other liabilities	32	318,566	491,431
Total liabilities		20,934,684	19,623,985

AGRICULTURAL BANK OF CHINA LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AS AT 31 DECEMBER 2018
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	As at 31 December	
	IV	2018	2017
Equity			
Ordinary shares	33	349,983	324,794
Preference shares	34	79,899	79,899
Capital reserve	35	173,556	98,773
Investment revaluation reserve	36	18,992	(19,690)
Surplus reserve	37	154,257	134,348
General reserve	38	239,190	230,750
Retained earnings		652,944	577,573
Foreign currency translation reserve		1,473	(32)
Equity attributable to equity holders of the Bank		1,670,294	1,426,415
Non-controlling interests		4,493	2,982
Total equity		1,674,787	1,429,397
Total equity and liabilities		22,609,471	21,053,382

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

Approved and authorized for issue by the Board of Directors on 29 March 2019.

Zhou Mubing	Wang Wei
Chairman	Executive Director

AGRICULTURAL BANK OF CHINA LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts in millions of Renminbi, unless otherwise stated)

		Total equity attributable to equity holders of the Bank										
	Notes IV	Ordinary shares	Preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Subtotal	Non-controlling interests	Total
As at 31 December 2017		324,794	79,899	98,773	(19,690)	134,348	230,750	577,573	(32)	1,426,415	2,982	1,429,397
Change in accounting policy (Note II 2)		-	-	-	9,891	-	(95)	(36,457)	-	(26,661)	244	(26,417)
As at 1 January 2018		324,794	79,899	98,773	(9,799)	134,348	230,655	541,116	(32)	1,399,754	3,226	1,402,980
Profit for the year		-	-	-	-	-	-	202,783	-	202,783	(152)	202,631
Other comprehensive income		-	-	-	28,791	-	-	-	1,505	30,296	671	30,967
Total comprehensive income for the year		-	-	-	28,791	-	-	202,783	1,505	233,079	519	233,598
Capital contribution from equity holders	33	25,189	-	74,783	-	-	-	-	-	99,972	749	100,721
Appropriation to surplus reserve	37	-	-	-	-	19,909	-	(19,909)	-	-	-	-
Appropriation to general reserve	38	-	-	-	-	-	8,535	(8,535)	-	-	-	-
Dividends paid to ordinary equity holders	11	-	-	-	-	-	-	(57,911)	-	(57,911)	-	(57,911)
Dividends paid to preference shareholders	11	-	-	-	-	-	-	(4,600)	-	(4,600)	-	(4,600)
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	-	-	(1)	(1)
As at 31 December 2018		349,983	79,899	173,556	18,992	154,257	239,190	652,944	1,473	1,670,294	4,493	1,674,787

AGRICULTURAL BANK OF CHINA LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts in millions of Renminbi, unless otherwise stated)

		Total equity attributable to equity holders of the Bank										
	Notes IV	Ordinary shares	Preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Subtotal	Non-controlling interests	Total
As at 1 January 2017		324,794	79,899	98,773	3,578	115,136	198,305	496,083	1,625	1,318,193	3,398	1,321,591
Profit for the year		-	-	-	-	-	-	192,962	-	192,962	171	193,133
Other comprehensive income		-	-	-	(23,268)	-	-	-	(1,657)	(24,925)	(587)	(25,512)
Total comprehensive income for the year		-	-	-	(23,268)	-	-	192,962	(1,657)	168,037	(416)	167,621
Appropriation to surplus reserve	37	-	-	-	-	19,212	-	(19,212)	-	-	-	-
Appropriation to general reserve	38	-	-	-	-	-	32,445	(32,445)	-	-	-	-
Dividends paid to ordinary equity holders	11	-	-	-	-	-	-	(55,215)	-	(55,215)	-	(55,215)
Dividends paid to preference shareholders	11	-	-	-	-	-	-	(4,600)	-	(4,600)	-	(4,600)
As at 31 December 2017		324,794	79,899	98,773	(19,690)	134,348	230,750	577,573	(32)	1,426,415	2,982	1,429,397

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

AGRICULTURAL BANK OF CHINA LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	251,674	239,478
Adjustments for:		
Amortization of intangible assets and other assets	2,309	2,826
Depreciation of property and equipment	14,104	15,453
Credit impairment losses	136,647	N/A
Impairment losses on other assets	251	N/A
Impairment losses on assets	N/A	98,166
Interest income arising from investment securities	(216,118)	(195,994)
Interest expense on debt securities issued	23,094	13,772
Revaluation (gain)/loss on financial instruments at fair value through profit or loss	(5,120)	18,196
Net gain on investment securities	(351)	(136)
Share of result of associates and joint ventures	22	(14)
Net gain on disposal of property, equipment and other assets	(1,068)	(941)
Net foreign exchange (gain)/loss	(6,733)	5,178
	198,711	195,984
Net change in operating assets and operating liabilities:		
Net decrease in balances with central banks, deposits with banks and other financial institutions	266,843	265,819
Net (increase)/decrease in placements with and loans to banks and other financial institutions	(75,015)	158,332
Net decrease in financial assets held under resale agreements	23,004	17,527
Net increase in loans and advances to customers	(1,238,775)	(1,135,665)
Net increase in borrowings from central banks	86,098	174,895
Net increase/(decrease) in placements from banks and other financial institutions	43,764	(21,960)
Net increase in due to customers and deposits from banks and other financial institutions	1,093,590	974,964
Decrease/(Increase) in other operating assets	3,365	(104,152)
(Decrease)/Increase in other operating liabilities	(247,938)	144,479
Cash from operations	153,647	670,223
Income tax paid	(47,720)	(36,806)
NET CASH FROM OPERATING ACTIVITIES	105,927	633,417

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	Year ended 31 December 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal/redemption of investment securities		1,868,019	1,920,667
Cash received from interest income arising from investment securities		199,604	189,384
Cash received from disposal of property, equipment and other assets		5,605	2,138
Cash paid for purchase of investment securities		(2,491,466)	(2,577,239)
Increase in investment in associates and joint ventures		(3,801)	-
Cash paid for purchase of property, equipment and other assets		(17,048)	(16,011)
NET CASH USED IN INVESTING ACTIVITIES		(439,087)	(481,061)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution from issues of shares		100,007	-
Cash received from debt securities issued		1,310,162	676,543
Repayments of debt securities issued		(1,021,557)	(579,791)
Cash payments for interest on debt securities issued		(21,844)	(10,564)
Cash payments for transaction cost of debt securities issued		(96)	(35)
Cash payments for transaction cost of shares issued		(36)	-
Capital contribution from non-controlling interests		749	-
Dividends paid to ordinary shareholders		(57,911)	(55,215)
Dividends paid to preference shareholders		(4,600)	(4,600)
Dividends paid to non-controlling interests		(1)	-
NET CASH FROM FINANCING ACTIVITIES		304,873	26,338
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(28,287)	178,694
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		1,001,246	827,698
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		5,482	(5,146)
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	39	978,441	1,001,246
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		515,982	512,568
Interest paid		(286,484)	(258,761)

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

I GENERAL INFORMATION

Agricultural Bank of China Limited (the "Bank") is the successor entity to the Agricultural Bank of China (the "Predecessor Entity") which was a wholly state-owned commercial bank approved for setup by the People's Bank of China (the "PBOC") and founded on 23 February 1979 in the People's Republic of China (the "PRC"). On 15 January 2009, the Bank was established after the completion of the financial restructuring of the Predecessor Entity. The Bank's establishment was authorized by the PBOC. The Bank was listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited on 15 July 2010 and 16 July 2010, respectively.

The Bank operates under financial services certificate No. B0002H111000001 issued by the China Banking and Insurance Regulatory Commission (the former "China Banking and Regulatory Commission, CBRC" and "China Insurance Regulatory Commission, CIRC", the "CBIRC"), and business license No. 911100001000054748 issued by Beijing Administration of Industry and Commerce. The registered office of the Bank is located at No. 69 Jianguomen Nei Avenue, Dongcheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively, the "Group") include Renminbi ("RMB") and foreign currency deposits, loans, clearing and settlement services, assets custodian services, fund management, financial leasing services, insurance services and other services as approved by relevant regulators, and the provision of related services by its overseas establishments as approved by the respective local regulators.

The head office and domestic branches of the Bank and its subsidiaries operating in the Mainland China are referred to as the "Domestic Operations". Branches and subsidiaries registered and operating outside of the Mainland China are referred to as the "Overseas Operations".

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap.622) for this financial year and the comparative period.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for assets and that is received (or in some circumstances the amount expected to be paid) with respect to liabilities.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with the transition date of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the Group's consolidated financial statements.

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 recognized in the opening retained earnings and other components of reserves in the current year. For notes disclosures, the consequential amendments to IFRS 7 disclosures have only been applied to the current year. The comparative year notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. Specific accounting policies which have been significantly impacted by IFRS 9 are described in Note II 12 and Note II 27.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.1 The measurement category and the carrying amount of financial instruments

The measurement category and the carrying amount of financial instruments in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		IFRS 9	
Financial assets	**Measurement categories**	**Carrying amount**	**Measurement categories**	**Carrying amount**
Cash and balances with central banks	Amortized cost	2,896,619	Amortized cost	2,896,619
Deposits with banks and other financial institutions	Amortized cost	130,245	Amortized cost	129,950
Placements with and loans to banks and other financial institutions	Amortized cost	505,269	Amortized cost	504,822
Derivative financial assets	Fair value through profit or loss	28,284	Fair value through profit or loss	28,284
Financial assets held under resale agreements	Amortized cost	540,386	Amortized cost	538,796
Loans and advances to customers	Amortized cost	10,316,311	Amortized cost	10,040,513
			Fair value through other comprehensive income	253,324
Investment in financial instruments	Fair value through profit or loss	577,965	Fair value through profit or loss (“FVPL”)	643,197
	Fair value through other comprehensive income (Available-for-sale financial assets)	1,426,420	Fair value through other comprehensive income (“FVOCI”)	1,481,014
	Amortized cost (Held-to-maturity investments)	3,489,135	Amortized cost (“AC”)	4,034,843
	Amortized cost (Debt instruments classified as receivables)	659,223		
Other financial assets	Amortized cost	155,111	Amortized cost	152,807

There were no changes to the classification and measurement of financial liabilities, other than to changes in the fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in the instrument’s credit risk, which are now presented in other comprehensive income. This change does not have a significant impact on the Group’s consolidated financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.2 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 financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	31 December 2017			1 January 2018
	IAS 39 carrying amount	**Reclassification**	**Remeasurement**	**IFRS 9 carrying amount**
Amortized cost				
Cash and balances with central banks				
Opening balance under IAS 39 and closing balance under IFRS 9	2,896,619			2,896,619
Deposits with banks and other financial institutions				
Opening balance under IAS 39	130,245			
Remeasurement: ECL allowance			(295)	
Closing balance under IFRS 9				129,950
Placements with and loans to banks and other financial institutions				
Opening balance under IAS 39	505,269			
Remeasurement: ECL allowance			(447)	
Closing balance under IFRS 9				504,822

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.2 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	31 December 2017			1 January 2018
	IAS 39 carrying amount	Reclassification	Remeasurement	IFRS 9 carrying amount
Amortized cost (Continued)				
Financial assets held under resale agreements				
Opening balance under IAS 39	540,386			
Remeasurement: ECL allowance			(1,590)	
Closing balance under IFRS 9				538,796
Loans and advances to customers				
Opening balance under IAS 39	10,316,311			
Subtraction: To FVOCI (IFRS 9)		(248,457)		
Remeasurement: ECL allowance			(27,341)	
Closing balance under IFRS 9				10,040,513

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.2 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	31 December 2017			1 January 2018
	IAS 39 carrying amount	**Reclassification**	**Remeasurement**	**IFRS 9 carrying amount**
Amortized cost (Continued)				
Debt instrument investments at amortized cost				
Opening balance under IAS 39	-			
Addition: From financial assets held to maturity (IAS 39)		3,240,292		
Remeasurement: ECL allowance			1,153	
Addition: From debt instruments classified as receivables (IAS 39)		649,971		
Remeasurement: ECL allowance			311	
Addition: From available-for-sale financial assets (IAS 39)		137,792		
Remeasurement: From fair value (“FV”) to AC			5,882	
Remeasurement: ECL allowance			(558)	
Closing balance under IFRS 9				4,034,843
Held-to-maturity investments				
Opening balance under IAS 39	3,489,135			
Subtraction: To AC (IFRS 9)		(3,240,292)		
Subtraction: To FVPL (IFRS 9)		(17,822)		
Subtraction: To FVOCI (IFRS 9)		(231,021)		
Closing balance under IFRS 9				-

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.2 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	31 December 2017			1 January 2018
	IAS 39 carrying amount	**Reclassification**	**Remeasurement**	**IFRS 9 carrying amount**
Amortized cost (Continued)				
Debt instruments classified as receivables				
Opening balance under IAS 39	659,223			
Subtraction: To AC (IFRS 9)		(649,971)		
Subtraction: To FVPL (IFRS 9)		(8,646)		
Subtraction: To FVOCI (IFRS 9)		(606)		
Closing balance under IFRS 9				-
Other financial assets				
Opening balance under IAS 39	155,111			
Subtraction: To FVPL (IFRS 9)		(2,302)		
Remeasurement: ECL allowance			(2)	
Closing balance under IFRS 9				152,807
Gross financial assets at amortized cost	18,692,299	(371,062)	(22,887)	18,298,350

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.2 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	31 December 2017			1 January 2018
	IAS 39 carrying amount	Reclassification	Remeasurement	IFRS 9 carrying amount
Fair value through profit or loss				
Financial assets at fair value through profit or loss				
Opening balance under IAS 39	577,965			
Addition: From available-for-sale financial assets (IAS 39)		37,348		
Addition: From financial assets held to maturity (IAS 39)		17,822		
Remeasurement: From AC to FV			(422)	
Addition: From debt instruments classified as receivables (IAS 39)		8,646		
Remeasurement: From AC to FV			110	
Addition: From other assets (IAS 39)		2,302		
Subtraction: To FVOCI		(574)		
Closing balance under IFRS 9				643,197
Gross financial assets at fair value through profit or loss	577,965	65,544	(312)	643,197

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.2 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	31 December 2017			1 January 2018
	IAS 39 carrying amount	**Reclassification**	**Remeasurement**	**IFRS 9 carrying amount**
Fair value through other comprehensive income				
Loans and advances to customers				
Opening balance under IAS 39	-			
Addition: From AC		248,457		
Remeasurement: From AC to FV			4,867	
Closing balance under IFRS 9				253,324
Fair value through other comprehensive income (Debt instruments)				
Opening balance under IAS 39	-			
Addition: From financial assets held to maturity (IAS 39)		231,021		
Remeasurement: From AC to FV			(2,482)	
Addition: From debt instruments classified as receivables (IAS 39)		606		
Remeasurement: From AC to FV			15	
Addition: From available-for-sale financial assets (IAS 39)		1,249,930		
Addition: From FVPL (IAS 39)		574		
Closing balance under IFRS 9				1,479,664

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.2 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	31 December 2017			1 January 2018
	IAS 39 carrying amount	Reclassification	Remeasurement	IFRS 9 carrying amount
Fair value through other comprehensive income (Continued)				
Fair value through other comprehensive income (Equity instruments)				
Opening balance under IAS 39	-			
Addition: From available for sale (IAS 39)		1,350		
Closing balance under IFRS 9				1,350
Available-for-sale financial assets				
Opening balance under IAS 39	1,426,420			
Subtraction: To FVPL (IFRS 9)		(37,348)		
Subtraction: To AC (IFRS 9)		(137,792)		
Subtraction: To FVOCI - debt instruments (IFRS 9)		(1,249,930)		
Subtraction: To FVOCI - equity instruments (IFRS 9)		(1,350)		
Closing balance under IFRS 9				-
Gross financial assets at fair value through other comprehensive income	1,426,420	305,518	2,400	1,734,338

Due to the impact of classification, measurement and impairment, the investment revaluation reserve and retained earnings of the Group were increased by RMB9,891 million and decreased by RMB36,457 million, respectively. The impact on deferred tax of the Group is disclosed in Note IV 23.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.3 Reconciliation of impairment allowance and provision balance from IAS 39 to IFRS 9

The following table reconciles the prior year’s closing impairment allowance and provision measured in accordance with IAS 39 incurred loss model and IAS 37 to the impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Loan loss allowance under IAS 39/ Provision under IAS 37	Reclassification	Remeasurement	Loan loss allowance/ Provision under IFRS 9
Deposits with banks and other financial institutions	89	-	295	384
Placements with and loans to banks and other financial institutions	938	-	447	1,385
Financial assets held under resale agreements	-	-	1,590	1,590
Loans and advances to customers	404,300	(5,318)	32,293	431,275
Held-to-maturity investments and debt instruments classified as receivables (IAS 39)/ Debt instrument investments at amortized cost (IFRS 9)	10,526	(1,456)	(906)	8,164
Other financial assets	7,840	(4,004)	2	3,838
Total	423,693	(10,778)	33,721	446,636
Loan commitments and financial guarantee contracts	3,536	-	15,362	18,898

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3 Other amendments to the accounting standards effective in 2018 relevant to and adopted by the Group

The following amendments have been adopted by the Group for the first time during the financial year ended 31 December 2018.

(1)	IFRS 15	Revenue from Contracts with Customers
(2)	Amendments to IAS 28	Investments in Associates and Joint Ventures - included in the Annual Improvements to IFRSs 2014 - 2016 Cycle
(3)	Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
(4)	Amendments to IAS 40	Transfer of Investment Property
(5)	IFRIC 22	Foreign Currency Transactions and Advance Consideration

(1) *IFRS 15: Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an ‘earnings processes’ to an ‘asset-liability’ approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.

(2) *Amendments to IAS 28: Investments in Associates and Joint Ventures – included in the Annual Improvements to IFRSs 2014 - 2016 Cycle*

These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3 Other amendments to the accounting standards effective in 2018 relevant to and adopted by the Group (Continued)

(3) *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

On 12 September 2016, the IASB issued amendments to IFRS 4 - Insurance Contracts. Applying IFRS 9 Financial Instruments with IFRS 4, which provide two alternative measures to address the different effective dates of IFRS 9 and the new insurance contracts standard IFRS 17. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 to 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the new insurance contracts standard IFRS 17 is applied.

(4) *Amendments to IAS 40: Transfer of Investment Property*

On 8 December 2016, the IASB issued amendments to IAS 40 - Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is a non-exhaustive list of examples of evidence that a change in use has occurred, instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties.

(5) *IFRIC 22: Foreign Currency Transactions and Advance Consideration*

The IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration, to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid an advance consideration in a foreign currency.

The adoption of the above amendments does not have a significant impact on the operation results, comprehensive income and financial position of the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2018

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

			Effective for annual periods beginning on or after
(1)	IFRS 16	Leases	1 January 2019
(2)	IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
(3)	Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019
(4)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015 - 2017 Cycle	1 January 2019
(5)	Amendments to IAS 19	Employee Benefits' Regarding Plan Amendment, Curtailment or Settlement	1 January 2019
(6)	Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
(7)	Amendments to IAS 1 and IAS 8	The Definition of Material	1 January 2020
(8)	Amendments to IFRS 3	The Definition of A Business	1 January 2020
(9)	IFRS 17	Insurance Contracts	1 January 2021
(10)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2018 (Continued)

(1) IFRS 16: Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term, that, at the commencement date, has a lease term of 12 months or less, and low-value leases, of which the underlying assets with a value, when new, in the order of magnitude of US$5,000 or less.

At the end of the reporting period, the Group has non-cancellable operating lease commitments of RMB10,606 million (see Note IV 43).

At the adoption date, the Group will measure the lease liability of these operating lease commitments at the present value of the lease payments not yet paid at the incremental borrowing rate. The cost of the right of use asset shall comprise of the measurement of the liability and any adjustments from prepaid lease payments. Under the new standard, the Group's activities as a lessee have no material impacts on the net asset of the Group.

(2) IFRIC 23: Uncertainty over Income Tax Treatments

In June 2017 the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

(3) Amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities

On 12 October 2017, the IASB issued amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2018 (Continued)

(4) Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23: The Annual Improvements to IFRSs 2015 - 2017 Cycle

The Annual Improvements to IFRSs 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments to IFRS 3 - Business Combinations, the amendments to IFRS 11 - Joint Arrangements, the amendments to IAS 12 - Income taxes and IAS 23 - Borrowing Costs. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group’s consolidated financial statements.

(5) Amendments to IAS 19: Employee Benefits’ Regarding Plan Amendment, Curtailment or Settlement

On 8 February 2018, the IASB issued amendments to IAS 19: Employee Benefits regarding plan amendment, curtailment or settlement to require an entity to determine the amount of any past service cost, or gain or loss on settlement by measuring the net defined benefit liability before and after the amendment, using current assumptions and the fair value of plan assets at the time of the amendment. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group’s consolidated financial statements.

(6) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

On 12 October 2017, the IASB issued amendments to IAS 28: Investments in Associates and Joint Ventures to clarify that companies account for long-term interests in an associate or joint venture - to which the equity method is not applied - using IFRS 9. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group’s consolidated financial statements.

(7) Amendments to IAS 1 and IAS 8: The Definition of Material

The IASB issued amendments to the definition of material in IAS 1 and IAS 8. The amended definition is: “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole.

The amendment also clarifies the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group’s consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2018 (Continued)

(8) Amendments to IFRS 3: The Definition of A Business

The IASB issued amendments to the definition of a business in IFRS 3. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(9) 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 recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

(10) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5 Consolidation

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries as well as structured entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date on which control ceases, respectively.

Adjustments are made to the financial statements of subsidiaries, where appropriate, to consistently reflect the accounting policies of the Group.

All intra-group transactions, balances and unrealized gains on transactions are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Non-controlling interests of consolidated subsidiaries are presented separately from the controlling party's equity therein.

The carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Further, total comprehensive income of a subsidiary is attributed, based on the proportion of their respective holdings, to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost, less impairment losses, if any.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5 Consolidation (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the Group, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognized in the consolidated income statement as incurred.

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 - Income Taxes and IAS 19 - Employee Benefits, respectively.

Goodwill is measured as the excess of the difference between (i) the consideration transferred, the fair value of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) and (ii) the net fair value of the identifiable assets acquired and the liabilities and contingent liabilities incurred or assumed.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are accounted for at either fair value or the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Goodwill

Goodwill represents the excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisition of associates is included in investment in associates.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") or groups of CGUs that is expected to benefit from the synergies of the business combination.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU, which is the higher of fair value less costs to sell and value in use, is less than its carrying amount, the deficit, reflecting an impairment loss, is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis, based on the carrying amount of each asset in the CGU. Any goodwill impairment loss is recognized directly in the consolidated income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5 Consolidation (Continued)

Investment in associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not constitute control or joint control over those policy decisions.

The post-acquisition profit or loss of an associate is incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of loss of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further loss. Additional loss is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

At the end of each reporting period, the Group considers whether there are circumstances that indicate the possibility of impairment of the Group's investment in an associate; when that is the case, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 - Impairment of Assets, as a single asset by comparing its recoverable amount (the higher of fair value less costs to sell and value in use) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of an impairment loss is recognized, to the extent that the recoverable amount of the investment subsequently increases.

When an entity in the Group transacts with the Group's associate, profits and losses resulting from the transaction are recognized in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

6 Interest income and expenses

Interest income and expenses of financial instruments are calculated using the effective interest method and included in the current profit and loss.

The Group uses the effective interest method to calculate the interest income and expenses of financial assets and liabilities measured at amortized cost, presented as "interest income" and "interest expenses" respectively. For specific accounting policies, please refer to the Note II 12.4 subsequent measurement of financial instruments.

7 Fee and commission income – Accounting policies applied from 1 January 2018

Fee and commission income is recognized when the Group fulfills its performance obligation, either over time or at a point in time when a customer obtains control of the service.

For the performance obligations satisfied at a point in time, the Group recognizes revenue when control is passed to the customer at a certain point in time, including insurance agency fee, merchant acquiring service fee, settlement & clearing services and bond underwriting fee, etc. For the performance obligations satisfied over time, the Group recognizes revenue according to the progress toward satisfaction of the obligation over the time, including consultancy and advisory fee and custodial fee, etc.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Fee and commission income – Accounting policies applied prior to 1 January 2018

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a specified period of time, fee and commission income is accrued over that period as the services are provided. For other services, fee and commission income are recognized at the time the services are completed.

9 Foreign currency transactions

The functional currency of the Domestic Operations is RMB. The presentation currency of the Group and the Bank is RMB.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in the consolidated income statement in the period in which they arise, except for the following:

(i) exchange differences arising on a monetary item that forms part of the Bank's net investment in the Overseas Operations;
(ii) changes in the fair value of monetary assets denominated in foreign currency classified as financial investments at fair value through comprehensive income are analyzed between translation differences resulting from changes in the amortized cost of the monetary assets and other changes in the carrying amount. Translation differences related to changes in the amortized cost are recognized in the consolidated income statement, and other changes in the carrying amount are recognized in other comprehensive income.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's Overseas Operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the foreign currency translation reserve and non-controlling interests, as appropriate. The accumulated foreign currency translation reserve related to the Overseas Operations will be reclassified from equity to the consolidated income statement on disposal of all or part of the Overseas Operations.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized for temporary difference related to goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that the temporary difference will not reverse in the foreseeable future or it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in the consolidated income statement, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10 Taxation (Continued)

Value-added Taxes ("VAT")

The Group's interest income, fee and commission income, trading gain on financial products and insurance premium income are presented net of their respective VAT in the consolidated financial statements.

In accordance with "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No. 140) , the "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No. 2) and the "Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products" (Cai Shui [2017] No. 56), the Group shall pay VAT at 3% for taxable asset management activities undertaken after 1 January 2018.

11 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditure incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, post-employment benefits and early retirement benefits.

Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognizes the short-term employee benefits payable for those services as a liability with a corresponding increase in the expenses in the consolidated income statement. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labor union fees and staff education expenses.

Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Contributions to the basic pensions and unemployment insurance plan are recognized in the consolidated income statement for the period in which the related payment obligation is incurred.

The employees of the Bank's head office and domestic branches ("Domestic Institutions") participate in an annuity scheme established by the Bank (the "Annuity Scheme"). The Bank pays annuity contributions with reference to employees' salaries, and such contributions are expensed in the consolidated income statement when incurred. The Bank has no further obligation if the Annuity Scheme does not have sufficient assets for the payment of any retirement benefits to employees funded by the Annuity Scheme.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11 Employee benefits (Continued)

Early retirement benefits

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The accounting treatment of the Group's early retirement benefits is in accordance with termination benefits as determined in IAS 19. The liability is recognized for the early retirement benefit payments from the date of early retirement to the normal retirement date when the criteria for recognition as termination benefit is met with a corresponding charge in the consolidated income statement. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognized in the consolidated income statement when incurred.

12 Financial instruments – Accounting policies applied from 1 January 2018

12.1 Initial recognition, classification and measurement of financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

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

(1) Financial assets

Financial assets are classified in the following measurement categories based on the Group's business model for managing the asset and the cash flow characteristics of the assets:

(i) Amortized cost ("AC");
(ii) Fair value through other comprehensive income ("FVOCI"); or
(iii) Fair value through profit or loss ("FVPL").

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of 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.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.1 Initial recognition, classification and measurement of financial instruments (Continued)

(1) Financial assets (Continued)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic leading risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic leading arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

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

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds. Classification and measurement of debt instruments depend on the Group's business models for managing the asset and the cash flow characteristics of asset.

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

(i) AC: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVPL, are measured at amortized cost.
(ii) FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVPL, are measured at FVOCI.
(iii) FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at FVPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.1 Initial recognition, classification and measurement of financial instruments (Continued)

(1) Financial assets (Continued)

Equity instruments

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

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI.

(2) Financial liabilities

The Group's financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at amortized cost on initial recognition. Financial liabilities at FVPL is applied to derivatives, financial liabilities held for trading and financial liabilities designated as such at initial recognition.

The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when doing so results in more relevant information, because either:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
(ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the entity's key management personnel.
(iii) The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise requred.

Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Group recognizes any expenses incurred on the financial liability.

12.2 Reclassification of financial assets

When the Group changes the business model for managing its financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

12.3 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.3 Determination of fair value (Continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

12.4 Subsequent measurement of financial instruments

Subsequent measurement of financial instruments depends on the categories:

(1) Amortized cost

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

Interest income and interest expenses from these financial assets is included in “Interest income” and “interest expenses” using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses (“ECL”) and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired (“POCI”) financial assets (definition on Note IV 45.1), the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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

(i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and
(ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e.net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.4 Subsequent measurement of financial instruments (Continued)

(2) Fair value through other comprehensive income

Debt instruments

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in "interest income" using the effective interest rate method.

Equity instruments

The equity instrument investments that are not held for trading are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as investment income when the Group's right to receive payments is established.

(3) Financial assets at fair value through profit or loss

Debt instruments

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within "Net trading gain/(loss)" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separated in "Net gain/(loss) on financial investments".

Equity instruments

Gains and losses on equity investments at FVPL are included in the "Net trading gain/(loss)" in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.4 Subsequent measurement of financial instruments (Continued)

(4) Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL are measured at fair value with all gains or losses recognized in the profit or loss of the current period, except for financial liabilities designated as at fair value through profit or loss, where gains or losses on the financial liabilities are treated as follows:

(i) changes in fair value of such financial liabilities due to changes in the Group's own credit risk are recognized in other comprehensive income; and
(ii) other changes in fair value of such financial liabilities are recognized in profit or loss of the current period. If the accounting of changes in the credit risk of the financial liabilities in accordance with (i) will create or enlarge accounting mismatches in profit or loss, the Group recognizes all gains or losses on such financial liabilities (including amounts arising from changes in its own credit risk) in the profit or loss of the current period.

When the 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 equity to retained earnings.

12.5 Impairment of financial instruments

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and exposures arising from some loan commitments and financial guarantee contracts.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, which are all cash shortfalls, discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Group measures ECL of a financial instrument reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(ii) the time value of money; and
(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.5 Impairment of financial instruments (Continued)

For financial instruments whose impairment losses are measured using the ECL models, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

- Stage I: If the credit risk has not increased significantly since its initial recognition, the financial asset is included in stage I.

- Stage II: If the credit risk has increased significantly since its initial recognition but is not yet deemed to be credit-impaired, the financial instrument is moved to Stage II. The description of how the Group determines when a significant increase in credit risk has occurred is disclosed in Note IV 45.1.

- Stage III: If the financial instrument is credit-impaired, the financial instrument is then moved to Stage III. The definition of credit-impaired financial assets is disclosed in Note IV 45.1.

Financial instruments in Stage I have their ECL measured at an amount equivalent to the ECL of the financial asset for the next 12 months ("12m ECL"). Financial instruments in Stage II or Stage III have their ECL measured at an amount equivalent to the ECL over the lifetime of the financial instruments ("Lifetime ECL"). The description of inputs, assumptions and estimation techniques used in measuring the ECL is disclosed in Note IV 45.1.

