IMPORTANT NOTICE

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IMPORTANT: You must read the following before continuing. It applies to the offering circular which follows this page (the "Offering Circular"), and you are therefore advised to review this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES IN BEARER FORM ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED, SOLD OR (IN THE CASE OF SECURITIES IN BEARER FORM) DELIVERED WITHIN THE UNITED STATES OR (IN THE CASE OF AN OFFERING OR SALE IN RELIANCE ON CATEGORY 2 OF REGULATION S UNDER THE SECURITIES ACT) TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION.

THE OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of Your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to have represented to Citigroup Global Markets Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, Shanghai Pudong Development Bank Co., Ltd. Singapore Branch and SPDB International Capital Limited (each an "Arranger" or "Dealer" and collectively, the "Arrangers" or "Dealers"), Shanghai Pudong Development Bank Co., Ltd. (the "Bank") or any branch of the Bank located in Hong Kong, Macau or Taiwan, or any branch of the Bank located outside the PRC (each such branch of the Bank, a "Branch Issuer"), as specified in the applicable pricing supplement (each an "Issuer") that (1) you and any customers you represent are not, and that the electronic mail address that you gave us and to which this e-mail has been delivered is not, located in the United States and (2) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

The Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Arranger or Dealer or any affiliate of such Arranger or Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Arranger or Dealer or such affiliate on behalf of the Issuer in such jurisdiction.

The Offering Circular has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Bank, the Branch Issuer, the Arrangers, the Dealers or the Agents (as defined in "*Terms and Conditions of the Notes*"), nor any person who controls any of them, nor any director, officer, employee, nor agent of any of them, or affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers or the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

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

U.S.$5,000,000,000
Medium Term Note Programme

Shanghai Pudong Development Bank Co., Ltd. (the "Bank") or any branch of the Bank located in Hong Kong, Macau or Taiwan, or any branch of the Bank located outside the PRC (each such branch of the Bank, a "Branch Issuer"), as specified in the applicable Pricing Supplement (each, an "Issuer") may, subject to compliance with all relevant laws, regulations and directives, from time to time issue notes (the "Notes") under the U.S.$5,000,000,000 Medium Term Note Programme described in this Offering Circular (the "Programme"). The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$5,000,000,000 (or the equivalent in other currencies), subject to increases of the programme size made in accordance with the terms of an amended and restated dealer agreement dated 13 November 2018 entered into by the Bank (on behalf of itself and each Branch Issuer) (the "Dealer Agreement").

The Notes may be issued on a continuing basis to one or more of the dealers appointed under the Programme from time to time by the relevant Issuer (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Investing in the Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement (as defined in "*Summary of the Programme*") and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with the Notes. The principal risk factors that may affect the ability of the Bank, or as the case may be, the relevant Branch Issuer to fulfil its obligations in respect of the Notes are discussed under "*Risk Factors*" below.

Application will be made to The Stock Exchange of Hong Kong Limited ("HKSE") for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "Professional Investors") only. This document is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

HKSE has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of Programme and the Notes on HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the relevant Branch Issuer or the Bank or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular. Unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Series of Notes will specify whether or not such Series of Notes will be listed on the HKSE (or listed, traded or quoted on or by any other competent authority, other exchange or quotation system). Notice of the aggregate nominal amount of Notes, interest payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Series (as defined in "*Summary of the Programme*") of Notes will be set out in the Pricing Supplement which, with respect to Notes to be listed on the HKSE, will be delivered to the HKSE, on or before the date of issue of such series of Notes. Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the establishment of the Programme and application will be made for permission to deal in and quotation for any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. If the application to the SGX-ST to list a particular series of Notes is approved, for so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded, will be traded on the SGX-ST in a board lot size of at least S$200,000 (or its equivalent in other currencies). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval in-principle from, the admission of any Notes to the Official List of, and the quotation of any Notes on, the SGX-ST, are not to be taken as indications of the merits of the relevant Branch Issuer, the Bank, its subsidiaries and associated companies (if any), the Group, the Programme or such Notes.

Where applicable for a relevant Tranche of Notes, the Notes will be issued within the relevant annual or otherwise general foreign debt issuance quota granted by the National Development and Reform Commission of the PRC (the "NDRC") pursuant to the Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》(發改外資〔2015〕2044號) issued by the NDRC which came into effect on 14 September 2015 and any implementation rules as issued by the NDRC from time to time (the "NDRC Circular"). After the issuance of such relevant Tranche of Notes, the Branch Issuer (acting through the Bank) or, as the case may be, the Bank, undertakes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Quota (as defined in "*Terms and Conditions of the Notes*").

Where the Circular on Issues concerning the Macro-prudential Management of Full-covered Cross-border Financing (Yin Fa [2017] No. 9) 《中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知》 issued by the People's Bank of China (the "PBOC") and which came into effect on 12 January 2017, and any implementation rules as issued by the PBOC from time to time (the "PBOC Circular") applies to the Tranche of Notes to be issued, after the issuance of such relevant Tranche of Notes, the Bank undertakes to provide or cause to be provided a notification of the requisite information and documents in connection with such Tranche of Notes to the PBOC and/or the State Administration of Foreign Exchange or its local counterparts ("SAFE") within the prescribed timeframe after the relevant Issue Date in accordance with the PBOC Circular.

Where the Implementing Measures of the China Banking Regulatory Commission for Administrative Licensing Matters for Chinese-funded Commercial Banks (Order of the China Banking Regulatory Commission [2017] No. 1)《中國銀監會中資商業銀行行政許可事項實施方法》issued by the China Banking Regulatory Commission ("CBRC", the predecessor of the China Banking and Insurance Regulatory Commission ("CBIRC") prior to April 2018) and which came into effect on 7 May 2017, and any implementation rules issued by the CBIRC from time to time (the "CBIRC Measures") applies to the Tranche of Notes to be issued, the Bank undertakes to complete the reporting in connection with such Tranche of Notes to the CBIRC (if applicable) within the prescribed timeframe after the relevant Issue Date in accordance with the CBIRC Approval (as defined in "*Terms and Conditions of the* Notes").

Where the Service Guidance on the Examination and Approval of the Interbank Bond Market or Issuance of Overseas Financial Bonds (No. 21010 of the Service Guidance on PBOC Administrative Licensing Matters)《在銀行間債券市場或到境外發行金融債券審批事項服務指南》issued by the PBOC and which came into effect on 29 December 2017, and any implementation rules as issued by the PBOC from time to time (the "PBOC Service Guidance") applies to the Tranche of Notes to be issued, the Bank undertakes to complete the reporting in connection with such Tranche of Notes to the PBOC (if applicable) within the prescribed timeframe after the relevant Issue Date in accordance with the PBOC Approval (as defined in "*Terms and Conditions of the Notes*").

Each Series of Notes in bearer form ("Bearer Notes") will be represented on issue by a temporary global note in bearer form (each a "temporary Global Note") or a permanent global note in bearer form (each a "permanent Global Note", together with the temporary Global Note, the "Global Notes"). Notes in registered form will be represented by registered certificates (each a "Note Certificate"), one Note Certificate being issued in respect of each holder's entire holding of Registered Notes of one Series. The Notes of each Series in registered form will initially be represented by a global note certificate (each a "Global Note Certificate") without interest coupons. The Global Notes and Global Note Certificates may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear Bank SA/NV ("Euroclear") and/or Clearstream Banking S.A. ("Clearstream"), with a common depositary on behalf of Euroclear and Clearstream or with a sub-custodian for the Central Moneymarkets Unit Service (the "CMU"), operated by the Hong Kong Monetary Authority and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear an d/or Clearstream or CMU, or delivered outside a clearing system, as agreed between the relevant Issuer and the relevant Dealer.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or the securities laws of any state of the United States or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. The Notes may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States or, in the case of Notes being offered or sold in reliance on Category 2 of Regulation S under the Securities Act, to, or for the account or the benefit of U.S. persons (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirement of the Securities Act and all applicable securities laws of any state of the United States and any other jurisdiction. Registered Notes are subject to certain restrictions on transfer. See "*Subscription and Sale*".

MIFID II product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration such target market; however, a distributor subject to Directive 2014/65/EU (as amended, "MiFID II") is responsible for undertaking its own target market assessment in respect of the Notes and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "MiFID Product Governance Rules"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

IMPORTANT – EEA RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "*Prohibition of Sales to EEA Retail Investors*", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "Prospectus Regulation"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Programme is expected to be rated Baa2 by Moody's Investor Service, Inc. ("Moody's") and BBB by S&P Global Inc ("S&P"). Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Arrangers and Dealers for the Programme

Citigroup | **Shanghai Pudong Development Bank** | **SPDB International**

Offering Circular dated 11 October 2019

IMPORTANT NOTICE

The Bank (as to itself and the Group (as defined below)), having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Bank, the Bank and its subsidiaries ("Group"), the Programme and the Notes which is material in the context of the issue and offering of the Notes (including all information required by applicable laws, regulations and the listing rules of the relevant stock exchange, being the HKSE, the SGX-ST and/or such other stock exchange or market on which any Notes may be listed or admitted to trading, which, according to the particular nature of the Issuer, the Bank, the Group, the Programme and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Bank and the Group and of the rights attached to the Notes), (ii) all statements contained in this Offering Circular are in every material particular true and accurate and not misleading, (iii) the statements of intention, opinion, belief or expectation with respect to the Bank and the Group contained in this Offering Circular are honestly and reasonably made or held and have been reached after considering all relevant circumstances, (iv) there are no other facts in relation to the Bank, the Group, the Programme and the Notes the omission of which would, in the context of the issue of the Notes, make any statement in this Offering Circular misleading in any material respect and (v) all reasonable enquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such statements in this Offering Circular.

This Offering Circular includes particulars given in compliance with the HKSE Listing Rules for the purposes of giving information with regard to the Issuer and the Bank. Each of the Issuer and the Bank accepts full responsibility for the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statements herein misleading.

Listing of the Programme or any Series of Notes on the HKSE and/or the SGX-ST is not to be taken as an indication of the merits of the relevant Branch Issuer, the Bank, its subsidiaries and associated companies (if any), the Group, the Programme or such Series of Notes. In making an investment decision, investors must rely on their own examination of the relevant Branch Issuer, the Bank and the terms of the offering of the Notes, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

MIFID II PRODUCT GOVERNANCE/TARGET MARKET – THE PRICING SUPPLEMENT IN RESPECT OF ANY NOTES MAY INCLUDE A LEGEND ENTITLED "*MIFID II PRODUCT GOVERNANCE*" WHICH WILL OUTLINE THE TARGET MARKET IN RESPECT OF THE NOTES AND WHICH CHANNELS FOR DISTRIBUTION OF THE NOTES ARE APPROPRIATE. A DISTRIBUTOR SHOULD TAKE INTO CONSIDERATION SUCH TARGET MARKET; HOWEVER, A DISTRIBUTOR SUBJECT TO MIFID II IS RESPONSIBLE FOR UNDERTAKING ITS OWN TARGET MARKET ASSESSMENT IN RESPECT OF THE NOTES AND DETERMINING APPROPRIATE DISTRIBUTION CHANNELS.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

Important – EEA Retail Investors – If the Pricing Supplement in respect of any Notes includes a legend entitled "*Prohibition of Sales to EEA Retail Investors*", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE): In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

No person is or has been authorised by the relevant Branch Issuer or the Bank to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the relevant Branch Issuer, the Bank, or any of the Arrangers or the Dealers or the Agents. Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes should be considered as a recommendation by any of the relevant Branch Issuer, the Bank, any Arranger, any Dealer or any Agents that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. This Offering Circular does not take into account the objectives, financial situation or needs of any potential investor. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Branch Issuer and the Bank. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the relevant Branch Issuer, the Bank, any Arranger, any Dealer or any Agents to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the relevant Branch Issuer, the Bank or the Group since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the relevant Branch Issuer, the Bank or the Group since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Notes are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Offering Circular, see "*Subscription and Sale*" and the relevant Pricing Supplement.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UP ON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the relevant Branch Issuer, the Bank, any Arranger, any Dealer or any Agent makes any representation to any investor in the Notes regarding the legality of its investment under any applicable law. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions.

None of the relevant Branch Issuer, the Bank, the Arrangers, the Dealers or the Agents represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Pricing Supplement, no action has been taken by the relevant Branch Issuer, the Bank, the Arrangers, the Dealers or the Agents which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the EEA, the United Kingdom, Japan, the PRC, Hong Kong, Singapore, Macau and Taiwan. See "*Subscription and Sale*" and the relevant Pricing Supplement.

None of the Arrangers, the Dealers or the Agents independently verified the information contained herein. To the fullest extent permitted by law, none of the Arrangers, the Dealers or the Agents accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by any Arranger, Dealer or Agent on its behalf in connection with the relevant Branch Issuer, the Bank, the Programme or the issue and offering of the Notes. Each of the Arrangers, Dealers and Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Neither this Offering Circular nor any financial statements of the Bank or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the relevant Branch Issuer, the Bank, the Arrangers, the Dealers and the Agents that any recipient of this Offering Circular or any financial statements of the Bank or the Group should purchase the Notes. Each potential investor of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arrangers, the Dealers or the Agents undertakes to review the financial condition or affairs of the relevant Branch Issuer, the Bank or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers or the Agents.

From time to time, in the ordinary course of business, certain of the Dealers and their affiliates have provided advisory and investment banking services, and entered into other commercial transactions with the Bank and its affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Dealers and their affiliates will continue to provide such services to, and enter into such transactions with, the Bank and its affiliates in the future.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

In making an investment decision, each potential investor must rely on its own examination of the relevant Branch Issuer, the Bank or the Group and the terms of the Notes being offered, including the merits and risks involved. The Bank (or, as the case may be, the relevant Branch Issuer) does not, and the Arrangers, the Dealers and the Agents do not, make any representation regarding the legality of investment under any applicable laws.

Potential investors should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

In connection with the issue of any Tranche of the Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the relevant issue date in respect of that Tranche of the Notes. However, there is no obligation on such Stabilisation Manager(s) to do this. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

In this Offering Circular, unless otherwise specified, references to "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China, all references to the "PRC" or "China" are to the People's Republic of China, excluding Taiwan, Hong Kong and Macau, references to "U.S.$" or "U.S. dollars" are to the lawful currency of the United States of America, references to "Renminbi" or "RMB" are to the lawful currency of the PRC, and references to "Hong Kong dollars" or "HK$" are to the lawful currency of Hong Kong.

In this Offering Circular, unless otherwise specified, references to:

- the "Bank" are to Shanghai Pudong Development Bank Co., Ltd. and, as the context may require, its subsidiaries;
- the "Issuer" are to the Bank or, in respect of any Tranche of Notes issued by a Branch Issuer, such Branch Issuer as specified in the relevant Pricing Supplement;
- the "branch outlet" include the head office, branches and outlets and other establishments of the Bank;
- a "business day" are to a day that is not Saturday, Sunday or a public holiday in Hong Kong and Singapore; and
- the terms "associate", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the HKSE Listing Rules, unless the context otherwise requires.

Presentation of Financial Information

This Offering Circular contains the audited consolidated financial statements of the Bank for the years ended 31 December 2017 and 2018 and the unaudited but reviewed condensed interim financial statements of the Bank for the six months ended 30 June 2019 (which include the comparative financial information as at and for the six months ended 30 June 2018). The audited consolidated financial statements of the Bank for the years ended 31 December 2017 and 2018 were audited by PricewaterhouseCoopers Zhong Tian LLP ("PwC") and extracted from the Bank's published annual reports for the years ended 31 December 2017 and 2018, respectively. The unaudited but reviewed condensed interim financial statements of the Bank for the six months ended 30 June 2019 were reviewed by KPMG Huazhen LLP ("KPMG").

The audited consolidated financial statements and the unaudited but reviewed condensed interim financial statements of the Bank were prepared in accordance with the International Financial Reporting Standards ("IFRS") and International Accounting Standards 34 ("IAS 34"), respectively, issued by the International Accounting Standards Board (the "IASB").

As of 1 January 2018, the Bank adopted new accounting standards, including IFRS 9, which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected loss impairment model. The impact of the initial application of the new accounting standards is disclosed in note 2 of the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2018.

As of 1 January 2019, the Bank adopted additional new accounting standards, including IFRS 16, which are effective for accounting periods beginning on or after 1 January 2019. The IFRS 16 model introduces a single accounting model for lessees to recognise leases in the balance sheets. The impact of the initial application of the new accounting standards is disclosed in note 2 of the unaudited but reviewed condensed interim financial statements of the Bank as at and for the six months ended 30 June 2019.

According to the IFRS 9 and IFRS 16 transitional arrangements, upon initial application of IFRS 9 and IFRS 16, the Group is not required to restate the comparable figures of the prior period. Instead, differences caused by the adoption of the IFRS 9 or IFRS 16 model were adjusted to the beginning balance of retained earnings and other comprehensive income.

Unless otherwise stated, all financial data contained herein which is stated as relating to the Bank is referring to the consolidated data of the Bank.

In this Offering Circular, because certain amounts have been rounded, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items, and actual numbers may differ from those contained herein due to rounding.

Documents Incorporated by Reference

With respect to any Notes issued by the Bank or any Branch Issuer, this Offering Circular shall be read and construed in accordance with (i) each relevant Pricing Supplement, (ii) the most recently published audited consolidated annual financial statements of the Bank and the most recently published unaudited but reviewed condensed interim financial statements of the Bank prepared under IAS 34, in each case published from time to time after the date of this Offering Circular, and in each case together with any audit or review reports prepared in connection therewith, (iii) the most recently published unaudited and unreviewed quarterly interim consolidated reports of the Bank prepared under PRC GAAP, published subsequent to the date of this Offering Circular, and (iv) all amendments and supplements from time to time to this Offering Circular, each of which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with the contents of this Offering Circular.

The Bank publishes its consolidated semi-annual interim reports in respect of the six months ended 30 June of each financial year. A copy of the semi-annual interim reports can be found on the website of the Shanghai Stock Exchange. The semi-annual interim reports have not been, and will not be, audited by the Bank's auditors and were and will be prepared under IAS 34.

The Bank publishes its consolidated quarterly interim reports in respect of the three months ended 31 March and 30 September of each financial year. A copy of the quarterly interim reports can be found on the website of the Shanghai Stock Exchange. The quarterly interim reports have not been, and will not be, audited or reviewed by the Bank's auditors and were and will be prepared under PRC GAAP.

Each of the semi-annual and quarterly interim reports should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or, as applicable, review. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operation. Each of the semi-annual and quarterly interim reports should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available (upon written request) for inspection during usual business hours on any weekday (Saturdays and public holidays excepted) from the specified office of the Bank and of the Fiscal Agent (as defined below) as set out on the last page of this Offering Circular.

Supplemental Offering Circular

The Bank or the relevant Branch Issuer shall prepare and publish a new offering circular or a supplement to this Offering Circular (i) on or before each anniversary of the date of this Offering Circular, and (ii) in the event that a significant new factor, material mistake or material inaccuracy relating to the information included in this Offering Circular arises or is noted which is capable of affecting the assessment of any Notes which may be issued under the Programme. The Bank or the relevant Branch Issuer, as the case may be, shall procure that any such supplement to this Offering Circular or any such new offering circular is made available to the public in accordance with the requirements of any competent authorities, stock exchanges and/or quotation systems on which Notes are admitted to listing, trading and/or quotation, and shall deliver to the Dealers, without charge, from time to time as requested as many copies of any such supplement to the Offering Circular or any such new offering circular as the Dealers may reasonably request.

Special Note on Forward-Looking Statements

Certain statements under "*Risk Factors*", "*Description of the Bank*" and elsewhere in this Offering Circular constitute "forward-looking statements". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate", "may", "will" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Bank and the plans and objectives of the Bank's management for their future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Bank to differ materially from those expressed or implied by such forward-looking statements. Reliance should not be placed on these forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Bank's present and future business strategies and the environment in which the Bank will operate in the future. The Bank expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Bank's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This

Offering Circular discloses, under "*Risk Factors*", "*Description of the Bank*" and elsewhere, important factors that could cause actual results to differ materially from the Bank's expectations. All subsequent written and forward-looking statements attributable to each of the Bank or persons acting on behalf of each of them are expressly qualified in their entirety by such cautionary statements.

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OVERVIEW

The summary below is only intended to provide a limited overview of the information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety.

The Bank

The Bank is a national joint-stock commercial bank founded on 28 August 1992. The Bank commenced business on 9 January 1993 and was listed on the Shanghai Stock Exchange (Stock Code: 600000.SS) on 10 November 1999, becoming the first commercial bank listed on the Shanghai Stock Exchange following the promulgation of the PRC Securities Law.

The Bank's principal business activities are corporate and investment banking, personal banking and treasury business. As at 30 June 2019, the Bank had 41 first-level branches (including Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch (the "Hong Kong Branch"), Shanghai Pudong Development Bank Co., Ltd. Singapore Branch (the "Singapore Branch") and Shanghai Pudong Development Bank Co., Ltd., London Branch (the "London Branch")) and a total of 1,627 outlets, covering nearly all provinces, autonomous regions and municipalities in the PRC. The Bank is strategically focused in economically developed areas with higher levels of income, including the Yangtze River Delta region, the Pearl River Delta region, the Beijing-Tianjin-Hebei metropolitan region and the Yangtze River economic zone.

As at and for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, the Bank held RMB5,857.3 billion, RMB6,137.2 billion, RMB6,289.6 billion and RMB6,667.1 billion in total assets, respectively, RMB2,762.8 billion, RMB3,194.6 billion, RMB3,549.2 billion and RMB3,714.9 billion in loans of foreign and domestic currency, respectively, and RMB3,002.0 billion, RMB3,037.9 billion, RMB3,227.0 billion and RMB3,665.5 billion in total deposits from customers, respectively, while earning a net profit for the year attributable to shareholders of the Bank of RMB53,099 million, RMB54,258 million, RMB55,914 million after taxes, respectively and, for the six months ended 30 June 2018 and 2019, RMB28,569 million and RMB32,090 million, respectively.

In 2018, the Bank was ranked 70th place (13th place among PRC enterprises, ninth place among PRC banks) among the Forbes Global 2000 based on four aggregative indicators (namely sales, profit, assets and market capitalisation). The Bank was also ranked 227th place (48th place among PRC enterprises, seventh place among PRC banks) in Fortune's "Global 500", 25th place (eighth place among PRC banks) in terms of core capital and first place among all banks in terms of cost-to-income ratio in its list of Top 1000 World Banks and 13th place (sixth place among PRC banks) in its list of Top 500 Banking Brands by The Banker in 2018, with a brand worth of U.S.$14.772 billion, a jump of five places compared to its ranking in 2017. The Bank was ranked 17th place, (seventh place among other banks, second place among commercial banks of the same type) by Interbrand in 2018, with a brand worth of RMB18.7 billion. The Bank was also awarded, among others, the "Best Board of Directors" and the "Best New Media Operation" by Securities Times in the eighth Tianma – PRC Listed Companies Investor Relationships Selection. In addition, the Bank was also awarded the "2016 Most Influential Financial Brand" by Financial Times, the "2016 Best Wealth Management Bank" and the "2016 Best Internet Bank" by East Money Net, the "Best Private Bank for Transparency" among PRC private banks and the "Best Fund Management Project" by the Asian Banker and the golden award by the 21st Century Financial Report and 21st Century Commercial Comments. It ranked third in the "Top 100 Shanghai Enterprise" and second in the "Top 100 Shanghai Service Industry" by the Shanghai Enterprise Federation in 2016.

In January 2019, the Bank ranked 18th on the Top 500 Banking Brands list released by the British magazine The Banker, with a brand value of U.S.$13,252 million, being 7th among Chinese banks. In June, the Bank ranked 65th on the Forbes Global 2000 list, being 13th among Chinese companies and 9th among Chinese banks. In July, the British magazine The Banker released the ranking report of Top 1000 World Banks 2019, on which the Bank was ranked 24th in terms of Tier 1 capital and 9th among Chinese banks. In the same month, the Bank ranked 216th on the Fortune Global 500 list, being 56th among Chinese companies and 8th among Chinese commercial banks, demonstrating its sound competitiveness. Furthermore, it is one of the few domestic joint-stock commercial banks rated above investment grade by each of the Big Three credit rating agencies. As at the date of this Offering Circular, the Bank has a Long-Term Issuer Default Rating of BBB, issuer credit ratings of BBB (long-term) and A-2 (short-term) by S&P Global Ratings and deposit ratings of Baa2 (long-term) and Prime-2 (short-term) by Moody's Investors Service. All of the Bank's rating outlooks are stable. These ratings reflect the Bank's consistent execution of its business strategy and solid financial performance over the past few years.

As a dedicated financial service provider, the Bank is also committed to corporate citizenship and fulfilling its social responsibility. In 2018, the Bank received "Best Contribution Award for Targeted Poverty Alleviation" and "Best Outlet Award for Special CSR Contribution" granted by the China Banking Association. In 2017, the Bank was given "Best Green Finance Award" by the China Banking Association.

The Bank's Strengths

The Bank's principal strengths include:

- strong support from substantial shareholders;
- extensive distribution network and a diversified service channel throughout the PRC;
- steady development through adopting a customer-oriented strategy;
- commitment to strengthen its business structure and capital base; and
- experienced management team.

RECENT DEVELOPMENTS

The Bank opens its first overseas commodity centre in Singapore

The Bank opened its first overseas commodity centre in Singapore on 26 October 2018. The new centre will be engaged in commodity businesses from all over the world with its comprehensive suite of commodity-related financial services and solutions. The Bank hopes to leverage on Singapore's strategic importance as a global financial hub and commodity trading centre to promote the involvement of Chinese enterprises in global commodity trading activities as well as to strengthen the commodity service capabilities of Chinese banks.

The Bank's new accounting standard is different from its old standard

As of 1 January 2018, the Bank adopted new accounting standards, including IFRS 9, which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected loss impairment model. The impact of the initial application of the new accounting standards is disclosed in note 2 of the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2018.

As of 1 January 2019, the Bank adopted additional new accounting standards, including IFRS 16, which are effective for accounting periods beginning on or after 1 January 2019. The IFRS 16 model introduces a single accounting model for lessees to recognise leases in the balance sheets. The impact of the initial application of the new accounting standards is disclosed in note 2 of the condensed unaudited but reviewed condensed interim financial statements of the Bank as at and for the six months ended 30 June 2019.

According to the IFRS 9 and IFRS 16 transitional arrangements, upon initial application of IFRS 9 and IFRS 16, the Group is not required to restate the comparable figures of the prior period. Instead, differences caused by the adoption of the IFRS 9 or IFRS 16 model were adjusted to the beginning balance of retained earnings and other comprehensive income.

Potential issuance of A-share convertible corporate bonds

The shareholders of the Bank have approved the issuance of convertible bonds of up to RMB50 billion, which can be converted into common shares (A-shares) of the Bank. As at 22 August 2019, the Bank had received approvals from the Shanghai Municipal State-own Assets Supervision and Administration Commission, the CBIRC and the Issuance Examination Committee Securities of the China Securities Regulatory Commission (the "CSRC") for the issuance of such convertible bonds.

SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular have the same meanings in this summary.

Bank	Shanghai Pudong Development Bank Co., Ltd. (LEI: 300300C1031031001330).
Issuer	The Bank or, in respect of any Tranche of Notes issued by a Branch Issuer, such Branch Issuer as specified in the relevant Pricing Supplement.
Programme Size	Up to U.S.$5,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Risk Factors	Investing in Notes issuable under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Bank, or, as the case may be, a Branch Issuer to fulfil its obligations in respect of the Notes, and risk factors that are material for the assessment of market risks associated with Notes issued under the Programme, are discussed under the section "*Risk Factors*" below.
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Arrangers and Dealers	Citigroup Global Markets Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, Shanghai Pudong Development Bank Co., Ltd. Singapore Branch and SPDB International Capital Limited. The Bank may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. In relation to a particular Tranche of Notes, the relevant Issuer may appoint additional dealers. References in this Offering Circular to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Fiscal Agent and Calculation Agent	The Bank of New York Mellon, London Branch.
Principal Registrar and Principal Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch.