The Group applies the impairment requirements for the recognition and measurement of a loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in other comprehensive income and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

If the Group has measured the loss allowance for a financial instrument other than POCI at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on the financial instruments has increased significantly since initial recognition is no longer met, the Group measures the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date and the amount of expected credit losses reversal is recognized in profit or loss. For POCI financial assets, at the reporting date, the Group only recognizes the cumulative changes in lifetime expected credit losses since initial recognition.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.6 Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether the new terms are substantially different to the original terms.

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

12.7 Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the consolidated income statement.

Financial liabilities are derecognized when the related obligation is discharged, is cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.8 Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognized in the consolidated income statement.

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

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

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

12.9 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to set off the recognized amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial 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 Group or the counterparty.

12.10 Repurchase agreements and agreements to resell

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as investments classified as held-to-maturity investments, available-for-sale financial assets or debt instruments classified as receivables as appropriate. The corresponding liability is included in financial assets sold under repurchase agreements. The items which are not derecognized are disclosed in Note IV 43 Contingent Liabilities and Commitments - Collateral.

Consideration paid for financial assets held under agreements to resell are recorded as Financial assets held under resale agreements, the related collateral accepted is not recognized in the consolidated financial statements (Note IV 43 Contingent Liabilities and Commitments - Collateral).

The difference between the purchase and sale price is recognized as interest expense or income in the consolidated income statement over the term of the agreements using the effective interest method.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13 Financial instruments – Accounting policies applied prior to 1 January 2018

Financial assets and liabilities are recognized in the consolidated statement of financial position and classified into one of the categories presented below. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or liabilities, respectively, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognized immediately in the consolidated income statement.

13.1 Financial assets

The Group's financial assets are classified into four categories - financial assets at FVPL, held-to-maturity investments, available-for-sale financial assets and, loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets at FVPL have two subcategories - financial assets held for trading and those designated at FVPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of sale in the near future; or
- it forms part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative instrument that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated at FVPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 - Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at FVPL.

Financial assets at FVPL are stated at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated income statement in the period in which they arise.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13 Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

13.1 Financial assets (Continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, quoted in an active market, with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment losses.

Financial assets classified as loans and receivables primarily include deposits with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, and specified debt securities.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as such or are not classified as financial assets at FVPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to the consolidated income statement.

Equity investments classified as available-for-sale that do not have a quoted price in an active market and whose fair value cannot be reliably determined are measured at cost, less any impairment losses, at the end of each reporting period.

Interest income related to financial assets classified as available-for-sale debt instruments is calculated using the effective interest method and recorded as an element of interest income in the consolidated income statement. Dividends on available-for-sale equity instruments are recognized in the consolidated income statement when the Group’s right to receive such payments is established.

Impairment of financial assets

Financial assets, other than those classified as FVPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the financial assets have been adversely affected.

A significant or prolonged decline in the fair value of an equity investment classified as available-for-sale below its cost is considered to be objective evidence of impairment.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13 Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

13.1 Financial assets (Continued)

Impairment of financial assets (Continued)

For all other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, although the decrease cannot yet be attributed to individual financial assets in the portfolio:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for all corporate loans, debt instruments classified as receivables, available-for-sale financial assets and held-to-maturity investments, and collectively for the remainder of financial assets (other than those at fair value through profit or loss). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses it for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in collective assessment of impairment.

Impairment of financial assets carried at amortized cost

For financial assets carried at amortized cost, an impairment loss is recognized in the consolidated income statement when there is objective evidence that the assets are impaired. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of present value of the estimated future cash flows of a collaterized financial asset reflects the cash flows that are expected to result from foreclosure, less the cost of obtaining and selling the collateral.

The carrying amount of an impaired financial asset is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated income statement. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13 Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

13.1 Financial assets (Continued)

Impairment of financial assets carried at amortized cost (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as an improvement in the debtor's credit rating, the previously recognized impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment of financial assets classified as available-for-sale

For available-for-sale equity instruments, a significant or prolonged 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 prolonged, the Group considers if the fair value of an available-for-sale equity instrument as at the balance sheet date is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than one year (including one year) together with other relevant considerations.

When a decline in the fair value of a financial asset classified as available-for-sale has been recognized directly in other comprehensive income and accumulated in the investment revaluation reserve, and there is objective evidence that asset is impaired, the cumulative losses previously recognized in other comprehensive income are reclassified to the consolidated income statement in the period in which the impairment takes place.

An impairment loss on an equity investment classified as available-for-sale, and carried at fair value, is not reversed through the consolidated income statement in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in the investment revaluation reserve. An impairment loss on an equity investment classified as available-for-sale equity investment, and carried at cost, is not reversed. An impairment loss on a debt investment classified as available-for-sale is subsequently reversed through the consolidated income statement if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

13.2 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument in IAS 39 and IAS 32, respectively.

The Group's financial liabilities are generally classified into financial liabilities at FVPL and other financial liabilities, carried at amortized cost.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL have two subcategories, including financial liabilities held for trading and those designated at FVPL on initial recognition.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13 Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

13.2 Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss (Continued)

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is 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. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.

The criteria for a financial liability designated at FVPL is the same as those for a financial asset designated at FVPL.

Financial liabilities at FVPL are stated at fair value, with changes in fair value arising on re-measurement recognized directly in the consolidated income statement in the period in which they arise.

Other financial liabilities

Other financial liabilities are measured at amortized cost, using the effective interest method.

13.3 Equity instruments

An equity instrument is any contract that represents a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument 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 unfavourable 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.

14 Insurance contracts

Insurance contract classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to the reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14 Insurance contracts (Continued)

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 - Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

Insurance income recognition

Premiums from long-term life insurance contracts are recognized as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognized when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortized on a straight-line basis into the consolidated income statement over the term of the policy.

When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognizes them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfill its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities will be recorded if any deficiency exists.

15 Precious metals

Precious metals comprise gold, silver and other precious metals.

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realizable value. Precious metals that are related to the Group's trading activities are initially recognized at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated income statement in the period in which they arise.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16 Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of buildings and recorded in property and equipment.

Subsequent expenditure incurred for the property and equipment (other than construction in progress) is included in the cost of the property and equipment (other than construction in progress) if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured, and the carrying amount of the replaced part is derecognized. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

Depreciation is recognized as a component of operating expenses in the consolidated income statement so as to recognize the consumption of the economic value of property and equipment (other than construction in progress), less their estimated residual values, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation rates are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment are as follows:

Classes	Useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	5-50 years	3%	1.94%-19.40%
Electronic equipment, furniture and fixtures	3-11 years	3%	8.82%-32.33%
Motor vehicles	5- 8 years	3%	12.13%-19.40%

Properties in the course of construction for supply of services or administrative purposes are carried at cost, as construction in progress, less any impairment loss. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in other operating income or operating expenses in the consolidated income statement. The accounting policies of impairment of property and equipment are included in Note II 23 Impairment of Tangible and Intangible Assets other than Goodwill.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

17 Land use rights

Land use rights are classified in other assets and amortized over a straight-line basis over their authorized useful lives.

18 Foreclosed assets

Foreclosed assets are initially recognized at fair value and subsequently measured at the lower of their carrying amount and fair value, less costs to sell, at the end of each reporting period. When the fair value, less costs to sell, is lower than a foreclosed asset's carrying amount, an impairment loss is recognized in the consolidated income statement.

Any gain or loss arising on the disposal of the foreclosed asset is included in the consolidated income statement in the period in which the item is disposed.

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

19 Investment property

Investment property is property held to earn rental income or for capital appreciation, or both.

Investment property is initially measured at its acquisition cost. Subsequent expenditure incurred for the investment property is included in the cost of the investment property if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured reliably. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

Investment properties are measured using the cost model. Depreciation and amortization is recognized the same way as property and equipment and land use rights.

The accounting policies of impairment of investment property are included in Note II 23 Impairment of Tangible and Intangible Assets other than Goodwill.

Where an impairment loss subsequently reverses, the carrying amount of the investment property is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

20 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

When the Group is the lessor in a finance lease, an amount representing the minimum lease payment receivables and unguaranteed residual value, net of initial direct costs, all discounted at the implicit lease rate (the "net lease investment") is recorded in the consolidated statement of financial position as Loans and advances to customers. The difference between the net lease investment and the undiscounted amount is recorded as unearned finance income, amortizing over the term of the lease using the effective interest method and recognized in the consolidated income statement.

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. Rental income from operating leases is recognized as other operating income in the consolidated income statement on a straight-line basis over the term of the related lease.

The Group as lessee

When the Group is a lessee under finance leases, the leased assets are capitalized under property and equipment initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities. Finance charges are charged over the term of the lease using the effective interest method and recognized in the consolidated income statement. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned.

When the Group is the lessee in an operating lease, operating lease payments are recognized as an expense and charged to operating expenses in the consolidated income statement on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as expenses in the periods in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are considered in determining the amount to be recognized over the lease term.

21 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with original maturity of three months or less under cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

22 Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives which generally range from 5 to 20 years.

Intangible assets with indefinite useful lives are not amortized, but are subject to annual impairment assessment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement.

23 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset’s fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

24 Dividend distribution

Dividend distribution to the Bank’s ordinary equity holders is recognized as a liability in the Group’s and the Bank’s financial statements in the period in which the dividends are approved by the ordinary equity holders in the annual general meeting of the Bank.

As authorized by the ordinary equity holders in the annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. Preference share dividend distribution is recognized as a liability in the Group’s and the Bank’s financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

25 Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

26 Fiduciary activities

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Group and securities investment funds, social security funds, insurance companies, trust companies, qualified foreign institutional investors, annuity schemes and other institutions and individuals. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing funds for the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

27 Financial guarantee contracts and loan commitments – Accounting policies applied from 1 January 2018

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 recognized 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 amortization of guarantee fees, and the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated income statement.

The impairment allowance of loan commitments provided by the Group is measured using ECL models. 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 recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

28 Financial guarantee contracts – Accounting policies applied prior to 1 January 2018

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 recognized 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 amortization of guarantee fees recognized in accordance with the revenue recognition policy, and the best estimate of the expenditure required to settle the guarantee. These estimates are determined based on experience of similar transactions, historical losses and supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the consolidated income statement.

29 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized, but disclosed, unless the possibility of an outflow of resources embodying economic benefits is probable. The Group's contingent liabilities are disclosed in Note IV 43 Contingent Liabilities and Commitments.

A provision is recognized when it meets the criteria as set forth in Note II 25 Provisions.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Group's accounting policies, which are described in Note II, management is required to make judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities. The estimates and related assumptions are based on historical experience and other relevant factors including reasonable expectations for future events.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods as appropriate.

The following are the critical judgments and key estimates management has made in the process of applying the Group's accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI and for exposures arising from some loan commitments and financial guarantee contracts, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note IV 45.1 Credit risk.

2 Classification of financial assets

The critical judgments the Group has made in determining the classification of financial assets include analysis of business models and characteristics of contractual cash flows.

The Group determines the business model for managing financial assets at the level of financial asset portfolio. The factors considered include how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

When assessing whether the contractual cash flow of financial assets is consistent with the basic lending arrangement, the Group has the following main judgments: Whether the principal may be subject to change in the duration or amount of money due to prepayments during the duration; whether interests only included time value of money, credit risk, other basic borrowing risks, and considerations for costs and profits. For example, whether the amount paid in advance reflect only the outstanding principal and interest on the outstanding principal, as well as reasonable compensation for early termination of the contract.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

3 Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models. To the extent practical, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, liquidity, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

With respect to PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm’s length transactions of a comparable size and tenor.

4 Taxes

There are certain transactions and activities in the ordinary course of the Group’s business for which the ultimate tax effect is uncertain. The Group made certain estimation and judgement for items of uncertainty in the application of tax legislations, taking into account existing tax legislation and past practice of tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, based on management’s assessment, such differences will affect the current income tax and deferred income tax during the period in which such a determination is made.

5 Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group’s contractual rights and obligations in light of the transaction structures, and evaluates the Group’s power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group’s exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

6 Derecognition of financial assets transferred

In its normal course of business, the Group transfers its financial assets through various types of transactions including regular way sales and transfers, securitization, financial assets sold under repurchase agreements, securities lending. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial derecognition.

Where the Group enters into structured transactions by which it transfers financial assets to structured entities, the Group analyzes whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities. This will determine whether the following derecognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets are transferred.

The Group analyzes the contractual rights and obligations in connection with such transfers to determine whether the derecognition criteria are met based on the following considerations:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualifies for the “pass through” of those cash flows to independent third parties.

- the extent to which the associated risks and rewards of ownership of the financial assets are transferred. Significant judgment is applied in the Group’s estimation with regard to the cash flows before and after the transfers and other factors that affect the outcomes of Group’s assessment on the extent that risks and rewards are transferred.

- where the Group has neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyzes whether it has relinquished its controls over these financial assets by assessing whether the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, and if the Group has continuing involvement in these transferred financial assets. Where the Group has not retained control, it derecognizes these financial assets and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognize these financial assets to the extent of its continuing involvement in the financial asset.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements in accounting policies applied prior to 1 January 2018

(1) Impairment losses on loans and advances to customers

The Group reviews its loans and advances to customers to assess impairment on a periodic basis during the year. In determining whether an impairment loss should be recognized in the consolidated income statement of profit and loss, the Group makes estimates and judgments as to whether there is any observable data indicating that there is objective evidence of impairment and the extent, if any, to which it will have a measurable decrease in the estimated future cash flows related to individually assessed loans and advances or pools of loans and advances to customers with similar risk characteristics, as described in Note II 12.5 Impairment of Financial Assets Carried at Amortized Cost.

Significant judgments are made in the determination of whether objective evidence of impairment exists in individually assessed loans and advances to customers or pools of loans and advances to customers with similar risk characteristics. Among other things, objective evidence of impairment includes deterioration in the financial condition of specific borrowers (or specific pools of borrowers) affecting their ability to meet their loan payment obligations such as overdue status, financial position of guarantors, latest collateral valuations and concessions by the Group that would not otherwise be granted to borrowers for economic or legal reasons relating to their financial difficulties, as well as increasing industry sector over-capacity or obsolescence, or deterioration in national or regional economic conditions that are correlated to increasing customer defaults on loans and advances. These judgments are made both during management's regular assessments of the quality of loans and advances to customers' quality and when other circumstances indicate the possibility that objective evidence of impairment may exist.

Where it is determined that objective evidence of impairment exists, significant judgments and estimates are made in estimating the adverse impact on future cash flows related to individually assessed impaired loans and advances to customers. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Factors affecting these estimates include the availability and granularity of information related to specific borrowers and guarantors, latest collateral valuations and other available information, and the clarity of the correlation between qualitative factors, such as industry sector performance or changes in regional economic conditions and loans and advances to customers' defaults of related borrowers.

Corporate loans and advances to customers not identified as impaired from individual assessments, together with personal loans and advances to customers are included in homogenous groups with similar credit risks characteristics for performance of impairment assessments on a collective basis. Significant judgments are applied to the calculation of assessed impairment using these models. Critical factors affecting these judgments include modelling assumptions (e.g., loss given default) and levels of correlation between qualitative factors and loans and advances to customers default. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar credit risk characteristics; (ii) loss identification period for incurred but unidentified impairment losses; (iii) industries and geographic locations; and (iv) the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. The Group considers the impact of the changes and uncertainty in the macro-economic environment in which the Group operates when assessing the methodology and assumptions used for loss estimation and makes adjustments where appropriate.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements in accounting policies applied prior to 1 January 2018 (Continued)

(2) Held-to-maturity investments

The Group classifies non-derivative financial assets, quoted in an active market, with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity as held-to-maturity investments. In assessing the Group's intention and ability to hold such investments to maturity, management primarily considers the business purpose for acquiring a security, as well as the Group's liquidity needs. This is a significant judgment because if the Group fails to hold these investments to maturity, other than for specific and limited circumstances (e.g., sale of an insignificant amount close to maturity), it will be required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets and be precluded from classifying investments as held-to-maturity investments for the next two years.

(3) Impairment of other financial assets

For held-to-maturity investments and financial instruments classified as receivables, the determination of whether such an investment is impaired requires significant judgment. Objective evidence that a financial asset or group of financial assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments or the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer, etc. In making such judgment, the impact of objective evidence of impairment on expected future cash flows of the investment is taken into account.

For available-for-sale investments, the determination of whether such an investment is impaired requires significant judgment. In making this judgment, the Group considers the duration and extent to which the fair value of an investment is less than its cost; or whether other objective evidence of impairment exists based on the financial health of and near-term business outlook for the investee or issuer, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 NET INTEREST INCOME

		Year ended 31 December	
		2018	2017
Interest income			
Loans and advances to customers		502,616	441,475
Including: Corporate loans and advances		303,054	274,039
Personal loans and advances		191,775	158,323
Discounted bills		7,787	9,113
Balances with central banks		40,701	41,604
Placements with and loans to banks and other financial institutions		14,442	13,060
Financial assets held under resale agreements		9,025	9,745
Deposits with banks and other financial institutions		1,822	7,340
Financial investments			
Debt instrument investments at amortized cost		157,909	N/A
Other debt instrument and other equity investments at fair value through other comprehensive income		58,209	N/A
Financial assets held for trading	(i)	N/A	4,110
Financial assets designated at fair value through profit or loss	(i)	N/A	371
Available-for-sale financial assets		N/A	49,070
Held-to-maturity investments		N/A	123,270
Debt instruments classified as receivables		N/A	23,654
Subtotal		784,724	713,699
Interest expense			
Due to customers		(227,819)	(209,782)
Deposits from banks and other financial institutions		(28,303)	(24,995)
Debt securities issued		(23,094)	(13,772)
Borrowings from central bank		(15,823)	(13,254)
Placements from banks and other financial institutions		(8,888)	(6,240)
Financial assets sold under repurchase agreements		(3,037)	(3,488)
Financial liabilities at fair value through profit or loss	(i)	N/A	(238)
Subtotal		(306,964)	(271,769)
Net interest income		477,760	441,930

(i) After the implementation of IFRS 9 in 2018, interest income from financial assets at FVPL and interest expense from financial liabilities at FVPL are disclosed in Note IV 3 Net trading gain/(loss).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2018	**2017**
Fee and commission income		
Bank cards	25,586	22,699
Agency services	20,929	22,773
Electronic banking services	19,640	14,595
Settlement and clearing services	10,680	11,113
Consultancy and advisory services	8,876	8,358
Custodian and other fiduciary	3,598	3,368
Credit commitment	1,782	2,094
Others	434	257
Subtotal	91,525	85,257
Fee and commission expense		
Bank cards	(7,323)	(7,328)
Electronic banking services	(3,193)	(2,623)
Settlement and clearing services	(2,004)	(1,487)
Others	(864)	(916)
Subtotal	(13,384)	(12,354)
Net fee and commission income	78,141	72,903

3 NET TRADING GAIN/(LOSS)

	Year ended 31 December	
	2018	**2017**
Net gain/(loss) on debt instruments held for trading	14,253	(2,731)
Net gain on precious metals (i)	2,666	3,883
Net gain/(loss) on foreign exchange rate derivatives	1,487	(9,703)
Net gain/(loss) on interest rate derivatives	516	(278)
Others	(2,853)	N/A
Total	16,069	(8,829)

(i) Net gain on precious metals consists of net gain on precious metals and precious metal related derivative products.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 NET GAIN/(LOSS) ON FINANCIAL INVESTMENTS

	Year ended 31 December	
	2018	2017
Net gain on debt securities at FVPL	2,179	1,022
Net gain on debt instruments measured at FVOCI	304	136
Net gain/(loss) on underlying assets and liabilities related to principal guaranteed wealth management products designated as at FVPL	5,984	(5,306)
Others	(7)	1,040
Total	8,460	(3,108)

5 OTHER OPERATING INCOME

	Year ended 31 December	
	2018	2017
Insurance premium	17,365	21,899
Net (loss)/gain on foreign exchange	(726)	11,021
Government grant	1,018	3,757
Gain on disposal of property and equipment	1,104	850
Rental income	785	538
Others	2,551	1,937
Total	22,097	40,002

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 OPERATING EXPENSES

		Year ended 31 December	
		2018	2017
Staff costs	(1)	123,614	113,839
General operating and administrative expenses	(2)	47,173	45,024
Insurance benefits and claims		17,652	22,552
Depreciation and amortization		16,413	18,279
Tax and surcharges	(3)	5,330	4,953
Provision for guarantees and commitments	(4)	N/A	(2,985)
Others		3,781	3,606
Total		213,963	205,268

(1) Staff costs

	Year ended 31 December	
	2018	2017
Short-term employee benefits		
Salaries, bonuses, allowance and subsidies	75,976	73,140
Housing funds	8,328	8,212
Social insurance	5,371	5,109
Including: Medical insurance	4,829	4,611
Maternity insurance	381	330
Employment injury insurance	161	168
Labor union fees and staff education expenses	3,365	3,269
Others	12,469	8,799
Subtotal	105,509	98,529
Defined contribution benefits	17,848	15,233
Early retirement benefits	257	77
Total	123,614	113,839

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 OPERATING EXPENSES (Continued)

(2) Included in general operating and administrative expenses is auditor's remuneration of RMB197 million for the year, consisting of RMB130 million for financial statements audit service and RMB67 million for non-audit professional service. (2017: RMB143 million, consisting of RMB133 million for financial statements audit service and RMB10 million for non-audit professional service).

(3) From 1 May 2016, the Group is subject to value-added taxes on its income from credit business, fee income on financial services, income from insurance business and trading of financial products at 6%.

Pursuant to the "Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs" (Cai Shui [2016] No. 46), the Bank elected to adopt a simplified methodology to calculate value-added taxes at 3% on interest income derived from loans granted to farming households, rural enterprises and other rural institutions by county-level sub-branches included in the Bank's pilot programs of the Sannong Finance Division, including those under the Bank's provincial branches in provinces, autonomous regions, municipalities directly under the central government and municipalities with independent budgetary status as well as those under the Xinjiang Production and Construction Corps Branch.

City construction and maintenance tax is calculated at 1%, 5% or 7% of VAT for the Group's Domestic Operations.

Education surcharge is calculated at 3% or 5% of VAT for the Group's Domestic Operations.

(4) After the implementation of IFRS 9 in 2018, provision for guarantees and commitments was reclassified to credit impairment losses (Note IV 8).

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB):

		Year ended 31 December 2018				
Item		**Fees**	**Basic salaries and allowance**	**Contribution to retirement benefit schemes**	**Other benefits in kind (xvi)**	**Total**
Executive Directors						
Zhou Mubing		-	546	123	35	704
Wang Wei	(i)	-	491	120	35	646
Independent Non-Executive Directors						
Wen Tiejun		410	-		-	410
Francis Yuen Tin-fan		380	-		-	380
Xiao Xing		380	-		-	380
Wang Xinxin		360	-		-	360
Huang Zhenzhong		360	-		-	360

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

		Year ended 31 December 2018				
Item		**Fees**	**Basic salaries and allowance**	**Contribution to retirement benefit schemes**	**Other benefits in kind (xvi)**	**Total**
Non-Executive Directors						
Hu Xiaohui	(ii)	-	-	-	-	-
Xu Jiandong		-	-	-	-	-
Chen Jianbo		-	-	-	-	-
Liao Luming		-	-	-	-	-
Li Qiyun	(iii)	-	-	-	-	-
Supervisors						
Wang Jingdong	(iv)	-	182	48	12	242
Wang Xingchun		-	-		-	-
Liu Chengxu		50	-		-	50
Xia Taili	(v)	21	-		-	21
Shao Lihong	(v)	21	-		-	21
Li Wang	(vi)	280	-		-	280
Zhang Jie	(vi)	43	-		-	43
Liu Hongxia	(vi)	41	-		-	41
Senior Management						
Gong Chao	(vii)	-	491	120	35	646
Zhang Keqiu		-	491	120	35	646
Li Zhicheng		-	949	180	35	1,164
Zhou Wanfu	(viii)	-	632	117	24	773
Executive Director resigned						
Zhao Huan	(ix)	-	410	91	25	526
Guo Ningning	(x)	-	410	99	28	537
Non-Executive Directors resigned						
Zhao Chao	(xi)	-	-		-	-
Zhang Dinglong	(xii)	-	-		-	-
Supervisors resigned						
Xia Zongyu	(xiii)	34	-		-	34
Lv Shuqin	(xiv)	241	-		-	241
Senior Management resigned						
Kang Yi	(xv)	-	41	10	2	53
Total		2,621	4,643	1,028	266	8,558

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

(i) Wang Wei was elected Executive Director effective 13 February 2018. .

(ii) Hu Xiaohui ceased to be Non-Executive Director effective 9 January 2019, and his emoluments disclosed above only include those for services rendered by him as the Senior Management for the year ended 31 December 2018.

(iii) Li Qiyun was elected Non-Executive Director effective 1 June 2018.

(iv) Wang Jingdong was elected Supervisor representing shareholders effective 12 November 2018, and Chairman of the Board of Supervisors effective 13 November 2018.

(v) Xia Taili and Shao Lihong were elected Supervisor representing employees effective 21 August 2018.

(vi) Li Wang, Zhang Jie and Liu Hongxia were elected External Supervisors effective 12 November 2018.

(vii) Gong Chao ceased to be Secretary of the Party Displine Committee effective 2 January 2019.

(viii) Zhou Wanfu was elected Secretory of the Board of Directors effective 12 March 2018.

(ix) Zhao Huan cased to be Vice Chaireman, Executive Director and President effective 29 September 2019

(x) Guo Ningning was elected Executive Director effective 13 February 2018. She ceased to be Executive Director effective 22 October 2018.

(xi) Zhao Chao ceased to be Non-Executive Director effective 28 February 2018.

(xii) Zhang Dinglong ceased to be No-Executive Director effective 11 May 2018.

(xiii) Xia Zongyu ceased to be Supervisor representing employees effective 22 August 2018.

(xiv) Lv Shuqin resigned as Supervisor due to the expiry of her term of office in 29 June 2018. Lv Shuqin will continue to perform her duty as Supervisor until meet the requirement that the Supervisors shall represent at least one-third of the Board of Supervisors. She ceased to be Supervisor effective 12 November 2018.

(xv) Kang Yi ceased to be Vice Chairman effective 22 January 2018.

(xvi) Other benefits in kind include 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.

The total compensation packages for the above Executive Directors, Supervisors and Senior Management for the year ended 31 December 2018 have not yet been finalized in accordance with regulations of the relevant authorities in the PRC at the date of this consolidated financial statements. The final compensation will be disclosed in a separate announcement when determined.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

		Year ended 31 December 2017(Restated)				
Item		**Fees**	**Basic salaries and allowance**	**Contribution to retirement benefit schemes**	**Other benefits in kind (xx)**	**Total**
Executive Directors						
Zhou Mubing		-	974	81	68	1,123
Zhao Huan	(i)	-	1,041	81	68	1,190
Wang Wei	(ii)	-	1,064	78	68	1,210
Guo Ningning	(iii)	-	888	78	68	1,034
Independent Non-Executive Directors						
Wen Tiejun	(iv)	410	-	-	-	410
Francis Yuen Tin-fan		380	-	-	-	380
Xiao Xing		380	-	-	-	380
Wang Xinxin		360	-	-	-	360
Huang Zhenzhong	(v)	97	-	-	-	97
Non-Executive Directors						
Zhao Chao	(vi)(vii)	-	-	-	-	-
Zhang Dinglong	(vi)	-	-	-	-	-
Chen Jianbo	(vi)	-	-	-	-	-
Hu Xiaohui	(vi)	-	-	-	-	-
Xu Jiandong	(vi)	-	-	-	-	-
Liao Luming	(vi)(viii)	-	-	-	-	-
Supervisors						
Wang Xingchun	(ix)	-	-	-	-	-
Liu Chengxu	(x)	50	-	-	-	50
Xia Zongyu	(x)	50	-	-	-	50
Li Wang		280	-	-	-	280
Lv Shuqin		280	-	-	-	280
Senior Management						
Gong Chao		-	1,065	78	68	1,211
Kang Yi	(xi)	-	805	78	67	950
Zhang Keqiu	(xii)	-	1,249	128	67	1,444
Li Zhicheng	(xiii)	-	1,475	97	49	1,621
Executive Director resigned						
Lou Wenlong	(xiv)	-	212	25	22	259

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

		Year ended 31 December 2017				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xx)	Total
Independent Non-Executive Directors resigned						
Lu Jianping	(xv)	-	-	-	-	-
Non-Executive Directors resigned						
Zhou Ke	(xvi)	-	-	-	-	-
Supervisors resigned						
Yuan Changqing	(xvii)	-	684	39	30	753
Zheng Xin	(xviii)	4	-	-	-	4
Xia Taili	(xix)	50	-	-	-	50
Total		2,341	9,457	763	575	13,136

(i) Zhao Huan is also the Senior Management of the Group and his emoluments disclosed above include those for services rendered by him as the Senior Management for the year ended 31 December 2017.

(ii) Wang Wei was elected to be Executive Director effective 13 February 2018 and his emoluments disclosed above only include those for services rendered by him as the Senior Management for the year ended 31 December 2017.

(iii) Guo Ningning was elected to be Executive Director effective 13 February 2018 and her emoluments disclosed above only include those for services rendered by her as the Senior Management for the year ended 31 December 2017.

(iv) Wen Tiejun resigned as Independent Non-Executive Director and from positions at relevant special committees of the Board of the Bank due to the expiry of his term of office in June 2017. Wen Tiejun will continue to perform his duty as Independent Non-Executive Director until meet the requirement that the Independent Non-Executive Directors shall represent at least one-third of the Board of Directors.

(v) Huang Zhenzhong was elected Independent Non-Executive Director effective 25 September 2017.

(vi) These Non-Executive Directors of the Bank did not receive any fees from the Bank. Their emoluments were borne by the major ordinary equity holders of the Bank. No apportionment had been made as the Directors considered that it was impracticable to apportion this amount between their services to the Group and their services to the major ordinary equity holders of the Bank.

(vii) Zhao Chao ceased to be Non-Executive Director effective 28 February 2018.

(viii) Liao Luming was elected Non-Executive Director effective 31 August 2017.

(ix) Wang Xingchun did not receive any emoluments for his part-time position as Supervisor representing shareholders from the Bank in 2017.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

(x) For Supervisors representing employees of the Bank, the amounts set forth above only included fees for their services as Supervisors.

(xi) Kang Yi was elected Executive Vice President effective 24 January 2017. He ceased to be Executive Vice President effective 22 Janurary 2018.

(xii) Zhang Keqiu was elected Executive Vice President effective 28 July 2017.

(xiii) Li Zhicheng was elected Chief Risk Officer effective 28 February 2017.

(xiv) Lou Wenlong ceased to be Executive Vice President and Executive Director effective 18 April 2017.

(xv) Lu Jianping ceased to be Independent Non-Executive Director effective 18 April 2017.

(xvi) Zhou Ke ceased to be Non-Executive Director effective 31 July 2017.

(xvii) Yuan Changqing ceased to be Chairman of the Board of Supervisors effective 6 June 2017.

(xviii) Zheng Xin ceased to be Supervisor representing employees effective 9 January 2017.