CMU Lodging and Paying Agent, CMU Registrar and CMU Transfer Agent	The Bank of New York Mellon, Hong Kong Branch.
Calculation Agent	The Bank of New York Mellon, London Branch as appointed by the Bank or, as the case may be, the relevant Branch Issuer, in respect of a Series of Notes pursuant to the terms of the Agency Agreement or such other Person in each case as specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "Series") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their issue price), and intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "Tranche") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment date of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.
Clearing Systems	Euroclear Bank SA/NV ("Euroclear"), Clearstream Banking S.A. ("Clearstream"), the Central Moneymarkets Unit Service (the "CMU") operated by the Hong Kong Monetary Authority (the "HKMA") and, in relation to any Tranche, such other clearing system as may be agreed between the relevant Issuer, Fiscal Agent, the CMU Lodging and Paying Agent and the relevant Dealer(s).
Form of the Notes	Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and *vice versa*. No single Series or Tranche may comprise both Bearer Notes and Registered Notes. Each Tranche of Bearer Notes will initially be represented by a Temporary Global Note or a Permanent Global Note, as specified in the applicable Pricing Supplement.

Each Global Note will be deposited on or around the relevant issue date with a common depositary for Clearstream and/or Euroclear and/or, in respect of CMU Notes, a sub-custodian for the CMU and/or, as the case may be, any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non- U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Notes will initially be represented by Global Note Certificates. Global Note Certificates representing Registered Notes will be registered in the name of a nominee for one or more of Euroclear and Clearstream and/or, in respect of CMU Notes, the Hong Kong Monetary Authority as the operator of the CMU.

Currencies . . . . Notes may be denominated in any currency or currencies, agreed between the relevant Issuer and the relevant Dealer(s) subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of the Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

Denominations . . . . Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Maturities . . . . Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Negative Pledge . . . . So long as any Note remains outstanding (as defined in the Agency Agreement), the Bank shall not, and the Bank shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest, other than a Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other security for the Notes as may be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

NDRC Post-issue Filing	Where the NDRC Circular applies to the Tranche of Notes to be issued, the Branch Issuer (acting through the Bank) or, as the case may be, the Bank undertakes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Quota (the "NDRC Post-issue Filing"). The Branch Issuer (acting through the Bank) or, as the case may be, the Bank shall complete the NDRC Post-issue Filing and obtain such document(s) evidencing due filing with the NDRC within the prescribed timeframe (if any) and shall comply with all applicable PRC laws and regulations in connection with the Notes. The Issuer shall within 15 PRC Business Days after completion of such NDRC Post-issue Filing give notice to the Noteholders and Couponholders in accordance with Condition 20 (*Notices*).
PBOC Post-issue Filing.	Where the PBOC Circular applies to the Tranche of Notes to be issued, the Bank undertakes to provide or cause to be provided a notification of the requisite information and documents in connection with such Tranche of Notes to the PBOC and/or SAFE within the prescribed timeframe after the relevant Issue Date in accordance with the PBOC Circular (the "PBOC Post-issue Filing"). The Bank shall complete the PBOC Post-issue Filing and obtain such document(s) evidencing due filing with the PBOC and/or SAFE within the prescribed timeframe (if any) and shall comply with all applicable PRC laws and regulations in connection with the Notes. The Bank shall within 15 PRC Business Days after completion of such PBOC Post-issue Filing give notice to the Noteholders and Couponholders in accordance with Condition 20 (*Notices*).
CBIRC Reporting	Where the CBIRC Measures applies to the Tranche of Notes to be issued, the Bank undertakes to complete the reporting in connection with such Tranche of Notes to the CBIRC (if applicable) within the prescribed timeframe after the relevant Issue Date in accordance with the CBIRC Approval (the "CBIRC Reporting"). The Bank shall complete the CBIRC Reporting and obtain such document(s) evidencing due reporting with the CBIRC within the prescribed timeframe (if any) and shall comply with all applicable PRC laws and regulations in connection with the Notes. The Bank shall within 15 PRC Business Days after completion of such CBIRC Reporting give notice to the Noteholders and Couponholders in accordance with Condition 20 (*Notices*).

PBOC Reporting	Where the PBOC Service Guidance applies to the Tranche of Notes to be issued, the Bank undertakes to complete the reporting in connection with such Tranche of Notes to the PBOC (if applicable) within the prescribed timeframe after the relevant Issue Date in accordance with the PBOC Approval (the "PBOC Reporting"). The Bank shall complete the PBOC Reporting and obtain such document(s) evidencing due reporting with the PBOC within the prescribed timeframe (if any) and shall comply with all applicable PRC laws and regulations in connection with the Notes. The Bank shall within 15 PRC Business Days after completion of such PBOC Reporting give notice to the Noteholders and Couponholders in accordance with Condition 20 (*Notices*).
Events of Default	Events of Default for the Notes are set out in Condition 14 (*Events of Default*).
Cross-acceleration	The Notes will contain a Cross-acceleration provision as further described in Condition 14(c) (*Cross-acceleration of Bank or Subsidiary*).
Withholding Tax	All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of a Tax Jurisdiction or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law.
Status of the Notes	The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Redemption	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement.

Optional Redemption	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement as described in Condition 10(c) (*Redemption at the option of the Issuer*) and/or the Noteholders to the extent (if at all) specified in Condition 10(e) (*Redemption at the option of Noteholders*).
Tax Redemption	Except as described in "Optional Redemption" above, early redemption will only be permitted for tax reasons as described in Condition 10(b) (*Redemption for tax reasons*).
Listing and Trading	Application will be made to the HKSE for the listing of the Programme on the HKSE by way of debt issues to Professional Investors only. Notes listed on the HKSE will be traded on the HKSE in a board lot size of at least HK$500,000 (or its equivalent in other currencies). Approval in-principle has been received from the SGX-ST for the establishment of the Programme and application will be made for permission to deal in and quotation for any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. If the application to the SGX-ST to list a particular Series of Notes is approved, for so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded, will be traded on the SGX-ST in a board lot size of at least S$200,000 (or its equivalent in other currencies). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval in-principle from, the admission of any Notes to the Official List of, and the quotation of any Notes on, the SGX-ST, are not to be taken as indications of the merits of the relevant Branch Issuer, the Bank, its subsidiaries and associated companies (if any), the Group, the Programme or such Notes. Unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the HKSE or the SGX-ST or listed, traded or quoted on or by any other competent authority, exchange or quotation system.
Governing Law	The Notes, the Deed of Covenant and the Agency Agreement and any non-contractual obligations arising out of or in connection with the Notes, the Deed of Covenant and the Agency Agreement are governed by English law.

Initial Delivery of the Notes . . . . . . On or before the issue date for each Series, the Global Note representing Bearer Notes or the Global Note Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and/or Clearstream and/or, in respect of CMU Notes, a sub-custodian for the CMU or any other clearing system or may be delivered outside any clearing system **provided** that the method of such delivery has been agreed in advance by the relevant Issuer, the Fiscal Agent, the CMU Lodging and Paying Agent, the Principal Registrar, the CMU Registrar and the relevant Dealers. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of a nominee for or the operator of, such clearing systems.

SUMMARY FINANCIAL INFORMATION OF THE BANK

The following tables set forth the summary consolidated financial information of the Group as at and for the periods indicated.

The selected financial information presented below as at and for the years ended 31 December 2016, 2017 and 2018 were extracted from the Group's audited consolidated financial statements for the years ended 31 December 2017 and 2018, which were audited by PwC.

The selected financial information presented below as at and for the six months ended 30 June 2018 and 2019 were extracted from the Bank's reviewed condensed interim financial statements for the six months ended 30 June 2019, which have not been audited by PwC, KPMG or any other auditors but have been reviewed by KPMG.

The interim financial statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or, as the case be, a review. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operations.

The audited consolidated financial information as at and for the years ended 31 December 2016, 2017 and 2018 are prepared and presented in accordance with IFRS. The unaudited but reviewed condensed interim financial statements as at and for the six months ended 30 June 2018 and 2019 were prepared in accordance with the International Accounting Standards 34 ("IAS 34"). This Offering Circular does not contain a reconciliation of the financial information presented in IAS 34 and related footnote disclosures to IFRS, nor does it include any information in relation to the differences between IAS 34 and IFRS. Had the unaudited but reviewed condensed interim financial statements instead been prepared in accordance with IFRS, the presentation of the Bank's results of operations and financial position may have been materially different. Accordingly, in making an investment decision, potential investors should consult their own professional advisers for an understanding of the differences between IAS 34 and IFRS and how these differences might affect the financial information stated herein.

As of 1 January 2018, the Bank adopted new accounting standards, including IFRS 9 (Financial Instruments), which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected loss impairment model. The impact of the initial application of the new accounting standards is disclosed in note 2 of the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2018.

As of 1 January 2019, the Bank adopted additional new accounting standards, including IFRS 16, which are effective for accounting periods beginning on or after 1 January 2019. The IFRS 16 model introduces a single accounting model for lessees to recognise leases in the balance sheets. The impact of the initial application of the new accounting standards is disclosed in note 2 of the unaudited but reviewed condensed interim financial statements of the Bank as at and for the six months ended 30 June 2019.

According to the IFRS 9 and IFRS 16 transitional arrangements, upon initial application of IFRS 9 and IFRS 16, the Group is not required to restate the comparable figures of the prior period. Instead, differences caused by the adoption of the IFRS 9 or IFRS 16 model were adjusted to the beginning balance of retained earnings and other comprehensive income.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Group, including the notes thereto, included elsewhere in this Offering Circular.

The Issuer has prepared English translations of the Bank's audited financial statements as at and for the years ended 31 December 2017 and 2018 and its unaudited but reviewed condensed interim financial statements as at and for the six months ended 30 June 2019 as set out elsewhere in this Offering Circular. The Arrangers and Dealers have not independently verified or check the accuracy of the English translations and can give no assurance that the information contained in the English translations of the Bank's financial statements is accurate, truthful or complete.

SELECTED FINANCIAL INFORMATION

Consolidated Statements of Financial Position prepared according to IFRS

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	(All amounts expressed in millions of RMB unless otherwise stated)			
Assets				
Cash and balances with central bank	517,230	486,531	443,723	395,053
Deposits and placements with banks and other financial institutions	353,115	177,187	236,535	268,419
Precious metals	9,548	10,261	10,475	24,182
Financial assets at fair value through profit or loss	177,203	162,866	N/A	N/A
Derivative financial assets	16,233	28,264	43,274	39,552
Financial assets purchased under resale agreements	3,001	13,974	11,573	1,678
Loans and advances to customers	2,674,557	3,103,853	3,455,489	3,621,476
Available-for-sale financial assets	620,463	664,508	N/A	N/A
Investment securities – held-to-maturity	326,950	444,726	N/A	N/A
Investment securities – loans and receivables	1,010,472	832,598	N/A	N/A
Investment in associates and joint ventures	949	1,006	1,968	1,965
Financial investments				
– trading assets – financial investment at fair value through profit or loss	N/A	N/A	395,668	441,990
– debt investments at amortised cost	N/A	N/A	1,144,249	1,229,916
– other debt investments at fair value through other comprehensive income	N/A	N/A	378,860	412,249
– other equity investments at fair value through other comprehensive income	N/A	N/A	4,038	4,823
Property and equipment	20,592	21,877	23,718	24,932
Construction in process	2,749	4,674	4,499	4,966
Intangible assets	9,504	9,346	9,257	9,247
Deferred income tax assets	21,838	29,022	36,877	37,437
Other assets	92,859	146,547	89,403	149,262
Total Assets	5,857,263	6,137,240	6,289,606	6,667,147
Liabilities				
Borrowing from central bank	147,622	182,387	221,003	195,170
Deposits and placements from banks and other financial institutions	1,439,095	1,453,100	1,216,391	1,044,690
Financial liabilities at fair value through profit or loss	29,526	28,333	34,912	39,649
Derivative financial liabilities	13,091	30,034	42,793	39,584
Financial assets sold under repurchase agreements	93,200	184,464	119,564	128,026
Deposits from customers	3,002,015	3,037,936	3,253,315	3,697,528
Income tax payable	13,811	16,435	16,657	15,098
Debt securities issued	664,683	686,296	841,440	896,520
Deferred income tax liabilities	717	680	643	639
Provisions	N/A	N/A	4,747	4,669
Other liabilities	80,569	86,590	59,761	106,324
Total liabilities	5,484,329	5,706,255	5,811,226	6,167,897

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	(All amounts expressed in millions of RMB unless otherwise stated)			
Equity				
Share capital	21,618	29,352	29,352	29,352
Preference shares	29,920	29,920	29,920	29,920
Capital surplus	74,678	81,760	81,760	81,760
Surplus reserves	78,689	94,198	109,717	125,805
General risk reserve	65,493	75,702	75,946	76,125
Other reserves	233	(5,335)	4,659	4,854
Retained earnings	97,316	119,807	140,208	144,540
Equity attributable to Bank's shareholders	367,947	425,404	471,562	492,356
Non-controlling interests	4,987	5,581	6,818	6,894
Total equity	372,934	430,985	478,380	499,250
Total liabilities and equity	5,857,263	6,137,240	6,289,606	6,667,147

Consolidated Statements of Comprehensive Income prepared according to IFRS for the years ended 31 December 2016, 2017 and 2018

	For the year ended 31 December		
	2016	2017	2018
	(All amounts expressed in millions of RMB unless otherwise stated)		
Interest income	214,814	245,818	267,488
Interest expense	(106,694)	(138,906)	(155,644)
Net interest income	108,120	106,912	111,844
Fee and commission income	43,236	50,773	46,205
Fee and commission expense	(2,544)	(5,193)	(7,196)
Net fee and commission income	40,692	45,580	39,009
Dividend income	64	239	40
Net trading income	4,199	9,064	16,175
Net gains arising from financial investments	4,344	388	339
Net gains on disposal of associates	1,068	–	–
Other operating income	2,594	6,609	4,097
Employee benefit expenses	(21,410)	(23,296)	(24,643)
Operating expenses	(13,667)	(16,293)	(16,538)
Depreciation expenses for property and equipment	(2,651)	(2,577)	(2,931)
Business tax and surcharges	(4,444)	(1,610)	(1,852)
Impairment losses on assets	(49,104)	(55,285)	(60,420)
Share of results of associates and joint ventures	180	97	164
Profit before income tax	69,975	69,828	65,284
Income tax expense	(16,297)	(14,826)	(8,769)
Net profit for the year	53,678	55,002	56,515
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
– Changes in fair value attributable to debt instruments at FVOCI	N/A	N/A	6,324
– Credit impairment losses attributable to debt instruments at FVOCI	N/A	N/A	62
– Share of other comprehensive income of associates and joint ventures, after tax	18	–	–
– Changes in fair value of available-for-sale financial assets	(5,624)	(5,440)	N/A
– Exchange differences from the translation of foreign operations	127	(132)	266
– Other comprehensive income, after tax	(5,479)	(5,572)	6,983
Total comprehensive income for the year	48,199	49,430	63,498
Net profit for the year attributable to:			
– Shareholders of the Bank	53,099	54,258	55,914
– Non-controlling interests	579	744	601
	53,678	55,002	56,515
Total comprehensive income for the year attributable to:			
– Shareholders of the Bank	47,619	48,690	62,893
– Non-controlling interests	580	740	605
	48,199	49,430	63,498
Basic and diluted earnings per share attributable to the holders of the Bank's ordinary shares (expressed in RMB per share)	1.85	1.84	1.85

Consolidated Statements of Comprehensive Income prepared according to IFRS for the six months ended 30 June 2018 and 2019

	For the six months ended 30 June	
	2018	2019
	(All amounts expressed in millions of RMB unless otherwise stated)	
Interest income	132,623	140,097
Interest expense	(81,326)	(75,833)
Net interest income	51,297	64,264
Fee and commission income	22,663	27,515
Fee and commission expense	(2,803)	(4,825)
Net fee and commission income	19,860	22,690
Net trading income	8,720	8,394
Net gains arising from financial investments	933	1,239
Other operating income	1,181	949
Operating expenses	(20,977)	(22,493)
Impairment losses	(26,929)	(36,934)
Share of profits from associates and joint ventures	76	90
Profit before income tax	34,161	38,199
Income tax expense	(5,261)	(5,802)
Net profit	28,900	32,397
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
– Changes in fair value of debt instruments at FVOCI	2,460	137
– Credit impairment allowance of debt instruments at FVOCI	245	1
– Cash flow hedge reserve	–	(2)
– Changes in fair value of equity instruments at fair value through other comprehensive income	(10)	203
– Exchange differences from the translation of foreign operations	24	(144)
– Other comprehensive income, after tax	2,719	195
Total comprehensive income for the year	31,619	32,592
Net profit attributable to:		
– Shareholders of the Bank	28,569	32,090
– Non-controlling interests	331	307
	28,900	32,397
Total comprehensive income attributable to:		
– Shareholders of the Bank	31,286	32,285
– Non-controlling interests	333	307
	31,619	32,592
Basic and diluted earnings per share attributable to the holders of the Bank's ordinary shares (expressed in RMB per share)	0.95	1.07

RISK FACTORS

Investors should carefully consider, together with all other information contained in this Offering Circular, the risks and uncertainties described below. The business, financial condition or results of operations of the Bank may be materially and adversely affected by any of these risks. The Bank believes the risks described below represent the principal risks inherent when considering an investment in the Notes. The risks described below are not the only ones relevant to the relevant Branch Issuer, the Bank or the Notes. Additional risks and uncertainties not presently known to the Bank, or which the Bank currently deems immaterial, may also have an adverse effect on an investment in the Notes.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Bank's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors.

RISKS RELATING TO THE BANK'S BUSINESS

If the Bank is unable to realise the collateral or guarantees securing its loans to cover the outstanding principal and interest balance of its loans, its financial condition and results of operations may be adversely affected.

A substantial portion of the Bank's loans is secured by collateral. As at 30 June 2019, 34.09 per cent. and 5.48 per cent. of the Bank's total loans were secured by mortgages and pledges, respectively, and 19.23 per cent. were secured by guarantees. As at 31 December 2016, 2017, 2018 and 30 June 2019, the coverage ratio of the Bank's provisions for non-performing loans (representing the Bank's impaired loans as reflected in its consolidated financial statements) ("NPL") to total NPLs was 169.13 per cent., 132.44 per cent., 154.88 per cent. and 156.51 per cent., respectively. The amount of the Bank's allowances for impairment losses on loans is determined based on the Bank's assessment of factors that may affect the quality of the loans. These factors include, among others, the borrowers' financial conditions, the ability of the guarantors of the borrowers to fulfil their obligations, the performance of the PRC's economy, the government's macroeconomic policies, interest rates, exchange rates and the legal and regulatory environment. Most of these factors are beyond the Bank's control. The adequacy of the Bank's allowances for impairment losses depends on the reliability of, and the Bank's skills in applying, the Bank's assessment system to estimate these losses, as well as the Bank's ability to accurately collect, process and analyse relevant statistical data.

The Bank's loan collateral primarily includes real estate and other financial and non-financial assets located in the PRC, the value of which may fluctuate or decline due to factors beyond the Bank's control, including macroeconomic factors affecting the PRC economy. In particular, an economic slowdown in the PRC may lead to a downturn in the PRC real estate market, which may in turn result in declines in the value of the collateral securing many of the Bank's loans to levels below the outstanding principal balance of such loans. Any significant decline in the value of the collateral securing the Bank's loans may result in a reduction in the amount the Bank can recover from collateral realisation and an increase in its impairment losses.

In the PRC, the procedures for liquidating or otherwise realising the value of non-cash collateral may be protracted, and it may be difficult to enforce claims in respect of such collateral. As a result, it may be difficult and time-consuming for the Bank to take control of or liquidate the collateral securing NPLs. If the value of the Bank's collateral decreases to a level that is insufficient to cover the outstanding amounts for loans, or if we are unable to realise the full value of the collateral and guarantees securing our loans on a timely basis, it may materially and adversely affect the Bank's asset quality, financial condition and results of operations. In addition, the procedures for liquidating or otherwise realising the value of collateral of borrowers in China may be protracted, and the enforcement process in China may be difficult. According to a judicial interpretation issued by the Supreme Court of the PRC, effective from 21 December 2005 and amended in December 2008, courts may not enforce the eviction of a borrower and his dependent families out of their residence if such residence under collateral is their primary residence in the six months following the courts' decision authorizing that such collateral be auctioned, sold or liquidated. As a result, it may be difficult and time-consuming for banks to take control of or liquidate the collateral securing NPLs. Furthermore, certain specified claims may enjoy priority over the Bank's rights on loan collaterals. According to the "PRC Enterprise Bankruptcy Law" promulgated on 27 August 2006 and effective as of 1 June 2007, claims raised by employees on arrears of pay as well as other fees and expenditures prior to 27 August 2006 for enterprises in bankruptcy proceedings shall be given priority over the Bank's rights to collateral, on the premise that other assets of the enterprise are not sufficient to fulfil such claims. Accordingly, if a borrower fails to repay and if the Bank is not able to timely realise the entire or sufficient part of the value of collateral, pledged assets or guarantees represented, the Bank's asset quality, business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank has granted loans to the real estate sector and any significant or extended downturn in or change in national policies towards the real estate sector may adversely affect the Bank's financial condition and results of operations.

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Bank's corporate loans represented 62.66 per cent., 56.9 per cent., 51.17 per cent. and 50.29 per cent. of the Bank's total loans, respectively. As at 30 June 2019, the Bank's domestic corporate loans to the real estate sector represented approximately 15.74 per cent of the Bank's total corporate loans. As at 31 December 2016, 2017, 2018 and 30 June 2019, the total amount of loans granted to the Bank's single largest customer accounted for 1.58 per cent., 2.13 per cent., 1.75 per cent. and 1.47 per cent., respectively, of the Bank's net capital.

The Bank's loans and advances to the real estate sector primarily comprise loans issued to real estate companies, including, among others, loans for real estate development, and land reservation loans issued to companies specialising in land reservation.

With respect to its real estate loans, the Bank follows strictly its credit risk management procedures, including ongoing credit monitoring of borrowers' financial information, and strictly enforcing repayment schedules. In addition, the Bank has strengthened the on-spot examination of key business fields such as real estate loans. The Bank has instructed its branches to strengthen research of regional and local real estate market conditions, adjust credit guidelines applicable to real estate loans and implement different credit limits to reflect different levels of risk for these loans.

The PRC real estate market is subject to volatility and property prices have experienced significant fluctuations in recent years. The PRC government has in recent years imposed macroeconomic control measures that are aimed at preventing the real estate market from over-heating, such as setting minimum down payment requirements and minimum mortgage rates on residential housing purchases, imposing business taxes on the transfer of certain residential properties and levying mandatory personal income tax for second home sales. Such measures may adversely affect the growth of the Bank's loans related to real estate. In addition, if the real estate market in the PRC experiences a significant downturn, the value of the real estate securing the Bank's loans may decrease, resulting in a reduction in the amount the Bank can recover on its loans in the event of default. This may in turn materially and adversely affect the Bank's asset quality, business, financial condition and results of operations.

Any deficiencies in the Bank's risk management and internal control system may adversely affect the Bank's financial condition and results of operations.

Financial and operational risks are inherent to the Bank's businesses. The Bank is required under relevant laws and regulations in the PRC to establish sound internal control policies and procedures with respect to its daily management and operation. Although systems and procedures are in place to identify and report on a timely basis the liquidity, foreign exchange, interest rate, credit, management and operational risks arising from the activities of the Bank's existing and proposed businesses, there can be no assurance that these systems and procedures are able to effectively identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct, and the precautions undertaken by the Bank to prevent and detect such activities may not be effective. The Bank may need to continue to improve its current, and implement new, policies and measures. There can be no assurance that misconduct will not occur in the future. In addition, many of the Bank's current systems have a significant manual component. There are additional risks inherent in any manual risk management system, including human error. The reliability of the systems and the information generated from them depends on, *inter alia*, the configuration and design of the systems, the built-in system control features and the internal control measures surrounding them. There can be no assurance that failure of the Bank's internal controls will not occur in future, which may cause a negative impact on the Bank.

The Bank has established its own relevant credit risk mechanism. Its mechanism involves detailed analysis of its borrowers' credit risk, taking into account both quantitative and qualitative factors. Therefore, the Bank may be exposed to risks associated with inaccurate assessments. The Bank's credit rating system is also limited by the information available to it and the credit history of its borrowers. The Bank may fail to identify potential risks relating to certain industries, including the real estate industry, and certain borrowers, including affiliated companies and group enterprises, on a timely basis given the resources and tools available to it. In addition, the Bank's employees may fail to enforce its credit policies and guidelines, such as monitoring loans after they are issued, which may increase the Bank's credit risk. If the Bank fails to effectively enforce or improve its credit risk management policies and guidelines, its business operations, financial results and reputation may be materially and adversely affected.

The Bank may be subject to litigation and regulatory investigations or proceedings and may not be successful in defending itself against such litigation, investigations or proceedings.

The Bank faces risks of lawsuits and arbitration claims in the ordinary course of its business. Most of these proceedings are initiated by the Bank to enforce loan recovery, as well as litigation and arbitration resulting from disputes with customers. The claims and charges may involve actual damages and contractually-agreed-upon liquidated sums. If a judgment or award is rendered against the Bank, it would incur a loss against earnings to the extent a reserve had not been established for the matter in its financial statements, or to the extent the claims were not sufficiently covered by the insurance coverage of the Bank. If claims brought against the Bank or by the Bank are not resolved or settled through negotiation or mediation, the Bank may be involved in lengthy and costly litigation or arbitration proceedings, which may distract the Bank's financial and managerial resources. Amounts ultimately realised from a particular project or other claims by the Bank could differ materially from the balances included in the financial statements, resulting in a loss against earnings of the Bank to the extent profit has already been accrued on such project or other contract. Charges and write-downs associated with claims brought against the Bank may have a material adverse impact on the financial condition, results of operations and cash flow of the Bank. Moreover, legal proceedings resulting in judgments or findings against the Bank may harm its reputation and damage its prospects for future contract awards and business.

The Bank may also be subject to inquiries, investigations and/or proceedings by regulatory and other governmental agencies in the ordinary course of its business. In January 2018, the Bank's Chengdu Branch was fined RMB461.75 million by the Sichuan office of CBIRC for offering credit to shell companies to cover its non-performing loans. Furthermore, in February 2018, the Bank received penalty notices from the CBIRC for 19 instances of non-compliance, was fined RMB58.45 million and the Bank's illegal income of approximately RMB0.11 million was forfeited. Smaller penalties have also been imposed by other provincial offices of the CBIRC, as well as by the PBOC, for matters such as failure to comply with anti-money laundering background check requirements and non-compliance with requirements applicable to interbank deposits, security and other administrative matters.

The Bank takes an active approach in defending claims and investigations, yet, such investigations and litigations may have or will cause serious damage to the Bank's reputation, which may further affect the Bank's business, results of operations and financial condition. Meanwhile, adverse publicity about these types of concerns relating to the Bank's brand, whether or not legitimate, may decrease the customers' confidence in the Bank's brand, even may result in losses which the Bank may not be able to recover. Actions brought against the Group or any of its subsidiaries may result in settlements, injunctions, fines, penalties, stock delisting or other results adverse to it that could harm its reputation. Even if the Group or any such subsidiary is successful in defending itself against these actions, the costs of such defence may be significant. In market downturns, the number of legal claims and amount of damages sought in litigation and regulatory proceedings may increase. A significant judgement or regulatory action against the Group or any of its subsidiaries, or a disruption in its business arising from adverse adjudications in proceedings against its directors, officers or employees, would have a material adverse effect on the liquidity, business, financial condition, results of operations and prospects of the Group.

The Bank may not be able to timely detect or prevent fraud or other misconduct by its employees or third parties.

The Bank may be subject to fraud and other misconduct committed by its employees, customers or other third parties, which could adversely affect its business operations, financial results and reputation. Common weaknesses that facilitate fraud include inadequate segregation of duties, insufficient access controls and certain actions taken by employees which are not consistent with the Bank's internal control policies. While the Bank is implementing measures aimed at detecting and minimising employees' and third parties' misconduct and fraud, it may not always be able to timely detect or prevent such misconduct, and it may need to continue to improve its current, and implement new, policies and measures. If the Bank is unable to effectively manage and supervise its branches and subsidiaries, it may not be able to timely detect or prevent fraud or other misconduct of its employees or third parties, which may result in damage to its reputation and an adverse effect on its business, financial condition and results of operations. There have been previous incidences of such fraud or other misconduct of the branch employees which have led to investigations and conviction.

The Bank is subject to fluctuations in interest rates and currency exchange rates and other market risks.