(xix) Xia Taili ceased to be Supervisor representing employees effective 4 December 2017.

(xx) Other benefits in kind include 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.

As of the approval date of 2017 consolidated financial statements, the above compensation packages for the Directors, Supervisors and Senior Management for the year ended 31 December 2017 were not finalized and the amount of remuneration of Directors, Supervisors and Senior Management recognized and disclosed in the consolidated income statement for the year ended 31 December 2017 was RMB8.52 million. Supplementary announcement on final compensation of RMB13.14 million was released by the Bank on 28 August 2018 and the comparative figures for the year ended 31 December 2017 have been restated accordingly.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(2) Five individuals with the highest emoluments in the Group

(i) Of the five individuals with the highest emoluments, none of them are Directors, Supervisors or Senior Management whose emoluments are disclosed above. The emoluments of the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 and 31 December 2017 were as follows:

	Year ended 31 December	
	2018	2017
Basic salaries and allowance	14	11
Discretionary bonuses	10	10
Contribution to retirement benefit schemes and other	1	2
Total	25	23

(ii) The number of these five individuals whose emoluments fell within the following bands are as follows:

	Year ended 31 December	
	2018	2017
RMB 4,000,001 to RMB 4,500,000 yuan	1	2
RMB 4,500,001 to RMB 5,000,000 yuan	2	2
RMB 5,000,001 to RMB 5,500,000 yuan	1	1
RMB 5,500,001 to RMB 6,000,000 yuan	1	-

For the years ended 31 December 2018 and 31 December 2017, no emolument was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. For the years ended 31 December 2018 and 31 December 2017, none of the five highest paid individuals waived any emolument.

(3) Other benefits and interests of Directors and Supervisors pursuant to the Hong Kong Companies Ordinance (Cap.622).

For the years ended 31 December 2018 and 31 December 2017, no emolument was paid by the Group to any of the Directors and Supervisors as an inducement to join or upon joining the Group or as a compensation for loss of office. Except for the Annuity Scheme and Pension Scheme (Note II 11 Employee Benefits), there were no other retirement benefits for Directors or Supervisors, or consideration provided to third parties for making available Directors' or Supervisors' services; and none of the Directors or Supervisors waived any emolument, or had material interests, whether directly or indirectly, in any material transactions, arrangements or contracts in relation to the Group's business for the years ended 31 December 2018 and 31 December 2017.

The Group enters into credit transactions with the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors at arm's length in the ordinary course of business. For the years ended 31 December 2018 and 31 December 2017 and as at 31 December 2018 and 31 December 2017, the respective balances of loans and advances from the Group to Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors were not significant. The Group did not provide any guarantee or security to the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors in respect of their loans, quasi-loans or credit transactions.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 CREDIT IMPAIRMENT LOSSES

	Year ended 31 December 2018
Loans and advances to customers	130,111
Financial investments	
Debt instrument investments at amortized cost	1,384
Other debt instruments at fair value through other comprehensive income	2,575
Provision for guarantees and commitments	1,533
Placements with and loans to banks and other financial institutions	(41)
Financial assets held under resale agreements	(393)
Others	1,478
Total	136,647

9 IMPAIRMENT LOSSES ON ASSETS

	Year ended 31 December 2017
Loans and advances to customers	92,864
Held-to-maturity investments	2,149
Available-for-sale financial assets	651
Property and equipment	101
Placements with and loans to banks and other financial institutions	(2,070)
Debt instruments classified as receivables	(290)
Other	4,761
Total	98,166

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 INCOME TAX EXPENSE

	Year ended 31 December	
	2018	**2017**
Current income tax		
- PRC Enterprise Income Tax	63,111	52,342
- Hong Kong Profits Tax	804	648
- Other jurisdictions	211	302
Subtotal	64,126	53,292
Deferred tax (Note IV 23)	(15,083)	(6,947)
Total	49,043	46,345

PRC Enterprise Income Tax is calculated at 25% of the estimated taxable profit for both years, and also includes supplementary PRC tax on Overseas Operations as determined in accordance with the relevant PRC income tax rules and regulations. Pre-tax deduction items of enterprise income tax are governed by the relevant tax regulations in the PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions.

The tax charges for the years ended 31 December 2018 and 31 December 2017 can be reconciled to the profit per the consolidated income statement as follows:

		Year ended 31 December	
		2018	**2017**
Profit before tax		251,674	239,478
Tax calculated at applicable PRC statutory tax rate of 25%		62,919	59,870
Tax effect of income not taxable for tax purpose	(1)	(26,202)	(20,284)
Tax effect of costs, expenses and losses not deductible for tax purpose		12,345	6,839
Effect of different tax rates in other jurisdictions		(19)	(80)
Income tax expense		49,043	46,345

(1) Non-taxable income primarily includes interest income from PRC treasury bonds and municipal government bonds.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 DIVIDENDS

		Year ended 31 December	
		2018	**2017**
Dividends on ordinary shares declared and paid			
Cash dividend related to 2017	(1)	57,911	-
Cash dividend related to 2016	(2)	-	55,215
		57,911	55,215
Dividends on preference shares declared and paid	(4)	4,600	4,600

(1) Distribution of final dividend for 2017

A cash dividend of RMB0.1783 per ordinary share related to 2017, amounting to RMB57,911 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2017 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 11 May 2018.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2018.

(2) Distribution of final dividend for 2016

A cash dividend of RMB0.17 per ordinary share related to 2016, amounting to RMB55,215 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2016 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 28 June 2017.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2017.

(3) A final dividend of RMB0.1739 per ordinary share in respect of the year ended 31 December 2018 totaling RMB60,862 million has been proposed by the directors and is subject to approval by the ordinary equity holders in the annual general meeting.

(4) Distribution of dividend on preference shares for 2018

A cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 11 January 2018 and distributed on 12 March 2018.

A cash dividend at the dividend rate of 6% per annum related to the first tranche of preference shares amounting to RMB2,400 million in total was approved at the Board of Directors' Meeting held on 28 August 2018 and distributed on 5 November 2018.

Distribution of dividend on preference shares for 2017

A cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 13 January 2017 and distributed on 13 March 2017.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 DIVIDENDS (Continued)

(4) Distribution of dividend on preference shares for 2017 (Continued)

A cash dividend at the dividend rate of 6% per annum related to the first tranche of preference shares amounting to RMB2,400 million in total was approved at the Board of Directors' Meeting held on 9 October 2017 and distributed on 6 November 2017.

12 EARNINGS PER SHARE

	Year ended 31 December	
	2018	2017
Earnings:		
Profit for the year attributable to equity holders of the Bank	202,783	192,962
Less: profit for the year attributable to preference shareholders of the Bank	(4,600)	(4,600)
Profit for the year attributable to ordinary equity holders of the Bank	198,183	188,362
Number of shares:		
Weighted average number of ordinary shares in issue (million)	337,423	324,794
Basic and diluted earnings per share (RMB yuan)	0.59	0.58

For the purpose of calculating basic earnings per share, cash dividends of RMB4,600 million of non-cumulative preference shares declared in respect of the year of 2018 was deducted from the profit for the year attributable to equity holders of the Bank (2017: RMB4,600 million).

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the years ended 31 December 2018 and 31 December 2017, and therefore the conversion feature of preference shares has no dilutive effect on earnings per share calculation.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 CASH AND BALANCES WITH CENTRAL BANKS

		As at 31 December	
		2018	**2017**
Cash		98,089	108,497
Mandatory reserve deposits with central banks	(1)	2,312,116	2,581,677
Surplus reserve deposits with central banks	(2)	223,555	43,408
Other deposits with central banks	(3)	170,187	163,037
Subtotal		2,803,947	2,896,619
Accrued interest		1,160	N/A
Total		2,805,107	2,896,619

(1) The Group places mandatory reserve deposits with the PBOC and overseas regulatory bodies. These include RMB reserve deposits and foreign currency reserve deposits. According to the requirements of “Notice on Reducing Deposit Reserve Ratio for Certain Financial Institutions to Replace Medium-term Lending Facilities issued by the People's Bank of China”(Yinfa [2018] No.94), RMB deposit reserve ratio for certain financial institutions is reduced by 1% from 25 April 2018; According to the requirements of “Notice on Reducing Deposit Reserve Ratio for Certain Financial Institutions issued by the People's Bank of China”(Yinfa [2018] No.165), RMB deposit reserve ratio for certain financial institutions is reduced by 0.5% from 5 July 2018; According to the requirements of “Notice on Reducing Deposit Reserve Ratio for Certain Financial Institutions issued by the People's Bank of China”(Yinfa [2018] No.231), RMB deposit reserve ratio for certain financial institutions is reduced by 1% from 15 October 2018.

For Domestic Institutions of the Bank which meet the requirements of “Notice on Performance Appraisal Results of the Sannong Banking Operations of Agricultural Bank of China Limited for 2018 issued by the People’s Bank of China” (Yinbanfa [2018] No. 61) effective from 26 March 2018, RMB mandatory reserve deposits with the PBOC are based on 12% of qualified RMB deposits (31 December 2017: 14.5%). For the Domestic Institutions of the Bank, RMB mandatory reserve deposits are based on 14% of qualified RMB deposits (31 December 2017: 16.5%). For the overseas participating banks with eligible RMB deposits, RMB mandatory reserve deposits are based on 14% of qualified RMB deposits (31 December 2017: 16.5 %). Foreign currency mandatory reserve deposits are based on 5% (31 December 2017: 5%) of qualified foreign currency deposits from customers. Mandatory reserve deposits placed by the Bank’s Overseas Operations are determined based on respective overseas regulatory requirements. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

(2) Surplus reserve deposits primarily represent deposits maintained with the PBOC in addition to the mandatory reserve deposits and mainly for the purpose of clearing.

(3) Other deposits with central banks primarily represent fiscal deposits and foreign exchange risk reserve placed with the PBOC that are not available for use in the Group’s daily operations. Fiscal deposits are non-interest bearing from government, and the interest rate for foreign exchange risk reserve is currently set at zero. The foreign exchange risk reserve is maintained with the PBOC in accordance with the “Notice on Reinforcing the Macro Prudential Management of Foreign Exchange Transactions” (Yinfa [2015] No.273) issued by the PBOC on 31 August 2015. From 6 August 2018, the foreign exchange risk reserve rate was adjusted to 20% according to the “Notice on Adjustment of Foreign Exchange Risk Reserves Policy” (Yinfa [2018] No. 190) issued by PBOC on 3 August 2018.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2018	2017
Deposits with:		
Domestic banks	54,075	92,355
Other domestic financial institutions	12,296	6,961
Overseas banks	43,711	31,018
Gross carrying amount	110,082	130,334
Accrued interest	196	N/A
Allowance for impairment losses	(550)	(89)
Deposits with banks and other financial institutions, net	109,728	130,245

As at 31 December 2018, the carrying amount of deposits with banks and other financial institutions which have been pledged as security was RMB13,080 million (31 December 2017: RMB10,598 million). These deposits were mainly security deposits pledged with clearing house and exchanges.

15 PLACEMENTS WITH AND LOANS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2018	2017
Placements with and loans to:		
Domestic banks	193,744	243,304
Other domestic financial institutions	256,887	189,488
Overseas banks and other financial institutions	99,172	73,415
Gross carrying amount	549,803	506,207
Accrued interest	3,594	N/A
Allowance for impairment losses	(1,384)	(938)
Placements with and loans to banks and other financial institutions, net	552,013	505,269

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

The Group primarily enters into foreign exchange rate, interest rate and precious metal derivative contracts related to trading, asset and liability management, and customer initiated transactions.

The contractual/notional amounts and fair values of the derivative financial instruments entered into by the Group are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

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. As at 31 December 2018 and 31 December 2017, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group. The Group did not elect to offset these financial assets and financial liabilities on a net basis. The Group does not hold any other financial instruments, other than derivatives, that are subject to master netting arrangements or similar agreements.

	31 December 2018		
	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	2,850,770	34,202	(30,657)
Currency options	75,226	886	(738)
Subtotal		35,088	(31,395)
Interest rate derivatives			
Interest rate swaps	418,445	1,654	(839)
Precious metal contracts and others	76,631	202	(2,320)
Total derivative financial assets and liabilities		36,944	(34,554)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (Continued)

	31 December 2017		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	1,997,265	24,349	(29,838)
Currency options	62,409	945	(275)
Subtotal		25,294	(30,113)
Interest rate derivatives			
Interest rate swaps	279,373	1,132	(406)
Precious metal contracts and others	126,596	1,858	(353)
Total derivative financial assets and liabilities		28,284	(30,872)

Credit risk weighted amount for derivative transaction counterparties represents the counterparty credit risk associated with derivative transactions and is calculated in accordance with the “Capital Rules for Commercial Banks (Provisional)” issued by the CBRC which was effective 1 January 2013 and is dependent on, among other factors, creditworthiness of customers and maturity characteristics of each type of contract. As at 31 December 2018 and 31 December 2017, the credit risk weighted amount for derivative transaction counterparty was measured under the Internal Ratings - Based approach.

	As at 31 December	
	2018	2017
Credit risk weighted amount for counterparty	17,336	22,868

17 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 31 December	
	2018	2017
Analyzed by collateral type:		
Debt securities	343,571	481,056
Bills	27,475	59,330
Total	371,046	540,386
Accrued interest	1,152	N/A
Allowance for impairment losses	(1,197)	-
Financial assets held under resale agreements, net	371,001	540,386

The collateral received in connection with financial assets under resale agreement is disclosed in Note IV 43 Contingent Liabilities and Commitments - Collateral.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 LOANS AND ADVANCES TO CUSTOMERS

18.1 Analyzed by measurement basis

		As at 31 December	
		2018	2017
Measured at amortized cost	(1)	11,027,381	10,316,311
Measured at fair value through other comprehensive income	(2)	433,912	N/A
Measured at fair value through profit or loss	(3)	249	N/A
Total		11,461,542	10,316,311

(1) Measured at amortized cost:

	2018	2017
Corporate loans and advances		
Loans and advances	6,802,200	6,527,217
Discounted bills	-	187,502
Subtotal	6,802,200	6,714,719
Personal loans and advances	4,677,264	4,005,892
Total	11,479,464	10,720,611
Accrued interest	27,060	N/A
Allowance for impairment losses	(479,143)	(404,300)
Carrying amount of loans and advances to customers measured at amortized cost	11,027,381	10,316,311

(2) Measured at fair value through other comprehensive income:

		2018	2017
Corporate loans and advances	(i)		
Loans and advances		89,951	N/A
Discounted bills		343,961	N/A
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income		433,912	N/A

(3) Measured at fair value through profit or loss

	2018	2017
Corporate loans and advances		
Loans and advances	249	N/A

(i) As at 1 January 2018, due to the adoption of IFRS 9, discounted bills and forfeiting included in loans and advances to customers were adjusted to be measured at fair value through other comprehensive income in head office and domestic branches of the Bank.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

18.2 Analyzed by assessment method of ECL

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III (i)	Total
	12m ECL	Lifetime ECL		
Gross loans and advances measured at amortized cost (accrued interest not included)	10,929,528	359,934	190,002	11,479,464
Allowance for impairment losses	(261,704)	(68,455)	(148,984)	(479,143)
Loans and advances to customers, net	10,667,824	291,479	41,018	11,000,321
Loans and advances measured at fair value through other comprehensive income	433,488	424	-	433,912
Allowance for impairment losses of loans and advances to customers measured at fair value through other comprehensive income	(7,460)	(9)	-	(7,469)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

18.2 Analyzed by assessment method of ECL (Continued)

	Year ended 31 December 2017					
		dentified impaired loans and advances (iii)				
	Loans and advances for which the allowance is collectively assessed (ii)	For which allowance is collectively assessed	For which the allowance is individually assessed	Subtotal	Total	Identified impaired gross loans and advances as a % of total gross loans and advances
31 December 2017						
Gross loans and advances	10,526,579	34,227	159,805	194,032	10,720,611	1.81
Allowance for impairment losses	(255,266)	(26,723)	(122,311)	(149,034)	(404,300)	
Loans and advances to customers, net	10,271,313	7,504	37,494	44,998	10,316,311	

The ECL for corporate loans and advances in stage I and stage II, as well as personal loans and advances, were measured in accordance with the risk parameters modelling method. The ECL for corporate loans and advances in Stage III are calculated using the cash flow discount model. For details, see Note IV 45.1 Credit Risk.

(i) At 31 December 2018, the Group's exposure of credit-impaired Stage III loans and advances covered by collateral and pledge of the Group was RMB30,599 million (31 December 2017: the exposure of impaired loans and advances covered by collateral and pledge of the Group was RMB24,802 million).

(ii) At 31 December 2017, loans and advances for which allowance was collectively assessed consist of loans and advances which had not been specifically identified as impaired.

(iii) At 31 December 2017, identified impaired loans and advances included loans for which objective evidence of impairment exists and which have been identified as bearing impairment losses, which are measured either individually (corporate loans and advances) or collectively (personal loans and advances).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

18.3 Analyzed by movements in loss allowance

The movements of loss allowance is mainly affected by:

- Transfers between stages due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired;
- Allowance for new financial instruments recognized;
- Remeasurement includes the impact of changes in model assumptions, updates of model parameters, changes in probability of default and loss given default; changes in ECL due to transfer of financial assets between stages; changes in ECL due to unwinding of discount over time; changes in foreign exchange translations for assets denominated in foreign currencies and other movements; and
- The reversal of allowances caused by repayment, write-offs and transfer of financial assets.

The following table shows the impact of above factors on the allowance for impairment losses:

	Year ended 31 December 2018			
Corporate loans and advances	**Stage I**	**Stage II**	**Stage III**	**Total**
	12m ECL(ii)	**Lifetime ECL(iii)**		
1 January 2018 (i)	160,902	53,285	126,922	341,109
Transfer:				
Stage I to stage II	(9,105)	9,105	-	-
Stage II to stage III	-	(22,224)	22,224	-
Stage II to stage I	3,948	(3,948)	-	-
Stage III to stage II	-	2,217	(2,217)	-
Originated or purchased financial assets	48,217	-	-	48,217
Remeasurement	21,108	29,648	62,188	112,944
Repayment and transfer out	(33,924)	(4,110)	(26,946)	(64,980)
Write-offs	-	-	(53,560)	(53,560)
31 December 2018	191,146	63,973	128,611	383,730

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

18.3 Analyzed by movements in loss allowance (Continued)

The following table shows the impact of above factors on the allowance for impairment losses (Continued):

	Year ended 31 December 2018			
Personal loans and advances	**Stage I**	**Stage II**	**Stage III**	**Total**
	12m ECL(iv)	**Lifetime ECL(v)**		
1 January 2018 (i)	60,853	3,924	25,389	90,166
Transfer:				
Stage I to stage II	(1,124)	1,124	-	-
Stage II to stage III	-	(1,248)	1,248	-
Stage II to stage I	1,139	(1,139)	-	-
Stage III to stage II	-	411	(411)	-
Originated or purchased financial assets	35,789	-	-	35,789
Remeasurement	(2,634)	3,750	10,441	11,557
Repayment and transfer out	(16,005)	(2,331)	(3,291)	(21,627)
Write-offs	-	-	(13,003)	(13,003)
31 December 2018	78,018	4,491	20,373	102,882

(i) The reconciliation of impairment allowance on loans and advances to customers from IAS 39 to IFRS 9 on 1 January 2018 is disclosed in Note II 2.3.

(ii) In 2018, the provision rate of the Group's corporate loans and advances in Stage I remains stable. The changes of the Group's loss allowance of corporate loans and advances in Stage I were mainly driven by a net increase of nearly 12% in the corresponding gross amount.

(iii) In 2018, transfer between stages led to net increase in the gross amount of corporate loans and advances in Stage II, this is mainly driven by the net transfer in from Stage I and the transferred amount is approximately 3% of the beginning balance of Stage I corporate loans and advances. The impact on the loss allowances for the gross amount increase due to transfer between stages was netted off by the repayment of Stage II corporate loans and advances. Repayment amount of Stage II corporate loans and advances is about 30% of the beginning Stage II balances. There was no significant change in the gross amount of Stage II corporate loans and advances as of 1 January 2018 and 31 December 2018. The changes in loss allowance is mainly driven by the changes in provision rates;

In 2018, the provision rate of the Group's corporate loans and advances in Stage III remains stable. The changes in loss allowance is mainly driven by the net transfer in from Stage II and subsequent remeasurement. This impact was netted off by the repayment, transfer out and write-offs of Stage III corporate loans and advances. There was no significant change in the gross amount of Stage III corporate loans and advances as of 1 January 2018 and 31 December 2018.

(iv) In 2018, the provision rate of the Group's personal loans and advances remains stable. The changes of the Group's loss allowance of personal loans and advances in Stage I were mainly driven by a net increase of approximately 17% in the corresponding gross amount.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

18.3 Analyzed by movements in loss allowance (Continued)

The following table shows the impact of above factors on the allowance for impairment losses (Continued):

(v) In 2018, transfer between stages led to net increase in the gross amount of personal loans and advances in Stage II, this is mainly driven by the net transfer in from Stage I and the transferred amount is approximately 1% of the beginning balance of Stage I personal loans and advances. The impact on the loss allowances for the gross amount increase due to transfer between stages was netted off by the repayment of Stage II personal loans and advances. Repayment amount of Stage II personal loans and advances is about 50% of the Stage II balances as of 1 January 2018. There was no significant change in the gross amount of Stage II personal loans and advances as of 1 January 2018 and 31 December 2018. The changes in loss allowance is mainly driven by the changes in provision rates;

In 2018, the provision rate of the Group's personal loans and advances in Stage III remains stable. The changes in loss allowance is mainly driven by the net transfer in from Stage II and subsequent remeasurement. This impact was netted off by the repayment, transfer out and write-offs of Stage III personal loans and advances. In 2018, the net decrease of the gross amount of the Group's personal loans and advances in Stage III is approximately 12%.

	Year ended 31 December 2017		
	Individually assessed allowance	Collectively assessed allowance	Total
1 January 2017	133,605	266,670	400,275
Impairment allowance on loans charged	87,588	107,125	194,713
Reversal of impairment allowance	(20,158)	(81,691)	(101,849)
Net additions	67,430	25,434	92,864
Write-offs and transfer out	(82,283)	(12,010)	(94,293)
Recovery of loans and advances written off in previous years	4,758	2,343	7,101
Unwinding of discount on allowance	(1,077)	(353)	(1,430)
Exchange difference	(122)	(95)	(217)
31 December 2017	122,311	281,989	404,300

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 FINANCIAL INVESTMENTS

		As at 31 December	
		2018	**2017**
Financial assets at fair value through profit or loss	19.1	643,245	N/A
Debt instrument investments at amortized cost	19.2	4,503,698	N/A
Other debt instrument and other equity investments at fair value through other comprehensive income	19.3	1,738,132	N/A
Financial assets held for trading	19.4	N/A	194,640
Financial assets designated at fair value through profit or loss	19.5	N/A	383,325
Available-for-sale financial assets	19.6	N/A	1,426,420
Held-to-maturity investments	19.7	N/A	3,489,135
Debt instruments classified as receivables	19.8	N/A	659,223
Total		6,885,075	6,152,743

19.1 Financial assets at fair value through profit or loss

		31 December 2018
Mandatorily measured at fair value through profit or loss:		
- Held for trading	(1)	246,788
- Other financial assets at fair value through profit or loss	(2)	129,725
Financial assets designated at fair value through profit or loss	(3)	266,732
Total		643,245
Analyzed as:		
Listed in Hong Kong		4,101
Listed outside Hong Kong	(i)	519,076
Unlisted		120,068
Total		643,245

(i) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 FINANCIAL INVESTMENTS (Continued)

19.1 Financial assets at fair value through profit or loss (Continued)

(1) Held for trading

	31 December 2018
Debt securities issued by :	
Governments	11,302
Public sector and quasi-governments	87,444
Financial institutions	62,506
Corporates	52,756
Subtotal	214,008
Precious metal contracts	28,139
Equity and fund	4,641
Total	246,788

(2) Other financial assets at fair value through profit or loss (ii)

	31 December 2018
Debt securities issued by :	
Public sector and quasi-governments	20,554
Financial institutions	51,947
Corporates	4,385
Subtotal	76,886
Equity and fund	37,151
Others	15,688
Total	129,725

(ii) Other financial assets at fair value through profit or loss refer to financial assets that do not qualify for measurement at AC or FVOCI and are not held for trading, including bond investments, equity interests, funds, trust plans and asset management products, among other things, of the Group and the Bank.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 FINANCIAL INVESTMENTS (Continued)

19.1 Financial assets at fair value through profit or loss (Continued)

(3) Financial assets designated at fair value through profit or loss (iii)

	31 December 2018
Debt securities issued by :	
Governments	21,257
Public sector and quasi-governments	33,399
Financial institutions	49,711
Corporates	38,537
Subtotal	142,904
Deposits with banks and other financial institutions	9,174
Placements with and loans to banks and other financial institutions	110,431
Others	4,223
Total	266,732

(iii) Financial assets designated at fair value through profit or loss mainly include the financial asset invested by the wealth management products ("WMPs") with principal guaranteed by the Group.

19.2 Debt instrument investments at amortized cost

		31 December 2018
Debt securities issued by :		
Governments		2,299,357
Public sector and quasi-governments		1,255,738
Financial institutions		300,010
Corporates		169,480
Subtotal		4,024,585
Receivable from the MOF	(i)	290,891
Special government bonds	(ii)	93,358
Others	(iii)	22,443
Total		4,431,277
Accrued interest		81,608
Allowance for impairment losses		(9,187)
Debt instrument investments at amortized cost, net		4,503,698
Analyzed as:		
Listed in Hong Kong		12,698
Listed outside Hong Kong	(iv)	4,116,972
Unlisted		374,028
Total		4,503,698

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 FINANCIAL INVESTMENTS (Continued)

19.2 Debt instrument investments at amortized cost (Continued)

(i) Pursuant to the "Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China" (Caijin [2008] No. 138) issued by the MOF, receivable from the MOF is to be settled annually over a tentative period of 15 years starting from 1 January 2008 and bears interest at the rate of 3.3% per annum.

(ii) Special government bond refers to the non-transferable bond issued by the MOF in 1998 in the aggregate principal amount of RMB93.3 billion to the Predecessor Entity for capital replenishment. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, starting from 1 December 2008.

(iii) Other debt instruments classified as receivables are primarily related to investment in unconsolidated structured entities held by the Group (Note IV 42(2)).

(iv) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(1) Analyzed by assessment method of ECL

	Year ended 31 December 2018			
	Stage I	**Stage II**	**Stage III**	**Total**
	12m ECL	**Lifetime ECL**		
Gross debt instrument investments at amortized cost	4,509,520	1,043	2,322	4,512,885
Allowance for impairment losses	(6,691)	(236)	(2,260)	(9,187)
Debt instrument investments at amortized cost, net	4,502,829	807	62	4,503,698

Debt instrument investments at amortized cost in stage II and stage III mainly included corporate bond and other debt instruments investment.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 FINANCIAL INVESTMENTS (Continued)

19.2 Debt instrument investments at amortized cost (Continued)

(2) Analyzed by movements in loss allowance (i)

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	Total
	12m ECL	Lifetime ECL		
1 January 2018	5,883	20	2,261	8,164
Transfer:				
stage I transfer to stage II	(9)	9	-	-
Originated or purchased financial assets	2,242	-	-	2,242
Remeasurement	(369)	227	233	91
Maturities or transfer out	(1,056)	(20)	(234)	(1,310)
31 December 2018	6,691	236	2,260	9,187

(i) In 31 December 2018, the increases of the Group's loss allowance of debt instrument investments at amortized cost were mainly due to the increase of debt instrument investments and the derecognition of remained debt instrument investments in the year.

19.3 Other debt instrument and other equity investments at fair value through other comprehensive income

	Year ended 31 December 2018			
	Amortized cost of debt instruments / cost of equity instruments	Fair value	Cumulative amount of change in fair value that is accrued to other comprehensive income	Cumulative amount of impairment
Debt instruments (1)	1,725,961	1,735,892	9,931	(6,327)
Equity instruments (2)	1,598	2,240	642	N/A
Total	1,727,559	1,738,132	10,573	(6,327)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 FINANCIAL INVESTMENTS (Continued)

19.3 Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)

(1) Debt instruments

(a) Analyzed by measurement basis

		31 December 2018
Debt securities issued by :		
Governments		707,987
Public sector and quasi-governments		263,005
Financial institutions		544,934
Corporates		186,738
Subtotal		1,702,664
Others	(i)	14,287
Subtotal of debt instruments		1,716,951
Accrued interest		18,941
Total		1,735,892
Analyzed as:		
Listed in Hong Kong		98,119
Listed outside Hong Kong		1,593,843
Unlisted		43,930
Total		1,735,892

(i) Others primarily include trust investment plans and debt investment plans invested by the Group.

(b) Analyzed by assessment method of ECL

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	Total
	12m ECL	Lifetime ECL		
Other debt instruments at fair value through other comprehensive income	1,730,932	4,783	177	1,735,892
Allowance for impairment losses	(5,720)	(552)	(55)	(6,327)

Other debt instruments at fair value through other comprehensive income in stage II and stage III mainly included corporate bond investments.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 FINANCIAL INVESTMENTS (Continued)

19.3 Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)

(1) Debt instruments (Continued)

(c) Analyzed by movements in loss allowance (ii)

	Year ended 31 December 2018			
	Stage I 12m ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
1 January 2018	5,290	125	186	5,601
Transfer:				
stage I transfer to stage II	(35)	35	-	-
stage II transfer to stage I	51	(51)	-	-
Originated or purchased financial assets	1,958	-	-	1,958
Remeasurement	(143)	452	39	348
Maturities or transfer out	(1,401)	(9)	(170)	(1,580)
31 December 2018	5,720	552	55	6,327

(ii) In 31 December 2018, the increases of the Group's loss allowance of other debt instrument investments at fair value through other comprehensive income were mainly due to the increase of debt instrument investments and the derecognition of remained debt instrument investments in the year.

(2) Equity instruments

	31 December 2018
Banks and other financial institutions	2,036
Other enterprises	204
Total	2,240

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 FINANCIAL INVESTMENTS (Continued)

19.4 Financial assets held for trading

		31 December 2017
Debt securities issued by:		
Governments		12,112
Public sector and quasi-governments		79,368
Financial institutions		50,845
Corporates		21,624
Subtotal		163,949
Precious metal contracts		30,691
Total		194,640
Analyzed as:		
Listed in Hong Kong		-
Listed outside Hong Kong	(i)	163,949
Unlisted		30,691
Total		194,640

(i) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

19.5 Financial assets designated at fair value through profit or loss

		31 December 2017
Debt securities issued by:		
Governments		19,352
Public sector and quasi-governments		61,344
Financial institutions		52,805
Corporates		39,138
Subtotal		172,639
Deposits with banks and other financial institutions		93,741
Placements with and loans to banks and other financial institutions		92,388
Others	(i)	24,557
Total		383,325
Analyzed as:		
Listed in Hong Kong		3,153
Listed outside Hong Kong	(ii)	163,054
Unlisted		217,118
Total		383,325

(i) Others mainly include credit assets, equity instruments and fund investments.