The Bank's results of operations significantly depend on its net interest income, which represented 67.25 per cent., 63.40 per cent., 65.20 per cent., 62.51 per cent. and 65.83 per cent. of the Bank's operating income for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019, respectively. Fluctuations in interest rates could adversely affect the Bank's financial condition and results of operations in different ways. In addition, adjustments made by the PBOC to the benchmark interest rates on loans or deposits, or any changes in market interest rates, may negatively impact the Bank's financial condition and results of operations. For example, changes in the PBOC benchmark interest rates could affect the average yield on the Bank's interest-earning assets and the average cost on the Bank's interest-bearing liabilities to different extents and may narrow the Bank's net interest margin, leading to a reduction in the Bank's net interest income. In addition, an increase in interest rates for loans could result in increases in the financing costs of the Bank's customers, reduce overall demand for loans and increase the risk of customer default, while a reduction in interest rates for deposits could cause the Bank's depositors to withdraw their funds from the Bank. Moreover, the PRC government has gradually liberalised the regulation of interest rates in recent years. The upper limit of the interest rate floating range was removed by the PBOC on 24 October 2015. On the other hand, the PBOC continues to liberalise the restrictions on interest rates for loans. For example, on 20 July 2013, the PBOC eliminated the minimum interest rate requirements for RMB-denominated loans. Further liberalisation may result in greater interest rate volatility as well as intensified competition, both in deposit and lending businesses. Such competition could result in an increase in cost of funds and a decrease in pricing on loans, which in turn could lead to a decrease in the Bank's net interest income. In addition, despite the liberalisation of interest rate regulation which allows the Bank to charge different interest rates to borrowers with different credit ratings, the Bank may not be able to benefit from such liberalisation because it takes time for the Bank to change its lending practice and culture. Certain portion of the Bank's outstanding interest-earning assets and interest-bearing liabilities are denominated in foreign currencies. As a result, the Bank's financial condition and results of operations are also affected by fluctuations in the interest rates associated with these foreign currencies.

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and it currently has exchange rate contracts, interest rate contracts and commodity derivatives contracts with a number of domestic and international banks, financial institutions and other entities. As a result, the Bank is subject to credit risk from the Bank's various counterparties. As at 30 June 2019, the notional amount of the Bank's outstanding derivative financial instruments amounted to RMB7,905.13 billion, and the fair value of the Bank's outstanding derivative assets and liabilities amounted to RMB39,552 million and RMB39,584 million, respectively. Although the Bank cautiously evaluates the credit risks from the Bank's counterparties in the derivative transactions and believes that the overall credit quality of its counterparties is adequate, there can be no assurance that parties with significant risk exposure will not have difficulty in fulfilling derivative contracts that may cause losses for the Bank.

The Bank also engages in foreign exchange transactions and derives an amount of its income in foreign currencies. The Bank's overseas operations also require capital in foreign currencies. The Bank tries to minimise its foreign currency mismatch by managing the source and use of capital in foreign currencies. The Bank's ability to manage its foreign currency exposure is constrained by the limited market risk management and hedging tools available to it and the fact that Renminbi is yet to be freely convertible. To the extent the Bank's foreign currency-denominated assets and liabilities are not matched in the same currency or appropriately hedged, fluctuations in foreign currency exchange rates against Renminbi may adversely affect the Bank's financial condition, including its capital adequacy ratios. Fluctuations in foreign exchange rates may create foreign currency translation gains or losses.

A number of factors could potentially affect the PRC overall economy. The PRC economy could also be impacted by past or future global financial crises and the tightening of the global credit markets, which have in the past and may once again result in extreme volatility and dislocation of the global capital markets. Continued market uncertainties may also lead to more volatility in interest and foreign currency exchange rates. There can be no assurance that the Bank's business, financial condition and results of operations will not be materially and adversely affected by liquidity shortages and credit market disruptions as a result of events impacting the global economy, global markets and the PRC economy.

There are operational risks associated with the Bank's industry which, if realised, may have an adverse impact on its business.

Like all other financial institutions, the Bank is exposed to many types of operational risks, including the risk of fraud, unauthorised transactions or other misconduct by employees (including the violation of regulations for the prevention of corrupt practices, and other regulations governing the Bank's business activities), or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. The Bank is further exposed to the risk that external vendors may be unable to fulfil their contractual obligations to it (or will be subject to the same risk of fraud or operational errors by their employees). Moreover, the Bank is exposed to the risk that its (or its vendors')）business continuity and data security systems prove not to be sufficient in case of a system failure or natural disaster.

Given the Bank's high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. In addition, the Bank's dependence upon automated systems to record and process transactions may further increase the risk of technical system flaws or employee tampering or manipulation of those systems that will result in losses that may be difficult to detect. The Bank may also be subject to disruptions of its operating systems, arising from events that are wholly or partially beyond its control (including, for example, computer viruses or electrical or telecommunication outages), which may give rise to a deterioration in customer service and to loss or liability to it. The Bank also faces the risk that the design of its controls and procedures may prove inadequate or are circumvented, thereby causing delays in detection of errors in information. Although, like all banks, the Bank maintains a system of controls designed to reduce operational risks to a reasonably low level, the Bank has suffered losses from operational risks and there can be no assurance that the Bank will not suffer material losses from operational risks in the future. The Bank's reputation could be adversely affected by the occurrence of any such events involving its employees, customers or third parties. In addition to internal factors that may affect the Bank's operations, the rapid growth and expansion of its business in recent years as compared to other banks may have also resulted in increasing complexity in its internal and external control systems and risk management measures, which may add to its operational risks.

The Bank's expanding range of products and services exposes it to new risks.

The Bank has been expanding and intends to continue to expand the range of its products and services. Expansion of its business activities and product range exposes the Bank to a number of risks and challenges, including the following:

- the Bank may not have sufficient experience or expertise in certain new products and services and may not compete effectively in these areas;
- the new products and services may not be accepted by the Bank's customers or meet its expectations for profitability;
- the new products and services may give rise to potential disputes or claims from customers;
- the Bank may not be able to hire or retrain personnel who are able to conduct new business activities;
- the Bank may fail to obtain regulatory approval for its new products or services; and
- the Bank may not be successful in enhancing its risk management capabilities and information technology systems to support a broader range of products and services.

If the Bank is unable to achieve the intended results from the expansion of its range of products and services, its business, financial condition and results of operations may be materially and adversely affected. In addition, if the Bank fails to promptly identify and expand into new areas of business to meet the increasing demand for certain products and services, the Bank may fail to maintain its market share or lose some of its existing customers.

The Bank is subject to credit and funding risks with respect to certain off-balance sheet commitments.

In the normal course of its business, the Bank makes commitments and guarantees which are not reflected as liabilities on its balance sheet, including commitments, certain guarantees and letters of credit relating to the performance of its customers. The Bank is subject to the credit risk of its customers as a result of these off-balance sheet undertakings. Over time, the creditworthiness of the Bank's customers may deteriorate and the Bank may be called upon to fulfil its commitments and guarantees in case any of its customers fail to perform their obligations owed to third parties. If the Bank is unable to obtain payment or other indemnification from its customers in respect of these commitments and guarantees, its business, financial condition and results of operations may be adversely affected.

The Bank may not be able to maintain the growth of its loan portfolio.

The growth of the Bank's loan portfolio may be affected by various factors, such as the PRC's macroeconomic policies and capital constraints. In the future, the growth rate of the Bank's loan portfolio may slow down, or the balance of the Bank's loan portfolio may even decline. In addition, in response to constraints on the Bank's regulatory capital, the Bank may adopt strategies to reduce the Bank's reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of the loan portfolio and thereby materially affect the Bank's business, financial condition and results of operations.

The Bank may not be able to maintain the growth rate of its retail banking business.

As one of the leading commercial banks in the PRC, the Bank may not be able to maintain its competitive position or sustain its growth rate due to increasing market saturation and competition, changes in government regulations in the banking industry in the PRC and other factors, any of which may adversely affect its business, financial condition and results of operations.

For example, on 23 February 2013, the State Council promulgated the Notice of the General Office of the State Council on Continuing Regulation and Control of Real Estate Market 《國務院辦公廳關於繼續做好房地產市場調控工作的通知》, which requires banking institutions to implement differentiated housing credit policies, further implement the policy of down payment ratio and mortgage rate for first time house buyers and tighten the credit policies for buyers for second or additional homes, and imposes a personal income tax on the profit generated from sale of residential property. Such measures may slow down the development of the residential real estate market in the PRC, hinder the increase in residential mortgages and reduce the average amount of residential mortgages, and thus have a material adverse impact on the Bank's retail banking business. On 29 September 2014, the PBOC and CBRC jointly promulgated the Notice on Further Improving Financial Services for Housing 《關於進一步做好住房金融服務工作通知》, which allows households owning only one residential property and having paid all mortgages on such property to enjoy the benefit of first time home buyers under certain circumstances. However, such policies are subject to further change and implementation by banks in the PRC.

The rapid expansion of the Bank's retail banking business also increases its exposure to changes in economic conditions affecting Chinese consumers. For example, a slowdown in the PRC's economic development could adversely affect the ability of retail borrowers and credit card holders to make payments, thereby increasing the probability of defaults and reducing the demand for retail loans and credit cards. Such a slowdown may also reduce the demand for our non-interest-based products and services, which could result in a reduction in, among others, our credit card transaction volumes and sales of investment products. Accordingly, economic difficulties in the PRC that have a material adverse effect on PRC consumers could materially and adversely affect the bank's business, financial condition and results of operations.

The Bank is subject to the supervision and inspection of regulators in jurisdictions where it operates.

The Bank is subject to supervision and inspection by the PRC's regulatory institutions, including the Ministry of Finance ("MOF"), the PBOC, CBIRC, the CSRC, the State Administration of Taxation ("SAT"), the State Administration of Industry & Commerce, the State Administration of Foreign Exchange ("SAFE") and the National Audit Office.

Furthermore, the Bank is also subject to inspection and supervision of regulatory institutions in locations where it operates and the Bank's branches and sub-branches must follow local laws, regulations and regulatory requirements of relevant local regulatory institutions. For example, the Hong Kong Branch is subject to supervision and inspection by the Hong Kong regulatory authorities, including the HKMA and the SFC. There can be no assurance that the Bank's branches and sub-branches will be able to meet the applicable laws and regulatory requirements at all times. Any failure of the Bank to meet these requirements may result in fines, penalties or sanctions which may materially and adversely affect the Bank's operations, reputation, business, financial position and results of operations.

The Bank is subject to risks associated with its derivative transactions and investment securities.

The Bank enters into derivative transactions primarily for trading, asset and liability management, and on behalf of its customers. There are, among others, credit, market and operational risks associated with these transactions. In addition, despite the relatively well-developed market practice and documentation for derivative transactions in the international financial markets, the PRC's derivative transactions system still remains in its early development stage and the PRC courts have limited experience in dealing with issues related to derivative transactions. This may further increase the risks associated with these transactions. In addition, the Bank's ability to adequately monitor, analyse and report these derivative transactions is subject to the development of the Bank's information technology system. As a result, the Bank's financial condition and results of operations may be adversely affected by these derivative transactions.

The Bank may, from time to time, invest in securities including bonds, debentures or other financial instruments, both domestically issued in the PRC and offshore. Such investments are subject to credit, market, liquidity and other types of risks associated with such investments.

The Bank will continue to closely follow the developments in the international financial markets and assess impairment allowances on related assets in a prudent manner.

Any non-performance or default by the issuer of such securities or volatility of the markets or liquidity of the markets in which the relevant securities are traded may have an adverse effect on the Bank's financial condition and results of operations.

The Bank's liquidity may be adversely affected if it fails to maintain its deposit growth or if there is a significant decrease in its deposits.

Most of the funding requirements of the Bank's commercial banking operations are met through short-term funding, principally in the form of deposits, including customer and inter-bank deposits. While the Bank's short-term customer deposits have been a stable and predictable source of funding, there can be no assurance that the Bank will always be able to rely on this source of funding. If the Bank fails to maintain its deposit growth or if there is a significant decrease in its deposits, the Bank's liquidity position, business, financial condition and results of operations may be materially and adversely affected. Should any of these events occur, the Bank may need to seek more expensive sources of funding to meet its funding requirements.

In addition, the Bank may experience shortages of cash flow from time to time as a result of mismatches between the maturity of its income-generating assets and the maturity of its debts or funding needs. If the mismatches between the maturity of its assets and the maturity of its debts or funding needs widen significantly, the Bank's liquidity position could be materially and adversely affected. There can be no assurance that the Bank will be able to obtain additional capital source financing based on acceptable terms or at all. The Bank may need to seek alternative sources of short-term or long-term funding to finance its operations, which may be more expensive than existing deposits. Furthermore, the Bank's ability to obtain additional funds may also be affected by other factors, including factors beyond the Bank's control, such as the deterioration of overall market conditions, disturbances to the financial markets or a downturn in the industries where it has substantial credit exposure. All of these factors may result in significant adverse effects on the Bank's liquidity, business, financial position and results of operations. See also "*Risks Relating to the PRC Banking Industry*" for additional information relating to the PRC banking regulatory regime.

The PRC regulators have implemented measures relating to lending to small and medium enterprises ("SMEs") and the Bank may be subject to future regulatory changes.

CBRC has promulgated a series of measures, including the Guidance on Issues Relevant to Establishing Special Agencies for Small Business Lending by Banks 《關於銀行建立小企業金融服務專營機構的指導意見》 and Notice on Further Supporting Commercial Banks' Improvement of Financial Services to Small Enterprises 《關於支持商業銀行進一步改進小企業金融服務的通知》, to encourage banking institutions to implement the PRC government's macroeconomic policies, and, in particular, to proactively support continued healthy economic growth by increasing lending activities to SMEs while effectively controlling risk.

However, small and medium-sized enterprises are more vulnerable to fluctuation in the macro-economy as compared to large enterprises due to relatively limited capital, management or other resources required to cope with the adverse impact of major economic or regulatory changes. In addition, small and medium-sized enterprises may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. In the absence of accurate assessment of the relevant credit risks, the non-performing loans of the Bank may be significantly increased if its small and medium-sized enterprise clients are affected by economic or regulatory changes, which could materially and adversely affect the Group's business, results of operations and financial condition.

There can be no assurance that the policies, laws and regulations governing the PRC banking industry, in particular, those relating to lending to SMEs, will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank's loan classification may be different in certain respects from those applicable to banks in certain other countries or regions.

The Bank classifies its loans as "pass", "special-mention", "substandard", "doubtful" and "loss" by using the five-category classification system according to requirements of CBIRC. Its five-category classification system may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, it may reflect a different degree of risk than what would be reported if the Bank was incorporated in those countries or regions.

The Bank may not be able to detect money laundering and other illegal or improper activities, which could expose it to additional liability and harm its business.

The Bank is required to comply with applicable anti-money laundering laws, anti-terrorism laws and other regulations in the PRC and other jurisdictions in which it has operations. These laws and regulations require the Bank to, among others, adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions. The Bank has implemented an anti-money laundering system in accordance with the PRC Law on Anti-money Laundering and other relevant rules and regulations of the PRC government supervisory bodies.

If the Bank fails to fully comply with the applicable anti-money laundering laws and regulations, the relevant government supervisory bodies have the power and authority to impose fines and other penalties on it. While the Bank has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering activities or by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where the Bank may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent the Bank may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom the Bank reports have the power and authority to impose fines and other penalties on the Bank, which may materially and adversely affect the Bank's reputation, business, financial condition and results of operation. For instance, in July 2018, the Bank received penalty notices from PBOC for its failure to comply with anti-money laundering background check requirements and the Bank was fined in aggregate RMB1.70 million.

The Bank's business is highly dependent on the proper functioning and improvement of its information technology systems.

The Bank is highly dependent on the ability of its information technology systems to accurately process a large number of transactions across numerous and diverse markets and products in a timely manner. The proper functioning of the Bank's financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks among the Bank's various branches and sub-branches and its main data processing centres, are critical to the Bank's business operations and its ability to compete effectively. The Bank maintains backup data for key data processing systems and has established a disaster recovery centre to maintain principal functions in the event of a catastrophe or a failure of the Bank's primary systems. However, the Bank's operations may be materially disrupted if there is a partial or complete failure of any of these primary information technology systems or communications networks. Such failures could be caused by, among others, software bugs, computer viruses, attacks by computer hackers or conversion errors due to system upgrading. In addition, any security breach caused by unauthorised access to information or systems, loss or corruption of data and malfunction of software, hardware or other computer equipment could have a material and adverse effect on the Bank's reputation, business, financial condition and results of operations.

The Bank's ability to remain competitive will depend in part on its ability to upgrade its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by the Bank through its existing information technology systems may not be timely or sufficient enough for it to manage risks and plan for, and respond to, market changes and other developments in its current operating environment. As a result, the Bank is making and intends to continue making investments to improve or upgrade its information technology systems. Any substantial failure to improve or upgrade its information technology systems effectively or on a timely basis could materially and adversely affect the Bank's competitiveness, business, financial condition and results of operations.

Internet banking services involve risks of security breaches.

Internet banking activities involve the electronic storage and transmission of confidential information, which are vulnerable to unauthorised access, computer viruses and other disruptions. These possible security breaches could expose the Bank to liability and damage its reputation. Costs incurred in rectifying security breaches may be high and may materially and adversely affect the Bank's business, financial condition and results of operations. Rectifying security breaches may also result in interruptions, delays or termination of service to users accessing the Bank's internet banking services. Undetected defects in software products that the Bank uses in providing its internet banking services and the Bank's inability to sustain a high volume of internet traffic may have a material and adverse effect on the Bank's internet banking business.

If the Bank is unable to effectively control the non-performing loan ratio and assets quality, its financial condition and results of operations may be adversely affected.

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Bank's NPL were RMB52.18 billion, RMB68.52 billion, RMB68.14 billion and RMB67.87 billion, respectively, representing an NPL ratio of 1.89 per cent., 2.14 per cent., 1.92 per cent. and 1.83 per cent., respectively. The Bank's NPL ratio may increase further in the future for a variety of reasons, including factors which are beyond the Bank's control, such as a slowdown in economic growth and other adverse macroeconomic trends in the PRC or a deterioration in the financial condition or results of operations of the Bank's borrowers, which could impair the ability of the Bank's borrowers to service their debt. There can be no assurance that the Bank will be able to maintain or lower its current NPL ratio in the future or that the quality of its existing or future loans and advances to borrowers will not deteriorate. As a result of the PRC government's economic stimulus programs, many PRC banks, including the Bank, experienced high growth in their loan balances in the past. This increase in bank loans may lead to elevated impaired loan ratios and loan loss provisions as well as increasing strain on the Bank's risk management resources, which may affect the quality of its loan portfolio.

The Bank's NPL ratio is affected by various factors, including the quality of the Bank's loan portfolio, the Bank's borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral, the extent of any guarantees, the industry in which the borrower operates in, as well as general economic and business conditions. Many of these factors are beyond the Bank's control.

The Bank is subject to certain operational requirements as well as guidelines set by the PRC banking regulatory authorities, such as maintaining a satisfactory loan-to-deposit ratio and a capital adequacy ratio.

The Bank is subject to certain operational requirements and guidelines set by the PRC banking regulatory authorities, such as CBIRC. There can be no assurance that the Bank will be able to meet these operational requirements and guidelines in the future at all times, or that no fines or sanctions will be imposed on the Bank in the future if it fails to do so. If fines or sanctions are imposed on the Bank for breaches of these or other operational requirements and guidelines, the Bank's business, financial condition and results of operations may be materially and adversely affected.

CBRC requires commercial banks in the PRC to maintain certain financial ratios.

According to the Measures for the Management of Capital of Commercial Banks formulated by CBRC in 2012 (the "CBRC Measures"), the minimum capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio for commercial banks are 8 per cent., 6 per cent. and 5 per cent., respectively. A commercial bank is also subject to the capital conservation buffer over and above the minimum capital requirement at 2.5 per cent. of total risk weighted assets of the bank comprised of Common Equity Tier-1 capital, and under certain circumstances, a countercyclical buffer of between 0 and 2.5 per cent. of total risk weighted assets comprised of Common Equity Tier-1 capital. Capital conversation buffer and countercyclical buffers will be subject to a phase-in period till 2018. As at 30 June 2019, the Bank's capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio were 13.05 per cent., 10.45 per cent. and 9.80 per cent., respectively, which were in compliance with the CBRC Measures.

CBRC has issued several regulations and guidelines governing capital adequacy requirements applicable to commercial banks in the PRC. Following the issuance of Basel III in December 2010, CBRC in April 2011 promulgated the Guideline Concerning the Implementation of New Regulatory Standards for the PRC Banking Industry to clarify the direction for future regulations and the requirement for prudent regulatory requirements. In 2012, CBRC released the CBRC Measures to set up new requirement for capital adequacy. Although the Bank is currently in compliance with the requirement for capital adequacy, new requirements and regulations may adversely affect the Bank's compliance with capital adequacy ratios, and it is possible that the Bank may face difficulties in meeting the requirement of the regulations regarding capital adequacy.

In addition, some regulatory developments may affect the Bank's ability to continually comply with capital adequacy requirements, including the raising of minimum capital adequacy ratios by CBIRC and the changes in calculations of capital adequacy ratios by CBIRC. If any of these circumstances occurs, the Bank may be unable to comply with the regulatory requirements of CBIRC.

There can be no assurance that the Bank will be able to meet these requirements in the future at all times and any failure to meet these requirements may have a material and adverse effect on the Bank's business, financial condition and results of operations.

In order to support its steady growth and development, the Bank may need to raise more capital to ensure that its capital complies with or exceeds the minimum regulatory requirement. In its future plans to raise capital, the Bank may sell any share securities that can contribute towards core capital or any debt securities that can contribute towards supplementary capital. Any share securities sold by the Bank may dilute the interest and benefits of its shareholders. The Bank's capital-raising ability may be restricted by the Bank's future business, financial condition and results of operations, the Bank's credit rating, necessary regulatory approvals and overall market conditions, including Chinese and global economic, political and other conditions at the time of capital raising.

RISKS RELATING TO THE GLOBAL ECONOMY AND THE PRC ECONOMY

The Bank's business is affected by the global economic, PRC's economic, political and social conditions and the prospects of the industries in which its loans are concentrated.

The global financial markets have experienced significant disruptions since 2008, and most of the world's major economies have experienced recession. The recovery from the downturn has been challenging and unstable. The escalation of the European sovereign debt crisis after 2011, the impact of uncertainty regarding the United States federal budget, the signs of cooling of the PRC economy, the volatility in the geopolitical environment in many parts of the world and other disruptions may continue to put pressure on global economic conditions and result in continuing uncertainty for the overall prospects for the global economies. There is also considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including the PRC. While some governments worldwide are implementing or may implement "exit strategies" (in the form of reduced government spending, higher interest rates or otherwise) with respect to the economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties. In addition, the ongoing trade war between the United States and the PRC is highly likely to affect the global economy and in particular, the PRC economy. In light of the high level of interdependence of the global economy, any of the foregoing developments could have an adverse effect on the PRC economy and financial markets, and in turn on the Bank's business, financial condition and results of operations. See also "*Risks Relating to the Bank's Business – The Bank is subject to risks associated with its derivative transactions and investment securities*" above for further details.

A significant majority of the Bank's businesses, assets and operations are located in the PRC. Accordingly, its financial conditions, results of operations and business prospects are, to a significant degree, subject to the economic, political, legal and social conditions and developments in the PRC.

The PRC economy has historically been a planned economy. A substantial portion of productive assets in the PRC is still owned directly or indirectly by the PRC government. The PRC government also exercises significant control over the growth of the PRC economy through measures such as allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. These measures are aimed to benefit the overall economy of the PRC, but some of them may have negative effects on certain industries, including the commercial banking industry. For example, the Bank's operating results may be adversely affected by government control over capital investments or changes in interpretation of and application of applicable tax regulations. In addition, in recent years, the PBOC has instituted broad reform of the PRC's monetary policy. If the Bank is unable to adjust its operations in accordance with these reforms, its financial condition and results of operations could be materially and adversely affected.

The PRC government has the power to implement macroeconomic control measures to regulate the PRC economy. The PRC's GDP growth maintained its rapid pace for years before slowing down in recent years, registering its slowest expansion in approximately 25 years in 2016. The macroeconomic measures and monetary policies adopted by the PRC government in response to economic conditions, such as adjusting tax policies, benchmark interest rates or reserve requirement ratios, may have a material effect on the Bank's business, financial condition, results of operations and asset quality. As the PRC government continues to regulate the economy by using monetary and fiscal policies, the Bank's business, financial condition and results of operations may be materially and adversely affected.

Interpretation and implementation of the PRC laws and regulations may involve uncertainties.

The Bank is incorporated and exists under the laws of the PRC. The PRC legal system is based on written statutes. Since the late 1970s, the PRC has promulgated laws and regulations dealing with legal relations in respect of such economic matters as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as many of these laws and regulations are relatively new and continue to evolve, especially with respect to the PRC banking regulatory regime, these laws and regulations may be subject to different interpretations and inconsistently enforced. In addition, PRC laws and regulations are constantly adapting to international industry standards and customs, such as implementation of Basel standards. In addition, there is only a limited volume of published court decisions, which may be cited for reference but are not binding on subsequent cases and have limited precedential value. These uncertainties relating to the interpretation and implementation of the PRC laws and regulations may adversely affect the legal protections and remedies that are available to the Bank in its operations and to holders of the Notes.

For example, on 14 September 2015, the NDRC issued the NDRC Circular, which came into effect on the same date. According to the NDRC Circular, domestic enterprises and/or their overseas controlled entities shall procure the registration of any issue of debt securities outside the PRC with the NDRC prior to such issue, and notify the particulars of such issue within prescribed timeframe after such issue. The NDRC Circular also indicates that several provinces and large banks with strong comprehensive economic strength and sound risk prevention and control mechanisms will be selected by the NDRC to expand the pilot reform of managing the amount of foreign debt by segment 《外債規模切塊管理》, under which the NDRC will, based on the actual need of each of such pilot regions and enterprises, verify and determine its yearly maximum quota of foreign debt at one time.

On 18 December 2015, the NDRC published the Guideline on the Issuance of Foreign Debt by Corporates 《企業境外發行債券指引》 (the "Guideline"), which further clarifies certain issues in the NDRC Circular. According to the Guideline, the entities subject to the filing requirements in the NDRC Circular include onshore enterprises (including financial entities) and their controlled offshore enterprises or branches; and the "foreign debts" under the NDRC Circular include but are not limited to ordinary notes, senior notes, financial notes, perpetual notes, convertible notes, preferred shares and other offshore debt financing tools. In addition, the Guideline further requires the onshore entities which failed to submit to the NDRC the relevant information in relation to the issuance of the offshore notes should complete the submission as soon as practicable. Furthermore, according to the Guideline the NDRC will set a "black list" and a credit information exchange platform to record the credit information for those entities or intermediaries which failed to complete the registration or filing as required or have provided false information in their registration or filing with the NDRC, and will impose punishment with other government authorities on such entities.

The NDRC Circular and the Guideline is a recent regulation and its interpretation may involve significant uncertainty. In addition, the administration of the NDRC Circular and the Guideline may be subject to a certain degree of executive and policy discretion by the NDRC.

While the NDRC Circular does not expressly state the legal consequences of non-compliance with such Post-issue notification requirements, the NDRC Guideline has indicated that issuers, underwriters, counsels and other parties involved in the transaction may be blacklisted and punished for non-compliance with the NDRC Circular requirements. Therefore, there can be no assurance that the failure to comply with the NDRC requirements would not result in any adverse consequences for the relevant Branch Issuer, the Bank, the Notes or the investors in the Notes. After the issuance of such relevant Series of Notes, the relevant Branch Issuer (acting through the Bank) or, as the case may be, the Bank, undertakes in the Terms and Conditions of the Notes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Quota. There can also be no assurance that the registration with the NDRC, if applied for or the quota granted to the Bank will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the performance or validity and enforceability of the Notes in the PRC. Potential investors of the Notes are advised to exercise due caution when making their investment decisions.

On 11 January 2017, the PBOC promulgated the Circular on Issues concerning the Macro-prudential Management of Full-covered Cross-border Financing (Yin Fa [2017] No. 9) 《中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知》(the "PBOC Circular"). Under the PBOC Circular, financial institutions are required to file relevant operating rules and internal control policies and the details of the calculation of their outstanding foreign debt and foreign debt limit with PBOC or SAFE before making their first cross-border financing transaction and they are required to report to PBOC or SAFE of the amount of its capital fund and the financing agreement when a financing agreement is signed and before the drawdown of the loan or issue of debt securities, report its cross-border income after such drawdown, and report its cross-border payments after making interest or principal payments. In addition, financial institutions are also required to report to PBOC or SAFE on the fifth working day of each month on the foreign debt it has borrowed and the change in its outstanding foreign debt during the previous month. The Bank is one of the 27 designated banks required to carry out the aforesaid reporting procedures. The PBOC Circular is a new regulation and is subject to interpretation and application by relevant PRC authorities. The PBOC Circular applies to the issue of Notes under the Programme by the Bank or its onshore branches, but does not explicitly state whether it applies to offshore branches of financial institutions incorporated in the PRC.