(ii) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 FINANCIAL INVESTMENTS (Continued)

19.6 Available-for-sale financial assets

		31 December 2017
Debt securities issued by:		
Governments		510,794
Public sector and quasi-governments		312,321
Financial institutions		398,098
Corporates		177,671
Subtotal		1,398,884
Fund investments		3,715
Equity instruments		7,523
Others	(i)	16,298
Total		1,426,420
Analyzed as:		
Debt securities		
Listed in Hong Kong		85,012
Listed outside Hong Kong	(ii)	1,282,278
Unlisted		31,593
Equity instruments and fund investments and others		
Listed in Hong Kong		114
Listed outside Hong Kong		8,211
Unlisted	(iii)	19,212
Total		1,426,420

(i) The Group's other available-for-sale financial assets primarily include assets management products invested by the Group.

(ii) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(iii) As at 31 December 2017, unlisted equity instruments of the Group amounted to RMB297 million were measured at cost because their fair value cannot be reliably measured.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 FINANCIAL INVESTMENTS (Continued)

19.7 Held to maturity investments

		31 December 2017
Debt securities issued by:		
Governments		1,774,655
Public sector and quasi-governments		1,269,267
Financial institutions		302,240
Corporates		149,146
Subtotal		3,495,308
Allowance for impairment losses		(6,173)
Held-to-maturity investments, net		3,489,135
Analyzed as:		
Listed in Hong Kong		6,835
Listed outside Hong Kong	(i)	3,456,090
Unlisted		26,210
Total		3,489,135

(i) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 FINANCIAL INVESTMENTS (Continued)

19.8 Debt instruments classified as receivables

		31 December 2017
Receivable from the MOF	(i)	271,678
Special government bond	(ii)	93,300
Government bonds		169,336
Public sector and quasi-government bonds		-
Financial institution bonds		81,075
Corporate bonds		15,887
Certificate treasury bonds and savings treasury bonds		3,612
Others	(iii)	28,688
Subtotal		663,576
Allowance for impairment losses		(4,353)
Debt instruments classified as receivables, net		659,223
Analyzed as:		
Listed in Hong Kong		1
Listed outside Hong Kong		304,192
Unlisted		355,030
Total		659,223

(i) Pursuant to the "Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China" (Caijin [2008] No. 138) issued by the MOF, receivable from the MOF is to be settled annually over a tentative period of 15 years starting from 1 January 2008 and bears interest at the rate of 3.3% per annum.

(ii) Special government bond refers to the non-transferable bond issued by the MOF in 1998 in the aggregate principal amount of RMB93.3 billion to the Predecessor Entity for capital replenishment. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, starting from 1 December 2008.

(iii) Other debt instruments classified as receivables are primarily related to investments in unconsolidated structured entities held by the Group (Note IV 42(2)).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 INVESTMENT IN SUBSIDIARIES AND STRUCTURED ENTITIES

(1) Investment in subsidiaries

The following are the principal subsidiaries of the Group as at 31 December 2018:

Name of entity		Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
China Agricultural Finance Co., Ltd.		1 November 1988	Hong Kong, PRC	HKD588,790,000	100.00	100.00	Investment holding
ABC International Holdings Limited		11 November 2009	Hong Kong, PRC	HKD4,113,392,449	100.00	100.00	Investment holding
ABC Financial Leasing Co., Ltd.	(i)	29 September 2010	Shanghai, PRC	RMB9,500,000,000	100.00	100.00	Financial leasing
Agricultural Bank of China (UK) Limited		29 November 2011	London, United Kingdom	USD100,000,000	100.00	100.00	Banking
ABC-CA Fund Management Co., Ltd.	(ii)	18 March 2008	Shanghai, PRC	RMB1,750,000,001	51.67	51.67	Fund management
ABC Hexigten Rural Bank Limited Liability Company		12 August 2008	Inner Mongolia, PRC	RMB19,600,000	51.02	51.02	Banking
ABC Hubei Hanchuan Rural Bank Limited Liability Company	(iii)	12 August 2008	Hubei, PRC	RMB31,000,000	50.00	66.67	Banking
ABC Jixi Rural Bank Limited Liability Company		25 May 2010	Anhui, PRC	RMB29,400,000	51.02	51.02	Banking
ABC Ansai Rural Bank Limited Liability Company		30 March 2010	Shaanxi, PRC	RMB40,000,000	51.00	51.00	Banking
ABC Zhejiang Yongkang Rural Bank Limited Liability Company		20 April 2012	Zhejiang, PRC	RMB210,000,000	51.00	51.00	Banking
ABC Xiamen Tong’an Rural Bank Limited Liability Company		24 May 2012	Fujian, PRC	RMB100,000,000	51.00	51.00	Banking
ABC Life Insurance Co., Ltd.	(iv)	19 December 2005	Beijing, PRC	RMB2,949,916,475	51.00	51.00	Life insurance
Agricultural Bank of China (Luxembourg) Limited		26 November 2014	Luxembourg, Luxembourg	EUR20,000,000	100.00	100.00	Banking
Agricultural Bank of China (Moscow) Limited		23 December 2014	Moscow, Russia	RUB1,400,000,000	100.00	100.00	Banking
ABC Financial Asset Investment Co., Ltd.		1 August 2017	Beijing, PRC	RMB10,000,000,000	100.00	100.00	Debt-to-equity swap and related services

During the year ended 31 December 2018 and 31 December 2017, there were no changes in the proportion of equity interest or voting rights the Group held in its subsidiaries.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 INVESTMENT IN SUBSIDIARIES AND STRUCTURED ENTITIES (Continued)

(1) Investment in subsidiaries (Continued)

(i) During the year ended 31 December 2018, the Group contributed additional capital totally RMB6,500 million to ABC Financial Leasing Co., Ltd., comprising registered capital of RMB6,500 million. After the capital injection, the proportion of equity interest and voting rights the Group held in ABC Financial Leasing Co., Ltd. remained at 100.00%.

(ii) During the year ended 31 December 2018, the Group and other investors contributed additional capital totally RMB1,550 million to ABC-CA Fund Management Co., Ltd., comprising registered capital of RMB1,550 million. After the capital injection, the proportion of equity interest and voting rights the Group held in ABC-CA Fund Management Co., Ltd. remained at 51.67%.

(iii) Two of the three directors on the board of ABC Hubei Hanchuan Rural Bank Limited Liability Company were appointed by the Bank. The Bank concluded that it has effective control over and has included this entity in its consolidation scope.

(iv) On 31 December 2012, the Bank acquired 51% of the issued share capital of Jiahe Life Insurance Co., Ltd. and renamed it as ABC Life Insurance Co., Ltd. ("ABC Life Insurance"). The Group recognized goodwill of RMB1,381 million as a result of this acquisition. During the year ended 31 December 2016, the Group and other investors contributed additional capital totalling RMB3,761 million to ABC Life Insurance, comprising registered capital of RMB917 million and capital reserve of RMB2,844 million. After the capital injection, the proportion of equity interest and voting rights the Group held in ABC Life Insurance remained at 51%.

The Bank tests the impairment of goodwill annually. When performing the impairment test, the Bank compares the carrying amount of the assets (including goodwill and the value of the mergers and acquisitions after deduction of amortization) with the recoverable amount. The excess of carrying amount over recoverable amount is recognized in profit or loss of the current period.

The recoverable amount of the assets is based on adjusted net assets, value of in-force business, value of one year of new business, new business multiplier, and other data approved by the management of ABC Life Insurance. The actuarial valuation method is applied and the risk discount rate, return on investment, valuation discount rate, and other assumptions adopted to forecast cash flows respectively reflect the specific risks associated with them.

As at 31 December 2018 and 31 December 2017, there was no objective evidence noted for any goodwill impairment, and no impairment loss was recognized.

(2) Structured entities

The Group also consolidated structured entities as disclosed in Note IV 42 Structured Entities.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

(1) Investment in associates

Name of entity		Date of incorporatio/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
Sino-Congolese Bank of Africa	(i)	2015	Brazzaville, Congo	XAF 53,342,800,000	50.00	50.00	Bank
Beijing Guofa Aero Engine Industry Investment Fund Center LP	(ii)	2018	Beijing, PRC	RMB 3,525,200,000	28.08	20.00	Non Securities investment activities and related advisory services

(i) On 28 May 2015, the Sino-Congolese Bank of Africa (La Banque Sino-Congolaise pour l'Afrique, hereinafter referred to as BSCA.Bank), established by the Bank and other investors with authorized capital denominated in Central African CFA franc ("XAF"), was granted the required banking license by the local regulatory authority. The Bank holds 50% equity interest and voting rights in BSCA.Bank, and has the right to participate in the financial and operating policy decisions of BSCA.Bank, but does not constitute control or joint control over those policy decisions.

(ii) On 28 September 2018, the Bank's wholly-owned subsidiary, ABC Financial Assets Investment Co., Ltd. and other investors invested in the Beijing Guofa Aero Engine Industry Investment Fund Center LP. The Group has the right to participate in the financial and operating policy decisions of Beijing Guofa Aero Engine Industry Investment Fund Center LP., but does not constitute control or joint control over those policy decisions.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (Continued)

(2) Investment in joint ventures

Name of entity	Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
Jiangsu Jiequan ABC State-owned Enterprise Mixed Ownership Reform Fund LP	2018	Jiangsu, PRC	RMB 1,000,000,000	69.00	28.57	Equity investment, Debt-to-Equity and related supporting services
ABC Gaotou (Hubei) Debt-to-Equity Investment Fund LP	2018	Hubei, PRC	RMB 500,000,000	74.00	33.33	Non Securities equity investment activities and related advisory services
Suida(Jiaxing) Investment LP	2018	Zhejiang, PRC	RMB 1,200,000,000	41.71	40.00	Industrial Investment
ABC New Silk Road(Jiaxing) Investment Fund LP	2018	Zhejiang, PRC	RMB 1,500,000,000	66.67	50.00	Industrial investment and equity investment
Shenzhen Zhaoping Suida Investment Center LP	2018	Guangdong, PRC	RMB 400,000,000	50.00	40.00	Industrial investment and investment advisory
Zhejiang New Power Fund LP	2018	Zhejiang, PRC	RMB 2,000,000,000	50.00	50.00	Industrial investment and equity investment
Chengdu Chuanneng Lithium Energy Equity Investment Fund LP	2018	Sichuan, PRC	RMB 2,520,000,000	30.16	28.57	Non-publicly traded equity investments and related advisory services

In 2018, the wholly-owned subsidiary of the Bank, ABC Financial Assets Investment Co., Ltd. and other investors established the aforesaid limited partnerships. According to the partnership agreements, matters considered at the Meeting of Partners or investment decision-making committee shall be approved by the unanimous consent of all the partners or all the committee members. The Bank constitutes joint control over the financial and operating policy decisions of these limited partnerships with the other investors.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 PROPERTY AND EQUIPMENT

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
1 January 2018	173,802	64,846	10,009	16,170	264,827
Additions	3,532	5,310	1,613	4,904	15,359
Transfers	12,210	236	121	(12,567)	-
Disposals	(3,101)	(4,588)	(646)	(521)	(8,856)
31 December 2018	186,443	65,804	11,097	7,986	271,330
Accumulated depreciation					
1 January 2018	(61,235)	(44,900)	(3,022)	-	(109,157)
Charge for the year	(7,048)	(6,442)	(614)	-	(14,104)
Disposals	699	3,607	378	-	4,684
31 December 2018	(67,584)	(47,735)	(3,258)	-	(118,577)
Allowance for impairment losses					
1 January 2018	(294)	(8)	(1)	(109)	(412)
Impairment loss	(3)	(13)	-	-	(16)
Disposals	26	-	-	101	127
31 December 2018	(271)	(21)	(1)	(8)	(301)
Carrying value					
31 December 2018	118,588	18,048	7,838	7,978	152,452
1 January 2018	112,273	19,938	6,986	16,061	155,258

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 PROPERTY AND EQUIPMENT (Continued)

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
1 January 2017	162,858	64,203	8,309	22,031	257,401
Additions	1,986	4,176	2,868	4,285	13,315
Transfers	9,794	351	1	(10,146)	-
Disposals	(836)	(3,884)	(1,169)	-	(5,889)
31 December 2017	173,802	64,846	10,009	16,170	264,827
Accumulated depreciation					
1 January 2017	(54,032)	(41,258)	(3,128)	-	(98,418)
Charge for the year	(7,516)	(7,483)	(454)	-	(15,453)
Disposals	313	3,841	560	-	4,714
31 December 2017	(61,235)	(44,900)	(3,022)	-	(109,157)
Allowance for impairment losses					
1 January 2017	(296)	(8)	(2)	(8)	(314)
Impairment loss	-	-	-	(101)	(101)
Disposals	2	-	1	-	3
31 December 2017	(294)	(8)	(1)	(109)	(412)
Carrying value					
31 December 2017	112,273	19,938	6,986	16,061	155,258
1 January 2017	108,530	22,937	5,179	22,023	158,669

According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, the legal title of properties previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2018, the registration transfer process of these transferred properties and other certain properties have not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those assets.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances:

	As at 31 December	
	2018	2017
Deferred tax assets	113,293	97,751
Deferred tax liabilities	(139)	(87)
Net	113,154	97,664

(1) The following are the movements and major deferred tax assets and liabilities recognized:

	Allowance for impairment losses	Accrued but unpaid staff cost	Early retirement benefits	Provision	Fair value changes of financial instruments	Others	Total
31 December 2017	78,656	7,376	940	2,677	7,763	252	97,664
Change in accounting policy	7,266	-	-	3,841	(1,363)	-	9,744
1 January 2018	85,922	7,376	940	6,518	6,400	252	107,408
Credit/(charge) to the consolidated income statement	17,513	1,489	(220)	(47)	(3,642)	(10)	15,083
Credit to other comprehensive income	-	-	-	-	(9,337)	-	(9,337)
31 December 2018	103,435	8,865	720	6,471	(6,579)	242	113,154

	Allowance for impairment losses	Accrued but unpaid staff cost	Early retirement benefits	Provision	Fair value changes of financial instruments	Others	Total
1 January 2017	75,931	6,818	1,331	3,398	(4,413)	64	83,129
Credit/(charge) to the consolidated income statement	2,725	558	(391)	(721)	4,588	188	6,947
Credit to other comprehensive income	-	-	-	-	7,588	-	7,588
31 December 2017	78,656	7,376	940	2,677	7,763	252	97,664

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 DEFERRED TAXATION (Continued)

(2) Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	31 December 2018		31 December 2017	
	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	413,742	103,435	314,625	78,656
Fair value changes of financial instruments	29,070	7,268	63,486	15,872
Accrued but unpaid staff cost	35,462	8,865	29,505	7,376
Provision	25,883	6,471	10,709	2,677
Early retirement benefits	2,883	720	3,762	940
Others	1,071	268	1,095	274
Subtotal	508,111	127,027	423,182	105,795
Deferred tax liabilities				
Fair value changes of financial instruments	(55,392)	(13,847)	(32,437)	(8,109)
Others	(104)	(26)	(89)	(22)
Subtotal	(55,496)	(13,873)	(32,526)	(8,131)
Net	452,615	113,154	390,656	97,664

24 OTHER ASSETS

		As at 31 December	
		2018	2017
Interest receivable	(1)	2,993	118,693
Accounts receivable and temporary payments	(2)	54,309	35,169
Land use rights	(3)	20,804	21,798
Investment properties		2,894	2,755
Intangible assets		2,771	2,737
Long-term deferred expenses		2,196	2,672
Value-added tax receivable		1,079	1,581
Premiums receivable and reinsurance assets		608	2,903
Foreclosed assets		667	2,666
Others		7,341	5,926
Total		95,662	196,900

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 OTHER ASSETS (Continued)

(1) As at 31 December 2018, the Group included the interests on financial instruments, accrued using the effective interest rate method, in the carrying amounts of the corresponding financial instruments, and recorded the interests on related financial instruments that had become due and receivable but not yet been received at the balance sheet date in interest receivable under other assets.

(2) Account receivables and temporary payments, which include receivables from settlement accounts and liquidation account, amount receivables from the MOF, other receivables, etc.

For account receivables arising from revenue recognized in accordance with IFRS 15, the entity measures the loss allowance at amount equal to lifetime ECL using a simplelified approach. At 31 December 2018, the principals of these account receivables was RMB10,692 million, and the loss allowance at amount equal to lifetime ECL was RMB610 million.

For other account receivables, the entity measures ECL using relatively simple ECL models, by which The Group prepares a provision matrix incorporating current condition and future forecast to measure loss allowances. At 31 December 2018, the gross amount of these account receivables was RMB46,862 million, and the loss allowance was RMB2,635 million

(3) According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, land use rights previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2018, the registration transfer process of certain land use rights has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those land use rights.

25 BORROWINGS FROM CENTRAL BANK

As at 31 December 2018, borrowings from central bank mainly included Medium-term Lending Facilities from PBOC amounting to RMB551,500 million (31 December 2017: RMB464,500 million).

26 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2018	**2017**
Deposits from:		
Domestic banks	47,202	117,401
Other domestic financial institutions	1,016,565	815,908
Overseas banks	8,906	9,262
Other overseas financial institutions	44,280	32,159
Subtotal	1,116,953	974,730
Accrued interest	7,369	N/A
Total	1,124,322	974,730

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2018	**2017**
Placements from:		
Domestic banks and other financial institutions	137,955	92,665
Overseas banks and other financial institutions	185,870	187,396
Subtotal	323,825	280,061
Accrued interest	1,716	N/A
Total	325,541	280,061

28 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

		As at 31 December	
		2018	**2017**
Financial liabilities held for trading			
Precious metal contracts	(1)	17,188	21,118
Financial liabilities designated at fair value through profit or loss			
Principal guaranteed wealth management products	(2)	265,715	364,151
Overseas debt securities		3,400	6,503
Subtotal		269,115	370,654
Total		286,303	391,772

(1) The financial liabilities held for trading are liabilities related to precious metal contracts.

(2) The Group designates WMPs with principal guaranteed by the Group as financial liabilities at fair value through profit or loss. The corresponding investments are designated as financial assets at fair value through profit or loss. As at 31 December 2018 and 31 December 2017, the difference between the fair value of these products issued by the Group and the contractual amount payable to the holders of these products upon maturity was not material.

For the current and prior year, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss attributable to the changes in the Group's own credit risk.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 31 December	
	2018	2017
Analyzed by type of collateral:		
Debt securities	156,741	319,608
Bills	-	181
Subtotal	156,741	319,789
Accrued interest	360	N/A
Total	157,101	319,789

The collateral pledged under repurchase agreement is disclosed in Note IV 43 Contingent Liabilities and Commitments - Collateral.

30 DUE TO CUSTOMERS

		As at 31 December	
		2018	2017
Demand deposits			
Corporate customers		4,677,155	4,554,308
Individual customers		5,318,511	4,896,269
Time deposits			
Corporate customers		1,941,564	1,889,604
Individual customers		4,479,483	4,356,685
Pledged deposits	(1)	288,530	305,276
Others		440,403	192,137
Subtotal		17,145,646	16,194,279
Accrued interest		200,644	N/A
Total		17,346,290	16,194,279

(1) Analyzed by activity to which pledged deposits are related to:

	As at 31 December	
	2018	2017
Guarantee and letters of guarantee	78,859	92,174
Trade finance	92,555	80,551
Bank acceptance	52,055	62,906
Letters of credit	12,463	24,856
Others	52,598	44,789
Total	288,530	305,276

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 DEBT SECURITIES ISSUED

		As at 31 December	
		2018	**2017**
Bonds issued	(1)	282,880	246,833
Certificates of deposit issued	(2)	240,897	196,412
Commercial papers issued	(3)	13,283	22,915
Interbank certificates of deposit issued	(4)	237,970	8,857
Subtotal		775,030	475,017
Interest payable		5,643	N/A
Total		780,673	475,017

As at 31 December 2018 and 31 December 2017, there was no default related to any debt securities issued by the Group.

(1) The carrying value of the Group's bonds issued are as follows:

		As at 31 December	
		2018	**2017**
2.125% USD fixed rate Green Bonds maturing in October 2018	(i)	-	2,614
2.75% USD fixed rate Green Bonds maturing in October 2020	(ii)	3,432	3,267
Medium term notes issued	(iii)	41,070	45,951
4.0% subordinated fixed rate bonds maturing in May 2024	(iv)	25,000	25,000
5.3% subordinated fixed rate bonds maturing in June 2026	(v)	50,000	50,000
4.99% subordinated fixed rate bonds maturing in December 2027	(vi)	50,000	50,000
5.8% Tier-two capital fixed rate bonds maturing in August 2024	(vii)	30,000	30,000
4.45% Tier-two capital fixed rate bonds maturing in August 2027	(viii)	40,000	40,000
4.45% Tier-two capital fixed rate bonds maturing in April 2028	(ix)	40,000	-
5.55% 10 years fixed rate capital replenishment bond maturing in March 2028.	(x)	3,500	-
Total nominal value		283,002	246,832
Interest payable		4,664	N/A
Less: Unamortized issuance cost and discounts		(122)	1
Carrying value		287,544	246,833

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 DEBT SECURITIES ISSUED (Continued)

(1) The carrying value of the Group's bonds issued are as follows (Continued):

Pursuant to the approval by relevant regulatory authorities, the bonds issued by the Group are set out as below:

(i) The USD green bonds issued in London in October 2015 have a tenor of 3 years, with a fixed coupon rate 2.125%, payable semi-annually.

(ii) The USD green bonds issued in London in October 2015 have a tenor of 5 years, with a fixed coupon rate 2.75%, payable semi-annually.

(iii) The medium term notes ("MTNs") were issued by the Overseas Operations of the Group and are measured at amortized cost. The details of medium term notes issued were as follows:

	As at 31 December 2018		
	Maturity dates ranging from	**Coupon rates (%)**	**Outstanding balance**
Fixed rate RMB MTNs	August 2019 to March 2021	3.8-4.8	3,320
Fixed rate EUR MTNs	January 2019	-	784
Fixed rate HKD MTNs	March 2019 to January 2021	2.18-2.52	1,489
Floating rate HKD MTNs	September 2020	3-month HKD HIBOR plus 0.70	350
Fixed rate USD MTNs	January 2019 to September 2021	1.88-3.88	15,620
Floating rate USD MTNs	March 2019 to November 2023	3-month USD LIBOR plus 0.40 to 0.80	19,571
Total			41,134

	As at 31 December 2017		
	Maturity dates ranging from	**Coupon rates (%)**	**Outstanding balance**
Fixed rate USD MTNs	May 2018 to June 2021	1.875-3.60	27,175
Fixed rate RMB MTNs	December 2018 to December 2019	2.375-3.80	2,761
Floating rate USD MTNs	May 2018 to September 2019	3-month USD LIBOR plus 0.75 to 0.98	13,068
Fixed rate HKD MTNs	August 2018 to August 2020	1.43-2.18	2,613
Floating rate HKD MTNs	September 2020	3-month HKD HIBOR plus 0.70	334
Total			45,951

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 DEBT SECURITIES ISSUED (Continued)

(1) The carrying value of the Group's bonds issued are as follows (Continued):

(iv) The subordinated fixed rate bonds issued in May 2009 have a tenor of 15 years, with a fixed coupon rate of 4.0%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 May 2019. If the Bank does not exercise this option, the coupon rate of the bonds will increase to 7.0% per annum from 20 May 2019 onwards.

(v) The subordinated fixed rate bonds issued in June 2011 have a tenor of 15 years, with a fixed coupon rate of 5.3%, payable annually. The Bank has an option to redeem all of the bonds at face value on 7 June 2021. If the Bank does not exercise this option, the coupon rate of the bonds would remain at 5.3% per annum from 7 June 2021 onwards.

(vi) The subordinated fixed rate bonds issued in December 2012 have a tenor of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 December 2022. If the Bank does not exercise this option, the coupon rate of the bonds would remain at 4.99% per annum from 20 December 2022 onwards.

(vii) The Tier-two capital bonds issued in August 2014 have a tenor of 10 years, with a fixed coupon rate of 5.8% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 17 August 2019 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank does not exercise this option, the coupon rate of the bonds would remain at 5.8% per annum from 18 August 2019 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable, and they are qualified as Tier-two Capital Instruments in accordance with the CBRC requirements.

(viii) The Tier-two capital bonds issued in October 2017 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 16 September 2022 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank does not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 17 September 2022 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable, and they are qualified as Tier-two Capital Instruments in accordance with the CBRC requirements.

(ix) The Tier-two capital bonds issued in April 2018 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 26 March 2023 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank does not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 27 March 2023 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable, and they are qualified as Tier-two Capital Instruments in accordance with the CBRC requirements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 DEBT SECURITIES ISSUED (Continued)

(1) The carrying value of the Group's bonds issued are as follows (Continued):

(x) The fixed rate Capital replenishment debt issued by ABC Life Insurance in March 2018 have a tenor of 10 years, with a fixed coupon rate of 5.55%, payable annually. ABC Life Insurance has an option to redeem all of the bonds at face value on 4 March 2023. If ABC Life Insurance do not exercise this option, the coupon rate of the bonds would increase to 6.55% per annum from 5 March 2023 onwards.

(2) As at 31 December 2018, the certificates of deposit were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the certificates of deposit range from two months to seven years, with interest rates ranging from 0% to 4.60%. As at 31 December 2017, the terms ranged from one month to seven years with interest rates ranging from 0% to 5.06%.

(3) As at 31 December 2018, the commercial papers were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the commercial papers range from two months to one year, with interest rates ranging from 0% to 3.22%. As at 31 December 2017, the terms ranged from two months to one year, with interest rates ranging from 0.01% to 2.36%.

(4) As at 31 December 2018, the interbank certificates of deposit were issued by the Bank's Head Office. The terms of the interbank certificates of deposit range from three months to one year, with interest rates ranging from 3.20% to 4.40%. As at 31 December 2017, the terms ranged from one month to six months with interest rates ranging from 4.30% to 4.60%.

32 OTHER LIABILITIES

		As at 31 December	
		2018	2017
Interest payable	(1)	238	228,805
Clearing and settlement		53,578	47,126
Insurance liabilities		68,351	73,869
Staff costs payable	(2)	45,285	40,222
Provision	(3)	25,883	10,709
Income taxes payable		49,248	32,842
VAT and other taxes payable		7,568	7,322
Amount payable to the MOF	(4)	1,567	3,154
Dormant accounts		4,249	2,469
Others		62,599	44,913
Total		318,566	491,431

(1) As at 31 December 2018, the Group included the interests on financial instruments, accrued using the effective interest rate method, in the carrying amounts of the corresponding financial instruments, and recorded the interests on related financial instruments that had become due and payable but not yet been paid at the balance sheet date in interest payable under other liabilities.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 OTHER LIABILITIES (Continued)

(2) Staff costs payable

		As at 31 December	
		2018	**2017**
Short-term employee benefits	(i)	39,698	35,894
Defined contribution benefits	(ii)	2,704	566
Early retirement benefits	(iii)	2,883	3,762
Total		45,285	40,222

(i) Short-term employee benefits

		2018			
		1 January	**Increase**	**Decrease**	**31 December**
Salaries, bonuses, allowance and subsidies	(a)	26,829	75,976	(73,246)	29,559
Housing funds	(a)	157	8,328	(8,299)	186
Social insurance including:	(a)	171	5,371	(5,287)	255
- Medical insurance		159	4,829	(4,753)	235
- Maternity insurance		7	381	(375)	13
- Employment injury insurance		5	161	(159)	7
Labor union fees and staff education expenses		5,344	3,365	(2,503)	6,206
Others		3,393	12,469	(12,370)	3,492
Total		35,894	105,509	(101,705)	39,698

		2017			
		1 January	**Increase**	**Decrease**	**31 December**
Salaries, bonuses, allowance and subsidies	(a)	25,524	73,140	(71,835)	26,829
Housing funds	(a)	155	8,212	(8,210)	157
Social insurance including:	(a)	176	5,109	(5,114)	171
- Medical insurance		156	4,611	(4,608)	159
- Maternity insurance		16	330	(339)	7
- Employment injury insurance		4	168	(167)	5
Labor union fees and staff education expenses		4,418	3,269	(2,343)	5,344
Others		3,683	8,799	(9,089)	3,393
Total		33,956	98,529	(96,591)	35,894

(a) Salaries, bonuses, allowance and subsidies, housing funds and social insurance are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 OTHER LIABILITIES (Continued)

(2) Staff costs payable (Continued)

(ii) Defined contribution benefits

	2018			
	1 January	**Increase**	**Decrease**	**31 December**
Basic pensions	527	11,808	(11,817)	518
Unemployment insurance	32	319	(320)	31
Annuity Scheme	7	5,721	(3,573)	2,155
Total	566	17,848	(15,710)	2,704

	2017			
	1 January	**Increase**	**Decrease**	**31 December**
Basic pensions	456	11,413	(11,342)	527
Unemployment insurance	35	351	(354)	32
Annuity Scheme	130	3,469	(3,592)	7
Total	621	15,233	(15,288)	566

The defined contribution benefits are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy.

(iii) Early retirement benefits

	2018			
	1 January	**Increase**	**Decrease**	**31 December**
Early retirement benefits	3,762	257	(1,136)	2,883

	2017			
	1 January	**Increase**	**Decrease**	**31 December**
Early retirement benefits	5,325	77	(1,640)	3,762

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	As at 31 December	
	2018	**2017**
Discount rate	3.00%	3.80%
Annual average medical expense growth rate	8.00%	8.00%
Annual subsidies growth rate	8.00%	8.00%
Normal retirement age		
- Male	60	60
- Female	55	55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (year 2010 - 2013) (published historical statistics in China).

Any difference arising from the actual result or changes in assumptions may affect the amount of expense recognized in the consolidated income statement.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 OTHER LIABILITIES (Continued)

(3) Provision

		As at 31 December	
		2018	**2017**
Loan commitments and financial guarantee contracts	(i)	20,523	3,536
Litigation provision		4,438	6,240
Others		922	933
Total		25,883	10,709

(i) Analyzed by movements in loss allowance for loan commitments and financial guarantee contracts

		Year ended 31 December 2018			
		Stage I	**Stage II**	**Stage III**	**Total**
		12m ECL	**Lifetime ECL**		
1 January 2018	(a)	17,204	1,519	175	18,898
Transfer:					
stage I transfer to stage II		(1,209)	1,209	-	-
stage II transfer to stage III		-	(728)	728	-
stage II transfer to stage I		21	(21)	-	-
Increase	(b)	9,373	1,013	-	10,386
Remeasurement		(313)	54	(9)	(268)
Decrease	(b)	(7,279)	(1,040)	(174)	(8,493)
31 December 2018		17,797	2,006	720	20,523

(a) As at 1 January 2018, the reconciliation of loss allowance for loan commitments and financial guarantee contracts from IAS 39 to IFRS 9 is disclosed in Note II 2.3.

(b) The impact of loss allowance driven by new loan commitments and financial guarantee contracts signed in 2018 is disclosed as “Increase”. The impact of loss allowance driven by withdrawals, advances or expiration of loan commitments and financial guarantee contracts in 2018 are disclosed as “Decrease”. The changes of loss allowance for loan commitments and financial guarantee contracts are mainly driven by the net increase in the exposure of loan commitments and financial guarantee contracts.

(4) Amount payable to the MOF

Pursuant to the “Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China” (Caijin [2008] No. 138) issued by the MOF, the MOF commissioned the Bank to manage and dispose of non-performing assets transferred. The amount payable to the MOF represents proceeds collected by the Bank from the disposal of these non-performing assets on behalf of the MOF.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 ORDINARY SHARES

	31 December 2018	
	Number of shares (millions)	Nominal value
Domestic listed A shares, par value RMB1.00 per share	319,244	319,244
Overseas listed H shares, par value RMB1.00 per share	30,739	30,739
Total	349,983	349,983

	31 December 2017	
	Number of shares (millions)	Nominal value
Domestic listed A shares, par value RMB1.00 per share	294,055	294,055
Overseas listed H shares, par value RMB1.00 per share	30,739	30,739
Total	324,794	324,794

(1) A shares refer to the ordinary shares listed in the Mainland China. They are offered and traded in RMB. H shares refer to the ordinary shares listed in Hong Kong. Their par value is denominated in RMB when they were initially offered and are currently traded in HKD.

(2) The Bank has received the Approval on Private Placement of Agricultural Bank of China Limited on A shares (Yin Bao Jian Approval No. [2018] 28) from CBIRC and the Approval Regarding the Private Placement of Agricultural Bank of China Limited (Zheng Jian Approval No. [2018] 936) from the China Securities Regulatory Commission, which approved the Bank's private placement of A-share ordinary shares. In June 2018, the Bank issued 25.19 billion A shares to specific investors with issuance price of RMB3.97 per share. The gross carrying amount of proceeds from the fund-raising was RMB100 billion. The net proceeds from the fund-raising after deducting issuance cost and related taxes was RMB99.97 billion, of which RMB25.19 billion was recorded in share capital and RMB74.78 billion was recorded in capital reserve. The lock-up period for the shares subscribed will last for three or five years respectively.

PricewaterhouseCoopers Zhong Tian LLP has verified the foresaid non-public offering and issued the capital verification report PricewaterhouseCoopers Zhong Tian Yan Zi (2018) No. 0411 for the above shares issued.

(3) As at 31 December 2018, the Bank's A Shares and H Shares were not subject to lock-up restriction, except for the ordinary shares private issued in June 2018 (as at 31 December 2017, all of the Bank's A Shares and H Shares were not subject to lock-up restriction).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 PREFERENCE SHARES

Financial instruments in issue	Dividend rate	Issued price (RMB yuan)	Issued number of shares (millions)	Issued nominal value (millions)	Maturity date	Conversions
Preference shares- first tranche	6% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year
Preference shares- second tranche	5.5% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year

The Bank was authorized to issue 800 million preference shares of RMB100 each, pursuant to the approval by its ordinary equity holders and relevant regulatory authorities.

The first tranche of 400 million preference shares were issued at par in November 2014. The carrying amount, net of direct issuance expenses, was RMB39,944 million as at 31 December 2018. The first tranche preference shares bear a dividend rate of 6% per annum, dividends are non-cumulative and where payable, is paid annually, for the first five years from issuance. The dividend rate will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.29%.

The second tranche of 400 million preference shares were issued at par in March 2015. The carrying amount, net of direct issuance expenses, was RMB39,955 million as at 31 December 2018. The second tranche preference shares bear a dividend rate of 5.5% per annum, dividends are non-cumulative and where payable, is paid annually, for the first five years from issuance. The dividend rate will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.24%.

There were no changes in the carrying amounts of the preference shares since issuance.

As authorized by the ordinary equity holders in the annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. The Bank shall not distribute any dividends to its ordinary equity holders before it declares such dividends to preference shareholders for the relevant period. The distribution of preference shares dividend is at the Bank’s discretion and is non-cumulative. Preference shareholders are not entitled to participate in the distribution of retained profits except for the dividends stated above.

The Bank has a redemption option when specified conditions as stipulated in the offering documents are met, subject to regulatory approval, whereas preference shareholders have no right to require the Bank to redeem the preference shares.

Upon liquidation, the claims of preference shareholders have priority over ordinary equity holders on the residual assets of the Bank, but are subordinated to those of depositors, general creditors, Tier-two Capital Instruments holders or any other subordinated debt holders with equivalent rights.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 PREFERENCE SHARES (Continued)

Upon occurrence of the triggering events as stipulated in paragraph 2(3) of the Guidance of the China Banking Regulatory Commission on Commercial Banks' Innovation on Capital Instruments (CBRC No. 56 [2012]) and subject to regulatory approval, preference shares shall be mandatorily converted into ordinary A shares of the Bank at the conversion price agreed, partially or entirely. The initial conversion price of the preference shares issued by the Bank was RMB2.43 per share. The conversion price of the preference shares will be adjusted where certain events occur including bonus issues, rights issue, capitalization of reserves and new issuances of ordinary shares, subject to terms and formulas provided for in the offering documents, to maintain the relative interests between preference shareholders and ordinary equity holders. In June 2018, the Bank issued 25.19 billion ordinary A shares to specific investors. Upon completion of the private placement of ordinary shares by the Bank, the mandatory conversion price of the preference shares issued by the Bank will be adjusted from RMB2.43 per share to RMB2.46 per share.

These preference shares are classified as equity instruments, and presented as equity in the consolidated statement of financial position, and are qualified as Additional Tier-one Capital Instruments in accordance with the CBIRC requirements.

35 CAPITAL RESERVE

The capital reserve represents the premium related to ordinary shares issued by the Bank in 2010 and private placement of ordinary shares to the specific stakeholders in 2018. Share premium was recorded in the capital reserve after deducting direct issue expenses, which consisted primarily of underwriting fees and professional fees.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 INVESTMENT REVALUATION RESERVE

	2018		
	Gross carrying amount	Tax effect	Net effect
31 December 2017	(26,135)	6,445	(19,690)
Change in accounting policy	13,003	(3,112)	9,891
1 January 2018	(13,132)	3,333	(9,799)
Fair value changes on debt instruments at fair value through other comprehensive income:			
- Amount of gains recognized directly in other comprehensive income	38,212	(9,358)	28,854
- Amount removed from other comprehensive income and recognized in profit or loss	(280)	70	(210)
Fair value changes on equity instruments at fair value through other comprehensive income:			
- Amount of gains recognized directly in other comprehensive income	196	(49)	147
31 December 2018	24,996	(6,004)	18,992

	2017		
	Gross carrying amount	Tax effect	Net effect
1 January 2017	4,775	(1,197)	3,578
Fair value changes on available-for-sale financial assets:			
- Amount of losses recognized directly in other comprehensive income	(31,348)	7,752	(23,596)
- Amount removed from other comprehensive income and recognized in profit or loss	438	(110)	328
31 December 2017	(26,135)	6,445	(19,690)

37 SURPLUS RESERVE

Under PRC Law, the Bank is required to transfer 10% of its net profit determined under the PRC GAAP to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. Pursuant to the resolution of the Board of Directors' Meeting held on 29 March 2019, an appropriation of 10% of the profit for the current year, determined under the generally accepted accounting principles of the PRC, to the statutory surplus reserve, in the amount of RMB19,867 million (2017: RMB19,171 million) was approved. In addition, certain subsidiaries and overseas branches also appropriated surplus reserves in accordance with local requirements.

Subject to the approval of the ordinary equity holders, the statutory surplus reserves can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserves amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserves after such capitalization is not less than 25% of the ordinary share capital.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 GENERAL RESERVE

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement") issued by the MOF, effective 1 July 2012, in addition to impairment allowance, the Bank establishes a general reserve within ordinary equity holders' equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement. The general reserve includes regulatory reserve appropriated by the Bank's overseas branches ("Overseas Institutions") pursuant to local regulatory requirements.

Pursuant to relevant PRC regulatory requirements, some domestic subsidiaries of the Bank are required to appropriate certain amounts of their net profit as general reserves.

During the year ended 31 December 2018, the Group transferred RMB8,440 million (2017: RMB32,445 million) to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB8,380 million (2017: RMB31,947 million) related to the appropriation proposed for the year ended 31 December 2017 which was approved in the annual general meeting held on 11 May 2018.

On 29 March 2019, the Board of Directors' meeting approved a proposal of appropriation of RMB37,626 million to general reserve. Such appropriation will be recognized in the Group's consolidated financial statements after approval by ordinary equity holders in the forthcoming annual general meeting.

39 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances with an original maturity of three months or less:

	As at 31 December	
	2018	**2017**
Cash	98,089	108,497
Balance with central banks	230,450	45,847
Deposits with banks and other financial institutions	78,352	98,590
Placements with and loans to banks and other financial institutions	221,495	252,570
Financial assets held under resale agreements	350,055	495,742
Total	978,441	1,001,246

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 OPERATING SEGMENTS

Operating segments are identified on the basis of internal management reports with respect to the components of the Group that are regularly reviewed by the Board and relevant management committees, which constitute the chief operating decision makers, for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision makers review three different sets of financial information based on (i) geographical locations, (ii) business activities and (iii) County Area and Urban Area banking business.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the consolidated financial statements and those used in preparing the operating segment information.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Geographical operating segments

The details of the geographical operating segments are as follows:

Head Office	
Yangtze River Delta:	Shanghai, Jiangsu, Zhejiang, Ningbo
Pearl River Delta:	Guangdong, Shenzhen, Fujian, Xiamen
Bohai Rim:	Beijing, Tianjin, Hebei, Shandong, Qingdao
Central China:	Shanxi, Hubei, Henan, Hunan, Jiangxi, Hainan, Anhui
Western China:	Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang (including Xinjiang Bingtuan), Tibet, Inner Mongolia, Guangxi
Northeastern China:	Liaoning, Heilongjiang, Jilin, Dalian
Overseas and Others:	Subsidiaries and overseas branches

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 OPERATING SEGMENTS (Continued)

Geographical operating segments (Continued)

For the year ended 31 December 2018	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
External interest income	277,633	114,128	77,565	76,222	75,067	115,740	19,649	28,720	-	784,724
External interest expense	(51,458)	(60,785)	(32,523)	(46,921)	(39,110)	(45,169)	(13,004)	(17,994)	-	(306,964)
Inter-segment interest (expense)/income	(207,818)	43,613	26,581	47,630	40,297	40,271	12,316	(2,890)	-	-
Net interest income	18,357	96,956	71,623	76,931	76,254	110,842	18,961	7,836	-	477,760
Fee and commission income	24,175	16,271	13,087	10,020	10,144	14,088	2,514	1,226	-	91,525
Fee and commission expense	(2,868)	(2,921)	(1,635)	(1,534)	(1,585)	(2,130)	(406)	(305)	-	(13,384)
Net fee and commission income	21,307	13,350	11,452	8,486	8,559	11,958	2,108	921	-	78,141
Net trading gain/(loss)	15,439	(188)	(242)	(261)	(133)	(1,606)	(1,094)	4,154	-	16,069
Net gain/(loss) on financial investments	9,158	(82)	49	(4)	(5)	(10)	-	(646)	-	8,460
Net gain on derecognition of financial assets measured at amortized cost	30	-	-	-	-	-	-	-	-	30
Other operating (expense)/income	(4,616)	1,882	1,173	974	688	1,702	423	19,871	-	22,097
Operating income	59,675	111,918	84,055	86,126	85,363	122,886	20,398	32,136	-	602,557
Operating expenses	(18,453)	(31,046)	(23,218)	(27,681)	(31,651)	(45,244)	(13,449)	(23,221)	-	(213,963)
Credit impairment losses	(4,459)	(18,681)	(11,336)	(36,790)	(23,753)	(32,671)	(6,213)	(2,744)	-	(136,647)
Impairment losses on other assets	-	14	(62)	(8)	(64)	(76)	(55)	-	-	(251)
Operating profit	36,763	62,205	49,439	21,647	29,895	44,895	681	6,171	-	251,696
Share of results of associates and joint ventures	9	-	-	-	-	-	-	(31)	-	(22)
Profit before tax	36,772	62,205	49,439	21,647	29,895	44,895	681	6,140	-	251,674
Income tax expense										(49,043)
Profit for the year										202,631
Depreciation and amortization included in operating expenses	1,361	2,496	1,873	2,602	2,864	3,823	1,149	245	-	16,413
Capital expenditure	959	2,826	2,118	1,907	2,559	3,409	1,017	2,305	-	17,100
As at 31 December 2018										
Segment assets	5,322,502	4,760,141	2,823,835	3,956,866	3,297,149	4,550,800	966,852	1,005,244	(4,187,211)	22,496,178
Including: Investment in associates and joint ventures	236	-	-	-	-	-	-	3,769	-	4,005
Unallocated assets										113,293
Total assets										22,609,471
Include: non-current assets (1)	11,327	31,152	17,018	28,137	27,154	40,804	11,289	18,028	-	184,909
Segment liabilities	(3,676,865)	(4,763,609)	(2,819,997)	(3,987,753)	(3,306,792)	(4,567,877)	(978,231)	(971,384)	4,187,211	(20,885,297)
Unallocated liabilities										(49,387)
Total liabilities										(20,934,684)
Loan commitments and financial guarantee contracts	39,120	529,584	324,158	359,054	297,915	304,479	76,623	79,872	-	2,010,805

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 OPERATING SEGMENTS (Continued)

Geographical operating segments (Continued)

For the year ended 31 December 2017	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
External interest income	268,082	100,934	66,983	68,460	64,374	103,393	17,701	23,772	-	713,699
External interest expense	(37,623)	(55,790)	(30,608)	(43,439)	(36,783)	(41,631)	(12,717)	(13,178)	-	(271,769)
Inter-segment interest (expense)/income	(220,318)	48,063	26,492	47,025	43,279	42,558	13,844	(943)	-	-
Net interest income	10,141	93,207	62,867	72,046	70,870	104,320	18,828	9,651	-	441,930
Fee and commission income	19,984	15,987	11,780	10,092	9,716	13,984	2,775	939	-	85,257
Fee and commission expense	(2,373)	(2,222)	(1,803)	(1,603)	(1,596)	(2,204)	(486)	(67)	-	(12,354)
Net fee and commission income	17,611	13,765	9,977	8,489	8,120	11,780	2,289	872	-	72,903
Net trading (loss)/gain	(5,969)	(32)	5	53	(27)	52	45	(2,956)	-	(8,829)
Net (loss)/gain on financial instruments designated at fair value through profit or loss	(5,237)	1	18	980	(1)	8	-	987	-	(3,244)
Net (loss)/gain on investment securities	(959)	-	-	68	-	18	-	1,009	-	136
Other operating income	6,386	1,085	677	536	541	4,326	83	26,368	-	40,002
Operating income	21,973	108,026	73,544	82,172	79,503	120,504	21,245	35,931	-	542,898
Operating expenses	(5,775)	(31,317)	(22,776)	(28,579)	(31,033)	(43,548)	(13,553)	(28,687)	-	(205,268)
Impairment losses on assets	192	(21,022)	(13,083)	(25,927)	(10,955)	(21,480)	(4,030)	(1,861)	-	(98,166)
Operating profit	16,390	55,687	37,685	27,666	37,515	55,476	3,662	5,383	-	239,464
Share of results of associates	14	-	-	-	-	-	-	-	-	14
Profit before tax	16,404	55,687	37,685	27,666	37,515	55,476	3,662	5,383	-	239,478
Income tax expense										(46,345)
Profit for the year										193,133
Depreciation and amortization included in operating expenses	1,601	2,796	2,087	2,931	3,155	4,148	1,231	330	-	18,279
Capital expenditure	789	1,085	1,579	2,193	2,263	3,301	897	3,508	-	15,615
As at 31 December 2017										
Segment assets	5,245,493	4,685,961	2,721,293	3,673,909	3,087,743	4,353,179	946,065	926,250	(4,684,262)	20,955,631
Including: Investment in associate	227	-	-	-	-	-	-	-	-	227
Unallocated assets										97,751
Total assets										21,053,382
Include: non-current assets (1)	11,782	31,931	17,599	29,337	28,021	41,821	11,843	12,875	-	185,209
Segment liabilities	(3,874,946)	(4,691,262)	(2,720,278)	(3,690,361)	(3,084,338)	(4,362,114)	(950,890)	(901,129)	4,684,262	(19,591,056)
Unallocated liabilities										(32,929)
Total liabilities										(19,623,985)
Loan commitments and financial guarantee contracts	39,053	488,442	241,298	334,741	201,770	287,590	66,396	89,588	-	1,748,878

(1) Non-current assets include property and equipment, investment properties, land use rights, intangible assets and other long-term assets.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 OPERATING SEGMENTS (Continued)

Business operating segments

The details of the business operating segments are as follows:

Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products, corporate wealth management services and other types of corporate intermediary services.

Personal banking

The personal banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

Treasury operations

The Group's treasury operations conduct money market and repurchase transactions, debt instruments investments, precious metal transactions and derivative transactions for its own accounts or on behalf of customers.

Others

Others comprise components of the Group that are not attributable to any of the above segments, along with certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 OPERATING SEGMENTS (Continued)

Business operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2018					
External interest income	314,901	191,918	272,138	5,767	784,724
External interest expense	(92,866)	(153,206)	(58,026)	(2,866)	(306,964)
Inter-segment interest Income/(expense)	8,665	158,924	(167,589)	-	-
Net interest income	230,700	197,636	46,523	2,901	477,760
Fee and commission income	47,828	41,797	13	1,887	91,525
Fee and commission expense	(5,730)	(7,608)	(3)	(43)	(13,384)
Net fee and commission income	42,098	34,189	10	1,844	78,141
Net trading gain	-	-	11,283	4,786	16,069
Net (loss)/gain on financial investments	(63)	461	7,874	188	8,460
Net gain on derecognition of financial assets measured at amortized cost	-	-	30	-	30
Other operating income/(expense)	1,923	1,515	(92)	18,751	22,097
Operating income	274,658	233,801	65,628	28,470	602,557
Operating expenses	(75,164)	(93,304)	(23,481)	(22,014)	(213,963)
Credit impairment losses	(106,947)	(26,542)	(3,253)	95	(136,647)
Impairment losses on other assets	(224)	(25)	(2)	-	(251)
Operating profit	92,323	113,930	38,892	6,551	251,696
Share of results of associates and joint ventures	-	-	-	(22)	(22)
Profit before tax	92,323	113,930	38,892	6,529	251,674
Income tax expense					(49,043)
Profit for the year					202,631
Depreciation and amortization included in operating expenses	3,742	9,422	3,062	187	16,413
Capital expenditure	3,480	10,068	3,552	-	17,100
At 31 December 2018					
Segment assets	7,034,426	5,051,815	10,086,338	323,599	22,496,178
Including: Investment in associates and joint ventures	-	-	-	4,005	4,005
Unallocated assets					113,293
Total assets					22,609,471
Segment liabilities	(7,829,685)	(10,800,316)	(2,077,681)	(177,615)	(20,885,297)
Unallocated liabilities					(49,387)
Total liabilities					(20,934,684)
Loan commitments and financial guarantee contracts	1,338,766	672,039	-	-	2,010,805

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 OPERATING SEGMENTS (Continued)

Business operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2017					
External interest income	288,486	158,017	260,417	6,779	713,699
External interest expense	(84,260)	(143,031)	(42,375)	(2,103)	(271,769)
Inter-segment interest Income/(expense)	4,603	159,790	(164,393)	-	-
Net interest income	208,829	174,776	53,649	4,676	441,930
Fee and commission income	42,349	41,572	-	1,336	85,257
Fee and commission expense	(4,891)	(7,422)	(2)	(39)	(12,354)
Net fee and commission income	37,458	34,150	(2)	1,297	72,903
Net trading loss	-	-	(8,766)	(63)	(8,829)
Net gain/(loss) on financial instruments designated at fair value through profit or loss	338	(5,630)	1,086	962	(3,244)
Net (loss)/gain on investment securities	-	-	(847)	983	136
Other operating income	2,708	2,634	11,470	23,190	40,002
Operating income	249,333	205,930	56,590	31,045	542,898
Operating expenses	(68,169)	(88,182)	(22,326)	(26,591)	(205,268)
Impairment losses on assets	(92,610)	(3,610)	(391)	(1,555)	(98,166)
Operating profit	88,554	114,138	33,873	2,899	239,464
Share of results of associates	-	-	-	14	14
Profit before tax	88,554	114,138	33,873	2,913	239,478
Income tax expense					(46,345)
Profit for the year					193,133
Depreciation and amortization included in operating expenses	3,590	10,683	3,744	262	18,279
Capital expenditure	2,526	7,518	2,635	2,936	15,615
At 31 December 2017					
Segment assets	6,584,597	4,468,376	9,635,618	267,040	20,955,631
Including: Investment in associate	-	-	-	227	227
Unallocated assets					97,751
Total assets					21,053,382
Segment liabilities	(7,306,002)	(10,302,042)	(1,826,344)	(156,668)	(19,591,056)
Unallocated liabilities					(32,929)
Total liabilities					(19,623,985)
Loan commitments and financial guarantee contracts	1,234,005	514,873	-	-	1,748,878

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments

The Group's operating segments organized by County Area and Urban Area banking business are set out as follows:

County Area banking business

The Group's County Area banking business provides a broad range of financial products and services to customers in designated County Area, through its operating branches in the counties or county-level cities throughout the PRC. The products and services mainly comprise loans, deposits, bank cards, and other types of intermediary services.

Urban Area banking business

The Group's Urban Area banking business comprises all banking activities outside of the County Area banking business, overseas branches and subsidiaries.

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
For the year ended 31 December 2018				
External interest income	175,438	609,286	-	784,724
External interest expense	(93,223)	(213,741)	-	(306,964)
Inter-segment interest income/(expense)	111,567	(111,567)	-	-
Net interest income	193,782	283,978	-	477,760
Fee and commission income	35,222	56,303	-	91,525
Fee and commission expense	(4,817)	(8,567)	-	(13,384)
Net fee and commission income	30,405	47,736	-	78,141
Net trading (loss)/gain	(267)	16,336	-	16,069
Net gain on financial investments	5	8,455	-	8,460
Net gain on derecognition of financial assets measured at amortized cost	-	30	-	30
Other operating income	4,515	17,582	-	22,097
Operating income	228,440	374,117	-	602,557
Operating expenses	(86,542)	(127,421)	-	(213,963)
Credit impairment losses	(72,661)	(63,986)	-	(136,647)
Impairment losses on other assets	(137)	(114)	-	(251)
Operating profit	69,100	182,596	-	251,696
Share of results of associates and joint ventures	-	(22)	-	(22)
Profit before tax	69,100	182,574	-	251,674
Income tax expense				(49,043)
Profit for the year				202,631
Depreciation and amortization included in operating expenses	7,494	8,919	-	16,413
Capital expenditure	4,123	12,977	-	17,100
At 31 December 2018				
Segment assets	8,067,374	14,537,570	(108,766)	22,496,178
Including: Investment in associates and joint ventures	-	4,005	-	4,005
Unallocated assets				113,293
Total assets				22,609,471
Segment liabilities	(7,553,604)	(13,440,459)	108,766	(20,885,297)
Unallocated liabilities				(49,387)
Total liabilities				(20,934,684)
Loan commitments and financial guarantee contracts	569,419	1,441,386	-	2,010,805

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments (Continued)

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
For the year ended 31 December 2017				
External interest income	157,305	556,394	-	713,699
External interest expense	(86,537)	(185,232)	-	(271,769)
Inter-segment interest income/(expense)	106,176	(106,176)	-	-
Net interest income	176,944	264,986	-	441,930
Fee and commission income	34,442	50,815	-	85,257
Fee and commission expense	(4,423)	(7,931)	-	(12,354)
Net fee and commission income	30,019	42,884	-	72,903
Net trading gain/(loss)	88	(8,917)	-	(8,829)
Net loss on financial instruments designated at fair value through profit or loss	(1,407)	(1,837)	-	(3,244)
Net gain on investment securities	-	136	-	136
Other operating income	5,956	34,046	-	40,002
Operating income	211,600	331,298	-	542,898
Operating expenses	(83,915)	(121,353)	-	(205,268)
Impairment losses on assets	(44,474)	(53,692)	-	(98,166)
Operating profit	83,211	156,253	-	239,464
Share of results of associates	-	14	-	14
Profit before tax	83,211	156,267	-	239,478
Income tax expense				(46,345)
Profit for the year				193,133
Depreciation and amortization included in operating expenses	8,395	9,884	-	18,279
Capital expenditure	4,440	11,175	-	15,615
At 31 December 2017				
Segment assets	7,585,643	13,400,362	(30,374)	20,955,631
Including: Investment in associate	-	227	-	227
Unallocated assets				97,751
Total assets				21,053,382
Segment liabilities	(7,097,974)	(12,523,456)	30,374	(19,591,056)
Unallocated liabilities				(32,929)
Total liabilities				(19,623,985)
Loan commitments and financial guarantee contracts	449,431	1,299,447	-	1,748,878

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 RELATED PARTY TRANSACTIONS

(1) The Group and the MOF

As at 31 December 2018, the MOF directly owned 39.21% (31 December 2017: 39.21%) of the ordinary shares of the Bank.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditure, and establishing and enforcing taxation policies. It reports to the Chinese State Council.

The Group had the following balances and transactions with the MOF in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2018	**2017**
Assets		
Treasury bonds and special government bond	655,946	604,345
Receivable from the MOF	298,734	271,678
Interest receivable		
- treasury bonds and special government bond	N/A	6,132
- receivable from the MOF	N/A	125
Other accounts receivable	9,444	10,147
Liabilities		
Amount payable to the MOF	1,487	3,154
Customer deposits	13,250	8,127
Interest payable	N/A	44
Other liability		
- redemption of treasury bonds on behalf of the MOF	41	87
- amount payable to the MOF	80	-

	Year ended 31 December	
	2018	**2017**
Interest income	38,180	28,778
Interest expense	(410)	(213)
Fee and commission income	3,096	1,009
Investment income	174	-

Interest rate ranges for transactions with the MOF during the year are as follows:

	Year ended 31 December	
	2018	**2017**
	%	%
Treasury bonds and receivable from the MOF	2.25-9.00	2.25-9.00
Customer deposits	0.00-3.37	0.05-2.12

The Group's redemption commitment for treasury bonds underwriting is disclosed in Note IV 43 Contingent Liabilities and Commitments.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 RELATED PARTY TRANSACTIONS (Continued)

(2) The Group and Huijin

Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of China Investment Corporation Limited, which is incorporated in Beijing, PRC. Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the Chinese State Council and does not engage in other commercial activities. Huijin exercises its legal rights and assumes obligations related to the Bank on behalf of the PRC Government.

As at 31 December 2018, Huijin directly owned 40.03% (31 December 2017: 40.03%) of the ordinary shares of the Bank.

Transactions with Huijin

The Group had the following balances and transactions with Huijin in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2018	**2017**
Assets		
Loans and advances to customers	28,034	28,000
Investment in debt securities	37,438	13,839
Interest receivable	N/A	771
Liabilities		
Principal guaranteed wealth management products issued by the Bank	-	15,000
Customer deposits	12,063	5,301
Interest payable	N/A	122

	Year ended 31 December	
	2018	**2017**
Interest income	2,295	1,029
Interest expense	(225)	(903)
Investment income	19	-

Interest rate ranges for transactions with Huijin during the year are as follows:

	Year ended 31 December	
	2018	**2017**
	%	%
Loans and advances to customers	3.92-4.35	3.92-4.35
Investment in debt securities	2.75-5.15	3.32-4.98
Principal guaranteed wealth management products issued by the Bank	4.37-4.41	2.95-4.41
Customer deposits	1.38-2.18	1.26-1.76

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 RELATED PARTY TRANSACTIONS (Continued)

(2) The Group and Huijin (Continued)

Transactions with companies under Huijin

Huijin has equity interests in certain other banks and financial institutions under the direction of the Chinese government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business under normal commercial terms. Corresponding balances with these banks and financial institutions were as follows:

	As at 31 December	
	2018	**2017**
Assets		
Deposits with banks and other financial institutions	31,990	28,959
Precious metal leasing	712	2,061
Placements with and loans to banks and other financial institutions	51,809	42,563
Derivative financial assets	3,866	4,642
Financial assets held under resale agreements	24,205	30,335
Loans and advances to customers	59,338	17,548
Investment securities	784,423	742,623
Liabilities		
Deposits from banks and other financial institutions	91,880	39,220
Placements from banks and other financial institutions	83,786	44,498
Derivative financial liabilities	7,920	1,929
Financial assets sold under repurchase agreements	360	16,405
Equity		
Preference shares	2,000	2,000
Off-balance sheet items		
Non-principal guaranteed wealth management products issued by the Bank	1,556	2,943

(3) The Group and other government related entities

Other than disclosed above, a significant portion of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other State controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency services, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies.

Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other State controlled entities.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 RELATED PARTY TRANSACTIONS (Continued)

(4) The Bank and its subsidiaries

The Bank had the following balances and transactions with its subsidiaries in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2018	**2017**
Assets		
Placements with and loans to banks and other financial institutions	29,761	11,067
Financial assets held under resale agreements	3,008	-
Loans and advances to customers	1,022	3,649
Interest receivable	N/A	68
Other assets	711	7
Liabilities		
Deposits from banks and other financial institutions	4,039	4,771
Placements from banks and other financial institutions	63	160
Deposits from customers	3,208	2,117
Interest payable	N/A	42
Other liabilities	721	-
Off-balance sheet items		
Letters of guarantee issued and guarantees	16,267	10,357

	As at 31 December	
	2018	**2017**
Interest income	337	312
Fee and commission income	1,020	925
Other operating income	49	20
Interest expense	(108)	(141)
Operating expense	(151)	(29)

	As at 31 December	
	2018	**2017**
	%	%
Placements with and loans to banks and other financial institutions	0.50-5.25	0.01-5.15
Financial assets held under resale agreements	4.00	-
Loans and advances to customers	3.92-4.79	1.73-4.79
Deposits from banks and other financial institutions	0.01-3.20	0.01-5.20
Placements from banks and other financial institutions	-	0.10-2.30
Customer deposits	0.30-3.85	0.30-2.94

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 RELATED PARTY TRANSACTIONS (Continued)

(5) The Group and its associates and joint venture

The Group had the following balances and transactions with its associates and joint venture in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2018	2017
Placements with and loans to banks and other financial institutions	157	133

	Year ended 31 December	
	2018 %	2017 %
Placements with and loans to banks and other financial institutions	0.01	0.10

For the year ended 31 December 2018 and 31 December 2017, transaction profit or loss between the Group and its associates and joint venture was not significant.

(6) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group. Key management personnel of the Group, their close relatives, and entities that are controlled, jointly controlled, or significantly influenced by either the key management personnel of the Group or their close relatives, are considered as related parties of the Group. The Group enters into banking transactions with key management personnel and their related parties in the normal course of business. As at 30 December 2018, the balance of loans and advances to the key management personnel and their related parties is RMB8.24 million (31 December 2017: RMB3.06 million).