Further, for the purpose of calculating the risk-weighted cross-border financing balance as prescribed in the PBOC Circular, the foreign debt (including but not limited to the Notes) of offshore branches of financial institutions in the PRC are excluded from the calculation unless PBOC requires that the foreign debt be included if issue proceeds of the Notes is remitted into the PRC. If reporting is required but not complied with, PBOC and/or SAFE may, among other things, (a) issue a notice of censure, (b) request rectification within a time limit, (c) impose a penalty according to the Law of People's Republic of China on the People's Bank of China and the Regulation of the People's Republic of China on the Management of Foreign Exchanges, (d) suspend cross-border financing of the institution, and (e) collect risk reserves from the institution. In addition, in the worst case scenario, if reporting is required but not complied with, it might become unlawful for the Issuer to perform or comply with any of its obligations under the Notes and the Notes might be subject to the enforcement as provided in Condition 14 (*Events of Default*).

The Bank is subject to the PRC government controls on currency conversion and future movements in foreign currency exchange rates.

The Bank receives a significant majority of its revenues in Renminbi, which currently is not a freely convertible currency. A portion of these revenues must be converted into other currencies to meet its foreign currency obligations.

The value of Renminbi against the U.S. dollar and other currencies fluctuates and is affected by many factors, including changes in political and economic conditions in the PRC and globally. Starting from 1994, the conversion of Renminbi into foreign currencies, including the Hong Kong dollar and the U.S. dollar, was based on rates set daily by the PBOC based on the previous business day's inter-bank foreign exchange market rates and then current exchange rates on the world financial markets. For more than 10 years, the official exchange rate for conversion of Renminbi to U.S. dollar was generally stable.

On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by approximately 2 per cent. against the U.S. dollar. In July 2008, the PRC government announced that its exchange rate regime would change into a managed floating mechanism based on market supply and demand. Given domestic and overseas economic developments, the PBOC decided to further adjust the Renminbi exchange rate regime in April 2012 and March 2014 to enhance the flexibility of the Renminbi exchange rate. In August 2015, the PRC government thrice lowered the daily mid-point trading price of the Renminbi weaker against the U.S. dollar, which was the most significant downward adjustment of the Renminbi in more than a decade. Since April 2019, the value of Renminbi has depreciated in value against the U.S. dollar by more than five per cent. amidst an uncertain trade and global economic climate. There is no assurance that the Renminbi will not experience significant fluctuations against the U.S. dollar or Hong Kong dollar in the future. The PRC government may also make further adjustments to the exchange rate system. Any appreciation of Renminbi against the U.S. dollar or any other foreign currency may result in a decrease in the value of the Bank's foreign currency-denominated assets. Conversely, any devaluation of Renminbi may adversely affect the value of the Bank's assets in Renminbi terms.

In addition, the Bank is required to obtain approval from SAFE before converting foreign currencies into Renminbi for non-current account transactions, such as the repayment of loan principal and investment in equities. All these factors could materially and adversely affect the Bank's business, financial condition, results of operations and compliance with capital adequacy ratios and operational ratios.

There can be no assurance of the accuracy or comparability of facts, forecasts and statistics contained in this Offering Circular with respect to the Bank, the PRC, its economy or its banking industry.

Certain facts, forecasts and statistics in this Offering Circular relating to the PRC, the PRC economy, the PRC and global banking industries and the Bank's market share and ranking are derived from various official and other publicly available sources which are generally believed to be reliable. However, the Bank cannot guarantee the quality and reliability of such source materials. In addition, these facts, forecasts and statistics have not been independently verified by the Bank, or any of its directors, employees, representatives, affiliates or advisers and, therefore, none of them makes any representation as to the accuracy or fairness of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up to date. The Bank has taken reasonable care in reproducing or extracting the information from such sources. However, because of possibly flawed or ineffective methodologies underlying the published information or discrepancies between the published information and market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or be comparable to facts, forecasts or statistics produced for other economies and should not be unduly relied upon.

Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in the PRC, may have a material and adverse effect on the Bank's business operations, financial condition and results of operations.

Any future force majeure events, such as occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome ("SARS"), Ebola virus disease ("Ebola"), Middle East respiratory syndrome coronavirus ("MERS"), swine flu caused by the H1N1 virus, or H1N1 flu or variants thereof, may materially and adversely affect the Bank's business, financial condition and results of operations. Possible force majeure events may give rise to additional costs to be borne by the Bank and have adverse effects on the quality of its assets, business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business. Moreover, the PRC has experienced natural disasters like earthquakes, floods and drought in the past few years. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and in turn the Bank's business. There can be no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, Ebola, MERS, swine flu, H1N1 flu or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of avian influenza, SARS, Ebola, MERS, swine flu, H1N1 flu or other epidemics, will not seriously interrupt the Bank's operations or those of its customers, which may have a material and adverse effect on its business, financial condition and results of operations.

RISKS RELATING TO THE PRC BANKING INDUSTRY

The PRC banking regulatory regime is continually evolving and the Bank is subject to future regulatory changes.

The Bank operates in a highly regulated industry and is subject to laws and regulations governing all aspects of its operations. The principal banking-related statutes and regulations are the PRC Commercial Banking Law and the related implementation rules. The principal regulators of the PRC banking industry are the CBIRC, the PBOC and SAFE.

The PRC banking regulatory regime has been evolving continuously. Some of the changes in the rules and regulations as well as their interpretations may result in additional costs or restrictions on the Bank's operations and activities. For example, the PBOC, as the central bank of the PRC, exercises significant influence over monetary policies, including setting the official benchmark interest rates that all the PRC commercial banks must follow. In addition, the Bank may be required to increase its deposit reserves in response to future changes in the PBOC rules and regulations. The Bank may be required to take additional steps to comply with future changes on a timely basis. For example, the PBOC may increase or decrease the reserve requirement ratio, which refers to the amount of funds that banks must hold in reserve against deposits made by their customers, or revise its calculation basis in the future. Increases in the bank reserve requirement ratio or expansion of the calculation basis of the reserve requirement may negatively impact the amount of funds available for loans to businesses provided by the Bank and therefore may adversely affect the Bank's ability to earn interest.

The Bank's business and operations are directly affected by changes in the PRC's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which it can engage in specific businesses, as well as changes in other governmental policies. There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and results of operations nor can there be any assurance that the Bank will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations, which may result in penalties and restrictions on the Bank's activities and could also have a significant impact on its business.

The increasingly competitive nature of the PRC banking industry and competition from non-traditional forms of banking, as well as competition for funds which may arise from the developing PRC capital markets, could adversely affect the Bank's business, financial condition, results of operations and prospects.

The PRC banking industry is becoming increasingly competitive. The Bank faces competition from large-scale commercial banks, national joint stock commercial banks, key urban commercial banks and foreign-invested banks. In addition, the Mainland and Hong Kong Closer Economic Partnership Arrangement, which allows Hong Kong banks to operate in the PRC, may also increase competition in the PRC banking industry. These banks and financial institutions compete with the Bank for substantially the same loan, deposit and fee customers. Some of these banks may have greater financial, management and technical resources than the Bank. Moreover, the PRC government has, in recent years, implemented a series of measures designed to further liberalise the banking industry, including those relating to interest rates and fee-and commission-based products and services, which are changing the basis on which the Bank competes with other banks for customers. The increased competition may:

- reduce the Bank's market share in its principal products and services;
- reduce the growth of the Bank's loan portfolio or deposit base and other products and services;
- reduce the Bank's interest income, increase its interest expenses and decrease its net interest margin;
- reduce the Bank's fees and commission income;
- increase the Bank's outgoings and expenses, such as marketing and administrative expenses;
- lead to a deterioration of the Bank's asset quality; and
- increase the turnover of and competition for senior management and qualified professional personnel.

The Bank may not always be able to maintain its competitive advantage or successfully compete in all the business areas in which it currently operates or will in the future operate.

On 1 July 2013, the General Office of the State Council of the PRC issued Guidance Letter regarding Financial Support for Promoting Economic Restructuring and Transformation 《國務院辦公廳關於金融支持經濟結構調整和轉型升級的指導意見》 (the "Guidance Letter"). The Guidance Letter, among others, encourages investment by private-sector capital in financial institutions and the establishment of privately-owned banks. The Guidance Letter provides a policy direction to the increasing involvement of private-sector capital in the financial industry in the PRC.

The Bank may face increasing competition from privately-owned banks or financial companies dedicated to serving SMEs in the future. The Bank may also face competition for funds from other forms of investment alternatives as the PRC capital markets continue to develop. For example, as the PRC capital markets continue to develop and become a more viable and attractive investment alternative, the Bank's deposit customers may elect to transfer their funds into bonds, equities and other capital market instruments, which may reduce its deposit base and materially and adversely affect its business, financial condition and results of operations.

Furthermore, the Bank faces competition from non-traditional forms of banking, including but not limited to internet finance such as "Yu'E Bao" 《餘額寶》and peer-to-peer lending and internet banking. Internet finance and internet banking have experienced rapid growth in recent years in the PRC. As such non-traditional forms of banking continue to gain importance, the increasing costs of maintaining physical banking outlets have made traditional forms of banking less profitable. There is no assurance that the Bank will continue to have sufficient resources, knowhow or technology to develop its internet banking business. In the event the Bank fails to adapt to internet finance, internet banking or other banking trends, the business, financial condition and results of operations of the Bank may be adversely affected.

The rate of growth of the PRC banking market may not be sustainable.

The prospective impact on the PRC banking industry of certain trends and events, such as the pace of economic growth in the PRC and the ongoing reform of the social welfare system, is currently not clear. Consequently, there can be no assurance that the growth and development of the PRC banking market will be sustainable.

PRC regulations impose limitations on the types of investments the Bank may make and, as a result, the Bank has a limited ability to seek optimal investment returns, to diversify its investment portfolio and to hedge the risks of its Renminbi-denominated assets.

As a result of PRC regulatory restrictions, substantially all of the Renminbi-denominated investment assets of PRC commercial banks are concentrated in limited types of investments permitted by the PRC government. These permitted investments include PRC treasury bonds, finance bonds issued in the National Inter-bank Bond Market policy banks, notes issued by the PBOC and Tier 2 capital instruments issued by PRC policy banks, commercial banks and insurance companies. These restrictions on the Bank's ability to diversify its investment portfolio limit its ability to seek an optimal return on its investments. The restrictions also expose the Bank to significantly greater risk of investment loss in the event a particular type of investment the Bank holds suffers a decrease in value. For example, a general increase in interest rates may result in a significant decline in the value of the fixed income debt securities held by the Bank. In addition, due to the limited hedging tools available, the Bank's ability to manage market and credit risks relating to Renminbi-denominated assets is limited, and any resulting decline in the value of its Renminbi-denominated assets will adversely affect the Bank's financial condition and results of operations. This may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's results of operations may be adversely affected if the PBOC further expedites the deregulation of interest rates.

In recent years, the PBOC has adopted reform measures to liberalise the PRC's interest rate regime. Effective on 8 June 2012, the PBOC allows financial institutions to set deposit interest rates at up to 110 per cent. of the PBOC benchmark deposit interest rates. As of 25 August 2015, the PBOC one-year Renminbi benchmark loan interest rate was 4.60 per cent. and the one-year Renminbi benchmark deposit interest rate was 1.75 per cent. According to existing PBOC regulations, Renminbi-denominated deposits in commercial banks in the PRC remain subject to restrictions and the interest rate for Renminbi-denominated deposits cannot be set above 150 per cent. of the relevant PBOC benchmark rate. On 25 October 2013, the PBOC introduced a new prime lending rate, officially known as the "loan prime rate", which is based on a weighted average of lending rates from nine commercial banks. In recent years, the PBOC has adjusted the benchmark interest rates several times. The PBOC may further liberalise the existing interest rate restrictions on Renminbi-denominated loans and deposits. If the existing regulations are substantially liberalised or eliminated, competition in the PRC's banking industry will likely intensify as the PRC's commercial banks seek to offer more attractive interest rates to customers. Further liberalisation by the PBOC will likely lead to an intensification of competition in the PRC banking industry and may result in the narrowing of the spread in the average interest rates between Renminbi-denominated loans and Renminbi-denominated deposits, thereby adversely affecting the Bank's business, financial condition and results of operations.

The effectiveness of the Bank's credit risk management is affected by the quality and scope of information available in the PRC.

National credit information databases developed by the PBOC have been in operation since January 2006. However, as the information infrastructure in the PRC is still under development and there remains limitations on the availability of information, national credit information databases are generally under-developed and are not able to provide complete credit information on many of the Bank's credit applicants. Until the PRC has more fully developed and implemented its nationwide unified credit information database on corporate borrowers, the Bank has to rely on other publicly available resources and its internal resources to supplement what is currently available on the nationwide unified credit information database for enterprises. These sources of data and information are not sufficiently complete or effective for the robust credit risk management system that the Bank attempts to build. Therefore, there can be no assurance that the Bank's assessment of the credit risks associated with any particular customer is based on complete, accurate and reliable information. As a result, the Bank's ability to effectively manage its credit risk may be materially and adversely affected.

RISKS RELATING TO FINANCIAL INFORMATION

The unaudited but reviewed condensed interim financial statements of the Bank as at and for the six months ended 30 June 2018 and 2019 included in this Offering Circular has not been audited by a certified public accountant.

The unaudited but reviewed condensed interim financial statements of the Bank as at and for the six months ended 30 June 2019 included in this Offering Circular has not been audited by a certified public accountant, and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. None of the Bank, the Group, the Arrangers, the Dealers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited condensed interim financial information for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Bank's financial condition and results of operations. In addition, the unaudited but reviewed condensed interim financial statements of the Bank as at and for the six months ended 30 June 2019 should not be taken as an indication of the expected financial condition or results of operations of the Bank for the full financial year ending 31 December 2019.

Historical consolidated financial information of the Bank is not indicative of its current or future results of operations.

The historical financial information of the Bank included in this Offering Circular is not indicative of its future financial results. Such financial information is not intended to represent or predict the Bank's results of operations of any future periods. The Bank's future results of operations may change materially if its future growth deviates from the historical trends for various reasons, including factors beyond its control, such as changes in economic environment, PRC rules and regulations and the competitive landscape of the banking industry.

The Bank's new accounting standard differs from its old standard, as a result of which certain historical financials may be difficult to compare.

As of 1 January 2018, the Bank adopted new accounting standards, including IFRS 9, which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected loss impairment model. The impact of the initial application of the new accounting standards is disclosed in note 2 of the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2018.

As of 1 January 2019, the Bank adopted additional new accounting standards, including IFRS 16, which are effective for accounting periods beginning on or after 1 January 2019. The IFRS 16 model introduces a single accounting model for lessees to recognise leases in the balance sheets. The impact of the initial application of the new accounting standards is disclosed in note 2 of the unaudited but reviewed condensed interim financial statements of the Bank as at and for the six months ended 30 June 2019.

According to the IFRS 9 and IFRS 16 transitional arrangements, upon initial application of IFRS 9 and IFRS 16, the Group is not required to restate the comparable figures of the prior period. Instead, differences caused by the adoption of the IFRS 9 or IFRS 16 model were adjusted to the beginning balance of retained earnings and other comprehensive income.

RISKS RELATING TO THE NOTES ISSUED UNDER THE PROGRAMME

If the Bank fails to complete the post-issuance report to the NDRC in connection with the Notes, NDRC may impose penalties or other administrative procedures on the Bank.

On 14 September 2015, the NDRC issued the NDRC Circular, which came into effect on the same date. According to the NDRC Circular, domestic enterprises and/or their overseas controlled entities shall procure the registration of any issue of debt securities outside the PRC with the NDRC prior to such issue, and notify the particulars of such issue within the prescribed timeframe after such issue. The NDRC Circular also indicates that several provinces and large banks with strong comprehensive economic strength and sound risk prevention and control mechanisms will be selected by the NDRC to expand the pilot reform of managing the amount of foreign debt by segment《外債規模切塊管理 》, under which the NDRC will, based on the actual need of each of such pilot regions and enterprises, verify and determine its yearly maximum quota of foreign debt at one time.

On 18 December 2015, the NDRC published the Guideline on the Issuance of Foreign Debt by Corporates《企業境外發行債券指引》(the "Guideline"), which further clarifies certain issues in the NDRC Circular. According to the Guideline, the entities subject to the filing requirements in the NDRC Circular include onshore enterprises (including financial entities) and their controlled offshore enterprises or branches; and the "foreign debts" under the NDRC Circular include but are not limited to ordinary notes, senior notes, financial notes, perpetual notes, convertible notes, preferred shares and other offshore debt financing tools. In addition, the Guideline further requires the onshore entities which failed to submit to the NDRC the relevant information in relation to the issuance of the offshore notes should complete the submission as soon as practicable. Furthermore, according to the Guideline the NDRC will set a "black list" and a credit information exchange platform to record the credit information for those entities or intermediaries which failed to complete the registration or filing as required or have provided false information in their registration or filing with the NDRC, and will impose punishment with other government authorities on such entities.

While the NDRC Circular does not expressly state the legal consequences of non-compliance with such Post-issue report requirements, the NDRC Guideline has indicated that issuers, underwriters, counsels and other parties involved in the transaction may be blacklisted and punished for non-compliance with the NDRC Circular requirements. After the issuance of such relevant Series of Notes, the relevant Branch Issuer (acting through the Bank) or, as the case may be, the Bank, undertakes in the Terms and Conditions of the Notes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Quota.

The Financial Institutions (Resolution) Ordinance may adversely affect the Notes.

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "FIRO") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong which may be designated by the relevant resolution authorities, which may include the Bank to the extent it conducts licensed activities in Hong Kong. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes may become subject to and bound by the FIRO.

On 17 January 2018, the Hong Kong Monetary Authority announced a public consultation on a set of proposed rules to set out minimum loss-absorbing capacity ("LAC") requirements for authorised institutions under FIRO. The LAC requirements have been proposed in order to ensure that the resolution regime can be used effectively and that authorised institutions have sufficient loss-absorbing capacity. On 14 December 2018, the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (Cap. 628B) came into operation as subsidiary registration under the FIRO.

The implementation of FIRO and LAC requirements remains untested. Therefore, the Bank is unable to assess the full impact of FIRO and the LAC requirements on the financial system generally, the Bank's counterparties, the Bank, any of its consolidated subsidiaries, its operations and/or its financial position.

Potential investors should not place undue reliance on the unaudited but reviewed or unaudited and unreviewed financial information included elsewhere in this Offering Circular and the financial information incorporated by reference that is not audited.

The section headed "*Summary Financial Information of the Bank*" contains the most recently published unaudited but reviewed condensed interim financial statements as at and for the six months ended 30 June 2019. This Offering Circular also incorporates by reference the most recently published unaudited but reviewed condensed interim financial statements of the Bank published from time to time after the date of this Offering Circular, together with any review reports prepared in connection therewith, as well as the most recently published unaudited and unreviewed consolidated quarterly interim reports, published subsequent to the date of this Offering Circular. The Bank publishes its unaudited but reviewed condensed interim financial statements in respect of the six months ended 30 June of each financial year on the official website of the Shanghai Stock Exchange, and its consolidated quarterly interim reports in respect of periods ended 31 March and 30 September of each financial year on the official website of the Shanghai Stock Exchange.

The semi-annual interim reports have not been and will not be audited by the Bank's auditors and were and will be prepared under IAS 34. The semi-annual interim reports should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. The quarterly interim reports have not been and will not be audited or reviewed by the Bank's auditors and were and will be prepared under PRC GAAP. The quarterly interim reports should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an auditor or review. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The semi-annual interim reports or, as the case may be, the quarterly interim reports should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

This Offering Circular does not include any information in relation to the differences between IAS 34 and IFRS or, as the case may be, PRC GAAP and IFRS. Had the unaudited but reviewed or, as the case may be, unaudited and unreviewed condensed interim financial statements instead been prepared in accordance with IFRS, the presentation of the Bank's results of operations and financial position may have been materially different. Accordingly, in making an investment decision, potential investors should consult their own professional advisers for an understanding of the differences between IAS 34 and IFRS or, as the case may be, PRC GAAP and IFRS and how these differences might affect the financial information stated herein.

The Notes may not be a suitable investment for all investors.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the purchaser's overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

A change in English law which governs the Notes may adversely affect Noteholders.

The Terms and Conditions of the Notes are governed by English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

Additional procedures may be required to be taken to hear English law governed matters in the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law matters.

The Terms and Conditions of the Notes and the Programme documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and the Hong Kong SAR, judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area.

The Notes may be represented by Global Notes or Global Note Certificates and holders of a beneficial interest in a Global Note or Global Note Certificate must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes or Global Note Certificates. Such Global Notes or Global Note Certificates will be deposited with a common depositary for Euroclear and Clearstream, or lodged with a sub-custodian for the CMU (each of Euroclear, Clearstream, and the CMU, a "Clearing System"). Except in the circumstances described in the relevant Global Note or Global Note Certificate, investors will not be entitled to receive Definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes or Global Note Certificates. While the Notes are represented by one or more Global Notes or Global Note Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Notes are represented by one or more Global Notes or Global Note Certificates, the relevant Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, or, as the case may be, to the relevant paying agent, in the case of the CMU, for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Note Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The relevant Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Note Certificates. Holders of beneficial interests in the Global Notes or Global Note Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade.

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note or a Global Note Certificate and the relevant Clearing System(s) so permit, the Notes will be tradable in nominal amounts (i) equal to, or integral multiples of, the minimum denomination, and (ii) the minimum denomination plus integral multiples of an amount lower than the minimum denomination. Definitive Notes will only be issued if (a) the relevant Clearing System(s) is/are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announce(s) an intention to permanently cease business; or (b) any of the circumstances described in Condition 14 (Events of Default) occurs. The Pricing Supplement may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the relevant Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

Gains on the transfer of the Notes may become subject to income taxes under PRC tax laws.

Under the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementation rules, as amended from time to time, any gain realised on the transfer of the Notes by non-PRC resident enterprises or individual holders may be subject to PRC enterprise income tax ("EIT") or PRC individual income tax ("IIT") if such gain is regarded as income derived from sources within the PRC. While the PRC Enterprise Income Tax Law levies EIT at the rate of 20 per cent. of the gains derived by such non-PRC resident enterprise Noteholders from the transfer of the Notes, its implementation rules have reduced the enterprise income tax rate to 10 per cent. In accordance with the PRC Individual Income Tax Law and its implementation rules (as amended from time to time), any gain realised by a non-PRC resident individual Noteholder from the transfer of the Notes may be regarded as being sourced from the PRC and thus be subject to IIT at a rate of 20 per cent. of the gains derived by such non-PRC resident individual Noteholder from the transfer of the Notes. However, there remains uncertainty as to whether the gain realised from the transfer of the Notes would be treated as income derived from sources within the PRC and be subject to PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and their respective implementation rules. If such gains are determined as income sourced in the PRC by the relevant PRC tax authorities, (i) the non-PRC resident enterprise Noteholders may be subject to EIT at the rate of 10 per cent. of the gains derived by such non-PRC resident enterprise Noteholders and (ii) the non-PRC resident individual Noteholders may be subject to IIT at the rate of 20 per cent. of the gains derived by such non-PRC resident individual Noteholders, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-PRC resident enterprise or individual resident holders of the Notes reside that reduces or exempts the relevant EIT or IIT, the value of their investment in the Notes may be materially and adversely affected.

RISKS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that the relevant Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong, the PRC, the jurisdiction where the Issuer is located or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions. A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the relevant Issuer may have a lower market value than Notes that cannot be redeemed.

An optional redemption feature is likely to limit the market value of Notes. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period. The relevant Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At such times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes.

Notes may be issued with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, Notes may be issued with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- they may lose all or a substantial portion of their principal;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Failure by an investor to pay a subsequent instalment of partly-paid Notes may result in an investor losing all of its investment.

Notes may be issued where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

The regulation and reform of "benchmark" rates of interest and indices may adversely affect the value of Notes linked to or referencing such "benchmarks".

Regulation (EU) 2016/1011 (the "Benchmarks Regulation") was published in the Official Journal of the EU on 29 June 2016 and has been applied since 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to a rate or index deemed to be a "benchmark", in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the "benchmark".

More broadly, any of the international, national, or other proposals, for reforms or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. For example, the sustainability of the London Interbank Offered Rate ("LIBOR") has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "FCA Announcement"). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. At this time, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities such as the Notes. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates during the term of the Notes and investors' return on the Notes and the trading market for LIBOR-based securities. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Conditions, or result in other consequences, in respect of any Notes linked to such benchmark. Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to the benchmark; (ii) trigger changes in the rules or methodologies used in the benchmark or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by any international reforms in making any investment decision with respect to any Notes linked to or referencing a benchmark.

The value of, and return on, Floating Rate Notes linked to or referencing LIBOR or other similar indices may be adversely affected in the event of a permanent discontinuation of LIBOR or other similar indices.

Where Screen Rate Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, and LIBOR (or other similar indices) has been selected as the Reference Rate, the Conditions provide that the Rate of Interest shall be determined by reference to the

Relevant Screen Page (or its successor or replacement). In circumstances where LIBOR (or other similar indices) is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available.

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Conditions provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent. Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of LIBOR (or other similar indices)), the Rate of Interest may revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before LIBOR (or other similar indices) was discontinued, and if LIBOR (or other similar indices) is discontinued permanently, the same Rate of Interest will continue to be the Rate of Interest for each successive Interest Period until the maturity of the Floating Rate Notes, so that the Floating Rate Notes will, in effect, become fixed rate notes utilising the last available LIBOR (or other similar indices) rate. In the event that a published LIBOR (or other similar indices) rate is unavailable after 2021 and banks are unwilling to provide quotations for the calculation of LIBOR (or other similar indices), the rate of interest on the Notes will become fixed and the value of the Notes may be adversely affected. Uncertainty as to the continuation of LIBOR (or other similar indices), the availability of quotes from reference banks, and the rate that would be applicable if LIBOR (or other similar indices) is discontinued may adversely affect the value of, and return on, the Floating Rate Notes. Where ISDA Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, the Conditions provide that the Rate of Interest in respect of the Notes shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions. Where the Floating Rate Option specified is a "LIBOR" (or other similar indices) Floating Rate Option, the Rate of Interest may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If LIBOR (or other similar indices) is permanently discontinued and the relevant screen rate or, failing that, quotations from banks are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may, adversely affect the value of, and return on, the Floating Rate Notes.

The market price of variable rate Notes with a multiplier or other leverage factor may be volatile.

Notes with variable interest rates can be volatile securities. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse floating rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes are typically more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Notes carrying an interest rate which may be converted from fixed to floating interest rates and vice versa, may have lower market values than other Notes.

Fixed or floating rate Notes may bear interest at a rate that the relevant Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The relevant Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the relevant Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate, the spread on the fixed or floating rate Notes may be less favourable than the then prevailing spreads on comparable floating rate

Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than the then prevailing rates on its Notes.

The market prices of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities.

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Investors may lose part or all of their investment in any Index Linked Notes issued.

If, in the case of a particular Tranche of Notes, the relevant Pricing Supplement specifies that the Notes are Index Linked Notes or variable redemption amount Notes, there is a risk that the investor may lose the value of its entire investment or part of it.

Credit ratings may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market and additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

RISKS RELATING TO THE MARKET GENERALLY

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Series, such Series is to be consolidated with and form a single series with a Series of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Bank. If the Notes are traded at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although application will be made to the HKSE for the Programme to be admitted to listing on the HKSE, and approval in-principle has been received from the SGX-ST in respect of the listing of the Programme, there is no assurance that such application will be accepted, that any particular Series of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade securities has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Series of Notes.

Exchange rate risks and exchange controls may result in investors receiving less interest or principal than expected.

The relevant Issuer will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the "Specified Currency"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

RISKS RELATING TO RENMINBI-DENOMINATED NOTES

A description of risks which may be relevant to an investor in Notes denominated in Renminbi ("Renminbi Notes") are set out below.

Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of Renminbi Notes.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar.

However, there has been significant reduction in control by the PRC government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being adjusted from time to time to match the policies of the PRC government.

Although the PBOC has implemented policies improving accessibility to Renminbi to settle cross-border transactions in the past, there is no assurance that the PRC government will liberalise control over cross-border remittance of Renminbi in the future, that the schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite Renminbi internationalisation pilot programme and efforts in recent years to internationalise the currency, there can be no assurance that the PRC government will not impose interim or long-term restrictions on the cross-border remittance of Renminbi. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Notes denominated in Renminbi.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Notes and the Issuer's ability to source Renminbi outside the PRC to service Renminbi Notes.

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBOC has entered into agreements (the "Settlement Arrangements") on the clearing of Renminbi business with financial institutions (the "Renminbi Clearing Banks") in a number of financial centres and cities, including but not limited to Hong Kong, it has established the Cross-Border Inter-Bank Payments System (CIPS) to facilitate cross-border Renminbi settlement and is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBOC, although PBOC has gradually allowed participating banks to access the PRC's onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited access to onshore liquidity support from PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In cases where the participating banks cannot source sufficient Renminbi through the above channels, they will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service its Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in the Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. The PBOC has in recent years implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made in Renminbi with respect to Renminbi Notes unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the Renminbi Notes in that foreign currency will decline.

Investment in the Renminbi Notes is subject to interest rate risks.

The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC law and regulations and prevailing market conditions.

As Renminbi Notes may carry a fixed interest rate, the trading price of the Renminbi Notes will consequently vary with the fluctuations in the Renminbi interest rates. If holders of the Renminbi Notes propose to sell their Renminbi Notes before their maturity, they may receive an offer lower than the amount they have invested.

Payments with respect to the Renminbi Notes may be made only in the manner designated in the Renminbi Notes.

All payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by Global Note Certificates held with the common depositary for Clearstream and Euroclear or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement, (ii) for so long as the Renminbi Notes are represented by Global Note Certificates lodged with a sub-custodian for or registered with the CMU Service, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU Service rules and procedures or (iii) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement in accordance with prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

Remittance of proceeds in Renminbi into or out of the PRC.

If the Issuer decides to remit some or all of the proceeds into the PRC in Renminbi, its ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there is no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

There is no assurance that the PRC Government will continue to gradually liberalise the control over cross-border Renminbi remittances in the future, that the PRC Government will not impose any interim or long-term restrictions on capital inflow or outflow which may restrict cross-border Renminbi remittances, that the pilot schemes introduced will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. If the Issuer does remit some or all of the proceeds into the PRC in Renminbi and the Issuer subsequently is not able to repatriate funds out of the PRC in Renminbi, it will need to source Renminbi outside the PRC to finance its obligations under the Renminbi Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as completed by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The Pricing Supplement in respect of any Tranche of Notes may supplement, amend and/or replace any information in this Offering Circular.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" above.

1 Introduction

(a) *Programme*: Shanghai Pudong Development Bank Co., Ltd. (the "**Bank**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$5,000,000,000 in aggregate principal amount of notes (the "**Notes**").

(b) *Pricing Supplement*: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a pricing supplement (the "**Pricing Supplement**") which supplements these terms and conditions (the "**Conditions**"). Each Series of Notes may be issued by the Bank or any branch of the Bank located in Hong Kong, Macau or Taiwan, or any branch of the Bank located outside the PRC (each such branch of the Bank, a "**Branch Issuer**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

(c) *Agency Agreement*: The Notes are the subject of a fiscal agency agreement dated 13 November 2018 (the "**Agency Agreement**") between (i) the Bank (on behalf of itself and each Branch Issuer), (ii) The Bank of New York Mellon, London Branch as fiscal agent (the "Fiscal Agent", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), (iii) The Bank of New York Mellon, Hong Kong Branch as lodging and paying agent, transfer agent and registrar in respect of Notes cleared or to be cleared through the CMU Service (in such capacities, the "**CMU Lodging and Paying Agent**", the "**CMU Transfer Agent**" and the "**CMU Registrar**"), which expressions include any successor lodging and paying agent, transfer agent and registrar appointed from time to time in connection with such Notes), (iv) The Bank of New York Mellon SA/NV, Luxembourg Branch as transfer agent and registrar in respect of Notes cleared or to be cleared through Euroclear Bank SA/NV and/or Clearstream Banking S.A. (in such capacities, the "**Principal Transfer Agent**" and the "**Principal Registrar**", which expression includes any successor transfer agent and registrar appointed from time to time in connection with such Notes), the paying agents named therein (together with the Fiscal Agent and the CMU Lodging and Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein (together with the Principal Registrar and the CMU Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions references to the "**Registrars**" are to the Principal Registrar and the CMU Registrar and any reference to a "**Registrar**" is to any one of them; and references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.

(d) *Deed of Covenant*: The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant dated 13 November 2018 (the "**Deed of Covenant**") entered into by the Bank (on behalf of itself and each Branch Issuer).

(e) *The Notes*: All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for inspection upon request by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Agents.

(f) *Summaries*: Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. Noteholders and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection upon request by Noteholders during normal business hours at the Specified Offices of each of the Agents.

2 Interpretation

(a) *Definitions*: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Pricing Supplement;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Additional Tax Amounts**" has the meaning given in Condition 13 (*Taxation*);

"**Business Day**" means:

(a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;

(b) in relation to any sum payable in Renminbi, any day (other than a Sunday or a Saturday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong and are not authorised or obligated by law or executive order to be closed; and

(c) in relation to any sum payable in a currency other than euro or Renminbi, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(a) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(b) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(c) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(d) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

   (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

   (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

   (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(e) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Fiscal Agent as appointed by the Issuer in respect of a Series of Notes pursuant to the terms of the Agency Agreement or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

"**Calculation Amount**" has the meaning given in the relevant Pricing Supplement;

"**CBIRC**" means China Banking and Insurance Regulatory Commission or its local counterparts;

"**CBIRC Approval**" means the requisite approval obtained by the Bank in respect of a particular Tranche of Notes provided by the CBIRC to the Bank or the Branch Issuer (acting through the Bank);

"**CBIRC Measures**" means the Implementing Measures of the China Banking Regulatory Commission for Administrative Licensing Matters for Chinese-funded Commercial Banks (Order of the China Banking Regulatory Commission [2017] No. 1)(《中國銀監會中資商業銀行行政許可事項實施方法》) issued by the CBIRC and which came into effect on 7 May 2017, and any implementation rules issued by the CBIRC from time to time;

"**Clearstream**" means Clearstream Banking S.A.;

"**CMU Service**" means the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

(a) if "**Actual/Actual (ICMA)**" is so specified, means:

(i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(ii) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(iii) if "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iv) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(v) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(vi) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{([360\times(Y_2 - Y_1)] + [30\times(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D_2 will be 30";

(vii) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{([360\times(Y_2 - Y_1)] + [30\times(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

(viii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{([360\times(Y_2 - Y_1)] + [30\times(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in these Conditions or the relevant Pricing Supplement;

"**Euroclear**" means Euroclear Bank SA/NV;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**First Interest Payment Date**" means the date specified in the relevant Pricing Supplement;

"**Fixed Coupon Amount**" has the meaning given in the relevant Pricing Supplement;

"**Holder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes'*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

"**Hong Kong**" means the Hong Kong Special Administrative Region of the PRC;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"**Interest Determination Date**" has the meaning given in the relevant Pricing Supplement;

"**Interest Payment Date**" means the First Interest Payment Date and any other date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

(a) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.);

"**Issue Date**" has the meaning given in the relevant Pricing Supplement;

"**Issuer**" means the Bank or, in respect of any Tranche of Notes issued by a Branch Issuer, such Branch Issuer as specified in the relevant Pricing Supplement;

"**Macau**" means the Macau Special Administrative Region of the PRC;

"**Margin**" has the meaning given in the relevant Pricing Supplement;

"**Maturity Date**" has the meaning given in the relevant Pricing Supplement;

"**Maximum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**Minimum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**NDRC**" means the National Development and Reform Commission of the PRC or its local counterparts;

"**NDRC Circular**" means the Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises（國家發展改革委關於推進企業發行外債備案登記制管理改革的通知（發改外資[2015]2044號）, issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time;

"**NDRC Quota**" means the requisite approval obtained by the Bank on an annual basis or otherwise to issue the Notes within the quota provided by the NDRC to the Bank;

"**Noteholder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Pricing Supplement;

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Pricing Supplement;

"**Participating Member State**" means a Member State of the European Union which adopts the euro as its lawful currency in accordance with the Treaty;

"**Payment Business Day**" means:

(a) if the currency of payment is euro, any day which is:

  (i) a day on which (x) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and (y) a day on which commercial banks are open for general business (including dealing in foreign currencies) in the city where the Fiscal Agent or the CMU Lodging and Paying Agent (as the case may be) has its Specified Office; and

  (ii) in the case of payment by transfer to an account, (a) a TARGET Settlement Day and (b) a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(b) if the currency of payment is not euro, any day which is:

  (i) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies and (b) a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Fiscal Agent or the CMU Lodging and Paying Agent (as the case may be) has its Specified Office; and

  (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**PBOC**" means the People's Bank of China of the PRC;

"**PBOC Approval**" means the requisite approval obtained by the Bank in respect of a particular Tranche of Notes provided by the PBOC to the Bank or the Branch Issuer (acting through the Bank);

"**PBOC Circular**" means the Macro-prudential Management of Cross-border Financing in Full Aperture (《中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知》) issued by the PBOC and which came into effect on 12 January 2017, and any implementation rules as issued by the PBOC from time to time;

"**PBOC Service Guidance**" means the Service Guidance on the Examination and Approval of the Interbank Bond Market or Issuance of Overseas Financial Bonds (No. 21010 of the Service Guidance on PBOC Administrative Licensing Matters)(《在銀行間債券市場或到境外發行金融債券審批事項服務指南》) issued by the PBOC and which came into effect on 29 December 2017, and any implementation rules as issued by the PBOC from time to time;

"**Permitted Security Interest**" means any Security Interest over any assets of the Bank as security for credit-linked debt securities, equity-linked debt securities or asset-backed securities issued by the Bank (including its branches);

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" or "**China**" means the People's Republic of China excluding Hong Kong, Macau and Taiwan;

"**PRC Business Day**" means a day on which commercial banks are open for business in the PRC;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency provided, however, that:

(a) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

(b) in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(c) in relation to Renminbi, it means Hong Kong and/or any other relevant financial centre, as is specified in the relevant Pricing Supplement;

"**Principal Subsidiary**" means any Subsidiary of the Bank:

(a) whose gross revenues (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) or whose gross assets (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) or net profit (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) represent not less than five per cent. of the consolidated gross revenues, the consolidated gross assets or consolidated net profit, as the case may be, of the Bank and its Subsidiaries taken as a whole, all as calculated respectively by reference to the latest audited or reviewed financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited or reviewed consolidated financial statements of the Bank, provided that:

    (i) in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited or reviewed consolidated financial statements of the Bank relate for the purpose of applying each of the foregoing tests, the reference to the

Bank's latest audited or reviewed consolidated financial statements shall be deemed to be a reference to such audited or reviewed financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant audited or reviewed financial statements, adjusted as deemed appropriate by the auditor for the time being, after consultation with the Bank; and

(ii) if at any relevant time in relation to the Bank or any Subsidiary no financial statements are prepared and audited, its gross revenues, gross assets and net profit (consolidated, if applicable) shall be determined on the basis of pro forma financial statements (consolidated, if applicable) prepared for this purpose; or

(b) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Principal Subsidiary, whereupon (A) in the case of a transfer by a Principal Subsidiary, the transferor Principal Subsidiary shall immediately cease to be a Principal Subsidiary and (B) the transferee Subsidiary shall immediately become a Principal Subsidiary, provided that on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Principal Subsidiary shall be determined pursuant to the provisions of sub-paragraph (A) above.

A certificate by a duly authorised officer of the Bank that in his/her opinion (making such adjustments (if any) as he/she shall deem appropriate) a Subsidiary is or is not or was or was not at any particular time or during any particular period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Bank, the Branch Issuer, the Noteholders and the Couponholders.

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder; "Put Option Receipt" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in the relevant Pricing Supplement;

"**Reference Banks**" has the meaning given in the relevant Pricing Supplement or, if none, four major banks selected by the Issuer in the market that is most closely connected with the Reference Rate and notified in writing to the Fiscal Agent and, in the event that the Fiscal Agent is different from the Calculation Agent, the Calculation Agent;

"**Reference Price**" has the meaning given in the relevant Pricing Supplement;

"**Reference Rate**" means EURIBOR, HIBOR, LIBOR or such other rate as specified in the relevant Pricing Supplement in respect of the currency and period specified in the relevant Pricing Supplement;

"**Regular Period**" means:

(a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "Regular Date" means the day and month (but not the year) on which any Interest Payment Date falls; and

(c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Dat**e" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Financial Centre**" has the meaning given in the relevant Pricing Supplement;

"**Relevant Indebtedness**" means any indebtedness, or any guarantee or indemnity, for money borrowed or raised which (i) has an original maturity of one year or above and (ii) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is issued outside the PRC and which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Pricing Supplement;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**SAFE**" means the State Administration of Foreign Exchange or its local counterparts;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Specified Currency**" has the meaning given in the relevant Pricing Supplement;

"**Specified Denomination(s)**" has the meaning given in the relevant Pricing Supplement;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Pricing Supplement;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"**Talon**" means a talon for further Coupons;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**Tax Jurisdiction**" means (a) the PRC and, as applicable, (b) where the Issuer is a Branch Issuer, the jurisdiction where such Branch Issuer is located, or in each case any political subdivision therein or any authority therein or thereof having power to tax;

"**Treaty**" means the Treaty on the Functioning of the European Union, as amended; and "Zero Coupon Note" means a Note specified as such in the relevant Pricing Supplement

(b) *Interpretation*: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any Additional Tax Amounts in respect of principal which may be payable under Condition 13 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any Additional Tax Amounts in respect of interest which may be payable under Condition 13 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement;

(vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes;

(viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes; and

(ix) any reference (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU Service, be deemed to be a reference to the CMU Lodging and Paying Agent, and all such references shall be construed accordingly.

3 Form, Denomination, Title and Transfer

(a) *Bearer Notes:* Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

(b) *Title to Bearer Notes:* Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) *Registered Notes:* Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement.

(d) *Title to Registered Notes:* Each Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) *Ownership:* The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

(f) *Transfers of Registered Notes:* Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of any Registrar or any Transfer Agent, together with such evidence as such Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the relevant Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "business day" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the relevant Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) *No charge:* The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer, any Registrar or any Transfer Agent but against such indemnity as such Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

(j) *Regulations concerning transfers and registration:* All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of each Registrar. A copy of the current regulations will be mailed (free of charge) by a Registrar to any Noteholder who requests in writing a copy of such regulations.

4 Status of the Notes

The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5 Covenants

(a) *Negative pledge:* So long as any Note remains outstanding (as defined in the Agency Agreement), the Bank shall not, and the Bank shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest, other than a Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other security for the Notes as may be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

(b) *Financial reports:* So long as any Note remains outstanding, the Issuer shall make publicly available and send to the Fiscal Agent and, upon request, to any Noteholder and Couponholder:

(i) as soon as they are available and in any event not more than 120 days after the end of each financial year, a copy of the audited annual financial statements in English (audited by an internationally recognised firm of independent accountants) of the Bank; and

(ii) as soon as practicable after their date of publication and in any event not more than 90 days after the end of each financial period, a copy of the semi-annual and quarterly financial statements (which comprise a consolidated balance sheet, consolidated income statement and consolidated cash flow statement) in the Chinese language prepared on a basis consistent with the audited financial statements of the Bank.

(c) *Notification to the NDRC*: Where the NDRC Circular applies to the Tranche of Notes to be issued, the Branch Issuer (acting through the Bank) or, as the case may be, the Bank undertakes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Quota (the "**NDRC Post-issue Filing**").

The Branch Issuer (acting through the Bank) or, as the case may be, the Bank shall complete the NDRC Post-issue Filing and obtain such document(s) evidencing due filing with the NDRC within the prescribed timeframe (if any) and shall comply with all applicable PRC laws and regulations in connection with the Notes. The Issuer shall within 15 PRC Business Days after completion of such NDRC Post-issue Filing give notice to the Noteholders and Couponholders in accordance with Condition 20 (*Notices*).

(d) *Notification to the PBOC*: Where the PBOC Circular applies to the Tranche of Notes to be issued, the Bank undertakes to provide or cause to be provided a notification of the requisite information and documents in connection with such Tranche of Notes to the PBOC and/or SAFE within the prescribed timeframe after the relevant Issue Date in accordance with the PBOC Circular (the "**PBOC Post-issue Filing**"). The Bank shall complete the PBOC Post-issue Filing and obtain such document(s) evidencing due filing with the PBOC and/or SAFE within the prescribed timeframe (if any) and shall comply with all applicable PRC laws and regulations in connection with the Notes. The Bank shall within 15 PRC Business Days after completion of such PBOC Post-issue Filing give notice to the Noteholders and Couponholders in accordance with Condition 20 (*Notices*).

(e) *Reporting to the CBIRC*: Where the CBIRC Measures applies to the Tranche of Notes to be issued, the Bank undertakes to complete the reporting in connection with such Tranche of Notes to the CBIRC (if applicable) within the prescribed timeframe after the relevant Issue Date in accordance with the CBIRC Approval (the "**CBIRC Reporting**"). The Bank shall complete the CBIRC Reporting and obtain such document(s) evidencing due reporting with the CBIRC within the prescribed timeframe (if any) and shall comply with all applicable PRC laws and regulations in connection with the Notes. The Bank shall within 15 PRC Business Days after completion of such CBIRC Reporting give notice to the Noteholders and Couponholders in accordance with Condition 20 (*Notices*).

(f) *Reporting to the PBOC*: Where the PBOC Service Guidance applies to the Tranche of Notes to be issued, the Bank undertakes to complete the reporting in connection with such Tranche of Notes to the PBOC (if applicable) within the prescribed timeframe after the relevant Issue Date in accordance with the PBOC Approval (the "**PBOC Reporting**"). The Bank shall complete the PBOC Reporting and obtain such document(s) evidencing due reporting with the PBOC within the prescribed timeframe (if any) and shall comply with all applicable PRC laws and regulations in connection with the Notes. The Bank shall within 15 PRC Business Days after completion of such PBOC Reporting give notice to the Noteholders and Couponholders in accordance with Condition 20 (*Notices*).

6 Fixed Rate Note Provisions

(a) *Application:* This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7 Floating Rate Note Provisions and Index-Linked Interest Note Provisions

(a) *Application:* This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination:* If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:

(A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period,

provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall, upon seeking advice from the Reference Banks (at the cost of the Issuer) or taking instructions from the Issuer, determine such rate at such time and by reference to such sources as it determines appropriate;

(iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (iii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading international banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; provided, however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) *ISDA Determination*: If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement;

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on EURIBOR, HIBOR or LIBOR for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement; and

(iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:

(A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period,

provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall, upon seeking advice from the Reference Banks (at the cost of the Issuer) or taking instructions from the Issuer, determine such rate at such time and by reference to such sources as it determines appropriate.

(e) *Index-Linked Interest*: If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.

(f) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified. If the relevant Pricing Supplement does not specify any Minimum Rate of Interest and the Rate of Interest as determined by the Calculation Agent according to this Condition 7 is a negative value, the Rate of Interest shall be zero per cent. per annum.

(g) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(h) *Calculation of other amounts*: If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.

(i) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuer and the Paying Agents as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given by the Issuer to the Noteholders and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and if the rules of such authority, stock exchange or quotation system require such notification. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall notify the Issuer and the Paying Agents only of the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination, and the Issuer shall promptly give notice of the same to the Noteholders and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and if the rules of such authority, stock exchange or quotation system require such notification.

(j) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 by the Calculation Agent will (in the absence of manifest error) be binding on the Bank, the Branch Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8 Zero Coupon Note Provisions

(a) *Application*: This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Issuer has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9 Dual Currency Note Provisions

(a) *Application:* This Condition 9 is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Rate of Interest:* If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10 Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*).

(b) *Redemption for tax reasons:* The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (unless the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable), on giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant Pricing Supplement, (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) the Issuer has or will become obliged to pay Additional Tax Amounts as provided for or referred to in Condition 13 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 13 (*Taxation*)) or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days (or such other period as may be specified in the relevant Pricing Supplement) prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days (or such other period as may be specified in the relevant Pricing Supplement) prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent (A) a certificate signed by two duly authorised officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred of and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

(c) *Redemption at the option of the Issuer*: If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant Pricing Supplement (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(d) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption at the option of Noteholders*: If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put

Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(e), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put) (or such other period(s) as may be specified in the relevant Pricing Supplement), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

(f) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 10(a) (*Scheduled redemption*) to 10(e) (*Redemption at the option of Noteholders*) above.

(g) *Early redemption of Zero Coupon Notes:* Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10(g) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) *Purchase:* The Branch Issuer, the Bank or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.

(i) *Cancellation:* All Notes so redeemed or purchased by the Branch Issuer, the Bank or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

11 Payments – Bearer Notes

This Condition 11 is only applicable to Bearer Notes.

(a) *Principal:* Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency.

(b) *Interest:* Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

Payments of principal and interest in respect of Bearer Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) *Payments in New York City:* Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *No commissions chargeable:* No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(f) *Deductions for unmatured Coupons:* If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; provided, however, that where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a)
above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

(g) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 11(g) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption for tax reasons*), Condition 10(e) (*Redemption at the option* of *Noteholders*), Condition 10(c) (*Redemption at the option of the Issuer*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(h) *Payments on business days*: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(i) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(j) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(k) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15

(*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12 Payments – Registered Notes

This Condition 12 is only applicable to Registered Notes.

(a) *Principal*: Payments of principal shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the 15th day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the 15th day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

Payments of principal and interest in respect of Registered Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) *Payments subject to fiscal laws*: All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (Taxation), any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (Taxation)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12 arriving after the due date for payment or being lost in the mail.

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the relevant Registrar's Specified Office on the fifth Business Day (in the case of Renminbi) and the 15th day (in the case of a currency other than Renminbi, whether or not such 15th day is a Business Day) before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

So long as the Global Note Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Note Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

13 Taxation

(a) *No tax withholding save as required by law*: All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of a Tax Jurisdiction or any political subdivision therein or any authority therein or thereof having power to tax, unless such withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law.

(b) *Withholding for PRC enterprise income tax*: Where such withholding or deduction is made by the Issuer as a result of the Issuer being deemed to be a PRC tax resident by or on behalf of the PRC or any political subdivision thereof or authority therein or thereof having power to tax at the rate applicable in the PRC on the date of issue of the first Tranche of the Notes (the "**Applicable Rate**"), the Issuer will increase the amounts paid by it to the extent required, so that the net amount received by the Noteholders and Couponholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

(c) *Additional Tax Amounts:* In the event that the Issuer is required to make a deduction or withholding (i) by or on behalf of the PRC or any political subdivision thereof or authority therein or thereof having power to tax in excess of the Applicable Rate; or (ii) by or within a Tax Jurisdiction (other than the PRC), the Issuer shall pay such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable in respect of any Note or Coupon:

(i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

(ii) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days.

(d) *Taxing jurisdiction:* If any Issuer becomes subject at any time to any taxing jurisdiction other than the Tax Jurisdiction(s), references in these Conditions to the Tax Jurisdiction(s) shall be construed as references to the Tax Jurisdiction(s) and/or such other jurisdiction.

14 Events of Default

If any of the following events occurs:

(a) *Non-payment:* the Issuer fails to pay any amount of principal or interest in respect of the Notes on the due date for payment thereof and in the case of interest, such failure continues for a period of seven days; or

(b) *Breach of other obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Covenant or the Agency Agreement and such default remains unremedied for 45 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or

(c) *Cross-acceleration of Bank or Subsidiary*:

(i) any indebtedness for money borrowed of the Bank or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such indebtedness for money borrowed becomes due and payable prior to its stated maturity otherwise than at the option of the Bank or (as the case may be) the relevant Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such indebtedness for money borrowed or raised; or

(iii) the Bank or any of its Subsidiaries fails to pay when due any amount payable by it under any guarantee or indemnity of any indebtedness for money borrowed, *provided that* the amount of indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds U.S.$25,000,000 (or its equivalent in any other currency or currencies); or

(d) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking, assets and revenues of the Bank or any of its Principal Subsidiaries; or

(e) *Insolvency etc*: (i) the Bank or any of its Principal Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Bank or any of its Principal Subsidiaries or the whole or a material part of the undertaking, assets and revenues of the Bank or any of its Principal Subsidiaries, (iii) the Bank or any of its Principal Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee or indemnity of any indebtedness given by it or (iv) the Bank or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business, except (x) in the case of any Subsidiary of the Bank, where the cessation is for the purpose of and followed by a solvent winding-up, dissolution, reconstruction, amalgamation, merger or consolidation whereby the business, undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Bank and/or another Subsidiary, or (y) on terms approved by an Extraordinary Resolution of the Noteholders; or

(f) *Winding up etc*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Bank or any of its Principal Subsidiaries; or

(g) *Analogous event*: any event occurs which under the laws of the relevant Tax Jurisdiction has an analogous effect to any of the events referred to in paragraphs (d) (Security enforced) to (f) (Winding up etc) above; or

(h) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Deed of Covenant,

then any Noteholder may, by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, declare the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Termination Amount together with accrued interest (if any) without further action or formality. Notice of any such declaration shall promptly be given by the Issuer to the Noteholders and Couponholders in accordance with Condition 20 (*Notices*). In any event, the Issuer shall notify the Fiscal Agent, the Noteholders and Couponholders promptly upon becoming aware of the occurrence of any Event of Default.

15 Prescription

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

16 Replacement of Notes and Coupons

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the relevant Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

17 Agents

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor Fiscal Agent, CMU Lodging and Paying Agent, Principal Registrar, CMU Registrar or Calculation Agent and additional or successor Paying Agents; provided, however, that:

(a) the Issuer shall at all times maintain a Fiscal Agent and a Principal Registrar;

(b) the Issuer shall at all times maintain a CMU Lodging and Paying Agent and a CMU Registrar in relation to Notes accepted for clearance through the CMU Service;

(c) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and

(d) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

18 Meetings of Noteholders; Modification and Waiver

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of not less than 90 per cent. of the Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification*: The Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders or Couponholders, to any such modification unless (i) it is of a formal, minor or technical nature, (ii) it is made to correct a manifest error or (iii) it is a modification which neither contradicts these Conditions nor is materially prejudicial to the interests of the Noteholders.

19 Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and, if applicable, the timing for notification or, as the case may be, reporting to the NDRC, the PBOC, SAFE, CBIRC and/or such other applicable competent authority) so as to form a single series with the Notes.

20 Notices

(a) *Bearer Notes*: Notices to the Holders of Bearer Notes shall be valid if published in English in the South China Morning Post and in Chinese in the Hong Kong Economic Journal or, if such publication is not practicable, in an English and/or Chinese language newspaper, as the case may be, with general circulation in Hong Kong. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes*: Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, notices to the Holders of Registered Notes shall be valid if published in English in the South China Morning Post and in Chinese in the Hong Kong Economic Journal or, if such publication is not practicable, in an English and/or Chinese language newspaper, as the case may be, with general circulation in Hong Kong. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers).

So long as the Notes are represented by a Global Note or a Global Note Certificate and such Global Note or Global Note Certificate is held on behalf of (i) Euroclear or Clearstream, or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions, or (ii) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the Persons shown in a CMU Instrument Position Report issued by the Hong

Kong Monetary Authority on the business day preceding the date of despatch of such notice. Any such notice shall be deemed to have been given to the holders of the Notes on the second day after the day on which the said notice was given to Euroclear, Clearstream, the CMU Service and/or the alternative clearing system, as the case may be.

21 Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

22 Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

23 Governing Law and Jurisdiction

(a) *Governing law*: The Notes, the Deed of Covenant and the Agency Agreement and any non-contractual obligations arising out of or in connection with the Notes, the Deed of Covenant and the Agency Agreement are governed by English law.

(b) *Jurisdiction:* The courts of Hong Kong have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes, the Deed of Covenant and the Agency Agreement.

(c) *Appropriate forum*: The Issuer agrees that the courts of Hong Kong are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Service of process*: The Issuer agrees that the documents which start any proceedings relating to a Dispute ("**Proceedings**") and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to the principal place of business of Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch at 24/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong, or to such other person with an address in Hong Kong and/or at such other address in Hong Kong as the Issuer may specify by notice in writing to the Noteholders. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition 23(d) applies to Proceedings in Hong Kong and to Proceedings elsewhere.