The remuneration of Directors and other members of key management during the years was as follows:

	Year ended 31 December	
	2018	2017 (Restated)
Salaries, bonuses and staff welfare	8.56	13.14

According to the regulations of the relevant authorities in the PRC, the key management personnel's final emoluments for the year ended 31 December 2018 have not been finalized. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the consolidated financial statements of the Group. The final compensation will be disclosed in a separate announcement when determined.

The compensation of key management personnel for the year ended 31 December 2017 was not decided at the time when the Group's 2017 consolidated financial statements were released and the amount of remuneration of Directors and other members of key management recognized in the consolidated income statement for the year of 2017 was RMB8.52 million. Supplementary announcement on final compensation of RMB13.14 million was released by the Bank on 29 August 2018. The comparative figures for the year of 2017 have been restated accordingly.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 RELATED PARTY TRANSACTIONS (Continued)

(7) The Group and the Annuity Scheme

The Group had the following balances and transactions with the Annuity Scheme set up by the Bank apart from the obligation for defined contribution to the Annuity Scheme:

	As at 31 December	
	2018	**2017**
Deposits from Annuity Scheme	3,197	135
Interest payable	N/A	-

	Year ended 31 December	
	2018	**2017**
Interest expense	(36)	(225)

Interest rate range for transactions with the Annuity Scheme during the year is as follows:

	Year ended 31 December	
	2018	**2017**
	%	%
Deposits from Annuity Scheme	0.00-5.00	0.72-6.20

42 STRUCTURED ENTITIES

(1) Consolidated structured entities

Principal guaranteed WMPs sponsored and managed by the Group

Principal guaranteed WMPs sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in financial assets and financial liabilities designated at fair value through profit or loss, respectively.

Other consolidated structured entities

Other structured entities consolidated by the Group include certain trust investment plans, asset management plans, funds and securitization products issued, managed and/or invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

As at 31 December 2018, the total assets of these consolidated structured entities were RMB363,248 million (31 December 2017: RMB482,441 million).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 STRUCTURED ENTITIES (Continued)

(2) Unconsolidated structured entities

Unconsolidated structured entities sponsored and managed by the Group

Unconsolidated structured entities sponsored and managed by the Group mainly include non-principal guaranteed WMPs, which are not subject to any guarantee by the Group of the principal invested or interest to be paid. The WMPs invest in a range of primarily fixed-rate assets, most typically money market instruments, debt securities and loan assets. As the manager of these WMPs, the Group invests, on behalf of the investors in these WMPs, the funds raised in the assets as described in the investment plan related to each WMP and receives fee and commission income.

As at 31 December 2018, the total assets invested by these WMPs amounted to RMB1,706,487 million (31 December 2017: RMB1,580,527 million) and the corresponding outstanding WMPs issued by the Group amounted to RMB1,408,263 million (31 December 2017: RMB1,368,878 million). During the year ended 31 December 2018, the Group's interest in these WMPs included net fee and commission income of RMB4,784 million (2017: RMB7,645 million) and net interest income of RMB1,664 million (2017: RMB803 million), which related to placements and repo transactions entered into by the Group with these WMP Vehicles.

The Group enters into placements and repo transactions at market interest rates with these WMPs. The average balance during 2018 and the outstanding balance as at 31 December 2018 of these transactions were RMB50,893 million (weighted average outstanding period of 9.20 days) (2017: RMB23,168 million and 5.31 days) and RMB142,914 million (31 December 2017: RMB84,862 million), respectively. The Group was under no obligation to enter into these transactions. As at 31 December 2018 and 31 December 2017, the outstanding balance of these transactions was presented in placements with and loans to banks and other financial institutions and financial assets held under resale agreements, which represented the Group's maximum exposure to the WMPs.

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMPs or any third parties that could increase the level of the Group's risk from WMPs disclosed above during the period ended 31 December 2018 and 31 December 2017. The Group was not required to absorb any losses incurred by WMPs. During the period ended 31 December 2018 and 2017, no loss was incurred by these WMPs relating to the Group's interests in these WMPs, and the WMPs did not experience difficulty in financing their activities.

In addition, other unconsolidated structured entities sponsored and managed by the Group included funds and asset management plans. As at 31 December 2018, the total assets of these products amounted to RMB684,653 million(31 December 2017: RMB561,739 million). During the year ended 31 December 2018, the Group's interest in these products mainly included net fee and commission income of RMB1,093 million(2017: RMB695 million).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 STRUCTURED ENTITIES (Continued)

(2) Unconsolidated structured entities (Continued)

Unconsolidated structured entities held by the Group

The Group invests in other unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and interest income therefrom. These unconsolidated structured entities primarily include asset management plans, funds and asset-backed securities. As at 31 December 2018, the related carrying amount of investments and the maximum exposure by the Group to these other unconsolidated structured entities was RMB60,663 million, included under the financial assets at fair value through profit or loss, Other debt instrument and other equity investments at fair value through other comprehensive income and debt instrument investments at amortized cost categories in the consolidated statement of financial position as at 31 December 2018 (31 December 2017: RMB45,230 million, included under the financial assets designated at fair value through profit or loss, the available-for-sale financial assets, the held-to-maturity investments and the debt instruments classified as receivables categories in the consolidated statement of financial position). The information on the size of total assets of these unconsolidated structured entities was not readily available in the public domain.

43 CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings and others

The Bank and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at 31 December 2018, provisions of RMB4,438 million were made by the Group (31 December 2017: RMB6,240 million) based on court judgments or advice of legal counsel, and included in Note IV 32 Other Liabilities. Management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

On 28 September 2016, the Bank and its New York Branch entered into a Cease and Desist Order with the Board of Governors of the Federal Reserve System of the United States. On 4 November 2016, the Bank and its New York Branch entered into a Consent Order with New York State Department of Financial Services (the "Department") and paid a civil monetary penalty to the Department accordingly. As at 31 December 2016, the above-mentioned civil monetary penalty was paid and reflected in the consolidated financial statements for the year ended 31 December 2016.

The Bank and its New York Branch are taking affirmative actions to respond to other requirements under these two orders. As at the date of these financial statements, the Group is of the view that it is not practicable to estimate whether there will be any further regulatory actions undertaken by the US regulators as this will be dependent upon the regulatory conclusion after the Bank's and its New York Branch's actions towards the other requirements under these two orders. As such, the Group did not accrue any further provision over this matter as at 31 December 2018.

Capital commitments

	As at 31 December	
	2018	**2017**
Contracted but not provided for	2,934	5,062

In addition, as at 31 December 2018 and 31 December 2017, the Group did not have outstanding equity investment commitments for its investee companies.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Credit commitments

	As at 31 December	
	2018	**2017**
Loan commitments		
- With an original maturity of less than 1 year	178,564	58,038
- With an original maturity of 1 year or above	728,218	669,524
Subtotal	906,782	727,562
Bank acceptance	242,489	233,788
Credit card commitments	538,870	426,668
Guarantee and letters of guarantee	191,250	220,826
Letters of credit	131,414	140,034
Total	2,010,805	1,748,878

Credit commitments represent credit cards and general credit facility limits granted to customers. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantee and letters of guarantee or bank acceptance.

Credit risk weighted amount for credit commitments

Credit risk weighted amount for credit commitments represents the counterparty credit risk associated with credit commitments and is calculated in accordance with the “Capital Rules for Commercial Banks (Provisional)” issued by the CBRC which was effective 1 January 2013 and is dependent on, among other factors, the creditworthiness of counterparties and maturity characteristics of each type of contract. As at 31 December 2018 and 31 December 2017, credit risk weighted amount for credit commitments was measured under the Internal Ratings - Based approach.

	As at 31 December	
	2018	**2017**
Credit risk weighted amount for credit commitments	950,993	866,063

Operating lease commitments

At the end of each reporting period, s, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December	
	2018	**2017**
Within 1 year	3,663	3,892
1 to 2 years	2,576	2,950
2 to 3 years	1,798	2,023
3 to 5 years	1,753	2,069
Above 5 years	816	1,005
Total	10,606	11,939

During the year of 2018, operating lease expense recognized as operating expense by the Group was RMB4,840 million (2017: RMB4,990 million), and is included in Note IV 6 Operating Expenses.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Collateral

Assets pledged

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	As at 31 December	
	2018	**2017**
Debt securities	163,937	328,469
Bills	-	183
Total	163,937	328,652

The financial assets sold under repurchase agreements by the Group (disclosed in Note IV 29) as at 31 December 2018 amounted to RMB157,101 million (31 December 2017: RMB319,789 million). Repurchase agreements are due within 12 months from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note IV 44 Transferred Financial Assets.

In addition, debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions and borrowings from central banks etc. by the Group as at 31 December 2018 amounted to RMB826,551 million in total (31 December 2017: RMB703,492 million).

Collateral accepted

The Group received debt securities and bills as collateral in connection with the securities lending transactions and the purchase of assets under resale agreements (Note IV 17 Financial Assets Held Under Resale Agreements). The Group did not hold any collateral that can be resold or re-pledged as at 31 December 2018 and 31 December 2017.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Redemption commitment for treasury bonds

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at par at any time prior to maturity and the Group is committed to honor such redemption requests. The redemption price is calculated as the par value of the bond plus unpaid interest in accordance with the terms of the related early redemption arrangement.

As at 31 December 2018, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity was RMB70,702 million (31 December 2017: RMB65,419 million). The original maturities of these bonds vary from 3 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity.

Commitment on security underwriting

As at 31 December 2018 and 31 December 2017, the Group did not have unfulfilled commitment in respect of securities underwriting business.

44 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business whereby it transfers recognized financial assets to third parties or to structured entities. In some cases 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 retains substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 TRANSFERRED FINANCIAL ASSETS (Continued)

Securitization transactions

The Group enters into securitization transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed, among other factors, whether or not to derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its control over these assets based on the criteria as detailed in Note II 12.7 and Note III 6.

As at 31 December 2018, the total amount of unexpired asset-backed securities included accumulative loans transferred by the Group before impairment allowance was RMB37,378 million (31 December 2017: RMB24,531 million). RMB16,699 million of this balance (31 December 2017: RMB11,723 million) was in respect of non-performing loans and the Group concluded that these loans transferred were qualified for full derecognition. The remaining balance of RMB20,679 million (31 December 2017: RMB12,808 million) was in respect of performing loans and the Group concluded that it had continuing involvement in these assets. As at 31 December 2018, the Group continued to recognize assets of RMB2,367 million (31 December 2017: RMB2,941 million) under loans and advances to customers. The Group also recognized other assets and other liabilities of the same amount arising from such continuing involvement.

Transfer of non-performing loans

During the year ended 31 December 2018, the Group transferred non-performing loans through disposal to third parties or issuing asset-back securities, with gross loan balance of RMB28,151 million (2017: RMB54,331 million), of which RMB4,976 million (2017: RMB1,569 million) was through issuing asset-back securities disclosed above. The Group carried out an assessment based on the criteria as detailed in Note II 12.7 and Note III 6 and concluded that these transferred assets qualified for full derecognition.

Financial assets sold under repurchase agreements

The Group did not derecognize financial assets transferred as collateral in connection with repurchase agreements. As at 31 December 2018, of these collateral pledged disclosed in Note IV 43 Contingent Liabilities and Commitments - Collateral, RMB46,250 million (31 December 2017: RMB40,647 million) represented debt securities whereby legal title has been transferred to counterparties.

Securities lending transactions

For debt securities lent to counterparties under securities lending agreements, the counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have 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 carrying amount of debt securities lent to counterparties was RMB49,342 million (31 December 2017: RMB67,373 million).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT

Overview

The Group’s primary risk management objective is to maintain risk within acceptable parameters to meet the requirements of regulators, depositors and other stakeholders, as well as to maximize return for investors within an acceptable level of risk.

The Group has designed risk management policies, which address, among other things, the establishment of risk limits and controls to identify, analyze, monitor and report risks. Relevant and timely information used to conduct these risk management activities is provided through information systems maintained by the Group and is intended to address the Group’s information needs in this area. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practices.

The most significant types of risk to which the Group is exposed are credit risk, market risk and liquidity risk. Market risk includes foreign exchange rate risk, interest rate risk and other price risk.

Risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving its risk management objectives and strategies.

Within this framework, the Group’s senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Risk Management Department of the Group implements procedures for managing the significant risks to which the Group is exposed.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations when due. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment. The Group's major credit risks arise from loans and receivables, treasury operations and off-balance sheet related credit risk exposures.

The Group's credit risk management and governance structure comprise the Board of Directors and its Risk Management Committee, Senior Management and its Risk Management Committee, Credit Approval Committee and Asset Disposal Committee, as well as the Risk Management Department, Credit Management Department, Credit Approval Department and related front-office customer departments. The Group's credit risk management function operates under a centralized management and authorization under a range of specified limits.

The Group performs standardized credit management procedures, including credit due diligence and proposal submission, credit underwriting review, loan disbursement, post-lending monitoring and non-performing loan management. The Group enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading its credit management system.

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity and where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was 66,593 million. The Group still seeks to recover amounts it is legally owned in full, but which have been written off due to no reasonable expectation of full recovery.

During the reporting period, the group enhanced the credit risk management framework and continued to optimize the structure of credit portfolio. The Group strengthened risk prevention and control in key areas, including the monitoring of credit limit by industries, and identify and resolve various potential risks in a timely manner. In addition, the Group broaden the channels for collection and disposal of non-performing loans and maintain stable asset quality.

Apart from the credit risk exposures on credit-related assets, the credit risk arising from treasury operation business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and by applying appropriate limits subject to different level of management authority, and by timely reviewing and adjusting those limits in credit system. In addition, the Group also provide loan commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Measurement of ECL

After IFRS 9 was adopted on 1 January 2018, the Group applies the ECL model to calculate loss allowances for its debt financial instruments carried at amortized cost and FVOCI, as well as loan commitments and financial guarantee contracts.

Methods applied by the Group in assessing the expected credit losses of its financial assets include risk parameters and the discounted cash flow (“DCF”) model. Retail credit assets and Stage I and Stage II wholesale credit assets are assessed using risk parameters, while Stage III wholesale credit assets are subject to the discounted cash flow method.

The Group assesses ECL in light of forward-looking information and uses complex models and assumptions in calculating the expected credit losses. These models and assumptions relate to the future macroeconomic conditions and the borrowers’ creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). In assessing the expected credit risks in accordance with accounting standards, the Group uses the judgments, assumptions and estimates where appropriate, including:

- Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL
- Parameters for measuring ECL
- Criteria for significant increase in credit risk and default definition
- Definition of credit-impaired financial asset
- Forward-looking information
- Estimation of future cash flows for Stage III wholesale credit assets

Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

For measurement of ECL, segmentation of portfolio is based on similar credit risk characteristics. The Group classified clients into wholesale clients and retail clients based on the nature of debtors. In performing the portfolio segmentation of wholesale credit assets, the Group considers the type of borrower, industry, loan usage, and security type. When performing the portfolio segmentation for retail credit assets, the Group considers loan product type and security type to ensure the reliability of its credit risk segmentation.

Parameters for measuring ECL

According to whether there is a significant increase in credit risk and whether a financial asset has become credit-impaired, the Group recognizes an impairment allowance based on the expected credit loss for the next 12 months or the entire lifetime of the financial asset. The key parameters of ECL measurement include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group establishes its PD model, LGD model and EAD model based on the internal rating based system as currently used for its risk management purpose, in accordance with the requirements of IFRS 9, in light of quantitative analyzes of historical statistics (such as counterparty ratings, guarantee methods and collateral types, repayment methods, etc.) and forward-looking information.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Measurement of ECL (Continued)

Parameters for measuring ECL (Continued)

The parameters are defined as follows：

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12m PD), or over the remaining lifetime (Lifetime PD) of the obligation;
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12m EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectation of the extent of loss on defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if default occurs over the remaining expected lifetime of the loan.

Criteria for significant increase in credit risk ("SICR") and default definition

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. For the purpose of staging assessment of its financial assets, the Group thoroughly considers various reasonable and supportable information that may reflect whether or not there has been a significant change in their credit risk, including forward-looking information. Key factors considered include regulatory and operating environments, internal and external credit ratings, solvency, viability as a going concern, terms of loan contracts, repayment behaviors, among others. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments. The definition of default refers to the failure to pay the debt as agreed in the contract, or other violations of the debt contract and have a significant impact on the normal debt repayment.

The Group sets quantitative and qualitative criteria to determine whether or not the credit risk of a financial instrument has increased significantly since its initial recognition. The criteria include changes in the borrower's PD, changes in its credit risk classification and other factors. In particular, when the credit risk classification changes from Normal upon initial recognition to Special Mention, there has been SICR. When the borrower's PD rises to a certain level, there has been a significant increase in credit risk. Criteria to determine significant increase in credit risk varied based on the original PD upon initial recognition. If the borrower's original PD is relatively low (for example, lower than 3%), there has been a significant increase in credit risk when the credit grade falls at least 6 notches. If the criteria to determine significant increase in credit risk moves up or down by one notch, the impact on the allowance of expected credit loss on December 31 2018 is less than 5%. According to IFRS 9, a backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Group recognizes a financial instrument as having low credit risk if its internal rating is consistent with the globally accepted definition for low credit risk.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Measurement of ECL (Continued)

Definition of credit-impaired financial asset

The criteria with a date of transition of 1 January 2018 adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instrument, in addition to consideration of quantitative and qualitative indicators. In assessing whether a borrower has become credit-impaired, the Group mainly considers the following factors:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event in relation to interest or principal payment;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The borrower is overdue for more than 90 days in any principal, advances, interest or investment in bonds due to the Group.

The credit impairment of a financial asset may be caused by the combined effect of multiple events rather than any single discrete event.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Measurement of ECL (Continued)

Forward-looking information

The assessment of whether or not there has been a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various portfolio. Key economic indicators include Gross Domestic Product (GDP), Money Supply (M2) and Consumer Price Index (CPI), etc.

The impact of these economic indicators on the PDs and the LGDs varies from one portfolio to another. The Group comprehensively considers internal and external data, expert forecasts and statistical analyzes to determine the correlation between these economic indicators and the PDs and LGDs. The Group assess and forecasts these economic indicators at least on an annual basis, calculates the best estimates for the future, and regularly reviews and assesses results. Among the forecasted economic indicators, the core economic indicator GDP of base scenario aligned with the development target set and published by the central government.

Based on statistical analyzes and expert judgements, the Group determines the weightings of multiple scenarios and the corresponding macro-economic forecast under each scenario. The macro-economic forecasts of core indicator under upside and downside scenarios deviate less than 10% of that under base scenario. The weighting of base scenario is greater than the aggregated weightings of the rest scenarios. The Group uses the weighted 12-month ECL (Stage I) or weighted lifetime ECL (Stage II and Stage III) to measure relevant impairment allowances. These weighted credit losses are calculated by multiplying the expected credit loss under each scenario by the assigned scenario weighting.

A sensitivity analysis is performed on key economic indicators, economic scenarios and weightings assigned used in forward-looking measurement. When the assigned weightings of upside scenario and downside scenario change by 10% and the forecast of key economic indicators change accordingly, the impact on the allowance of expected credit loss as of 31 December 2018 is less than 5%.

Estimation of future cash flows for Stage III wholesale credit assets

The Group measures the ECL for stage III wholesale credit assets using DCF method. Under DCF method, the loss allowance is calculated based on the estimation of future cash flows. At each measurement date, the Group projects the future cash inflows of relevant assets under different scenarios to estimate the probability weighted cash flow of each future period. The cash flows are discounted and aggregated to get the present value of the assets’ future cash flows.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of each reporting period, without taking into account any collateral held or other credit enhancements. The exposure to credit risk at the end of each reporting period primarily arises from credit and treasury operations; as well as off-balance sheet items such as loan commitments, credit card commitments, bank acceptance, guarantee and letters of guarantee and letters of credit, as credit risks arising from these items are similar to those associated with loans and receivables.

A summary of the maximum exposure to credit risk is as follows:

		As at 31 December	
		2018	**2017**
Balances with central banks		2,707,018	2,788,122
Deposits with banks and other financial institutions		109,728	130,245
Placements with and loans to banks and other financial institutions		552,013	505,269
Derivative financial assets		36,944	28,284
Financial assets held under resale agreements		371,001	540,386
Loans and advances to customers	(i)	11,461,542	10,316,311
Financial investments			
Financial asset at fair value through profit or loss		591,787	N/A
Debt instrument investments at amortized cost	(ii)	4,503,698	N/A
Other debt instrument investments at fair value through other comprehensive income	(iii)	1,735,892	N/A
Financial assets held for trading		N/A	193,551
Financial assets designated at fair value through profit or loss		N/A	368,051
Available-for-sale financial assets		N/A	1,398,884
Held-to-maturity investments		N/A	3,489,135
Debt instruments classified as receivables		N/A	659,223
Other financial assets		58,992	155,111
Subtotal		22,128,615	20,572,572
Loan commitments and financial guarantee contracts	(iv)	1,990,282	1,745,342
Total		24,118,897	22,317,914

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

(i) Maximum exposure to credit risk for loans and advances disclosed in credit risk levels

The Group classified the credit risk levels of financial assets measured by ECL into "Low"(credit risk in good condition), "Medium"(increased credit risk), and "High"(credit risk in severe condition), based on the quality of assets. The credit risk level is used for the purpose of the group's internal credit risk management. "Low" refers to assets with good credit quality. There is no sufficient reason to doubt that the assets are not expected to fulfill its contractual obligation to repay or if there is any other behaviors breaching the debt contracts that would significantly impact the repayment of debt according to contract terms. "Medium" refers to assets facing obvious negative factors impacting its repayment capacity, but not yet have non-repayment behaviors. "High" refers to non-repayment according to the debt contract terms, or other behaviors breaching the debt contracts or having significant impact on the repayment of debt according to contract terms.

Corporate loans and advances

	As at 31 December 2018		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	6,751,757	40,876	6,792,633
Medium	-	283,697	283,697
High	-	159,782	159,782
Gross carrying amount	6,751,757	484,355	7,236,112
Allowance for impairment loss	(183,686)	(192,575)	(376,261)
Net amount	6,568,071	291,780	6,859,851

Personal Loans and advances

	As at 31 December 2018		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	4,611,259	-	4,611,259
Medium	-	35,785	35,785
High	-	30,220	30,220
Gross carrying amount	4,611,259	66,005	4,677,264
Allowance for impairment loss	(78,018)	(24,864)	(102,882)
Net amount	4,533,241	41,141	4,574,382

The above information on the maximum exposure to credit risk of loans and advances to customers does not include corresponding accured interests or loans and advances to customers measured at fair value through profit or loss.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

(ii) Maximum exposure to credit risk for debt instrument investments at amortized cost disclosed in credit risk levels

	As at 31 December 2018		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	4,509,520	101	4,509,621
Medium	-	942	942
High	-	2,322	2,322
Gross carrying amount	4,509,520	3,365	4,512,885
Allowance for impairment loss	(6,691)	(2,496)	(9,187)
Net amount	4,502,829	869	4,503,698

(iii) Maximum exposure to credit risk for other debt instrument investments at fair value through other comprehensive income disclosed in credit risk levels

	As at 31 December 2018		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	1,730,932	203	1,731,135
Medium	-	4,580	4,580
High	-	177	177
Gross carrying amount	1,730,932	4,960	1,735,892

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

(iv) Maximum exposure to credit risk for loan commitments and financial guarantee contracts is balance after estimated contingent liabilities. Majority of loan commitments and financial guarantee contracts is in Stage I with credit risk grade as ”Low”.

(v) As at 31 December 2018, in its deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and financial assets held under resale agreements, the Group had insignificant balances with "Medium" or "High" credit risk grade and classified as Stage II or Stage III assets, and no default had occurred.

(vi) The Group has implemented specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level. The most typical practice is obtaining guarantee deposits, collateral and guarantees. The amount and type of acceptable collateral are determined through the assessment of credit risk of borrowers or counterparties. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

The main types of collateral obtained are as follows:

- Mortgage loans to retail customers are generally collateralized by mortgages over residential properties;
- Other personal lending and corporate loans and advances are primarily collateralized by charges over land and properties or other assets of the borrowers; and
- Financial assets held under resale agreements transactions are primarily collateralized by debt securities and bills.

The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Loans and advances to customers (i)

The following tables set out the concentration of risk for loans and advances to customers by geographical area and industry.

(1) The composition of loans and advances to customers by geographical area is analyzed as follows:

	As at 31 December			
	2018		2017	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Head Office	303,637	4.2	246,123	3.7
Yangtze River Delta	1,548,750	21.4	1,420,351	21.2
Pearl River Delta	842,577	11.6	762,152	11.3
Bohai Rim	1,128,923	15.6	1,061,001	15.8
Central China	1,017,666	14.1	929,075	13.8
Western China	1,721,056	23.8	1,629,197	24.3
Northeastern China	296,755	4.1	287,187	4.3
Overseas and Others	376,997	5.2	379,633	5.6
Subtotal	7,236,361	100.0	6,714,719	100.0
Personal loans and advances				
Head Office	66	-	74	-
Yangtze River Delta	1,125,425	24.1	994,938	25.0
Pearl River Delta	1,019,760	21.8	873,154	21.8
Bohai Rim	705,802	15.1	621,563	15.5
Central China	731,709	15.6	590,247	14.7
Western China	919,657	19.7	778,946	19.4
Northeastern China	163,452	3.5	141,351	3.5
Overseas and Others	11,393	0.2	5,619	0.1
Subtotal	4,677,264	100.0	4,005,892	100.0
Gross loans and advances to customers	11,913,625		10,720,611	

(i) The below information does not include accrued interests of loans and advances to customers.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(2) The composition of loans and advances to customers by industry is analyzed as follows:

	As at 31 December			
	2018		2017	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Transportation, logistics and postal services	1,410,827	19.5	1,268,677	18.9
Manufacturing	1,255,497	17.3	1,286,480	19.2
Leasing and commercial services	923,992	12.8	803,575	12.0
Production and supply of power, heat, gas and water	868,758	12.0	812,850	12.1
Real estate	619,101	8.6	573,248	8.5
Water, environment and public utilities management	438,208	6.1	372,581	5.5
Retail and wholesale	385,639	5.3	405,678	6.0
Finance	600,813	8.3	373,461	5.6
Construction	245,584	3.4	227,238	3.4
Mining	201,790	2.8	232,699	3.5
Others	286,152	3.9	358,232	5.3
Subtotal	7,236,361	100.0	6,714,719	100.0
Personal loans and advances				
Residential mortgage	3,661,900	78.3	3,133,503	78.3
Personal business	216,588	4.6	205,549	5.1
Personal consumption	166,285	3.6	142,184	3.5
Credit cards	380,720	8.1	317,547	7.9
Others	251,771	5.4	207,109	5.2
Subtotal	4,677,264	100.0	4,005,892	100.0
Gross loans and advances to customers	11,913,625		10,720,611	

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(3) The composition of loans and advances to customers by contractual maturity and security type is analyzed as follows:

	31 December 2018			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	1,427,185	579,653	1,203,211	3,210,049
Guaranteed loans	576,797	362,033	428,125	1,366,955
Loans secured by collateral	791,952	399,413	4,260,910	5,452,275
Pledged loans	626,118	90,126	1,168,102	1,884,346
Total	3,422,052	1,431,225	7,060,348	11,913,625

	31 December 2017			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	1,266,909	620,786	1,028,232	2,915,927
Guaranteed loans	606,458	327,650	425,404	1,359,512
Loans secured by collateral	817,342	409,405	3,718,936	4,945,683
Pledged loans	438,651	79,322	981,516	1,499,489
Total	3,129,360	1,437,163	6,154,088	10,720,611

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(4) Past due loans

	31 December 2018					
	Up to 30 days	31 - 90 days	91 - 360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	11,624	2,912	7,030	445	716	22,727
Guaranteed loans	11,129	4,646	16,181	16,401	4,060	52,417
Loans secured by collateral	28,360	16,480	31,174	31,880	9,293	117,187
Pledged loans	4,033	274	2,641	1,906	1,747	10,601
Total	55,146	24,312	57,026	50,632	15,816	202,932

	31 December 2017				
	Up to 90 days	91 - 360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	6,489	6,984	2,015	1,249	16,737
Guaranteed loans	22,362	12,158	17,004	5,864	57,388
Loans secured by collateral	51,287	29,410	43,171	8,885	132,753
Pledged loans	10,962	968	3,135	2,123	17,188
Total	91,100	49,520	65,325	18,121	224,066

When either loan principal or interest is past due by one day in any period, the whole loan is classified as past due loan.

(5) Credit quality of loans and advances to customers

As at 31 December 2018, the credit quality of loans and advances to customers by stages is disclosed in Note IV 18.

		31 December 2017
Neither past due nor impaired	(i)	10,471,150
Past due but not impaired	(ii)	55,429
Impaired	(iii)	194,032
Subtotal		10,720,611
Allowance for impairment losses of loans and advances to customers		(404,300)
Loans and advances to customers, net		10,316,311

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(5) Credit quality of loans and advances to customers (Continued)

(i) Loans and advances neither past due nor impaired

	31 December 2017		
	Normal	Special-mention	Total
Corporate loans and advances	6,234,570	298,077	6,532,647
Personal loans and advances	3,934,840	3,663	3,938,503
Total	10,169,410	301,740	10,471,150

(ii) Loans and advances past due but not impaired

	31 December 2017				
	Up to 30 days	31 - 60 days	61 - 90 days	Total	Including: Exposure covered by collateral and pledge
Corporate loans and advances	24,500	460	8	24,968	20,477
Personal loans and advances	19,365	6,514	4,582	30,461	22,174
Total	43,865	6,974	4,590	55,429	42,651

(iii) Impaired loans and advances

	31 December 2017		
	Book value	Allowance for impairment losses	Net book value
Individually assessed	159,805	(122,311)	37,494
Collectively assessed	34,227	(26,723)	7,504
Total	194,032	(149,034)	44,998

Including:

	31 December 2017
Individually assessed and impaired	159,805
Individually assessed and impaired as a percentage of gross loans and advances of the Group	1.49%
Including: exposure covered by collateral and pledge	24,802

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(5) Credit quality of loans and advances to customers (Continued)

(iii) Impaired loans and advances (Continued)

The composition of impaired loans and advances to customers by geographical area is analyzed as follows:

	31 December 2017	
	Amount	% of total
Head Office	7	-
Yangtze River Delta	29,460	15.2
Pearl River Delta	26,957	13.9
Bohai Rim	39,031	20.1
Central China	27,377	14.1
Western China	59,314	30.6
Northeastern China	8,438	4.3
Overseas and Others	3,448	1.8
Total	194,032	100.0

(6) Rescheduled loans and advances

Rescheduled loans and advances are those loans and advances to customers which have been renegotiated because of deterioration in the financial position of the borrowers, or due to the inability of the borrowers to meet their original repayment schedule. Concessions are given by the Group that would not otherwise be granted to these borrowers for economic or legal reasons relating to their financial difficulties. Rescheduled loans and advances of the Group as at 31 December 2018 amounted to RMB59,232 million (31 December 2017: RMB55,120 million).

For the year ended 31 December 2018, as a result of loan renegotiations, the Group recognized ordinary shares upon renegotiation of RMB3,221 million (for the year ended 31 December 2017:RMB1,873 million).The loss associated with these loan renegotiations was not significant.

(7) Assets foreclosed under credit enhancement arrangement

Such assets are disclosed as foreclosed assets in Note IV 19.1 Financial assets at fair value through profit or loss and Note IV 24 Other assets.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Debt instruments

Credit quality of debt instruments

(1) Analysis of the expected credit loss stages of debt instrument investments at amortized cost and other debt instruments at fair value through other comprehensive income were disclosed in Note IV19.2 and 19.3, respectively.

(2) The table below represents the carrying value and accumulated impairment charges of held-to-maturity investments and debt instruments classified as receivables under IAS 39:

		31 December 2017
Neither past due nor impaired	(i)	4,152,386
Impaired	(ii)	6,498
Subtotal		4,158,884
Allowance for impairment losses		(10,526)
Total held-to-maturity investments and debt instruments classified as receivables, net		4,148,358

(i) Debt instruments neither past due nor impaired:

	31 December 2017				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Debt instruments classified as receivables	Total
Debt securities issued by:					
- Governments	31,464	510,794	1,774,655	169,336	2,486,249
- Public sector and quasi-governments	140,712	312,292	1,269,267	-	1,722,271
- Financial institutions	103,650	398,098	302,240	81,075	885,063
- Corporates	60,762	177,655	149,146	13,273	400,836
Special government bond	-	-	-	93,300	93,300
Receivable from the MOF	-	-	-	271,678	271,678
Certificate treasury bonds and savings treasury bonds	-	-	-	3,612	3,612
Others	12,835	-	-	24,804	37,639
Total	349,423	1,398,839	3,495,308	657,078	5,900,648

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(2) The table below represents the carrying value and accumulated impairment charges of held-to-maturity investments and debt instruments classified as receivables under IAS 39 (continued):

(ii) Impaired debt instruments

	31 December 2017		
	Held-to-maturity investments	**Debt instruments classified as receivables**	**Total**
Corporate bonds	-	2,614	2,614
Others	-	3,884	3,884
Subtotal	-	6,498	6,498
Allowance for impairment losses	-	(3,068)	(3,068)
Impaired held-to-maturity investments and debt instruments classified as receivables, net	-	3,430	3,430

As at 31 December 2017, the carrying amount of the impaired available-for-sale debt instruments of the Group was RMB45 million. The accumulative impairment losses recognized for these impaired available-for-sale debt instruments by the Group as at 31 December 2017 was RMB312 million.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(3) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The carrying amounts of debt securities investments analyzed by their credit rating as at the end of the reporting period are as follows:

		As at 31 December 2018			
Credit grade		**Low**	**Medium**	**High**	**Total**
Bonds					
Governments		3,041,961	-	-	3,041,961
Public sector and quasi-governments		1,556,598	-	-	1,556,598
Financial institutions		848,336	-	-	848,336
Corporates	(iii)	356,695	5,292	177	362,164
Special government bond		93,358	-	-	93,358
Receivable from the MOF		298,734	-	-	298,734
Certificate treasury bonds and savings treasury bonds		3,908	-	-	3,908
Others		34,469	-	62	34,531
Total		6,234,059	5,292	239	6,239,590

		31 December 2017					
		Unrated (ii)	**AAA**	**AA**	**A**	**Below A**	**Total**
Debt securities:							
Governments		1,607,333	867,410	5,072	1,731	56	2,481,602
Public sector and quasi-governments		1,483,157	176,302	2,391	60,193	-	1,722,043
Financial institutions		551,733	194,393	27,860	78,676	30,349	883,011
Corporates	(iii)	50,568	305,743	3,224	24,994	18,341	402,870
Special government bond		93,300	-	-	-	-	93,300
Receivable from the MOF		271,678	-	-	-	-	271,678
Certificate treasury bonds and savings treasury bonds		3,612	-	-	-	-	3,612
Others		54,846	-	-	-	-	54,846
Total		4,116,227	1,543,848	38,547	165,594	48,746	5,912,962

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(3) Debt instruments analyzed by credit rating (Continued)

(i) The ratings as at 31 December 2018 were internal ratings obtained from the Group, financial assets at fair value through profit or loss was not included in the credit grade table as at 31 December 2018. The ratings as at 31 December 2017 were obtained from major rating agencies where the issuers of securities are located.

(ii) Unrated debt investments held by the Group are bonds issued primarily by policy banks, the Chinese government, municipal government bonds and receivable from the MOF.

(iii) The ratings of super short-term commercial papers of the Group amounted to RMB27,704 million (31 December 2017: RMB17,110 million) included in corporate bonds above are based on issuer rating for this credit risk analysis.

45.2 Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The Group's Assets and Liabilities Management Department manages its liquidity risk through:

- Optimizing asset and liability structure;
- Maintaining stability of deposit base;
- Making projections of future cash flows, and evaluating the appropriate liquid asset position;
- Maintaining an efficient internal funds transfer mechanism within the Group; and
- Performing stress testing on a regular basis.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
45 FINANCIAL RISK MANAGEMENT (Continued)
45.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting period:

	31 Decemeber 2018								
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Cash and balances with central banks	-	321,644	6,895	1,156	6,046	-	-	2,469,366	2,805,107
Deposits with banks and other financial institutions	-	79,736	9,341	4,634	9,409	6,608	-	-	109,728
Placements with and loans to banks and other financial institutions	11	-	240,801	100,189	169,472	37,409	4,131	-	552,013
Derivative financial assets	-	-	7,633	11,579	16,025	1,257	450	-	36,944
Financial assets held under resale agreements	3,872	-	352,749	12,627	1,753	-	-	-	371,001
Loans and advances to customers	14,617	-	538,045	615,065	2,435,236	2,376,458	5,482,121	-	11,461,542
Financial assets at fair value through profit or loss	-	5,268	55,119	70,797	198,207	143,862	134,228	35,764	643,245
Debt instrument investments at amortized cost	-	2	56,424	98,997	414,999	2,410,422	1,522,854	-	4,503,698
Other debt instrument and other equity investments at fair value through other comprehensive income	-	-	41,872	103,062	465,868	886,821	238,269	2,240	1,738,132
Other financial assets	1,966	49,601	1,170	614	2,316	52	4	3,269	58,992
Total financial assets	20,466	456,251	1,310,049	1,018,720	3,719,331	5,862,889	7,382,057	2,510,639	22,280,402
Borrowings from central banks	-	(30)	(50,553)	(99,248)	(410,911)	(453)	-	-	(561,195)
Deposits from banks and other financial institutions	-	(556,486)	(41,138)	(243,528)	(225,963)	(35,129)	(22,078)	-	(1,124,322)
Placements from banks and other financial	-	-	(126,386)	(97,578)	(85,617)	(8,518)	(7,442)	-	(325,541)
Financial liabilities at fair value through profit or loss	-	(17,188)	(79,934)	(81,225)	(104,518)	(3,400)	(38)	-	(286,303)
Derivative financial liabilities	-	-	(6,977)	(9,929)	(16,611)	(925)	(112)	-	(34,554)
Financial assets sold under repurchase agreements	-	-	(118,263)	(15,769)	(22,869)	(200)	-	-	(157,101)
Due to customers	-	(10,574,096)	(545,318)	(1,244,458)	(2,695,212)	(2,286,609)	(597)	-	(17,346,290)
Debt securities issued	-	-	(50,591)	(204,552)	(225,219)	(57,346)	(242,965)	-	(780,673)
Other financial liabilities	-	(102,519)	(68,976)	(1,668)	(4,130)	(2,803)	(80)	(1,601)	(181,777)
Total financial liabilities	-	(11,250,319)	(1,088,136)	(1,997,955)	(3,791,050)	(2,395,383)	(273,312)	(1,601)	(20,797,756)
Net position	20,466	(10,794,068)	221,913	(979,235)	(71,719)	3,467,506	7,108,745	2,509,038	1,482,646

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (Continued)

	31 December 2017								
	Past due	On demand	Less than 1 month	1 - 3 months	3 - 12 months	1-5 years	Over 5 years	Undated	Total
Cash and balances with central banks	-	151,906	3,740	2,403	5,952	-	-	2,732,618	2,896,619
Deposits with banks and other financial institutions	-	48,237	58,819	9,001	13,807	381	-	-	130,245
Placements with and loans to banks and other financial institutions	-	-	226,817	80,021	153,026	41,519	3,886	-	505,269
Financial assets held for trading	-	1,089	12,546	33,069	68,200	75,772	3,964	-	194,640
Financial assets designated at fair value through profit or loss	-	-	37,565	107,387	51,978	125,641	47,457	13,297	383,325
Derivative financial assets	-	-	4,497	4,850	17,604	1,029	304	-	28,284
Financial assets held under resale agreements	3,872	-	499,251	17,869	19,394	-	-	-	540,386
Loans and advances to customers	23,581	-	499,209	646,162	2,345,151	2,115,703	4,686,505	-	10,316,311
Available-for-sale financial assets	-	-	133,444	102,788	139,887	753,385	285,678	11,238	1,426,420
Held-to-maturity investments	-	-	54,929	128,831	269,426	1,791,968	1,243,981	-	3,489,135
Debt instruments classified as receivables	-	143	2,842	22,286	46,800	127,629	459,523	-	659,223
Other financial assets	2,321	28,530	38,751	33,884	50,971	544	110	-	155,111
Total financial assets	29,774	229,905	1,572,410	1,188,551	3,182,196	5,033,571	6,731,408	2,757,153	20,724,968
Borrowings from central bank	-	(30)	(40,000)	(70,540)	(354,923)	(454)	-	-	(465,947)
Deposits from banks and other financial institutions	-	(495,065)	(220,930)	(126,369)	(73,107)	(59,259)	-	-	(974,730)
Placements from banks and other financial institutions	-	-	(96,494)	(115,380)	(57,125)	(6,330)	(4,732)	-	(280,061)
Financial liabilities held for trading	-	(21,118)	-	-	-	-	-	-	(21,118)
Financial liabilities designated at fair value through profit or loss	-	-	(163,471)	(110,444)	(91,841)	(4,860)	(38)	-	(370,654)
Derivative financial liabilities	-	-	(2,230)	(3,990)	(23,957)	(497)	(198)	-	(30,872)
Financial assets sold under repurchase agreements	-	-	(277,813)	(28,113)	(13,535)	(328)	-	-	(319,789)
Due to customers	-	(10,030,752)	(535,504)	(1,249,943)	(2,551,584)	(1,826,342)	(154)	-	(16,194,279)
Debt securities issued	-	-	(44,803)	(94,537)	(97,102)	(43,679)	(194,896)	-	(475,017)
Other financial liabilities	-	(100,567)	(21,696)	(78,555)	(74,326)	(82,131)	(36,791)	-	(394,066)
Total financial liabilities	-	(10,647,532)	(1,402,941)	(1,877,871)	(3,337,500)	(2,023,880)	(236,809)	-	(19,526,533)
Net position	29,774	(10,417,627)	169,469	(689,320)	(155,304)	3,009,691	6,494,599	2,757,153	1,198,435

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows

Assets available to meet obligations related to the Group's liabilities and outstanding credit commitments primarily include cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets at fair value through profit or loss, and financial assets held under resale agreements. In the normal course of business, the majority of customer deposits repayable on demand or on maturity are expected to be retained. In addition, the Group is able to sell the other debt instrument and other equity investments at fair value through other comprehensive income (IFRS 9) and available-for-sale financial assets (IAS 39) to repay matured liabilities, if necessary.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
45 FINANCIAL RISK MANAGEMENT (Continued)
45.2 Liquidity risk (Continued)
Analysis of the undiscounted contractual cash flows (Continued)

The tables below present the undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

	31 December 2018								
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	-	321,644	6,895	1,156	6,046	-	-	2,469,366	2,805,107
Deposits with banks and other financial institutions	-	79,737	9,348	4,655	9,581	6,608	-	-	109,929
Placements with and loans to banks and other financial institutions	11	-	241,562	101,589	173,608	40,319	4,731	-	561,820
Financial assets held under resale agreements	3,872	-	354,045	12,709	1,812	-	-	-	372,438
Loans and advances to customers	97,822	-	600,427	724,144	2,900,449	3,767,258	8,114,986	-	16,205,086
Financial assets at fair value through profit or loss	-	5,268	55,446	73,150	207,930	169,782	151,036	35,764	698,376
Debt instrument investments at amortized cost	-	2	72,020	126,705	524,909	2,503,816	1,767,087	-	4,994,539
Other debt instrument and other equity investments at fair value through other comprehensive income	-	-	45,883	112,551	500,456	974,855	268,951	2,240	1,904,936
Other financial assets	-	49,239	987	441	2,009	51	2	3,269	55,998
Total non-derivative financial assets	101,705	455,890	1,386,613	1,157,100	4,326,800	7,462,689	10,306,793	2,510,639	27,708,229
Non-derivative financial liabilities									
Borrowings from central banks	-	(30)	(50,619)	(99,748)	(419,625)	(449)	-	-	(570,471)
Deposits from banks and other financial institutions	-	(556,485)	(41,322)	(245,144)	(230,699)	(43,494)	(23,719)	-	(1,140,863)
Placements from banks and other financial institutions	-	-	(126,537)	(98,193)	(87,235)	(10,114)	(8,741)	-	(330,820)
Financial liabilities at fair value through profit or loss	-	(17,188)	(79,597)	(81,187)	(104,672)	(3,400)	(39)	-	(286,083)
Financial assets sold under repurchase agreements	-	-	(118,312)	(15,842)	(23,191)	(229)	-	-	(157,574)
Due to customers	-	(10,575,141)	(546,932)	(1,250,206)	(2,737,934)	(2,446,798)	(711)	-	(17,557,722)
Debt securities issued	-	-	(50,644)	(209,621)	(244,927)	(105,830)	(279,335)	-	(890,357)
Other financial liabilities	-	(102,370)	(68,976)	(1,578)	(4,130)	(2,803)	(80)	(1,601)	(181,538)
Total non-derivative financial liabilities	-	(11,251,214)	(1,082,939)	(2,001,519)	(3,852,413)	(2,613,117)	(312,625)	(1,601)	(21,115,428)
Net position	101,705	(10,795,324)	303,674	(844,419)	474,387	4,849,572	9,994,168	2,509,038	6,592,801

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
45 FINANCIAL RISK MANAGEMENT (Continued)
45.2 Liquidity risk (Continued)
Analysis of the undiscounted contractual cash flows (Continued)

	31 December 2017								
	Past due	On demand	Less than 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	-	151,906	3,741	3,688	5,952	-	-	2,732,618	2,897,905
Deposits with banks and other financial institutions	-	48,237	59,316	9,121	14,059	433	-	-	131,166
Placements with and loans to banks and other financial institutions	-	-	227,887	81,885	157,594	44,296	5,499	-	517,161
Financial assets held for trading	-	1,089	12,581	33,427	69,312	76,739	4,311	-	197,459
Financial assets designated at fair value through profit or loss	-	-	38,335	109,821	57,576	144,268	54,383	13,297	417,680
Financial assets held under resale agreements	3,872	-	500,347	18,110	19,967	-	-	-	542,296
Loans and advances to customers	128,314	-	558,620	755,681	2,733,620	3,282,327	6,800,862	-	14,259,424
Available-for-sale financial assets	-	-	134,272	104,752	146,132	793,772	326,900	11,238	1,517,066
Held-to-maturity investments	-	-	56,957	134,287	286,304	1,881,236	1,396,308	-	3,755,092
Debt instruments classified as receivables	-	143	2,986	22,954	49,168	138,050	471,212	-	684,513
Other financial assets	-	28,448	795	5,258	1,898	12	7	-	36,418
Total non-derivative financial assets	132,186	229,823	1,595,837	1,278,984	3,541,582	6,361,133	9,059,482	2,757,153	24,956,180
Non-derivative financial liabilities									
Borrowings from central bank	-	(30)	(41,220)	(72,789)	(366,463)	(447)	-	-	(480,949)
Deposits from banks and other financial institutions	-	(495,066)	(223,308)	(131,541)	(79,749)	(66,309)	-	-	(995,973)
Placements from banks and other financial institutions	-	-	(96,846)	(116,595)	(58,214)	(7,649)	(5,445)	-	(284,749)
Financial liabilities held for trading	-	(21,118)	-	-	-	-	-	-	(21,118)
Financial liabilities designated at fair value through profit or loss	-	-	(164,332)	(111,693)	(94,451)	(4,876)	(38)	-	(375,390)
Financial assets sold under repurchase agreements	-	-	(278,384)	(28,329)	(13,757)	(356)	-	-	(320,826)
Due to customers	-	(10,037,044)	(573,267)	(1,304,326)	(2,654,872)	(2,033,087)	(154)	-	(16,602,750)
Debt securities issued	-	-	(44,924)	(94,770)	(97,647)	(44,666)	(195,000)	-	(477,007)
Other financial liabilities	-	(94,303)	(762)	(31,827)	(1,389)	(195)	(36,785)	-	(165,261)
Total non-derivative financial liabilities	-	(10,647,561)	(1,423,043)	(1,891,870)	(3,366,542)	(2,157,585)	(237,422)	-	(19,724,023)
Net position	132,186	(10,417,738)	172,794	(612,886)	175,040	4,203,548	8,822,060	2,757,153	5,232,157

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.2 Liquidity risk (Continued)

Derivative cash flows

Derivatives settled on a net basis

The fair values of the Group's derivatives that will be settled on a net basis are primarily interest rates products. The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

	31 December 2018					
	Less than 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Interest rate derivatives	-	(12)	108	260	248	604

	31 December 2017					
	Less than 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Interest rate derivatives	-	12	43	637	125	817

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis are primarily exchange rate derivatives and precious metal derivatives. The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

	31 December 2018					
	Less than 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Derivatives settled on a gross basis						
- Cash inflow	589,624	649,674	1,636,207	49,275	502	2,925,282
- Cash outflow	(588,961)	(648,038)	(1,637,033)	(49,351)	(496)	(2,923,879)
Total	663	1,636	(826)	(76)	6	1,403

	31 December 2017					
	Less than 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over5 years	Total
Derivatives settled on a gross basis						
- Cash inflow	343,773	300,972	1,505,759	26,930	477	2,177,911
- Cash outflow	(341,540)	(300,112)	(1,511,810)	(26,987)	(496)	(2,180,945)
Total	2,233	860	(6,051)	(57)	(19)	(3,034)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.2 Liquidity risk (Continued)

Off-balance sheet items

The tables below summarize the amounts of credit commitments by remaining maturity. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date.

	31 December 2018			
	Less than 1 year	1 - 5 years	Over 5 years	Total
Loan commitments	132,322	246,008	528,452	906,782
Bank acceptance	242,489	-	-	242,489
Credit card commitments	538,870	-	-	538,870
Guarantee and letters of guarantee	97,061	79,005	15,184	191,250
Letters of credit	127,042	4,372	-	131,414
Total	1,137,784	329,385	543,636	2,010,805

	31 December 2017			
	Less than 1 year	1 - 5 years	Over 5 years	Total
Loan commitments	103,736	149,075	474,751	727,562
Bank acceptance	233,788	-	-	233,788
Credit card commitments	426,668	-	-	426,668
Guarantee and letters of guarantee	115,371	85,801	19,654	220,826
Letters of credit	133,670	6,364	-	140,034
Total	1,013,233	241,240	494,405	1,748,878

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.3 Market risk

Market risk represents the potential loss arising from changes in market rates of interest and foreign exchange, as well as commodity and equity prices. Market risk arises from both the Group's proprietary positions and customer driven transactions, in both cases related to on- and off-balance sheet activities.

The Group is primarily exposed to interest rate risk through its lending, fixed-income and funding activities. Interest rate risk is inherent in many of the Group's businesses and this situation is common among large banks. It fundamentally arises through mismatches between the maturity and re-pricing dates of interest-earning assets and interest-bearing liabilities. As discussed further below, interest rate risk is actively managed.

Foreign exchange rate risk is the potential loss related to changes in foreign exchange rates affecting the translation of foreign currency denominated monetary assets and liabilities. The risk of loss results from movements in foreign currency exchange rates.

The Group is also exposed to commodity risk, primarily related to gold and other precious metals. The risk of loss results from movements in commodity price. The Group manages the risk related to gold price together with foreign exchange rate risk.

The Group has determined that the levels of market risk related to changes in equity prices and commodity prices other than gold, with respect to the related exposures in its trading and investment portfolios, are immaterial.

Segregation of Trading Book and Banking Book

To enhance the effectiveness of market risk management, as well as the accuracy of determining the levels of regulatory capital required related to market risk, the Group segregates all financial instruments and commodities, both on-and off-balance sheet, into either the trading book or banking book. The trading book is comprised of financial instruments and commodity positions held for trading, including all derivatives instruments. Any other financial instruments are included in the banking book.

Market Risk Management for Trading Book

The Group manages market risk in the trading book through methodologies that include Value at Risk (VaR), monitoring and management of established limits, sensitivity analysis, duration analysis, exposure analysis and stress testing.

The Group has formulated policies, which are subject to review annually or as circumstances otherwise dictate, to manage market risk. Further, in this regard, the Group's market risk management is focused on movements in domestic and global financial markets, as well as the composition of the trading book and management's trading strategies, within approved limits. Moreover, the Group has implemented more specific policies for financial instruments, closely monitoring the exposure to specific issuers and counterparties, as well as the tenor of individual positions and trading strategies. The foundation of the Group's limit and risk monitoring system is based on VaR, which is used consistently to monitor all classes of financial instruments in the trading book.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.3 Market risk (Continued)

Market Risk Management for Trading Book (Continued)

The Bank has adopted an historical simulation method, with a confidence level of 99% based on holding period of 1 day and historical data for 250 days to calculate the VaR of the trading book, which includes the Head Office, domestic branches and overseas branches. Based on the differences between domestic and overseas markets, the Bank selected applicable parameters for model and risk factors in order to reflect the actual market risk levels. The Bank verified the accuracy and reliability of market risk measurements through data analysis, parallel modeling and back-testing of the market risk measurements.

VaR Analysis for the Trading Book

Bank	2018			
	At the end of the year	Average	Maximum	Minimum
Interest rate risk	109	76	119	44
Exchange rate risk (1)	123	117	300	12
Commodity risk	17	14	19	9
Overall VaR	120	134	252	57

Bank	2017			
	At the end of the year	Average	Maximum	Minimum
Interest rate risk	32	49	72	32
Exchange rate risk (1)	33	51	105	18
Commodity risk	8	11	20	6
Overall VaR	56	73	153	40

The Bank calculates VaR for its trading book (excluding RMBforeign currency settlement contracts with customers under relevant regulations). The Bank conducts stress testing for its trading book quarterly. The specific areas subject to this testing include the major areas of exposure, such as bonds, interest rate derivatives, foreign exchange derivatives and gold. The stress testing uses a range of scenarios, to assess the potential impact on profit and loss.

(1) VaR related to gold is recognized as a component of foreign exchange rate risk.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.3 Market risk (Continued)

Market Risk Management for Banking Book

The Group manages market risk related to the banking book by consistently applying techniques across the Group that include exposure limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

The interest rate risk existing in the banking book broadly relates to the mismatch of the maturity or re-pricing dates of interest rate-sensitive financial assets and financial liabilities, as well as inconsistencies in the change of the benchmark interest rates on which most domestic interest rate-sensitive financial assets and financial liabilities are based.

The Group closely monitors changes in the macro-economic environment and the monetary policies of the PBOC, enabling it to timely and flexibly adjusts its pricing strategy. The Group establishes comprehensive interest rate risk management policies and protocols and has improved the consistency of interest rate risk measurement, monitoring, analysis and management of interest rate risk across the Group.

The Group regularly measures and analyzes the Group’s interest rate risk by conducting gap analysis, sensitivity analysis, scenario analysis and stress testing to manage interest rate risk within established limits.

Foreign Exchange Rate Risk Management

Foreign exchange rate risk relates to the mismatch of foreign currency denominated monetary assets and liabilities, and the potential loss related to changes in foreign exchange rates, which largely arises through operational activities.

The Group performs monitoring and sensitivity analysis of foreign exchange rate risk exposure, manages the mismatch of foreign currency denominated assets and liabilities to effectively manage foreign exchange rate risk exposure within acceptable limits.

Market Risk Exposure Limit Management

Market risk exposure limits are classified as either directive limits or indicative limits, based on the characteristics of the underlying instruments or transactions, including exposure limit monitoring, enforcement of stop-loss limits, VaR limits, and stress testing limits.

The Group is committed to continuous improvement of its market risk exposure limit management. The Group establishes exposure limits reflecting its risk appetite and continuously refines the categorization of market risk exposure limits. Further, it regularly monitors, reports, refines, and implements improvements to the market risk exposure limit process.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.3 Market risk (Continued)

Foreign exchange rate risk

The Group primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows:

	31 December 2018				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,755,814	35,337	906	13,050	2,805,107
Deposits with banks and other financial institutions	41,200	52,583	4,312	11,633	109,728
Placements with and loans to banks and other financial institutions	331,738	167,234	39,896	13,145	552,013
Derivative financial assets	4,587	31,613	81	663	36,944
Financial assets held under resale agreements	371,001	-	-	-	371,001
Loans and advances to customers	11,032,180	331,601	46,919	50,842	11,461,542
Financial assets at fair value through profit or loss	616,802	11,160	12,332	2,951	643,245
Debt instrument investments at amortized cost	4,432,187	58,918	4,928	7,665	4,503,698
Other debt instrument and other equity investments at fair value through other comprehensive income	1,518,932	180,027	3,084	36,089	1,738,132
Other financial assets	49,641	6,592	986	1,773	58,992
Total financial assets	21,154,082	875,065	113,444	137,811	22,280,402
Borrowings from central banks	(560,742)	-	-	(453)	(561,195)
Deposits from banks and other financial institutions	(1,061,287)	(31,565)	(17,438)	(14,032)	(1,124,322)
Placements from banks and other financial institutions	(35,678)	(231,041)	(40,199)	(18,623)	(325,541)
Financial liabilities at fair value through profit or loss	(282,865)	(3,438)	-	-	(286,303)
Derivative financial liabilities	(27,894)	(5,470)	(247)	(943)	(34,554)
Financial assets sold under repurchase agreements	(111,942)	(40,008)	-	(5,151)	(157,101)
Due to customers	(16,963,294)	(332,184)	(23,965)	(26,847)	(17,346,290)
Debt securities issued	(497,790)	(209,896)	(31,747)	(41,240)	(780,673)
Other financial liabilities	(168,772)	(9,668)	(944)	(2,393)	(181,777)
Total financial liabilities	(19,710,264)	(863,270)	(114,540)	(109,682)	(20,797,756)
Net on-balance sheet position	1,443,818	11,795	(1,096)	28,129	1,482,646
Net notional amount of derivatives	66,987	17,299	9,749	(24,713)	69,322
Loan commitments and financial guarantee contracts	1,776,217	191,808	9,655	33,125	2,010,805

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
45 FINANCIAL RISK MANAGEMENT (Continued)
45.3 Market risk (Continued)
Foreign exchange rate risk (Continued)

	31 December 2017				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,855,850	32,052	1,094	7,623	2,896,619
Deposits with banks and other financial institutions	86,294	27,063	3,068	13,820	130,245
Placements with and loans to banks and other financial institutions	337,956	136,594	23,209	7,510	505,269
Financial assets held for trading	194,614	26	-	-	194,640
Financial assets designated at fair value through profit or loss	362,680	6,992	10,383	3,270	383,325
Derivative financial assets	26,228	1,215	21	820	28,284
Financial assets held under resale agreements	540,386	-	-	-	540,386
Loans and advances to customers	9,898,540	314,143	57,764	45,864	10,316,311
Available-for-sale financial assets	1,224,918	162,075	2,955	36,472	1,426,420
Held-to-maturity investments	3,445,956	27,771	12,500	2,908	3,489,135
Debt instruments classified as receivables	653,663	1,346	1,093	3,121	659,223
Other financial assets	145,442	7,001	1,014	1,654	155,111
Total financial assets	19,772,527	716,278	113,101	123,062	20,724,968
Borrowings from central bank	(464,830)	-	-	(1,117)	(465,947)
Deposits from banks and other financial institutions	(932,491)	(28,566)	(13,309)	(364)	(974,730)
Placements from banks and other financial institutions	(41,217)	(164,459)	(54,727)	(19,658)	(280,061)
Financial liabilities held for trading	(21,118)	-	-	-	(21,118)
Financial liabilities designated at fair value through profit or loss	(363,885)	(6,769)	-	-	(370,654)
Derivative financial liabilities	(323)	(29,929)	(390)	(230)	(30,872)
Financial assets sold under repurchase agreements	(276,888)	(37,034)	-	(5,867)	(319,789)
Due to customers	(15,805,966)	(321,932)	(29,750)	(36,631)	(16,194,279)
Debt securities issued	(220,357)	(204,948)	(18,570)	(31,142)	(475,017)
Other financial liabilities	(378,204)	(12,408)	(1,651)	(1,803)	(394,066)
Total financial liabilities	(18,505,279)	(806,045)	(118,397)	(96,812)	(19,526,533)
Net on-balance sheet position	1,267,248	(89,767)	(5,296)	26,250	1,198,435
Net notional amount of derivatives	(46,787)	59,135	18,397	(14,681)	16,064
Loan commitments and financial guarantee contracts	1,484,322	228,505	5,724	30,327	1,748,878

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

The table below indicates the potential effect on profit before tax and other comprehensive income arising from a 5% appreciation or depreciation of RMB spot and forward foreign exchange rates against a basket of all other currencies on the net positions of foreign currency monetary assets and liabilities and derivative instruments in the consolidated statement of financial position.

	31 December 2018		31 December 2017	
RMB	Profit before tax	Other comprehensive income	Profit before tax	Other comprehensive income
5% appreciation	(556)	240	(1,094)	(33)
5% depreciation	556	(240)	1,094	33

The effect on profit before tax and other comprehensive income is calculated based on the assumption that the Group's foreign currency sensitive exposures and foreign currency derivative instruments net position at the end of each reporting period remain unchanged. The Group mitigates its foreign exchange rate risk through active management of its foreign currency exposures and the appropriate use of derivative instruments, based on management expectation of future foreign currency exchange rate movements. Such analysis does not take into account the correlation effect of changes in different foreign currencies, nor any further actions that could be taken by management to mitigate the effect of foreign exchange differences. Therefore, the sensitivity analysis above may differ from actual results occurring through changes in foreign exchange rates.

Interest rate risk

The Group's interest rate risk arises from the mismatches between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are primarily denominated in RMB. The PBOC established RMB benchmark interest rates for loans whereby financial institutions are in a position to price their loans based on credit risk; commercial and market factors. The deposit interest rate floating ceiling was removed by the PBOC with effect from 24 October 2015 for commercial banks.

The Group manages its interest rate risk by:

- Regularly monitoring the macro-economic factors that potentially impact the PBOC benchmark interest rates;
- Optimizing management over the differences in timing between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities; and
- Enhancing the interest rate margin on interest-generating assets and interest-bearing liabilities, with reference to the prevailing PBOC benchmark interest rates where appropriate.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.3 Market risk (Continued)

Interest rate risk (Continued)

The tables below summarize the contractual maturity or re-pricing date, whichever is earlier, of the Group's financial assets and liabilities at the end of each reporting period.