(e) *Consent to enforcement etc.*: The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

(f) *Waiver of immunity*: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or the CMU (together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Bank believes to be reliable, but none of the Bank nor any Dealer or the Arrangers takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Bank nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, amongst other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

CMU

The CMU is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("CMU Members") of capital markets instruments ("CMU Instruments") which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Compared with clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU is limited. In particular (and unlike the European Clearing Systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-US beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream, in any Notes held in the CMU, will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU.

Book-Entry Ownership

Bearer Notes

The Bank has made applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Bank may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream.

Registered Notes

The Bank may make applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Global Note Certificate. The Bank may also apply to have Notes to be represented by a Global Note Certificate accepted for clearance through the CMU. Each Global Note Certificate will have an International Securities Identification Number ("ISIN") and a Common Code. Investors in Notes of such Series may hold their interests in a Global Note Certificate through Euroclear, Clearstream or the CMU (if applicable).

Each Global Note Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Note Certificate, as set out under "*Subscription and Sale*".

All Registered Notes will initially be in the form of a Global Note Certificate. Individual Certificates will be available, in the case of Notes initially represented by a Global Note Certificate, in amounts specified in the applicable Pricing Supplement.

FORMS OF THE NOTES

Bearer Notes

Each Tranche of Notes in bearer form ("Bearer Notes") will initially be in the form of either a temporary global note in bearer form (the "Temporary Global Note"), without interest coupons, or a permanent global note in bearer form (the "Permanent Global Note") (each a "Global Note"), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "Global Note") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank SA/NV as operator of the Euroclear System ("Euroclear") and/or Clearstream Banking S.A. ("Clearstream") and/or a sub-custodian for the CMU and/or any other relevant clearing system.

In the case of each Tranche of Bearer Notes, the relevant Pricing Supplement will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "TEFRA C Rules") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "TEFRA D Rules") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the relevant Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Fiscal Agent or the CMU Lodging and Paying Agent; and

(ii) receipt by the Fiscal Agent or the CMU Lodging and Paying Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership **provided, however, that** in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

(a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (Hong Kong time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5.00 p.m. (Hong Kong time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

The Permanent Global Note will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Bearer Notes in definitive form ("Definitive Notes"):

(a) on the expiry of such period of notice as may be specified in the Pricing Supplement; or

(b) at any time, if so specified in the Pricing Supplement; or

(c) if the Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

    (i) Euroclear or Clearstream or CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

    (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the relevant Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent and the CMU Lodging and Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Hong Kong time) on the 30th day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or

(c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment, then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Hong Kong time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5.00 p.m. (Hong Kong time) on such due date ((c) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the relevant Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Hong Kong time) on the 30th day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Hong Kong time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(b) at any time, if so specified in the relevant Pricing Supplement; or

(c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

(i) Euroclear or Clearstream or CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

(ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the relevant Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent or the CMU Lodging and Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Hong Kong time) on the 30th day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Hong Kong time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on such due date ((b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Rights under Deed of Covenant

Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream and/or CMU and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against the relevant Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream and/or CMU and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which complete those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Registered Notes

Each Tranche of Registered Notes will be in the form of either individual Note Certificates in registered form ("Individual Note Certificates"); or a global Note in registered form (a "Global Note Certificate(s)"), in each case as specified in the relevant Pricing Supplement.

Each Note represented by a Global Note Certificate will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream and/or, in respect of CMU Notes, a sub-custodian for the CMU and/or any other relevant clearing system, and the relevant Global Note Certificate will be deposited on or about the issue date with the common depositary for Euroclear and/or Clearstream and/or, in respect of CMU Notes, or a sub-custodian for the CMU and/or any other relevant clearing system.

If the relevant Pricing Supplement specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be in the form of Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

If the relevant Pricing Supplement specifies the form of Notes as being "Global Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be in the form of a Global Note Certificate which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(b) at any time, if so specified in the relevant Pricing Supplement; or

(c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Global Note Certificate", then; or

(d) if either of the following events occurs:

    (i) Euroclear or Clearstream or CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

    (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, the relevant Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Principal Registrar or the CMU Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the specified office of the relevant Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Principal Registrar or the CMU Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been delivered by 5.00 p.m. (Hong Kong time) on the 30th day after they are due to be issued and delivered in accordance with the terms of the Global Note Certificate; or

(b) any of the Notes represented by a Global Note Certificate (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Note Certificate in accordance with the terms of the Global Note Certificate on the due date for payment,

then, at 5.00 p.m. (Hong Kong time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on such due date (in the case of (b) above) each person shown in the records of Euroclear and/or Clearstream and/or CMU (or any other relevant clearing system) as being entitled to interest in the Notes (each an "Accountholder") shall acquire under the Deed of Covenant rights of enforcement against the relevant Issuer ("Direct Rights") to compel the relevant Issuer to perform its obligations to the Holder of the Global Note Certificate in respect of the Notes represented by the Global Note Certificate, including the obligation of the relevant Issuer to make all payments when due at any time in respect of such Notes in accordance with the Conditions as if such Notes had (where required by the Conditions) been duly presented and surrendered on the due date in accordance with the Conditions.

The Direct Rights shall be without prejudice to the rights which the Holder of the Global Note Certificate may have under the Global Note Certificate or otherwise. Payment to the Holder of the Global Note Certificate in respect of any Notes represented by the Global Note Certificate shall constitute a discharge of the relevant Issuer's obligations under the Notes and the Deed of Covenant to the extent of any such payment and nothing in the Deed of Covenant shall oblige the relevant Issuer to make any payment under the Notes to or to the order of any person other than the Holder of the Global Note Certificate.

As a condition of any exercise of Direct Rights by an Accountholder, such Accountholder shall, as soon as practicable, give notice of such exercise to the Holders of the Notes of the same Series in the manner provided for in the Conditions or the Global Note Certificate for notices to be given by the relevant Issuer to Noteholders.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which complete those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Summary of Provisions relating to the Notes while in Global Form

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Terms and Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, and/or a sub-custodian for the CMU, will be that depositary, common depositary or sub-custodian, as the case may be.

In relation to any Tranche of Notes represented by a Global Note Certificate, references in the Terms and Conditions of the Notes to "Noteholder" are references to the person in whose name such Global Note Certificate is for the time being registered in the Register which, for so long as the Global Note Certificate is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, and/or a sub-custodian for the CMU, will be such depositary or common depositary (or a nominee for such depositary or common depositary) or the Hong Kong Monetary Authority as the operator of the CMU, as the case may be.

Each of the persons shown in the records of Euroclear and/or Clearstream and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Note Certificate (each an "Accountholder") must look solely to Euroclear and/or Clearstream and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the relevant Issuer to the holder of such Global Note or Global Note Certificate and in relation to all other rights arising under such Global Note or Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Note Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Note Certificate, Accountholders shall have no claim directly against the relevant Issuer in respect of payments due under the Notes and such obligations of the relevant Issuer will be discharged by payment to the holder of such Global Note or Global Note Certificate. If a Global Note or a Global Note Certificate is lodged with a sub-custodian for or registered with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Note Certificate are credited as being held in the CMU in accordance with the CMU Rules as notified by the CMU to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU (which notification, in either case, shall be conclusive evidence of the records of the CMU save in the case of manifest error) shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU as entitled to receive payments in respect of Notes represented by such Global Note or Global Note Certificate and the relevant Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Note Certificate must look solely to the CMU Lodging and Paying Agent for his share of each payment so made by the relevant Issuer in respect of such Global Note or Global Note Certificate.

Conditions applicable to Global Notes

Each Global Note and Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Note Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the relevant Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the relevant Issuer shall procure that the payment is noted in a schedule thereto.

Payment Business Day: In the case of a Global Note, or a Global Note Certificate, the applicable Payment Business Day shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any)

Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "Record Date") where "Clearing System Business Day" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 10(e) (*Redemption and Purchase – Redemption at the option of Noteholders*), the bearer of the Temporary Global Note or Permanent Global Note or the holder of a Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and the Put Option Notice, give written notice of such exercise to the Fiscal Agent or (as the case may be) the CMU Lodging and Paying Agent specifying the principal amount of Notes in respect of which the relevant put option is being exercised. Any such notice shall be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(c) (*Redemption and Purchase – Redemption at the option of the Issuer*) in relation to some only of the Notes, where such Notes are held with Euroclear and/or Clearstream or the CMU, the Temporary Global Note or Permanent Global Note or Global Note Certificate may be redeemed in part in the principal amount specified by the relevant Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream or the CMU (as the case may be) (to be reflected in the records of Euroclear and Clearstream or the CMU (as the case may be) as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Note Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Note Certificate is, (i) deposited with a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system (other than the CMU, in respect of which see (ii) below), notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 20 (Notices) on the date of delivery to Euroclear and/or Clearstream and/or any other relevant clearing system or (ii) deposited with the CMU, notices to the holders of Notes of the relevant Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Note Certificate.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.

[MiFID II product governance/target market – [*appropriate target market legend to be included, if applicable*]

[PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II[; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[Singapore Securities and Futures Act Product Classification – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded]/[Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products.][a]

[This Pricing Supplement is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**HKSE**") and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

HKSE has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme and the Notes on HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and HKSE take no responsibility for the contents of this Pricing Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Pricing Supplement.

This Pricing Supplement includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purposes of giving information with regard to the Issuer and the Bank. The Issuer and the Bank accept full

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[a] *For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.*

responsibility for the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.]

Pricing Supplement dated [•]

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD./
[specify relevant branch]

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]
under the U.S.$5,000,000,000 Medium Term Note Programme

Legal Entity Identifier (LEI) Code of the Bank: 300300C1031031001330

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the "**Conditions**") set forth in the Offering Circular dated 11 October 2019. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular and the documents incorporated by reference thereto [and the supplemental Offering Circular dated [date]].

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "**Conditions**") set forth in the Offering Circular dated [•]. This Pricing Supplement contains the pricing supplement of the Notes and must be read in conjunction with the Offering Circular dated 11 October 2019 and the documents incorporated by reference thereto [and the supplemental Offering Circular dated [date]], save in respect of the Conditions which are extracted from the Offering Circular dated [•] and are attached hereto.]

[*The following language applies if the Notes are intended to be Qualifying Debt Securities for the purposes of the Income Tax Act, Chapter 134 of Singapore.*

Where interest, discount income, prepayment fee, redemption premium or break cost is derived from any of the Notes by any person who is not resident in Singapore and who carries on any operations in Singapore through a permanent establishment in Singapore, the tax exemption available for qualifying debt securities (subject to certain conditions) under the Income Tax Act, Chapter 134 of Singapore (the "**ITA**"), shall not apply if such person acquires such Notes using the funds and profits of such person's operations through a permanent establishment in Singapore. Any person whose interest, discount income, prepayment fee, redemption premium or break cost derived from the Notes is not exempt from tax (including for the reasons described above) shall include such income in a return of income made under the ITA.]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote guidance for completing the Pricing Supplement.*]

1.	Issuer:		Shanghai Pudong Development Bank Co., Ltd./*[specify relevant branch as Issuer*])
2.	[(i)	Series Number:].	[•]
	(ii)	Tranche Number:.	[•]
	(iii)	Date on which the Notes become fungible	[Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [•] on [[•]/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 26 below [which is expected to occur on or about [•]].]
3.	Specified Currency or Currencies: .		[•]
4.	Aggregate Nominal Amount:.		[•]
	(i)	[Series]:	[•]
	(ii)	Tranche:.	[•]]
5.	(i)	Issue Price:.	[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	(ii)	Net proceeds:	[•] [(Required only for listed issues)]
6.	(i)	Specified Denominations[b c d]:	[•]
	(ii)	Calculation Amount:	[•]
7.	(i)	Issue Date:	[•]
	(ii)	Interest Commencement Date:	[*Specify/Issue Date*/Not Applicable]

[b] *Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).*

[c] *If the specified denomination is expressed to be EUR100,000 or its equivalent and multiples of a lower principal amount (for example EUR1,000), insert the additional wording as follows: EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]. No Notes in definitive form will be issued with a denomination above [EUR199,000]. In relation to any issue of the Notes which are a "**Global Note exchangeable for Definitive Notes**" in circumstances other than "in the limited circumstances specified in the Global Notes", such Notes may only be issued in denominations equal to, or greater than, EUR100,000 (or equivalent) and multiples thereof.*

[d] *For so long as any Notes are listed on The Stock Exchange of Hong Kong Limited (the "**HKSE**") and the rules of the HKSE so require, such Notes will be traded on the HKSE in a minimum board lot size of not less than HK$500,000 (or its equivalent in other currencies).*

*For so long as any Notes are listed on the Singapore Exchanges Securities Trading Limited (the "**SGX-ST**") and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of at least S$200,000 (or its equivalent in other currencies).*

8.	Maturity Date:	[*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*][e] [*If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom, or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.*]
9.	Interest Basis:	[[•] per cent. Fixed Rate][[Specify reference rate] +/-[•] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*Specify*)] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par][Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*Specify*)]
11.	Change of Interest or Redemption/ Payment Basis:	[*Specify details of any provision for convertibility of the Notes into another interest or redemption/payment basis*]
12.	Put/Call Options:	[Investor Put][Issuer Call] [(further particulars specified below)]
13.	[Date [Board] approval for issuance of Notes obtained]	[•] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)
14.	Listing:	[The Stock Exchange of Hong Kong Limited ("**HKSE**")/ the Singapore Exchange Securities Trading Limited (the "**SGX-ST**")/Other (specify)/None] (For Notes to be listed on the HKSE, insert the expected effective listing date of the Notes)
15.	Method of distribution:	[Syndicated/Non-syndicated]
16.	[Date of regulatory approval for issuance of Notes obtained:	Pre-issuance registration certificate/NDRC approval dated [•] from the NDRC/CBIRC approval dated [•] from the CBIRC/PBOC approval dated [•] from the PBOC]

[e] *Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where Interest Payment Dates are subject to modification it will be necessary to use the second option here.*

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17.	**Fixed Rate Note Provisions:**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate[(s)] of Interest:.	[•] per cent. per annum [payable [annually/semi-annually/ quarterly/monthly/other (*specify*)] in arrear]
	(ii)	Interest Payment Date(s): . . .	[•] in each year [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of* "***Business Day***"]/not adjusted][f]
	(iii)	Fixed Coupon Amount[(s)]:. .	[•] per Calculation Amount[g]
	(iv)	Broken Amount(s):	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]
	(v)	Day Count Fraction:.	[30/360/Actual/Actual (ICMA/ISDA)/Actual/365 (Fixed)/ other]
	(vi)	Determination Dates:	[[•] in each year *(insert regular interest payment dates, ignoring Issue Date or Maturity Date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)]
	(vii)	Other terms relating to the . .	method of calculating interest for Fixed Rate Notes: [Not Applicable*/give details*]
18.	**Floating Rate Note Provisions:** . .		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Period(s):	[•]
	(ii)	Specified Period:	[•] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"*)

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[f] *Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to adjustment in accordance with the Modified Following Business Day Convention.*

[g] *For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest RMB0.01, RMB0.005 for the case of Renminbi-denominated Fixed Rate Notes and to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.*

(iii) Specified Interest Payment Dates:	[•] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"*)
(iv) First Interest Payment Date: .	[•]
(v) Business Day Convention: . .	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
(vi) Additional Business Centre(s):	[Not Applicable/*give details*]
(vii) Manner in which the Rate(s) of Interest is/are to be determined:.	[Screen Rate Determination/ISDA Determination/other (*give details*)]
(viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):.	[[Name] shall be the Calculation Agent (*no need to specify if the Issuing and Paying Agent is to perform this function*)]
(ix) Screen Rate Determination:	
Reference Rate:.	[*For example, LIBOR, EURIBOR or CNH HIBOR*]
Interest Determination Date(s): . . .	[•]
Relevant Screen Page:	[*For example, Reuters LIBOR 01/EURIBOR 01*]
Relevant Time:	[*For example, 11.00 a.m. London time/Brussels time*]
Relevant Financial Centre:	[*For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro*)]
(x) ISDA Determination:	
Floating Rate Option:.	[•]
Designated Maturity:	[•]
Reset Date:.	[•]
(xi) Linear interpolation:.	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
(xii) Margin(s):.	[+/-][•] per cent. per annum

	(xiii)	Minimum Rate of Interest: . .	[•] per cent. per annum
	(xiv)	Maximum Rate of Interest: . .	[•] per cent. per annum
	(xv)	Day Count Fraction:.	[•]
	(xvi)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[•]/[see Annex]
19.	**Zero Coupon Note Provisions:** . .		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Accrual Yield:.	[•] per cent. per annum
	(ii)	Reference Price:	[•]
	(iii)	Day Count Fraction in relation to Early Redemption Amount:.	[30/360/Actual/Actual (ICMA/ISDA)/other]
	(iv)	Any other formula/basis of determining amount payable:.	[*Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition 10(g)*]
20.	**Index-Linked Interest Note/other variable-linked interest Note Provisions:**		[Applicable/Not Applicable](*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Index/Formula/other variable:	[give or annex details]
	(ii)	Calculation Agent responsible for calculating the interest due:.	[•]
	(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[•]
	(iv)	Interest Determination Date(s):	[•]
	(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[•]

	(vi)	Interest or calculation period(s):	[•]
	(vii)	Specified Period:	[•] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRNConvention, Floating Rate Convention or EurodollarConvention. Otherwise, insert "Not Applicable"*)
	(viii)	Specified Interest Payment Dates:	[•] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"*)
	(ix)	Business Day Convention: . .	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
	(x)	Additional Business Centre(s):	[•]
	(xi)	Minimum Rate/Amount of Interest:	[•] per cent. per annum
	(xii)	Maximum Rate/Amount of Interest:	[•] per cent. per annum
	(xiii)	Day Count Fraction:.	[•]
21.	**Dual Currency Note Provisions:** .		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest due: .	[•]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[•]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[•]

PROVISIONS RELATING TO REDEMPTION

22.	**Call Option:**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[•] per Calculation Amount
		(b) Maximum Redemption Amount:	[•] per Calculation Amount
	(iv)	Notice period:	[•]
23.	**Put Option:**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii)	Notice period:	[•]
24.	**Final Redemption Amount of each Note:**		[•] per Calculation Amount
	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:		
	(i)	Index/Formula/variable:	[*give or annex details*]
	(ii)	Calculation Agent responsible for calculating the Final Redemption Amount:	[•]
	(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[•]

(iv)	Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable:	[•]
(v)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/ or other variable is impossible or impracticable or otherwise disrupted:	[•]
(vi)	[Payment Date]:.	[•]
(vii)	Minimum Final Redemption Amount:	[•] per Calculation Amount
(viii)	Maximum Final Redemption Amount:	[•] per Calculation Amount

25. **Early Redemption Amount**

(i)	Early Redemption Amount (Tax) per Calculation Amount payable on redemption for taxation reasons and/or the method of calculating the same (if required or if different from that set out in the Conditions):.	[Not Applicable (*if the Early Redemption Amount is the principal amount of the Notes)/specify the Early Redemption Amount if different from the principal amount of the Notes or specify its method of calculation*]
(ii)	Early Termination Amount per Calculation Amount payable on mandatory redemption on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[Not Applicable (*if the Early Termination Amount is the principal amount of the Notes)/specify the Early Termination Amount if different from the principal amount of the Notes or specify its method of calculation*]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26.	**Form of Notes:**	Bearer Notes:[h] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [•] days' notice][i] [Permanent Global Note exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note][j] Registered Notes: [Global Note Certificate exchangeable for Individual Note Certificates on [•] days' notice/at any time/in the limited circumstances described in the Global Note Certificate][k]
27.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details.*] Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 18(vi) and 20(x) relate] [*Also ensure London is a Financial Centre for all Notes in which The Bank of New York Mellon, London Branch acts as Issuing and Paying Agent*]
28.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details.*]

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h *Bearer Notes issued in compliance with the D Rules must initially be represented by a Temporary Global Note.*

i *if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Temporary Global Note shall not be exchangeable on [•] days' notice.*

j *if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Permanent Global Note shall not be exchangeable on [•] days' notice.*

k *if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Global Note Certificate shall not be exchangeable on [•] days' notice.*

29.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]: .	[Not Applicable/*give details*]
30.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
31.	Redenomination, renominalisation and reconventioning provisions: . .	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
32.	Any applicable currency disruption/ fallback provisions:	[Not Applicable/*give details*]
33.	Other terms or special conditions: .	[Not Applicable/*give details*]

DISTRIBUTION

34.	(i) If syndicated, names of Managers:.	[Not Applicable/*give names*]
	(ii) Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
35.	If non-syndicated, name and address of Dealer:	[Not Applicable/*give name and address*]
36.	Total commission and concession: .	[•] per cent. of the Aggregate Nominal Amount
37.	Private Bank Rebate/Commission: .	[Applicable/Not Applicable]
38.	U.S. Selling Restrictions:	Reg. S Category [1/2] (*In the case of Bearer Notes*) - [C RULES/D RULES/ TEFRA not applicable] (*In the case of Registered Notes*) – Not Applicable
39.	Prohibition of Sales to EEA Retail Investors:	[Not Applicable/*give details*]
40.	Additional selling restrictions:. . . .	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

41.	ISIN Code:.	[•]
42.	Common Code:.	[•]

43.	CMU Instrument Number:	[•]
44.	Any clearing system(s) other than Euroclear/Clearstream and the CMU and the relevant identification number(s):	[Not Applicable*/give name(s) and number(s)*]
45.	Delivery:	Delivery [against/free of] payment
46.	Additional Paying Agent(s) (if any):	[•]

GENERAL

47.	The aggregate principal amount of the Notes issued has been translated into United States dollars at the rate of [•], producing a sum of (for Notes not denominated in United States dollars):	[Not Applicable/U.S.$]
48.	Ratings:	The Notes to be issued have [not] been rated: [S&P: [•]]; [Moody s: [•]]; [Fitch: [•]]; [[Other: [•]] (*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

[USE OF PROCEEDS

Give details if different from the "Use of Proceeds" section in the Offering Circular.]

[STABILISATION

In connection with the issue of any Tranche of the Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the closing date in respect of that Tranche of the Notes. However, there is no obligation on such Stabilisation Manager(s) to do this. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms [required for issue and admission to trading on the [[HKSE]/[SGX-ST]] of the Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme of Shanghai Pudong Development Bank Co., Ltd.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of:

[***SPECIFY ISSUER***]

By: ____
Duly authorised

Name:

Title:

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Bank's unaudited but reviewed consolidated capitalisation and indebtedness as at 30 June 2019. Please read this table in conjunction with the Bank's unaudited condensed consolidated financial information, the review report in respect thereof and the accompanying notes included elsewhere in this Offering Circular.

	As at 30 June
	2019
	(RMB million)
Liabilities	
Debt securities issued[(1)]	896,520
Other liabilities[(2)]	5,271,377
Total liabilities	6,167,897
Equity	
Ordinary shares	29,352
Preference shares	29,920
Capital surplus	81,760
Surplus reserves	125,805
General risk reserve	76,125
Other reserves	4,854
Retained earnings	144,540
Equity attributable to the Bank's shareholders	492,356
Non-controlling interest	6,894
Total equity	499,250
Total capitalisation[(3)]	6,667,147

Notes:

(1) In July 2019, the Bank issued perpetual bonds with an aggregate principal amount of RMB30 billion. The proceeds of the bonds will be used to supplement the Bank's other Tier 1 capital in accordance with applicable laws and regulatory approval.

(2) Calculated as the difference between total liabilities and bonds issued.

(3) Total capitalisation equals the sum of total liabilities and total equity.

Save as disclosed in note (1) above, there has been no material change in the consolidated capitalisation and indebtedness of the Bank since 30 June 2019.

USE OF PROCEEDS

The net proceeds of any Notes issued under the Programme shall be used for the working capital and general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

DESCRIPTION OF THE BANK

OVERVIEW

The Bank is a national joint-stock commercial bank founded on 28 August 1992. The Bank commenced business on 9 January 1993 and was listed on the Shanghai Stock Exchange (Stock Code: 600000.SS) on 10 November 1999, becoming the first commercial bank listed on the Shanghai Stock Exchange following the promulgation of the PRC Securities Law.

The Bank's principal business activities are corporate and investment banking, personal banking and treasury business. As at 30 June 2019, the Bank had 41 first-level branches (including the Hong Kong Branch, Singapore Branch and London Branch) and a total of 1,627 outlets, covering nearly all provinces, autonomous regions and municipalities in the PRC. The Bank is strategically focused in economically developed areas with higher levels of income, including the Yangtze River Delta region, the Pearl River Delta region, the Beijing-Tianjin-Hebei metropolitan region and the Yangtze River economic zone.

As at and for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, the Bank held RMB5,857.3 billion, RMB6,137.2 billion, RMB6,289.6 billion and RMB6,667.1 billion in total assets, respectively, RMB2,762.8 billion, RMB3,194.6 billion, RMB3,549.2 billion and RMB3,714.9 billion in loans of foreign and domestic currency, respectively, and RMB3,002.0 billion, RMB3,037.9 billion, RMB3,227.0 billion and RMB3,665.5 billion in total deposits from customers, respectively, while earning a net profit for the year attributable to shareholders of the Bank of RMB53,099 million, RMB54,258 million, RMB55,914 million after taxes, respectively and, for the six months ended 30 June 2018 and 2019, RMB28,569 million and RMB32,090 million, respectively.

In 2018, the Bank was ranked 70th place (13th place among PRC enterprises, ninth place among PRC banks) among the Forbes Global 2000 based on four aggregative indicators (namely sales, profit, assets and market capitalisation). The Bank was also ranked 227th place (48th place among PRC enterprises, seventh place among PRC banks) in Fortune's "Global 500", 25th place (eighth place among PRC banks) in terms of core capital and first place among all banks in terms of cost-to-income ratio in its list of Top 1000 World Banks and 13th place (sixth place among PRC banks) in its list of Top 500 Banking Brands by The Banker in 2018, with a brand worth of U.S.$14.772 billion, a jump of five places compared to its ranking in 2017. The Bank was ranked 17th place, (seventh place among other banks, second place among commercial banks of the same type) by Interbrand in 2018, with a brand worth of RMB18.7 billion. The Bank was also awarded, among others, the "Best Board of Directors" and the "Best New Media Operation" by Securities Times in the eighth Tianma – PRC Listed Companies Investor Relationships Selection. In addition, the Bank was also awarded the "2016 Most Influential Financial Brand" by Financial Times, the "2016 Best Wealth Management Bank" and the "2016 Best Internet Bank" by East Money Net, the "Best Private Bank for Transparency" among PRC private banks and the "Best Fund Management Project" by the Asian Banker and the golden award by the 21st Century Financial Report and 21st Century Commercial Comments. It ranked third in the "Top 100 Shanghai Enterprise" and second in the "Top 100 Shanghai Service Industry" by the Shanghai Enterprise Federation in 2016.

In January 2019, the Bank ranked 18th on the Top 500 Banking Brands list released by the British magazine The Banker, with a brand value of U.S.$13,252 million, being 7th among Chinese banks. In June, the Bank ranked 65th on the Forbes Global 2000 list, being 13th among Chinese companies and 9th among Chinese banks. In July, the British magazine The Banker released the ranking report of Top 1000 World Banks 2019, on which the Bank was ranked 24th in terms of Tier 1 capital and 9th among Chinese banks. In the same month, the Bank ranked 216th on the Fortune Global 500 list, being 56th among Chinese companies and 8th among Chinese commercial banks, demonstrating its sound competitiveness. Furthermore, it is one of the few domestic joint-stock commercial banks rated above investment grade by each of the Big Three credit rating agencies. As at the date of this Offering Circular, the Bank has a Long-Term Issuer Default Rating of BBB, issuer credit ratings of BBB (long-term) and A-2 (short-term) by S&P Global Ratings and deposit ratings of Baa2 (long-term) and Prime-2 (short-term) by Moody's Investors Service. All of the Bank's rating outlooks are stable. These ratings reflect the Bank's consistent execution of its business strategy and solid financial performance over the past few years.

As a dedicated financial service provider, the Bank is also committed to corporate citizenship and fulfilling its social responsibility. In 2018, the Bank received "Best Contribution Award for Targeted Poverty Alleviation" and "Best Outlet Award for Special CSR Contribution" granted by the China Banking Association. In 2017, the Bank was given "Best Green Finance Award" by the China Banking Association.