	31 December 2018						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,525,736	-	6,046	-	-	273,325	2,805,107
Deposits with banks and other financial institutions	88,252	4,602	9,325	6,148	-	1,401	109,728
Placements with and loans to banks and other financial institutions	255,919	128,851	161,825	1,823	-	3,595	552,013
Derivative financial assets	-	-	-	-	-	36,944	36,944
Financial assets held under resale agreements	351,927	12,317	1,733	-	-	5,024	371,001
Loans and advances to customers	5,254,390	1,858,490	3,873,792	211,158	236,652	27,060	11,461,542
Financial assets at fair value through profit or loss	57,964	76,890	193,623	132,401	134,775	47,592	643,245
Debt instrument investments at amortized cost	65,371	111,723	407,488	2,344,377	1,493,131	81,608	4,503,698
Other debt instrument and other equity investments at fair value through other comprehensive income	74,705	180,807	439,067	789,488	232,884	21,181	1,738,132
Other financial assets	-	-	-	-	-	58,992	58,992
Total financial assets	8,674,264	2,373,680	5,092,899	3,485,395	2,097,442	556,722	22,280,402
Borrowings from central banks	(49,000)	(96,559)	(406,000)	(456)	-	(9,180)	(561,195)
Deposits from banks and other financial institutions	(598,768)	(241,587)	(220,417)	(34,049)	(21,630)	(7,871)	(1,124,322)
Placements from banks and other financial institutions	(125,830)	(98,972)	(85,916)	(6,450)	(6,657)	(1,716)	(325,541)
Financial liabilities at fair value through profit or loss	(79,464)	(80,720)	(103,108)	(3,400)	(38)	(19,573)	(286,303)
Derivative financial liabilities	-	-	-	-	-	(34,554)	(34,554)
Financial assets sold under repurchase agreements	(118,163)	(15,633)	(22,745)	(200)	-	(360)	(157,101)
Due to customers	(11,034,284)	(1,211,550)	(2,632,559)	(2,205,898)	(475)	(261,524)	(17,346,290)
Debt securities issued	(62,819)	(243,563)	(210,654)	(20,190)	(237,804)	(5,643)	(780,673)
Other financial liabilities	-	-	-	-	-	(181,777)	(181,777)
Total financial liabilities	(12,068,328)	(1,988,584)	(3,681,399)	(2,270,643)	(266,604)	(522,198)	(20,797,756)
Interest rate gap	(3,394,064)	385,096	1,411,500	1,214,752	1,830,838	34,524	1,482,646

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.3 Market risk (Continued)

Interest rate risk (Continued)

	31 December 2017						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,612,008	2,403	5,952	-	-	276,256	2,896,619
Deposits with banks and other financial institutions	105,307	9,801	14,506	381	-	250	130,245
Placements with and loans to banks and other financial institutions	228,642	85,460	151,545	35,736	3,886	-	505,269
Financial assets held for trading	12,546	33,328	67,991	75,722	3,964	1,089	194,640
Financial assets designated at fair value through profit or loss	38,297	108,121	50,598	125,556	47,456	13,297	383,325
Derivative financial assets	-	-	-	-	-	28,284	28,284
Financial assets held under resale agreements	499,251	17,869	19,394	-	-	3,872	540,386
Loans and advances to customers	4,572,496	1,678,914	3,596,541	253,948	214,412	-	10,316,311
Available-for-sale financial assets	171,410	152,062	129,293	688,494	273,923	11,238	1,426,420
Held-to-maturity investments	59,497	171,547	270,895	1,743,231	1,243,965	-	3,489,135
Debt instruments classified as receivables	3,185	22,485	49,238	133,846	450,469	-	659,223
Other financial assets	-	-	-	-	-	155,111	155,111
Total financial assets	8,302,639	2,281,990	4,355,953	3,056,914	2,238,075	489,397	20,724,968
Borrowings from central bank	(40,000)	(70,540)	(354,923)	(454)	-	(30)	(465,947)
Deposits from banks and other financial institutions	(715,735)	(126,369)	(73,110)	(59,259)	-	(257)	(974,730)
Placements from banks and other financial institutions	(96,495)	(119,229)	(57,017)	(4,369)	(2,951)	-	(280,061)
Financial liabilities held for trading	-	-	-	-	-	(21,118)	(21,118)
Financial liabilities designated at fair value through profit or loss	(134,625)	(139,290)	(91,841)	(4,860)	(38)	-	(370,654)
Derivative financial liabilities	-	-	-	-	-	(30,872)	(30,872)
Financial assets sold under repurchase agreements	(277,813)	(28,113)	(13,535)	(328)	-	-	(319,789)
Due to customers	(10,400,858)	(1,249,742)	(2,551,341)	(1,825,885)	(1)	(166,452)	(16,194,279)
Debt securities issued	(52,470)	(118,698)	(89,021)	(19,932)	(194,896)	-	(475,017)
Other financial liabilities	-	-	-	-	-	(394,066)	(394,066)
Total financial liabilities	(11,717,996)	(1,851,981)	(3,230,788)	(1,915,087)	(197,886)	(612,795)	(19,526,533)
Interest rate gap	(3,415,357)	430,009	1,125,165	1,141,827	2,040,189	(123,398)	1,198,435

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.3 Market risk (Continued)

Interest rate risk (Continued)

The following table illustrates the potential pre-tax impact, of a parallel upward or downward shift of 100 basis points in relevant interest rate curves on the Group's net Interest Income and other comprehensive income for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparalleled yield curve movements.

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration.

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as other debt instrument and other equity investments at fair value through other comprehensive income (IFRS 9) and available-for-sale financial assets (IAS 39) held, whose fair value changes are recorded as an element of other comprehensive income.

	31 December 2018		31 December 2017	
	Net interest income	Other comprehensive income	Net interest income	Other comprehensive income
+100 basis points	(24,024)	(67,879)	(24,928)	(37,095)
- 100 basis points	24,024	67,879	24,928	37,095

The assumptions do not reflect actions that might be taken under the Group's capital and interest rate risk management policy to mitigate changes to the Group's interest rate risk. Therefore the above analysis may differ from the actual situation.

In addition, the presentation of interest rate sensitivity above is for illustration purposes only, showing the potential impact on net interest income and other comprehensive income of the Group under different parallel yield curve movements, relative to their position at period-end, excluding the derivative positions.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

45.4 Insurance risk

The Group engages in its insurance business primarily in Mainland China. Insurance risk refers to the financial impact resulting from the unexpected occurrence of insured events. These risks are actively managed by the Group through effective sales management, underwriting control, reinsurance management and claim management. Through effective sales management, the risk of mis-selling could be reduced and the accuracy of information used for underwriting is improved. Through underwriting control, risk of adverse selection could be reduced and moreover differential pricing policy based on the level of each kind of risk could be utilized. Through reinsurance, the Group's insurance capacity could be enhanced and targeted risks could be mitigated. Effective claims management is designed to ensure that insurance payments are controlled according to established criteria.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. The Group conducts experience analysis of mortality rate and surrender rate, in order to improve its risk assessment and as a basis for reasonable estimates.

46 CAPITAL MANAGEMENT

The Group's capital management objectives are as follows:

- maintain an adequate capital base to support the development of its business;
- support the Group's financial stability and profitable growth;
- allocate capital through an efficient and risk based approach to optimize risk-adjusted return to shareholders; and
- safeguard the long-term sustainability of the Group's franchise so that it can continue to provide sufficient shareholder returns and benefits for other stakeholders.

The "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC in 2012 includes, among other things, requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- minimum regulatory requirements for Common Equity Tier-one Capital Adequacy Ratio, Tier-one Capital Adequacy Ratio and Capital Adequacy Ratio are 5%, 6% and 8%, respectively;
- capital conservation buffer requires additional 2.5% of Common Equity Tier-one Capital Adequacy Ratio;
- additional capital surcharge for systemically important banks requires additional 1% of Common Equity Tier-one Capital Adequacy Ratio;
- should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 CAPITAL MANAGEMENT (Continued)

In April 2014, the CBIRC officially approved the Group to adopt advanced capital management approach. Within the scope of the approval, the Internal Ratings-Based approach is adopted to Credit Risk-weighted Assets for both retail and non-retail risk exposures, and the Standardized approach for both Operational Risk-weighted Assets and Market Risk-weighted Assets. The CBIRC will determine the parallel run period for the Group, which should last for at least three years. During the parallel run period, the Group should calculate its Capital Adequacy Ratios under the advanced approach and the non-advanced approach, and should conform to the capital floor requirements as stipulated in the "Capital Rules for Commercial Banks (Provisional)".

In January 2017, the CBIRC has officially approved the Group to adopt the Internal Models approach to measure its Market Risk-weighted Assets for qualified risk exposures.

Capital adequacy and the utilization of regulatory capital are closely monitored by the Group's management in accordance with the guidelines developed by the Basel Committee and relevant regulations promulgated by the CBIRC. Required information related to capital levels and utilization is filed quarterly with the CBIRC.

The Group's capital adequacy ratio calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC as at the end of the reporting period is as follows:

		31 December 2018	31 December 2017
Common Equity Tier-one Capital Adequacy Ratio	(1)	11.55%	10.63%
Tier-one Capital Adequacy Ratio	(1)	12.13%	11.26%
Capital Adequacy Ratio	(1)	15.12%	13.74%
Common Equity Tier-one Capital	(2)	1,591,376	1,347,453
Deductible Items from Common Equity Tier-one Capital	(3)	(7,449)	(7,500)
Net Common Equity Tier-one Capital		1,583,927	1,339,953
Additional Tier-one Capital	(4)	79,906	79,906
Net Tier-one Capital		1,663,833	1,419,859
Tier-two Capital	(5)	409,510	312,087
Net Capital		2,073,343	1,731,946
Risk-weighted Assets	(6)	13,712,894	12,605,577

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 CAPITAL MANAGEMENT (Continued)

Pursuant to the "Capital Rules for Commercial Banks (Provisional)":

(1) The scope of consolidation related to the calculation of the Group's Capital Adequacy Ratios includes Domestic Institutions, Overseas Institutions and affiliated financial subsidiaries specified in the Regulation.

The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.

(2) The Group's Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), investment revaluation reserve, surplus reserve, general reserve, retained earnings, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation), and the foreign currency translation reserve.

(3) The Group's Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.

(4) The Group's Additional Tier-one Capital includes: preference shares issued and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).

(5) The Group's Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

47 FAIR VALUE OF FINANCIAL INSTRUMENTS

The majority of the Group's assets and liabilities in the consolidated statement of financial position are financial assets and financial liabilities. Fair value measurement of non-financial assets and non-financial liabilities do not have a material impact on the Group's financial position and operations, taken as a whole.

The Group does not have any financial assets or financial liabilities subject to non-recurring fair value measurements for the years ended 31 December 2018 and 31 December 2017.

47.1 Valuation technique, input and process

The fair value of the Group's financial assets and financial liabilities are determined as follows:

- If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

47.1 Valuation technique, input and process (Continued)

- If not traded in active markets, fair values of financial assets and financial liabilities are determined by using valuation techniques. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models.

The Group has established an independent valuation process for financial assets and financial liabilities. The Financial Accounting Department of head office establishes the valuation models for financial assets and financial liabilities of head office and its branches in China and independently implements the valuation on a regular basis; and the Risk Management Department is responsible for validating the valuation model, the Operations Departments records the accounting for these items. Overseas branches and sub-branches designate departments or personnel that are independent from the front trading office to perform valuation in accordance with the local regulatory requirements and their own department settings.

The board of directors shall be responsible for establishing and improving the internal control system related to the valuation of financial instruments and approving valuation policies.

For the year ended 31 December 2018 and 31 December 2017, there was no significant changes in the valuation techniques or inputs used to determine fair value measurements.

47.2 Fair value hierarchy

The Group classifies financial assets and financial liabilities into the following three levels based on the extent to which inputs to valuation techniques used to measure fair value of the financial assets and financial liabilities are observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: fair value measurements are not based on observable market data.

47.3 Financial assets and financial liabilities not measured at fair value on the consolidated statement of financial position

The tables below summarize the carrying amounts and fair values of those financial assets and financial liabilities not measured in the consolidated statement of financial position at their fair value. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, receivable from the MOF, special government bond, borrowings from central bank, deposits and placements from banks and other financial institutions, due to customers, financial assets sold under repurchase agreements and certificates of deposit issued, interbank certificate of deposits issued and commercial papers issued are not included in the tables below.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

47.3 Financial assets and financial liabilities not measured at fair value on the consolidated statement of financial position (Continued)

	31 December 2018				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Debt instrument investments at amortized cost (excluding receivable from the MOF and special government bond)	4,111,606	4,172,399	19,139	3,948,241	205,019
Financial liabilities					
Bonds issued	282,880	291,787	26,597	265,190	-

	31 December 2017				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Held-to-maturity investments	3,489,135	3,395,950	355	3,395,571	24
Debt instruments classified as receivables (excluding receivable from the MOF and special government bond)	294,245	285,737	-	135,993	149,744
Total	3,783,380	3,681,687	355	3,531,564	149,768
Financial liabilities					
Bonds issued	246,833	246,877	1,954	244,923	-

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

47.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value.

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Derivative financial assets				
-Exchange rate derivatives	-	35,074	14	35,088
-Interest rate derivatives	-	1,635	19	1,654
-Precious metal contracts and others	-	202	-	202
Subtotal	-	36,911	33	36,944
Loans and advances to customers				
-Discounted bills and forfeiting	-	433,912	-	433,912
-Negotiation L/C	-	249	-	249
Subtotal	-	434,161	-	434,161
Financial investment				
Financial assets at fair value through profit or loss				
Mandatorily measured at fair value through profit or loss:				
-Held for trading				
Bonds	-	214,008	-	214,008
Precious metal contracts	-	28,139	-	28,139
Equity and fund	4,440	201	-	4,641
-Other financial assets at fair value through profit or loss				
Bonds	-	71,110	5,775	76,885
Equity and fund	19,937	3,217	13,998	37,152
Others	208	6,786	8,694	15,688
-Financial assets designated at fair value through profit or loss				
Debt securities	181	142,723	-	142,904
Deposits with banks and other financial institutions	-	9,174	-	9,174
Placements with and loans to banks and other financial institutions	-	78,092	32,339	110,431
Others	-	-	4,223	4,223
Subtotal	24,766	553,450	65,029	643,245
Other debt instrument and other equity investments at fair value through other comprehensive income				
Debt instruments				
-Bonds	80,435	1,641,141	-	1,721,576
-Others	-	-	14,316	14,316
Equity instruments	988	-	1,252	2,240
Subtotal	81,423	1,641,141	15,568	1,738,132
Total assets	106,189	2,665,443	80,850	2,852,482

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

47.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
-Held for trading				
Financial liabilities related to precious metals	-	(17,188)	-	(17,188)
-Financial liabilities designated at fair value through profit or loss				
Principal guaranteed wealth management products	-	-	(265,715)	(265,715)
Overseas debt securities	-	(3,400)	-	(3,400)
Subtotal	-	(20,588)	(265,715)	(286,303)
Derivative financial liabilities				
-Exchange rate derivatives	-	(31,381)	(14)	(31,395)
-Interest rate derivatives	-	(820)	(19)	(839)
-Precious metal contracts	-	(2,320)	-	(2,320)
Subtotal	-	(34,521)	(33)	(34,554)
Total liabilities	-	(55,109)	(265,748)	(320,857)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

47.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
- Debt securities	496	163,453	-	163,949
- Precious metal contracts	-	30,691	-	30,691
Subtotal	496	194,144	-	194,640
Financial assets designated at fair value through profit or loss				
- Debt securities	8,347	161,407	2,885	172,639
- Deposits with banks and other financial institutions	-	93,741	-	93,741
- Placements with and loans to banks and other financial institutions	-	-	92,388	92,388
- Others	1,378	2,489	20,690	24,557
Subtotal	9,725	257,637	115,963	383,325
Derivative financial assets				
- Exchange rate derivatives	-	25,276	18	25,294
- Interest rate derivatives	-	1,125	7	1,132
- Precious metal contracts and others	-	1,858	-	1,858
Subtotal	-	28,259	25	28,284
Available-for-sale financial assets				
- Debt securities	17,672	1,378,581	2,631	1,398,884
- Fund investments	2,783	-	932	3,715
- Equity instruments	3,848	-	3,378	7,226
- Others	-	46	16,252	16,298
Subtotal	24,303	1,378,627	23,193	1,426,123
Total assets	34,524	1,858,667	139,181	2,032,372
Financial liabilities held for trading				
- Financial liabilities related to precious metals	-	(21,118)	-	(21,118)
Financial liabilities designated at fair value through profit or loss				
- Principal guaranteed wealth management products	-	-	(364,151)	(364,151)
- Overseas debt securities	-	(6,503)	-	(6,503)
Subtotal	-	(6,503)	(364,151)	(370,654)
Derivative financial liabilities				
- Exchange rate derivatives	-	(30,083)	(30)	(30,113)
- Interest rate derivatives	-	(399)	(7)	(406)
- Precious metal contracts	-	(353)	-	(353)
Subtotal	-	(30,835)	(37)	(30,872)
Total liabilities	-	(58,456)	(364,188)	(422,644)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

47.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

Substantially all financial instruments classified within Level 2 of the fair value hierarchy are debt investments, deposits with banks and other financial institutions, currency forwards, currency swaps, interest rate swaps, currency options and precious metal contracts. Fair value of debt investments denominated in RMB is determined based upon the valuation published by the China Central Depository & Clearing Co., Ltd. Fair value of debt investments denominated in foreign currencies is determined based upon the valuation results published by Bloomberg. The fair value of deposits with banks and other financial institutions, currency forwards, currency swaps, interest rate swaps and currency options are calculated by applying discounted cash flow analysis or the Black Scholes Pricing Model. The fair value of precious metal contracts that are related to the Group's trading activities is determined with reference to the relevant observable market parameters. All significant inputs are observable in the market.

Level 3 financial assets of the Group mainly represented underlying assets invested by principal-guaranteed WMPs issued by the Group including deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and credit assets. The counterparties of these deposits and placements are primarily commercial banks and non-bank financial institutions in Mainland China. The credit assets are loans and advances to corporate customers in Mainland China. Level 3 financial liabilities largely represented liabilities to the investors of these products. As not all of the inputs needed to estimate the fair value of these assets and liabilities are observable, the Group classified these investment products within Level 3 of the fair value measurement hierarchy. The significant unobservable inputs related to these assets and liabilities are those parameter relating to credit risk, liquidity and discount rate. Management has made assumptions on unobservable inputs based on observed indicators of impairment, significant changes in yield, external credit ratings and comparable credit spreads, but the fair value of these underlying assets and liabilities could be different from those disclosed.

There was no significant transfer amongst the different levels of the fair value hierarchy during the years ended 31 December 2018 and 31 December 2017.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

47.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

The reconciliation of Level 3 classified financial assets and financial liabilities presented at fair value on the consolidated statement of financial position is as follows:

	2018				
	Financial assets at fair value through profit or loss	Derivative Financial assets	Other debt instrument and other equity investments at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Derivative financial liabilities
1 January 2018	131,928	25	11,950	(364,151)	(37)
Purchases	40,833	-	7,386	-	-
Issues	-	-	-	1,742,672	-
Settlements/disposals	(109,866)	(19)	(3,760)	(1,633,946)	1
Total loss/(gain) recognized in					
- Profit or loss	2,134	27	(7)	(10,290)	3
- Other comprehensive income	-	-	(1)	-	-
30 December 2018	65,029	33	15,568	(265,715)	(33)
Change in unrealized loss/(gain) for the period included in profit or loss for assets/liabilities held at the end of the year	(3,390)	16	-	44	10

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

47.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

The reconciliation of Level 3 classified financial assets and financial liabilities presented at fair value on the consolidated statement of financial position is as follows (Continued):

	2017				
	Financial assets designated at fair value through profit or loss	Derivative financial assets	Available-for-sale financial assets	Financial liabilities designated at fair value through profit or loss	Derivative financial liabilities
1 January 2017	121,778	73	7,640	(283,666)	(132)
Purchases	1,975,472	-	20,960	-	-
Issuance	-	-	-	(3,778,572)	-
Settlements/disposals	(1,991,329)	(6)	(5,321)	3,707,985	12
Total gains/(losses) recognized in					
- Profit or loss	10,042	(42)	-	(9,898)	83
- Other comprehensive income	-	-	(86)	-	-
31 December 2017	115,963	25	23,193	(364,151)	(37)
Change in unrealized gains/(losses) for the year included in profit or loss for assets/liabilities held at the end of the year	1,605	(43)	-	(44)	73

In Level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the period are presented in net (loss)/gain on financial instruments at fair value through profit or loss of the consolidated income statement.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 EVENTS AFTER THE REPORTING PERIOD

48.1 Profit appropriation

(1) Pursuant to the resolutions of the Board of Directors' meeting on 11 January 2019, a cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved and the dividend was distributed on 11 March 2019.

(2) Pursuant to the meeting of the Board of Directors on 29 March 2019, the proposal for profit appropriations of the Bank for the year ended 31 December 2018 are set forth as follows:

(i) An appropriation of RMB19,867 million to the statutory surplus reserve (Note IV 37);

(ii) An appropriation of RMB37,626 million to the general reserve(Note IV 38);

(iii) A cash dividend of RMB0.1739 per ordinary share in respect of the year ended 31 December 2018 based on the number of ordinary shares issued as at 31 December 2018 totaling RMB60,862 million (Note IV 11).

As at 31 December 2018, the statutory surplus reserve had been recognized as appropriation. The other two items will be recognized in the Group's financial statements after approval by ordinary equity holders in the forthcoming Annul General Meeting.

48.2 Tier-2 capital bonds issued

As at 19 March 2019, the Bank issued tier-2 capital bonds of RMB60 billion which are divided into two categories. The first one is 15-year fixed rate bonds with a total amount of RMB10 billion and coupon rate of 4.53%, for which the Bank has a conditional right to redeem following the tenth anniversary of the issuance date. The second one is 10-year fixed rate bonds with a total amount of RMB50 billion and coupon rate of 4.28%, for which the Bank has a conditional right to redeem following the fifth anniversary of the issuance date. The proceeds from the issuance of the bonds were used to replenish the Bank's tier-2 capital.

49 COMPARATIVES

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50 STATEMENT OF FINANCIAL POSITION OF THE BANK

	Notes IV	As at 31 December 2018	2017
Assets			
Cash and balances with central banks		2,804,746	2,896,341
Deposits with banks and other financial institutions		90,380	115,998
Precious metals		21,268	32,008
Placements with and loans to banks and other financial institutions		581,208	515,371
Derivative financial assets		36,944	28,150
Financial assets held under resale agreements		369,024	536,521
Loans and advances to customers		11,420,286	10,277,039
Financial investments			
Financial assets at fair value through profit or loss		497,702	N/A
Debt instrument investments at amortized cost		4,467,824	N/A
Other debt instrument and other equity investments at fair value through other comprehensive income		1,688,965	N/A
Financial assets held for trading		N/A	120,172
Financial assets designated at fair value through profit or loss		N/A	367,552
Available-for-sale financial assets		N/A	1,379,329
Held-to-maturity investments		N/A	3,477,280
Debt instruments classified as receivables		N/A	586,826
Investment in subsidiaries	20	28,960	21,660
Investments in associates and joint venture		236	227
Controlled structured entities investments		110,462	126,400
Property and equipment		143,296	147,214
Deferred tax assets		112,535	97,320
Other assets		90,071	187,922
Total assets		22,463,907	20,913,330
Liabilities			
Borrowings from central banks		561,136	465,647
Deposits from banks and other financial institutions		1,128,357	979,501
Placements from banks and other financial institutions		291,632	239,044
Financial liabilities at fair value through profit or loss		286,303	391,772
Derivative financial liabilities		34,525	30,736
Financial assets sold under repurchase agreements		152,847	314,479
Due to customers		17,346,832	16,192,746
Debt securities issued		758,935	465,323
Other liabilities		239,961	410,575
Total liabilities		20,800,528	19,489,823

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50 STATEMENT OF FINANCIAL POSITION OF THE BANK (Continued)

	Notes IV	As at 31 December 2018	2017
Equity			
Ordinary shares	33	349,983	324,794
Preference shares	34	79,899	79,899
Capital reserve	35	173,357	98,574
Investment revaluation reserve	36	18,890	(18,934)
Surplus reserve	37	153,928	134,061
General reserve	38	238,215	230,065
Retained earnings		647,737	574,931
Foreign currency translation reserve		1,370	117
Total equity		1,663,379	1,423,507
Total equity and liabilities		22,463,907	20,913,330

Approved and authorized for issue by the Board of Directors on 29 March 2019.

Zhou Mubing	Wang Wei
Chairman	Executive Director

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 STATEMENT OF CHANGES IN EQUITY OF THE BANK

	Note IV	Ordinary shares	Preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 31 December 2017		324,794	79,899	98,574	(18,934)	134,061	230,065	574,931	117	1,423,507
Change in accounting policy		-	-	-	9,641	-	(95)	(35,243)	-	(25,697)
As at 1 January 2018		324,794	79,899	98,574	(9,293)	134,061	229,970	539,688	117	1,397,810
Profit for the year		-	-	-	-	-	-	198,672	-	198,672
Other comprehensive income		-	-	-	28,183	-	-	-	1,253	29,436
Total comprehensive income for the year		-	-	-	28,183	-	-	198,672	1,253	228,108
Capital contribution from equity holders	33	25,189	-	74,783	-	-	-	-	-	99,972
Appropriation to surplus reserve	37	-	-	-	-	19,867	-	(19,867)	-	-
Appropriation to general reserve	38	-	-	-	-	-	8,245	(8,245)	-	-
Dividends to ordinary equity holders	11	-	-	-	-	-	-	(57,911)	-	(57,911)
Dividends to preference shareholders	11	-	-	-	-	-	-	(4,600)	-	(4,600)
As at 31 December 2018		349,983	79,899	173,357	18,890	153,928	238,215	647,737	1,370	1,663,379

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 STATEMENT OF CHANGES IN EQUITY OF THE BANK (Continued)

	Note IV	Ordinary shares	Preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 1 January 2017		324,794	79,899	98,574	3,768	114,890	197,695	494,573	1,633	1,315,826
Profit for the year		-	-	-	-	-	-	191,714	-	191,714
Other comprehensive income		-	-	-	(22,702)	-	-	-	(1,516)	(24,218)
Total comprehensive income for the year		-	-	-	(22,702)	-	-	191,714	(1,516)	167,496
Appropriation to surplus reserve	37	-	-	-	-	19,171	-	(19,171)	-	-
Appropriation to general reserve	38	-	-	-	-	-	32,370	(32,370)	-	-
Dividends to ordinary equity holders	11	-	-	-	-	-	-	(55,215)	-	(55,215)
Dividends to preference shareholders	11	-	-	-	-	-	-	(4,600)	-	(4,600)
As at 31 December 2017		324,794	79,899	98,574	(18,934)	134,061	230,065	574,931	117	1,423,507

AGRICULTURAL BANK OF CHINA LIMITED
(Incorporated in the People's Republic of China with Limited Liability)

Unaudited Supplementary Financial Information
For the year ended 31 December 2018

AGRICULTURAL BANK OF CHINA LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts in millions of Renminbi, unless otherwise stated)

According to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Banking (Disclosure) Rules, the Group discloses the following supplementary information:

1. LIQUIDITY COVERAGE RATIOS

	Three months ended			
	31 March 2018	30 June 2018	30 September 2018	31 December 2018
Average Liquidity Coverage Ratio	124.8%	117.5%	118.1%	126.6%

The liquidity coverage ratios were also in accordance with the Rules on Liquidity Risk Management of Commercial Banks issued by the CBIRC and applicable calculation requirements, and based on the data determined under the PRC GAAP.

2. CURRENCY CONCENTRATIONS

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
31 December 2018				
Spot assets	856,774	116,357	137,852	1,110,983
Spot liabilities	(857,800)	(114,293)	(108,739)	(1,080,832)
Forward purchases	1,390,475	41,582	46,368	1,478,425
Forward sales	(1,344,868)	(31,833)	(71,081)	(1,447,782)
Net options position	(28,308)	-	-	(28,308)
Net long position	16,273	11,813	4,400	32,486
Net structural position	6,264	6,942	2,479	15,685

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
31 December 2017				
Spot assets	722,187	113,826	122,616	958,629
Spot liabilities	(776,116)	(118,007)	(96,582)	(990,705)
Forward purchases	1,017,341	51,333	64,337	1,133,011
Forward sales	(930,737)	(32,936)	(78,870)	(1,042,543)
Net options position	(27,469)	-	(148)	(27,617)
Net long position	5,206	14,216	11,353	30,775
Net structural position	4,502	6,953	2,524	13,979

(Amounts in millions of Renminbi, unless otherwise stated)

3. INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China, and regards all the claims on third parties outside Mainland China as cross border claims.

International claims include balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, loans and advances to customers, financial assets held under resale agreements, financial assets at fair value through profit or loss, other debt instrument and other equity investments at fair value through other comprehensive income and debt instrument investments at amortized cost.

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account of any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks	Official sector	Non-bank private sector	Total
31 December 2018				
Asia Pacific	110,016	19,992	215,727	345,735
- of which attributable to Hong Kong	31,837	373	151,388	183,598
Europe	23,463	10,259	86,311	120,033
North and South America	330,479	57,744	229,652	617,875
Africa	384	-	172	556
Total	464,342	87,995	531,862	1,084,199

	Banks	Official sector	Non-bank private sector	Total
31 December 2017				
Asia Pacific	70,871	23,981	210,351	305,203
- of which attributable to Hong Kong	22,072	9,434	167,164	198,670
Europe	24,356	6,106	60,591	91,053
North and South America	237,660	45,373	246,306	529,339
Africa	606	-	-	606
Total	333,493	75,460	517,248	926,201

(Amounts in millions of Renminbi, unless otherwise stated)

4. OVERDUE AND RESCHEDULED ASSETS

(1) Gross carrying amount of overdue loans and advances to customers

	As at 31 December	
	2018	**2017**
Overdue		
within 3 months	79,458	91,100
between 3 and 6 months	22,356	18,798
between 6 and 12 months	34,670	30,722
over 12 months	66,448	83,446
Total	202,932	224,066
Percentage of overdue loans and advances to customers in total loans		
within 3 months	0.67%	0.85%
between 3 and 6 months	0.19%	0.18%
between 6 and 12 months	0.29%	0.29%
over 12 months	0.56%	0.77%
Total	1.71%	2.09%

(2) Overdue and rescheduled loans and advances to customers

	As at 31 December	
	2018	**2017**
Total rescheduled loans and advances to customers	59,232	55,120
Including: rescheduled loans and advances to customers overdue for not more than 3 months	15,406	18,176
Percentage of rescheduled loans and advances to customers overdue for not more than 3 months in total loans	0.13%	0.17%

(3) Gross carrying amount of overdue placements with and loans to banks and other financial institutions.

There were no overdue in the Group's placements with and loans to banks and other financial institutions as at 31 December 2018 and 31 December 2017.