The table below sets forth the key financial ratios of the Bank for the periods indicated:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
Return on average total assets (%)(1)	0.98	0.92	0.91	0.50
Return on average equity (%)(2)	16.35	14.45	13.14	6.89
Net interest margin (%)(3)	2.03	1.86	1.94	2.12
Non-interest income to operating income (%)(4)	32.75	36.60	34.80	34.17
Cost to income (calculated under domestic regulations, %)(5)	23.16	24.34	25.12	21.51

Notes:

(1) Return on average total assets = net profit for the period/average total assets. Average total assets = (total assets at the beginning of the period + total assets at the period-end)/2.

(2) Return on average equity = profit after tax attributable to shareholders of the Bank/average owner's equity. It is calculated according to No. 9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies – Calculation and Disclosure of Return on Average Equity and Earnings per Share (Revised in 2010) (CSRC Announcement [2010] No. 2) issued by the CSRC.

(3) Net interest margin = net interest income/average balance of interest-earning assets. Average balance is average daily balance derived from the Bank's management accounts.

(4) Non-interest income to operating income = non-interest income/operating income.

(5) Cost to income ratio is calculated according to the Interim Measures of the Performance Evaluation of State-owned and State Holding Financial Enterprises (Cai Jin [2009] No. 3) formulated by the Ministry of Finance ("MOF").

MILESTONES

The following are the milestone events in the development history of the Bank:

1992	Established with the approval of the PBOC.
1993	Commenced business on 9 January 1993, with headquarters in Shanghai.
1999	Became the first shareholding commercial bank to list on the PRC A-share market with the approval of both the PBOC and CSRC.
2002	Became the first publicly-listed PRC bank to introduce foreign strategic investors.
2008	The first SPD Rural Bank was established.
2010	Entered into strategic cooperation with China Mobile Limited ("China Mobile"), becoming the first strategic cooperation between a commercial enterprise and a financial institution in the PRC.
	Total assets of the Bank exceeded RMB2,000 billion for the first time, joining the ranks of large and medium banks.
2011	The Hong Kong Branch was established, marking an important first step of the internationalisation of the Bank.
2012	SPD Financial Leasing Company commenced business, witnessing the further transformation of the Bank into a modern financial services institution.
	SPD Silicon Valley Bank, a joint venture between the Bank and SVB Financial Group (Silicon Valley Bank) (NASDAQ:SIVB), commenced business, being, at that time, the first Sino-foreign bank to be approved for establishment in a period of over 10 years.
2013	Ranked in the Fortune 500 for the first time, placing 460th.
	Among the first batch of banks to be approved for establishing a branch in the China (Shanghai) Pilot Free Trade Zone ("Shanghai FTZ").
	The first overseas representative office opened in London.
	Operating revenue of the Bank exceeded RMB100 billion for the first time.
2014	First tranche of RMB15 billion 6.00 per cent. preference shares issued in the PRC.
	The Bank's first overseas issuance in Hong Kong of 4.08 per cent. bonds in aggregate principal amount of RMB1 billion.
	The Bank received approval from both the CBRC and the SFC to acquire AsiaVest Partners Limited, which was subsequently renamed SPDB International Holdings Limited.

2015	Second tranche of RMB15 billion 5.50 per cent. preference shares issued in the PRC. SPDB International Holdings Limited commenced business in Hong Kong as a Hong Kong-incorporated investment bank.
2016	The Bank was the first Chinese financial institution to issue green bonds in China's interbank bond market, when it issued RMB20 billion of green bonds. The Bank completed acquisition of a 97.33 per cent. equity interest in Shanghai International Trust Investment Company (''Shanghai International Trust'') at an aggregate consideration of approximately RMB16.4 billion, paid by way of 999,510,332 ordinary shares issued by the Bank, and Shanghai International Trust became the subsidiary of the Bank on the same day. The Bank received approval from the CBRC to dispose its 20 per cent. equity interest in Fubon Bank (China) Co., Ltd. 《富邦華一銀行有限公司》to Fubon Bank Co., Ltd. at a consideration of RMB2,133 million. As a result, the Bank no longer holds any equity interest in Fubon Bank (China) Co., Ltd.
2017	The Singapore Branch obtained the bank licence in Singapore and commenced business in Singapore on 12 April 2017. The London Branch has been authorised in December 2017.
2018	The London Branch commenced business in February 2018. The Bank opened its first overseas commodity centre in Singapore in October 2018.

STRENGTHS

After years of continuous development, the Bank has grown into a commercial bank with important influence locally and abroad. In 2017, the Bank was ranked 25th among the top 1,000 global banks according to its core capital ranking and, in 2018, the Bank was ranked 227th on the World Fortune 500 list, up 18 places from the previous year. The Bank has transformed itself from a traditional commercial bank which was dominated by a single capital intermediary into a comprehensive financial group which provides more comprehensive financial services. The Bank's operations cover service areas such as banking, trusts, funds, leasing, currency brokers and overseas investment banks. In addition, breakthroughs have been made in the domestic and overseas layout of the organisation. The institutional layout of the entire bank has achieved full coverage of the provincial-level regions of the mainland. The Bank's plan to internationalise was also significantly accelerated with the Hong Kong Branch and the Singapore Branch operating well and the London Branch being officially opened while simultaneously promoting the ''Belt and Road'' and planning to expand within Europe.

Strong support from substantial shareholders allows the Bank to establish itself as the flagship Shanghai bank

The Bank enjoys strong long-term support from its largest substantial shareholders, Shanghai International Group Ltd. (''Shanghai International Group'') and China Mobile Group Guangdong Company Limited (''China Mobile Guangdong''). As one of the main financial platforms of the Shanghai municipal government, the Bank believes that it will be able to benefit substantially from and leverage the favourable conditions brought by Shanghai's development as a global financial centre to foster its long-term development. The development of the Shanghai FTZ has provided growth opportunities for the Bank's corporate and investment banking business, and the Bank is a direct beneficiary of overall strategies and policies resulting from the reform of state-owned financial assets in Shanghai.

The Bank has established itself as an influential commercial bank in the PRC after years of continuous development. The Bank enjoys the following competitive advantages. Firstly, it is a first-tier joint-equity commercial bank in the PRC. During the first half of 2018, based on China Mobile's "Big Connection" strategy and our Bank's "Intelligent Connectivity" strategy, the two sides opened a new chapter of strategic cooperation. Adhering to the common aspiration of creating greater value for the Bank's customers and society, the Bank will continue cooperating sincerely to build a new ecosystem together. In 2018, the Bank ranked 25th place in the Top 1,000 World Banks in terms of Tier 1 capital.

Secondly, the Bank has transformed itself into a comprehensive financial institution. Following the successful acquisition of Shanghai International Trust, the Bank's business covers retail banking, investment banking, trust and fund management, leasing, foreign-currency swaps and other financial services. Thirdly, the Bank has increased its network coverage by opening new branches throughout Chinese provinces and in other countries.

During the first half of 2016, the Bank renewed its strategic cooperation agreement with China Mobile for a five-year term. This has also served as a driver of the Bank's corporate and investment banking business, while the harnessing of cross-selling opportunities and the sharing of customers, particularly high-end customers, of the Bank and China Mobile have promoted the growth of the Bank's personal banking business. The Bank has also become a pioneer in the mobile banking industry through in-depth cooperation with China Mobile. As the first bank in the PRC to introduce mobile banking, the Bank has led various innovations such as mobile payments, WeChat banking and is actively promoting the adoption of industry-wide standards for mobile banking. In 2015, the Bank launched the HCE "Cloud Quick Pay" together with China Unionpay and became one of the first cooperation banks with Apple Pay.

With a focus on more economically developed regions, the Bank has established an extensive distribution network and a diversified service channel throughout the PRC

The Bank has an extensive distribution network with Shanghai as the centre, and endeavours to develop its financial services businesses keeping pace with Shanghai's growth as an international finance hub. Its network is predominantly concentrated in more economically developed regions with higher levels of income including the Yangtze River Delta region, the Pearl River Delta region, the Beijing-Tianjin-Hebei metropolitan region and the Yangtze River economic zone. As at 30 June 2019, the Bank had 41 first-level branches (including the Hong Kong Branch, Singapore Branch and London Branch) and a total of 1,627 outlets, covering nearly all provinces, autonomous regions and municipalities in the PRC. As at 30 June 2019, the Bank had approximately 40,000 private banking customers, and managed over RMB500 billion assets from the private banking customers. The Bank has also introduced quality investment products of the Shanghai International Trust to optimise its private wealth management products and provide integrated group product services to serve the needs of the Bank's personal high net worth and high-end customers who seek customised wealth management services.

To extend the reach of its services, the Bank has also built a diversified service channel through automated teller machines ("ATMs") and its electronic banking service platform. As at 30 June 2019, the Bank had 3,410 self-service banking centres and 5,790 ATMs. The Bank's extensive distribution network and diversified service channels provide it with the competitive measures and resources for sustainable development.

The Bank has achieved steady development through adopting a customer-oriented strategy

By adopting a customer-oriented strategy, the Bank has fostered the business growth of its customers, which in turn allows the Bank to expand its corporate and personal banking businesses, achieving steady growth. The Bank has both a strong corporate and personal banking customer base. As at 30 June 2019, the Bank had approximately 1.55 million corporate financing clients and more than approximately 82.40 million retail customers. As at 30 June 2019, the Bank's outstanding corporate loans constituted 50.29 per cent. of its outstanding loans. As at 30 June 2019, the total corporate loans of the Bank amounted to RMB1,868.2 billion, up by RMB52,279 million or 2.88 per cent. from 31 December 2018 and total personal loans of the Bank amounting to RMB1,601.76 billion as at 30 June 2019, up by RMB118.536 billion or 7.99 per cent. from 31 December 2018. The Bank's corporate business has also maintained a leading edge by cultivating innovation and developing financial services adapted to its customers' needs, notably in the development of the Bank's international banking business.

The Bank has achieved leading profitability and continues to strengthen its business structure and capital base

For the six months ended 30 June 2018 and 2019, the Bank achieved net profit per employee of approximately RMB0.57 million and RMB0.61 million, respectively. The Bank has also maintained its asset quality through various means of realising and managing non-performing assets, with a provision coverage ratio of 156.51 per cent. as at 30 June 2019. In addition, the Bank strives to enhance its capital adequacy ratio in order to strengthen its risk management capabilities, with the issuance of the Bank's first tranche of RMB15 billion preference shares and the second tranche of RMB15 billion preference shares in the PRC in November 2014 and March 2015, respectively, and the issuance of an aggregate principal amount of RMB40 million tier 2 capital bonds in September 2018. As at 30 June 2019, the Bank had non-performing loans of RMB67.87 billion, representing an NPL ratio of 1.83 per cent., and a capital adequacy ratio of 13.05 per cent.

The Bank's experienced management team leads the Bank in maintaining its core competitiveness

The Bank's management team has an average of approximately 30 years of experience in the PRC's financial services industry and has a proven track record in asset quality improvement and business development. The Bank believes that its management team is able to lead the Bank in maintaining its core competitiveness and achieving steady development.

STRATEGY

During the "Thirteenth Five-Year Plan" period, China's economy entered into a new phase characterised by the upgrading of investment structures, the transformation of growth areas and the deepening of financial reforms. While this has created valuable opportunities for the Bank's business development, it has also presented challenges. In order to establish a scientific and effective strategic response mechanism, seize the growing opportunities and actively respond to the challenges brought by a complex business environment, the Bank formulated the "Shanghai Pudong Development 2016-2020 Development Strategy" (the "SPDB Strategy"). In the beginning of 2018, the Bank planned a new series of development by focusing on the strategic goal of "developing customer-focused, technology-led and first-class digital eco-banking", in order to promote the Bank as a leading institution for the high-quality development of the financial industry. By focusing on the strategic goal of "developing first-class digital eco-banking" and strengthening the significant strategic planning of the Bank in recent years, the Bank has revised the SPDB Strategy to revamp the relevant conceptual framework, business philosophy and fundamental principles, and to devise concrete measures and roadmaps to implement its strategic goals.

The Bank has achieved significant progress in the construction of digital eco-banking, which will more conveniently and efficiently provide diversified, consolidated, and contextualised financial services to meet clients' growing needs. By realising different financial ecologies, coordinating the development of its various financial services and forming dynamic and practicable business structures, the Bank will continue to innovate its policies, lead by technology, optimise its structure in order to achieve effective, efficient and continued growth and reform. The Bank will build a scientific risk control system, maximise development quality and efficiency, and continue to create value for clients, shareholders, employees and the society.

The SPDB Strategy sets out the Bank's future key tasks and important initiatives. First, the construction of digital projects as the starting point to strengthen the implementation of the SPDB Strategy. Thereafter, an acceleration of the construction of digital eco-banking 2.0 which includes promoting the implementation of basic digital projects, consolidating the foundation of digital eco-banking 2.0, promoting the implementation of process-based digital projects, realising end-to-end business process reshaping and building a new digital business management system. The implementation of digital-like projects will be done by creating application software to realise platform-based services. Second, the Bank aims to deepen the reform and innovation of the system and mechanism and release a new round of institutional dividends. The Bank adheres to the four principles of engaging in high-quality goal leadership, being customer-centric, diversifying in terms of technology, emphasising management and professionalism and enhancing its overall planning. In terms of specific measures, the Bank aims to optimise customer interfaces, improve its customer service system and enhance its product portfolio service capability; establish a digital, efficient and coordinated risk internal control system to enhance the overall risk management capability; establish incentives and constraints that match its high-quality development and resource allocation mechanism; adhere to strict control increment, optimise stocks, dynamic adjustment, and promote personnel structure adjustment; adhere to the "one bank" concept, and promote the implementation of institution and institutional innovations in branches and subsidiaries. Third, the Bank aims to strengthen the team and its corporate culture by building a team of high-quality cadres and deepening the construction of corporate culture.

The Bank will implement the above SPDB Strategy through the following specific strategies:

Expanding the Bank's core banking business

The Bank aims to set long-term development goals for its core banking business and to strengthen its market position and competitiveness in the PRC banking industry. The Bank will continue to place priority on its clients and to adopt a client-based approach. The Bank seeks to secure its core customer base, to build long-term and sustainable client relationships and to identify and define the needs of different types of clients in order to find solutions to meet their needs. With respect to its corporate banking business, the Bank seeks to further expand its client base and to maintain its competitiveness by further strengthening and expanding the business. At the same time, the Bank will steadily expand its personal banking business and to attract more customers and increase the Bank's influence and market share.

Focusing on developing the investment banking business

The Bank will focus on expanding its investment banking business, targeting large to medium clients and to tackle the challenges of disintermediation by providing innovative value-add services. Having accumulated years of experience with the medium-to-large clients, the Bank is well placed to develop its investment banking business. Further, the Bank commenced the investment banking business relatively early and implemented an integrated services approach early on, with strong capability to integrate specialised services such as green financing and custodian services, allowing the Bank to distinguish itself and create a brand image. The Bank will also continue to offer innovative services and products. For example, in 2014, the Bank and China General Nuclear Power Group ("CGN") successfully issued the PRC's first carbon bond, which linked a floating interest rate to CGN's revenues from selling offset credits in Shenzhen. The Bank also successfully developed its all-in-one online retail credit platform. Furthermore, in the first quarter of 2015, the Bank opened its Changsha biomedical branch, the first bank to provide services specially tailored to the biomedical industry in the PRC.

Accelerating the development of the financial institution and financial market business

Seizing the opportunities brought about by the rapid development of the financial market in the PRC, the Bank seeks to accelerate the development of its financial institution and financial market business. Headquartered in Shanghai, the Bank is well placed to take advantage of the opportunities presented by the development of the Shanghai International Finance Centre and to expand the Bank's financial institution and financial market business. The Bank has also established branches in the Shanghai and Tianjin Free Trade Zones in order to facilitate customers' cross-border investments and asset management arrangements and tap into opportunities presented by the liberal Renminbi remittance regime in the free trade zones, in each time being among the first batch of commercial banks granted approvals for operation in the free trade zones. The Bank seeks to strengthen its operational standards and execution capabilities, increase innovation in its products and services and to re-allocate its resources in order to capture market opportunities. For example, the Bank has promoted the development of China's bond market by actively participating in the establishment of Shanghai Notes Exchange and Clearing Limited 《上海票據交易所》("Shanghai Notes Exchange"), which includes developing a series of innovative notes products, its IT system, information sharing etc. The Bank was also one of the pilot member banks in the Shanghai Notes Exchange and was the first Bank to complete a pledge-style repo transaction on 8 December 2016, the first day when the Shanghai Notes Exchange commenced operations. The Bank is also one of the first batch of PRC banks to be awarded the options clearing bank qualification.

Continuing the strategy of developing the SME and microfinance businesses

The Bank has always placed particular focus on the SME banking business. With the opening up of the interest rate market and the resulting increased competition in the banking industry, there has been an increased focus on the SME banking business and the microfinance business in the PRC. The Bank will place greater emphasis on these businesses as part of its transformation in order to capture this rapidly growing market. In early 2014, the Bank completed the restructuring of its microfinance business, combining its micro enterprise business and its personal business loan business. Through such restructuring, the Bank seeks to transform the traditional model of banking by developing a retail market for financing products. The Bank also introduced various exclusive products for thousands of SME customers to increase brand awareness of its customers.

Strengthening the wealth management business

The Bank will strengthen its wealth management business in order to meet the financial management needs of its customers in a changing market. With respect to the corporate wealth management business, the Bank seeks to offer integrated financial management solutions that target the requirements of corporate clients for liquidity, convenience and value-add. With respect to the personal wealth management business, the Bank will seek to define the different categories of customers and identify the needs of each group in order to offer services tailored to the needs of each category of customers. The Bank will continue to offer a wide variety of retail products that suit the various needs of its customers. In 2013, the Bank was awarded the "Best PRC Bank Wealth Management Brand" by the Securities Times magazine. The Bank intends to further build its brand recognition as an innovative wealth management solutions provider.

Innovating in mobile and electronic banking

Developing the mobile and electronic form of banking through innovations is a key strategy of the Bank in order to be at the forefront of the market where customer's banking needs are rapidly changing. The Bank places great emphases on digital and intensive strategy. In December 2017, the Bank released its first APP, embracing the artificial intelligence ("AI") era fully and leading the banking and service industry into the new era of digital finance. The APP, which is forerunner in the use of audio smart interactive application, the introduction of face identification, fingerprint and other biometric identification technologies, shortens the length of transaction, improves transaction safety and brings about original and excellent experience for customers.

The strategic investment in the Bank by China Mobile Guangdong has provided the Bank with a solid advantage in the Bank's mobile banking business, creating a synergy between a 4G mobile network and the online internet banking business. The Bank, in cooperation with China Mobile, has introduced online lending services in various PRC cities and provinces, and has jointly introduced the "Huawei P9 advanced finance management platform" which encouraged customer spending on domestic products and financial services. The Bank developed its own online finance brand. "SPDB+" to promote its comprehensive internet financial services, and by the end of 2015 "SPDB+" covered all retail banking businesses services. The Bank's "SPDB+" internet financial platform was awarded First in the 2015 Shanghai Financial Innovative Awards by the Shanghai People's Municipal Government. It was also named the "Technology and Financial Services Bank of the Year" in 2016 during the Lujiazui Financial Innovation Worldwide Summit hosted by First Financial Daily. It was also the first to introduce "WeChat banking", which is operated by human operators and allows customers to conduct banking activities using the familiar medium of the popular WeChat communications application. In 2015, the Bank launched the HCE "Cloud Quick Pay" together with China UnionPay, making it one of the first PRC banks to cooperate with Apple Inc. to introduce Apple Pay in China.

RECENT DEVELOPMENTS

The Bank opens its first overseas commodity centre in Singapore

The Bank opened its first overseas commodity centre in Singapore on 26 October 2018. The new centre will be engaged in commodity businesses from all over the world with its comprehensive suite of commodity-related financial services and solutions. The Bank hopes to leverage on Singapore's strategic importance as a global financial hub and commodity trading centre to promote the involvement of Chinese enterprises in global commodity trading activities as well as to strengthen the commodity service capabilities of Chinese banks.

The Bank's new accounting standard is different from its old standard

As of 1 January 2018, the Bank adopted new accounting standards, including IFRS 9, which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected loss impairment model. The impact of the initial application of the new accounting standards is disclosed in note 2 of the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2018.

As of 1 January 2019, the Bank adopted additional new accounting standards, including IFRS 16, which are effective for accounting periods beginning on or after 1 January 2019. The IFRS 16 model introduces a single accounting model for lessees to recognise leases in the balance sheets. The impact of the initial application of the new accounting standards is disclosed in note 2 of the unaudited but reviewed condensed interim financial statements of the Bank as at and for the six months ended 30 June 2019.

According to the IFRS 9 and IFRS 16 transitional arrangements, upon initial application of IFRS 9 and IFRS 16, the Group is not required to restate the comparable figures of the prior period. Instead, differences caused by the adoption of the IFRS 9 or IFRS 16 model were adjusted to the beginning balance of retained earnings and other comprehensive income.

Potential issuance of A-share convertible corporate bonds

The shareholders of the Bank have approved the issuance of convertible bonds of up to RMB50 billion, which can be converted into common shares (A-shares) of the Bank. As at 22 August 2019, the Bank had received approvals from the Shanghai Municipal State-own Assets Supervision and Administration Commission, the CBIRC and the Issuance Examination Committee Securities of the CSRC for the issuance of such convertible bonds.

PRINCIPAL BUSINESS ACTIVITIES

The Bank's principal business activities in the PRC include corporate banking and investment banking business, personal banking business and treasury business.

CORPORATE AND INVESTMENT BANKING BUSINESS

Adhering to its customer-oriented strategy, the Bank offers comprehensive financial services in the areas of financing, wealth management, investment banking, cash management, electronic banking and asset custody to its customers. It has also made significant developments in numerous fields, such as in its investment banking, green credit, merger and acquisition ("M&A") loans, direct equity funds and custody businesses. As at 30 June 2019, the Bank had approximately 1.55 million corporate financing clients.

Corporate deposit/loan business

As at 30 June 2019, total corporate deposits (including treasury deposits) of the Bank stood at RMB1,383.50 billion up by RMB101.60 billion or 7.93 per cent. from 30 June 2018. Total corporate loans of the Bank were RMB1,868.15 billion as at 30 June 2019, up by RMB67.48 billion or by 3.75 per cent. from 30 June 2018. Corporate NPL ratio was 3.02 per cent. as at 30 June 2019.

The Bank's loans constitute the principal portion of its assets, at 55.72 per cent. as at 30 June 2019. Corporate loans have historically constituted the largest component of the Bank's loan portfolio. The Bank's corporate loans consist of short-term loans and medium-and long-term loans. These corporate loan products mainly take the form of ordinary corporate loans, bill discounting and trade finance.

The Bank lends to corporate borrowers in a wide range of industry sectors and across nearly all geographic regions of the PRC. The following table sets forth information on the Bank's outstanding corporate loans and advances by type as at the dates indicated:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
Loans and advances to corporate customers				
Commercial loans	1,707,344	1,772,962	1,778,999	1,837,910
Trade finance	23,970	44,898	36,875	30,243
Discounted bills	61,293	134,609	250,103	244,978

Investment Banking Business

The Bank offers a wide range of investment banking services including debt financing, asset-backed structured financing, green finance, and M&A advisory services. The Bank acted as the lead underwriter for the issue of RMB500 million asset-backed notes by Shanghai PD Luqiao Construction Co., Ltd. in 2012, which was among the first batch of its kind in the PRC. The Bank was the sole lead underwriter for the transaction. In 2012, the Bank acted as underwriter in the first single commercial bank financial bonds issuance by Shanghai Rural Commercial Bank, with a deal size of RMB5 billion, further enriching the variety of bond underwriting business undertaken by the Bank. In 2012, the Bank developed the innovative "Green Finance Comprehensive Service Version 2.0", a key product in collaboration with Asian Development Bank to provide building energy efficiency financing, the first of its kind in the PRC. In 2014, the bank helped China General Nuclear Power Corp. to issue the first green carbon credit-backed corporate bond on the domestic interbank market. In the first quarter of 2015, the Bank further pioneered the first "blue" financial services centre in the PRC located in Qingdao, which focuses on marine-related financial services. The Bank was awarded "The Best Investment Bank in the PRC", "The Best Debt Securities Underwriting Bank in the PRC", "The Best Debt Financing Bank in the PRC" by the Securities Times in 2016. The Bank expects that the investment banking business will continue to be an important part of the Bank's business.

Trade finance business

The Bank provides domestic and international trade finance services to customers. The Bank places great emphasis on technological capabilities and has successfully developed platforms to allow the entire trade financing procedures to be performed online.

Asset custody business

The Bank provides an array of custody services to securities investment funds, enterprise annuity, National Council for Social Security Fund, insurance companies, qualified foreign institutional investors (QFII), qualified domestic institutional investors (QDII) and other bank clients, including assets custody, capital clearing, accounting, transaction monitoring, performance appraisal and reporting service. Custody services provided by the Bank include those relating to securities corporate clients' assets, foundation assets, building maintenance funds, housing funds, staff mutual-aid funds, securities investment funds, trust assets and transactional funds.

The Bank is continually seeking to pursue innovations in its custody services and has made developments in the areas of financial product funds escrow, QFII/QDII trust custody, supervision and/or custody of internet platform funds, custody of funds of margin financing and securities lending, single-purpose prepaid funds depository etc. The Bank also successfully launched the first custody business nationwide of collective QDII trusts: Greater China QDII. Grasping opportunity of opening-up of custody services for single-purpose prepaid funds, the Bank has signed the first single-purpose prepaid card funds depository deal.

Asset management business

The Bank provides a range of asset management solutions to corporate clients. As at 30 June 2019, the Bank had over 1.55 million corporate financing clients. Revenue from the sales of asset management products amounted to RMB3.59 billion as at 30 June 2019. The Bank has developed various electronic systems to provide solutions to its clients, including an integrated depositary system and online tax payment systems.

Pension business

The Bank has provided pension management services since the establishment of the Bank and has one of the longest history of providing specialised pension management services among commercial banks in the PRC. Being among the first batch of banks to provide enterprise annuity custody services, the Bank pioneered many enterprise annuity services.

The Bank provides a comprehensive range of enterprise annuity and employee benefit services including pension asset management, enterprise annuity custody, enterprise annuity account management, employee benefit scheme management, scheme design and related investment performance analysis.

PERSONAL BANKING BUSINESS

Guided by the Bank's core "customer-centric and market-oriented" principles, the Bank continued to accelerate business restructuring and strategic transformation of personal finance business, and to enhance the development of products system and implemented classified and categorised management of customers. The Bank continued to maintain a rapid development of personal financial services, with main operation indicators ranking the Bank high among joint-stock banks. The principal components of the Bank's personal finance business consist of personal loans and strategic transformation of retail finance business, personal deposits, wealth management and private banking, foreign exchange services, bank debit cards and bank credit cards. As at 30 June 2019, the Bank had approximately 82.40 million personal customers.

The Bank's retail finance business has experienced rapid growth in recent years. As at 30 June 2019, the Bank's balances of personal deposits and personal loans recorded RMB835.81 billion and RMB1,601.76 billion, respectively, representing an increase of 37.26 per cent. and 19.56 per cent. over 30 June 2018, respectively.

Personal Deposits

The Bank accepts deposits in Renminbi as well as certain major foreign currencies. The Bank mainly offers demand deposits and time deposits to its personal banking customers.

By continuing its efforts to develop deposit products to meet the diverse needs of its customers, the Bank promoted the development of personal deposits and achieved further growth in the Bank's personal deposits business. As at 31 December 2016, 2017, 2018 and 30 June 2019, the personal deposits reached RMB473,820 million, RMB486,822 million, RMB647,874 million and RMB835,808 million, respectively.

Personal Loans

The Bank's personal loans have experienced substantial growth in recent years. As at 31 December 2016, 2017, 2018 and 30 June 2019, the Bank's outstanding personal loans totalled RMB970,199 million, RMB1,242,131 million, RMB1,483,228 million and RMB1,601,764 million, respectively.

Loans to personal customers include personal housing loans, personal business loans, credit card overdrafts and other personal loans such as personal consumer loans.

Personal business loans primarily include loans to individuals and business proprietors. As at 30 June 2019, the outstanding amount of the Bank's personal business loans amounted to RMB255,533 million, accounting for approximately 16.0 per cent. of the total outstanding amount of the Bank's personal loans.

Personal Housing Loans

Personal housing loans form the largest component of the Bank's personal loan portfolio. As at 30 June 2019, the outstanding amount of the Bank's personal housing loans amounted to RMB666,395 million, accounting for approximately 41.6 per cent. of the total outstanding amount of the Bank's personal loans.

Credit Card Loans

The Bank's credit card business targets different client segments and offers a wide variety of credit card products including cards focused on travel, shopping and lifestyle themes. As at 30 June 2019, the outstanding amount of the Bank's personal credit card business amounted to RMB439,645 million, accounting for approximately 27.4 per cent. of the total outstanding amount of the Bank's personal loans.

Personal Consumer Loans and Other Personal Loans

Personal consumer loans include personal auto loans, personal overseas study loans, personal secured loans and personal unsecured loans. As at 30 June 2019, excluding housing mortgages, personal business loans and credit card loans, the outstanding amount of the Bank's personal consumer loans and other personal loans amounted to RMB240,191 million, an increase of 47.99 per cent. as compared to the corresponding figure as at 30 June 2018.

Bank Cards

The Bank offers a variety of debit card and credit card products to its customers. For the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, the Bank recorded RMB12,670 million, RMB17,717 million, RMB23,390 million and RMB14,627 million, respectively, of fees from the bank card business. For the six months ended 30 June 2018, the Bank registered RMB1,040.2 billion in credit card transaction value, representing an increase of 25.69 per cent. from the corresponding figure for the six months ended 30 June 2018.

The Bank issues debit cards under the "Oriental" 《東方借記卡》brand. In addition, the Bank also issues special themed cards, as well as various co-branded cards. The Bank's credit card centre was established in December 2004, being one of the earliest credit card centres. Since its establishment, the Bank has issued various kinds of debit and credit cards to meet various needs of its customers. In addition, in response to varying needs of different market segments, the Bank issued a large number of co-branded credit cards with reputable enterprises in sectors including, for example, airline, hotels, merchandise and telecommunications.

Private Banking

The Bank began its private banking business in 2011. In 2015, the Bank launched the Sunshine Private Fund, the Precious Metal No. 1 Fund and other innovative products. It also introduced high-quality investment products of the Shanghai International Trust to optimise its product line and provide group-based and integrated product services for its customers. Leveraging the Bank's Hong Kong private banking centre, the Bank launched offshore businesses, including universal life insurance, insurance policy loans and other overseas investment products. Through optimising its private banking investment accounts management, the Bank enhanced customer satisfaction and made business breakthroughs in its offshore business. For the six months ended 30 June 2019, the Bank had approximately 40,000 private banking clients, and the balance of assets under management reached RMB500 billion.

TREASURY BUSINESS

The Bank's treasury business covers three main areas: exchange trading business, over-the-counter ("OTC") business and asset management business.

Exchange Trading Business

The Bank engages in a wide variety of exchange trading, including trading in bonds, currencies, foreign exchange, precious metals, derivatives and commodities. In 2015, the Bank formally launched its gold import business and precious metals account business. It also launched an e-commerce trading platform to carry out the sale of precious metals to realise its "internet + finance" innovative business model.

OTC BUSINESS

The Bank engages in a number of OTC transactions, including the inter-banking business and trading in notes.

Asset Management Business

The Bank provides a wide range of asset management products to suit its customers' needs and is constantly exploring new products and investment channels. The Bank was awarded the "2016 Gold Shell Award", the "Best Asset Management Bank", "2016 Best Wealth Management Products" and "2016 Overseas Financial Services New Elite Bank" by the 21st Century Business Herald.

OVERSEAS OPERATIONS

As part of its strategy to become a modern financial services institution, the Bank has intensified its efforts to develop its overseas operations. So far the Bank's overseas operations are mainly conducted through the Hong Kong Branch. The Bank also established an overseas representative office in London in October 2013.

In 2014, the Bank received approval from both the CBRC and the SFC to acquire AsiaVest Partners Limited, which was subsequently renamed SPDB International Holdings Limited. On 25 March 2015, SPDB International Holdings Limited commenced operations in Hong Kong as a Hong Kong-incorporated investment bank wholly-owned by the Bank. It is engaged in the business of investment banking and fund management. It is registered for Type 1 "Dealing in Securities", Type 6 "Advising on Corporate Finance" regulated activities with the SFC through its subsidiary, SPDB International Capital Limited and Type 4 "Advising on Securities", Type 9 "Asset Management" regulated activities through its other subsidiary, SPDB International Investment Management Limited. SPDB International Holdings Limited will serve as the Bank's cross-border investment and financing services platform and investment banking services platform and represents a great stride in the Bank's internationalisation and integration efforts.

In April 2017, the Singapore Branch commenced business. The London Branch of the Bank was authorised by the Financial Conduct Authority in December 2017 and commenced business in February 2018.

MAJOR LOAN CUSTOMERS

As at 30 June 2019, the aggregate amount of loans offered by the Bank to its single largest client constituted approximately 1.46 per cent. of its net capital base, and the aggregate amount of loans offered by the Bank to its top ten customers constituted approximately 9.43 per cent. of its net capital base. As at 30 June 2019, the aggregate amount of loans to the top ten customers constituted approximately 1.47 per cent. of the Bank's gross loans.

MARKETING

The Bank has built up a multi-layer marketing system with the participation of the headquarters, branches and sub-branches. The Bank focuses its marketing efforts on first-tier cities in the PRC where the majority of its target customers are located, including cities in the Yangtze River Delta region. The Bank also pays attention to second-tier cities with relatively developed economies in central and western PRC.

In addition to optimising its physical network of branch outlets, the Bank has also improved its electronic marketing by taking advantage of its advanced IT platform services, such as mobile phone banking, internet banking and telephone banking, and have obtained positive results in promoting personal banking products and services through those channels.

DISTRIBUTION NETWORK

The Bank delivers its products and services through a variety of distribution channels. The Bank has branch outlets in substantially all major cities in the PRC. In addition, the Bank is increasingly promoting the use of alternative electronic banking channels, such as internet banking and telephone banking. The Bank believes that its network of branch outlets and electronic banking channels enable the Bank to efficiently provide its customers with banking services.

Branch Outlets

The Bank continues to improve the geographic layout of its branches by establishing outlets in provincial capitals, further increasing the pace of branch development in economically developed prefecture-level cities and increasing the density of outlets in key areas. For the six months ended 30 June 2019, the Bank set up three new outlets, all of which were city-level sub-branches. As at 30 June 2019, the Bank had 41 first-level branches (including the Hong Kong Branch, Singapore Branch and London Branch) and a total of 1,627 outlets covering nearly all provinces and municipalities in the PRC.

Automatic Service Machines and Self-Service Banking Centres

In an effort to provide additional convenient services to customers, reduce operating costs and improve profitability at branch levels, the Bank is continually expanding its self-service banking centres and automatic service machines connected to the China UnionPay network, in parallel with enhanced risk prevention of self-service banking. The Bank also made efforts to expand the distribution network of self-service banks and equipment and raise the rate of transactions substituted by self-service equipment. In addition, the Bank has introduced the i-Counter Smart Counter, in replacement of traditional bank counter services, which integrates the use of new technologies such as biometrics, audio, video and 4G wireless network to provide intelligent and efficient banking services to customers.

As at 30 June 2018, the Bank had approximately 3,410 self-service banking centres and 5,790 automatic service machines. In November 2013, the Bank pioneered the cash withdrawal booking service through the mobile application WeChat, allowing customers to withdraw cash from the Bank's ATM machines using a booking code sent through WeChat, removing the need to use a debit card.

Electronic Banking

The Bank has accelerated the innovation of electronic banking. In particular, through cooperation with China Mobile and China Mobile Guangdong, the Bank's second strategic investor and second largest shareholder, the Bank has made great strides in the area of mobile banking. The Bank offers full range of financial services through mobile banking and, in 2012, successfully developed the single-wire protocol for near field communication mobile payment technology with China Mobile, which was the first in the PRC. The number of customers of the Bank's mobile banking service and the mobile banking customer growth rate rank at the forefront among PRC commercial banks. With respect to internet banking, the Bank launched wealth-management-version personal online banks in 2012, which acquired more than 1 million customers in the first year. As at 30 June 2019, the Bank's personal mobile banking customers exceeded 32.47 million, and the Bank's personal internet banking customers exceeded 38.92 million. The Bank has won various awards for its electronic banking platform. The Bank's "SPDB+" internet financial platform was awarded First in the 2015 Shanghai Financial Innovative Awards by the Shanghai People's Municipal Government. In 2016, the Bank received "Top Ten Internet Banking Innovation" award, the "Top Ten Wealth Management Innovation" award by The Banker and the "Safest Mobile Banking Product in China" award by The Asian Banker.

EMPLOYEES

As at 30 June 2019, the Bank (excluding its subsidiaries) had a total number of 53,113 employees, 79.2 per cent. of which have a bachelor's degree or above. The Bank places great emphasis on the training of its employees and building a high-quality professional workforce with most updated industry knowledge to facilitate the development of the Bank.

COMPETITION

The current PRC banking industry is facing fierce competition and undergoing continuous reform. The Bank currently competes principally with large-scale commercial banks, national joint stock commercial banks, key urban commercial banks and foreign-invested banks in the PRC. In addition, the Bank may face increasing competition from privately-owned banks or financial companies dedicated to serving SMEs and competition for funds from other forms of investment alternatives as the PRC capital markets continue to develop. The Bank also faces competition from non-traditional forms of banking, including but not limited to internet finance and internet banking.

INFORMATION TECHNOLOGY

The Bank's information technology systems provides critical support to many aspects of its business operations, including customer services, transaction processing, risk management and financial management. The Bank believes that the establishment of an advanced information technology system that complements its overall business strategies will greatly improve its efficiency, the quality of its customer service, as well as risk and financial management. The Bank fully understands the importance of sophisticated information technology infrastructure and systems to the effective management and successful development of its business, and has invested and will continue to invest heavily in its information technology systems.

The Bank expects to continue to capitalise on information technology to drive its business in the future. In addition to the upgrades and improvements the Bank has made in recent years to its information technology systems, the Bank will continue to upgrade and integrate its information technology systems to facilitate operational efficiency, risk management and business development.

INTELLECTUAL PROPERTY

The Bank conducts business under "浦發銀行", "SPD Bank" and brand names and logos. The Bank has registered these brand names and logos and other related logos in the PRC. The Bank is also the registered owner of the domain name "www.spdb.com.cn".

PROPERTIES

The Bank's headquarters is located at No. 12, Zhongshang Dong Yi Road, Shanghai. In addition to its headquarters, its branches and sub-branches are located in premises owned or leased by it in cities across the PRC.

LEGAL AND REGULATORY PROCEEDINGS

The Bank faces risks of legal proceedings in the ordinary course of its respective business, most of which are initiated by the Bank to enforce loan recovery, plus litigation and arbitration resulting from disputes with customers.

As at 30 June 2019, the Bank was involved in various outstanding litigation cases where the Bank was the defendant or the third party defendant, with an aggregate disputed amount of approximately RMB2,048 million. The management of the Bank is of the view that these legal actions will not have any material impact on either operating results or the financial position of the Bank.

The Bank is also subject to some regulatory proceedings. For further details, please see "*Risks Relating to the Bank's Business – The Bank may be subject to litigation and regulatory investigations or proceedings and may not be successful in defending itself against such litigation, investigations or proceedings.*"

FUNDING AND CAPITAL ADEQUACY

FUNDING

The Bank's funding is primarily derived from deposits placed with the Bank by corporate and personal customers. The Bank also derives funding from shareholders' equity, debt instrument issuance and interbank borrowings.

The following table sets forth a breakdown of the Bank's customer deposits classified by product type and business lines as at the dates indicated:

	As at 31 December						As at 30 June	
	2016		2017		2018		2019	
Item	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(RMB million)	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*
Current deposits								
1. Corporate deposits	1,213,075	40.41	1,287,069	42.37	1,244,437	38.56	1,383,499	37.74
2. Retail deposits	163,074	5.43	183,571	6.04	219,601	6.81	251,875	6.87
Time deposits								
1. Corporate deposits	1,042,125	34.71	1,017,498	33.49	1,330,802	41.24	1,443,261	39.38
2. Retail deposits	310,746	10.35	303,251	9.98	428,273	13.27	583,933	15.93
Pledged deposits	235,879	7.86	202,531	6.67	–	–	N/A	N/A
Fiscal deposits[1]	33,904	1.13	39,644	1.31	–	–	N/A	N/A
Other deposits[1]	3,212	0.11	4,372	0.14	3,905	0.12	2,907	0.08
Total	3,002,015	100.00	3,037,936	100.00	3,227,018	100.00	3,665,475	100.00

Note:

(1) The classification of deposits was changed in 2018.

CAPITAL ADEQUACY

The following table sets forth information relating to the capital adequacy of the Bank (excluding its subsidiaries) as at 30 June 2019 calculated in accordance with the Provisional Regulations Governing Capital Adequacy of Commercial Banks and related regulations promulgated by the CBIRC:

	(RMB million)
1. Core tier 1 capital-net	455,848
2. Tier 1 capital-net	486,121
3. Capital-Net	607,246
Total risk-weighted assets	4,652,839
Core tier 1 capital adequacy ratio (%)	9.80
Tier 1 capital adequacy ratio (%)	10.45
Capital adequacy ratio (%)	13.05

Issue of Capital Bonds

In July 2019, the Bank issued perpetual bonds with an aggregate principal amount of RMB30 billion. The proceeds of the bonds will be used to supplement the Bank's other Tier 1 capital in accordance with applicable laws and regulatory approval.

ASSETS AND LIABILITIES

The following discussions and analysis should be read in conjunction with the Bank's audited consolidated financial statements for the years ended 31 December 2016, 2017, 2018 and its unaudited but reviewed condensed interim financial statements for the six months ended 30 June 2019, included elsewhere in this Offering Circular. The Bank's audited consolidated financial statements for the years ended 31 December 2016, 2017, 2018 and its unaudited but reviewed condensed interim financial statements for the six months ended 30 June 2019, have been prepared in accordance with IFRS. Unless otherwise stated, all financial data discussed in this section are consolidated financial data.

ASSETS

As at 30 June 2019, the Bank's total assets were RMB6,667,147 million, representing an increase of RMB377,541 million or 6.00 per cent. from 31 December 2018.

Loans

As at 30 June 2019, gross loans and advances to customers of the Bank amounted to RMB3,714,895 million, representing an increase of RMB165,690 million or 4.67 per cent. from 31 December 2018.

Distribution of Loans by Business Line

The following table sets forth the distribution of the Bank's gross loans and advances to customers by business line as at the indicated dates:

	As at 31 December						As at 30 June	
	2016		2017		2018		2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(RMB million)	%	*(RMB million)*	%	*(RMB million)*	%	*(RMB million)*	%
Corporate loans (excluding discounted bills)	1,731,314	62.66	1,817,860	56.90	1,815,874	51.17	1,868,153	50.29
Discounted bills	61,293	2.22	134,609	4.22	250,103	7.04	244,978	6.59
Retail loans	970,199	35.12	1,242,131	38.88	1,483,228	41.79	1,601,764	43.12
Total	2,762,806	100.00	3,194,600	100.00	3,549,205	100.00	3,714,895	100.00

Distribution of Loans by Industry

The following table sets forth information on the Bank's gross loans and advances to customers by industry sector as of the dates indicated:

	As at 31 December						As at 30 June	
	2016		2017		2018		2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(RMB million)	%	*(RMB million)*	%	*(RMB million)*	%	*(RMB million)*	%
Corporate loans								
Manufacturing	337,188	12.21	303,242	9.49	305,290	8.60	328,592	8.85
Wholesale and retail	303,465	10.98	262,569	8.22	207,144	5.84	144,727	3.90
Real estate	244,285	8.84	277,054	8.67	283,516	7.99	294,058	7.92
Construction	125,173	4.53	126,382	3.96	141,439	3.99	142,607	3.84
Transportation, warehouse and postal service	111,969	4.05	120,846	3.78	125,359	3.53	135,335	3.64
Lease and commercial services	244,088	8.83	312,879	9.79	265,795	7.49	269,405	7.25
Water, environment and public facilities management	101,138	3.66	119,900	3.75	165,400	4.66	159,805	4.30
Mining	65,748	2.38	76,505	2.39	77,164	2.17	77,034	2.07
Energy and utilities	58,505	2.12	61,298	1.92	64,389	1.81	63,837	1.72
Agriculture, forestry, farming and fishery	21,590	0.78	29,765	0.93	27,205	0.77	30,162	0.81
Information transmission, software and information technology services	16,340	0.59	32,447	1.02	25,023	0.71	30,706	0.83

	As at 31 December						As at 30 June	
	2016		2017		2018		2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(RMB million)	%	*(RMB million)*	%	*(RMB million)*	%	*(RMB million)*	%
Education	10,191	0.37	10,395	0.33	10,302	0.29	12,080	0.33
Healthcare and social welfare	13,591	0.49	10,823	0.34	11,837	0.33	14,133	0.38
Research and technology services	18,254	0.66	18,980	0.59	21,401	0.60	22,153	0.60
Culture, sport and entertainment	10,024	0.36	10,444	0.33	10,573	0.30	19,448	0.52
Financial services	8,747	0.32	14,778	0.46	56,467	1.59	103,452	2.78
Others	41,018	1.49	29,553	0.93	17,570	0.50	20,619	0.55
	1,731,314	62.66	1,817,860	56.90	1,815,874	51.17	1,868,153	50.29
Discounted bills	61,293	2.22	134,609	4.22	250,103	7.04	244,978	6.59
Retail loans	970,199	35.12	1,242,131	38.88	1,483,228	41.79	1,601,764	43.12
Total	2,762,806	100.00	3,194,600	100.00	3,549,205	100.00	3,714,895	100.00

Distribution of Loans by Geographic Area

The following table sets forth the geographical concentration of the Bank's gross loans and advances to customers as at the dates indicated:

	As at 31 December						As at 30 June	
	2016		2017		2018		2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(RMB million)	%	*(RMB million)*	%	*(RMB million)*	%	*(RMB million)*	%
Headquarter	331,611	12.00	535,413	16.76	526,613	14.84	530,102	14.27
Yangtze River Delta	764,740	27.69	855,652	26.79	1,049,321	29.55	1,086,193	29.24
Pearl River Delta and West Side of Taiwan Strait	255,951	9.26	304,451	9.53	345,174	9.73	367,190	9.88
Bohai Rim	374,460	13.55	404,193	12.65	444,619	12.53	455,975	12.27
Central China	384,345	13.91	407,555	12.76	458,935	12.93	507,760	13.67
Western China	413,968	14.98	451,520	14.13	464,613	13.09	492,452	13.26
North-east China	165,938	6.01	160,985	5.04	179,470	5.06	188,916	5.09
Overseas and subsidiaries	71,793	2.60	74,831	2.34	80,460	2.27	86,307	2.32
Total	2,762,806	100.00	3,194,600	100.00	3,549,205	100.00	3,714,895	100.00

Borrower Concentration

The table below shows the amount of loans granted to the Bank's top 10 single borrowers as at 30 June 2019.

Borrower	**Amount**	**Percentage of total loans**
	(RMB million)	*(%)*
Borrower A	8,450	0.23
Borrower B	6,888	0.18
Borrower C	5,416	0.14
Borrower D	5,210	0.14
Borrower E	5,100	0.14
Borrower F	5,050	0.14
Borrower G	4,820	0.13
Borrower H	4,700	0.13
Borrower I	4,519	0.12
Borrower J	4,331	0.12
Total	54,484	1.47

Asset Quality of the Bank's Loan Portfolio

The Bank's loans and other assets are classified in compliance with CBIRC and PBOC guidelines. The table below sets out the five-tier classification laid down in the PBOC guidelines.

Tier	Summary Description
Pass.	Loans for which borrowers can fulfil the terms of the contracts, and there is no reason to believe their ability to repay principal or interest of loans on a timely basis is in doubt.
Special Mention	Loans for which borrowers are able to service the loans currently, although there exist some negative factors which may affect the borrower to repay the loans on time.
Substandard	Loans for which borrowers' ability to service loans is apparently in doubt and borrowers cannot rely on their proceeds from normal operations to repay the principal and interest of loans. Certain losses may be incurred by the Bank even when guarantees are executed.
Doubtful	Loans for which borrowers cannot repay the principal and interest of loans in full and significant losses will be incurred by the Bank even when guarantees are executed.
Loss	Principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and proceeding necessary legal procedures.

The following table shows the distribution of the Bank's gross loans and advances to customers as at the indicated dates:

	As at 31 December						As at 30 June	
	2016		2017		2018		2019	
Item	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(RMB million)	%	*(RMB million)*	%	*(RMB million)*	%	*(RMB million)*	%
Pass	2,605,124	94.29	3,021,194	94.57	3,376,345	95.13	3,539,067	95.27
Special mention.	105,504	3.82	104,887	3.29	104,717	2.95	107,954	2.90
Substandard	20,625	0.75	26,076	0.81	27,784	0.78	20,579	0.56
Doubtful	15,781	0.57	26,860	0.84	19,063	0.54	17,581	0.47
Loss.	15,772	0.57	15,583	0.49	21,296	0.60	29,714	0.80
Total	2,762,806	100.00	3,194,600	100.00	3,549,205	100.00	3,714,895	100.00

LIABILITIES

As at 30 June 2019, the Bank's total liabilities were RMB6,167,897 million, representing an increase of RMB356,671 million or 6.14 per cent. as compared to 31 December 2018.

	As at 31 December						As at 30 June	
	2016		2017		2018		2019	
Item	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(RMB million)	%	*(RMB million)*	%	*(RMB million)*	%	*(RMB million)*	%
Deposits from customers	3,002,015	54.74	3,037,936	53.24	3,227,018	55.53	3,665,475	59.43
Deposits and placements from banks and other financial institutions	1,439,095	26.24	1,453,100	25.47	1,211,648	20,85	1,041,426	16.88
Financial assets sold under repurchase agreement	93,200	1.70	184,464	3.23	119,564	2.06	128,026	2.08
Others.	950,019	17.32	1,030,755	18.06	1,252,996	21.56	1,332,970	21,61
Total liabilities	5,484,329	100.00	5,706,255	100.00	5,811,226	100.00	6,167,897	100.00

RISK MANAGEMENT

The Bank generally faces the following types of risks through its operations: credit risk, liquidity risk, market risk (including but not limited to interest rate risk and foreign exchange rate risk), operational risk (including but not limited to settlement risk, technology risk and system risk), legal risk, strategy risk and country risk.

Credit Risk

With respect to policy formulation, the Bank formulates its annual business risk preference, investment credit and non-credit-related policies in line with prevailing government policies and regulatory requirements, as well as the Bank's development strategy. A risk preference assessment system has been established to ensure timely feedback on risk deviation from the Bank's target risk profile, allowing for adjustments to the risk preference indicators of the whole bank. In order to ensure the overall stability of asset quality, the Bank promptly adjusts the various types of business risk tolerance to promote the improvement of the business structure and overall business development.

The Bank has continued to improve its credit policy, optimise the credit approval process and enhance credit management efficiency. The Bank has focused on developing industry loan approval standards furthering the standardisation of credit approval, ensuring its credit policies are in line with customer demand and trends, improving of interbank credit management systems, optimising the flow of interbank credit and the establishment of an interbank credit "green approval channel", strengthening the monitoring and management of high-risk countries' credit banks. The Bank continues to support the real economy and provides strengthened support for business areas in line with the Bank's strategy. With respect to government financing platform loans, the Bank adopts a policy of structural optimisation and volume control. The Bank also continues to pursue structural optimisation in the real estate section whilst maintaining risk control.

The Bank has set up a system of risk identification and reporting, and has strengthened early warning processes and implemented a strict after-loan inspection system to identify, control and defuse risks as early as possible. Increased frequency and intensity of risk monitoring in key business areas, with continual monitoring and management of special risk events, have improved the effectiveness of the identification of risk and risk response.

In terms of distressed asset management, the Bank has made intensified efforts to diffuse, collect and reduce the stock NPLs and new NPLs. As for large non-performing assets, it has established responsibility mechanisms including programme formulation, implementation of security measures and dynamic asset tracking and feedback. The Bank has established risk detection and early intervention mechanisms for high-risk loans to diffuse risk at an early stage. The Bank also implements tailored policies for branches with quickly accumulating NPLs to allow more effective management. Through measures such as cash collection, asset swap, asset preservation, restructuring and write-offs, the Bank has increased the settlement of its NPLs.

Liquidity Risk

(i) Liquidity risk management objectives and key policies

The Bank manages its liquidity risk to ensure that: (i) the Bank's withdrawal and payment obligations to its customers are honoured, (ii) the balance between the Bank's total assets and liabilities structure is maintained, (iii) the cost of liquidity is reduced, (iv) a liquidity crisis is prevented and (v) the Bank reduces its systemic liquidity risk.

As a result of both internal and regulatory requirements, the Bank clarified its liquidity risk management strategy and policy, developed and published a series of principles designed to provide guidance on liquidity management, liquidity risk management, the relevant functions and responsibilities of the organisations, authorisation and quota management, day-to-day management of liquidity risk, new technology assessment and approval, stress testing and contingency processes and management information systems, and strengthened its criteria for assessment and detection of liquidity risk and limit management.

(ii) Liquidity risk management system

The Bank's liquidity risk management system is composed of two parts, namely (i) routine liquidity management and (ii) emergency management. The liquidity risk management focuses on 10 key areas: policy and strategies, management framework, rules and regulations, management instruments, daily operations, pressure testing, system building, risk monitoring, risk report, emergency management and emergency drills.

(iii) Liquidity risk management division of responsibilities

The Board is responsible for the review and approval of the Bank's liquidity risk management system, risk appetite, risk limit, emergency plan, and undertaking ultimate responsibility for liquidity risk management. The Board of Supervisors is responsible for supervising the Board of Directors and senior management in relation to liquidity risk management duties. The Board authorises the senior management to fulfil the liquidity risk management duties. The Asset and Liability Management Committee is responsible for the development of the Bank's liquidity risk management policies, risk limits, pressure test plan and emergency plan, organising pressure tests within different departments and considering such stress test report. The Asset and Liability Management Department is responsible for the liquidity risks taken by routine management, including but not limited to identification, measurement, monitoring, analysis, and control, review and approval of liquidity risk management policies and procedures for new products, new businesses, new institutions, drafting of pressure test plan and emergency plan, identification of liquidity emergency events and treatment of emergencies, determination of liquidity risk appetite and formulation of rules and regulations, measurements, monitoring and reporting of liquidity risk indicators, and allocation and management of liquidity assets and collaterals; implementation of pressure tests and preparation of emergency plan. The Financial Market Department is responsible for carrying out daytime liquidity management across the Bank, ensuring daytime and day-end safety of provisioning, arranging for configuration of funds-based assets and liabilities in connection with liquidity, and submitting liquidity risk indicators in connection with the function.

(iv) Day-to-day management of liquidity risk

The Bank manages routine liquidity risk by: (i) carrying out real-time monitoring on daily position accounts in home and foreign currencies, and making centralised allocation of positions in local and foreign currencies; (ii) establishment of a declaration system for large-amount positions and a monitoring mechanism for total liquidity level; (iii) daily preparation of cash flow gap tables, and use the gap management method to predict cash flow gap changes in future assets and liabilities' on and off-balance sheet items; and (iv) conduct regular conducted liquidity risk assessment for the Bank's on- and off-balance sheet items. The Bank also considered its own liquidity risk policies and risk limit requirements when making active financing arrangement and making adjustments to asset and liability portfolios.

The Bank's routine liquidity risk management methods include: (i) reports on market regulation and capital market transactions, with liquidity gains and losses by individual branches reported to head office; (ii) adjustment and transfer of internal funds according to the Bank's liquidity risk profile and guiding individual branches in carrying out asset or liability related business so as to regulate the liquidity of the Bank; (iii) using capital budget management methods to plan any adjustments, regulating and controlling liquidity risk and (iv) providing guidance to individual branches in the case of any serious imbalance of assets and liabilities.

(v) Pressure testing and risk mitigation arrangements

The stress test scenarios include (i) liquidity risk pressure test scenarios triggered by internal events and (ii) liquidity pressure test scenarios triggered by systemic events. The pressure levels are divided into three categories: mild, moderate and severe. According to the results of the pressure tests, the asset and liability management department is responsible for submitting liquidity risk pressure test reports, which includes details of the pressure scenarios, any assumptions made, test results and the proposed adjustments. The liquidity pressure test reports are submitted to the Asset and Liability Management Committee, the senior management of the Bank and the Board.

(vi) Liquidity emergencies and disposal procedures

The liquidity risk emergency management processes and delegates liquidity risk management to each department. The emergency measures include interbank repurchase of securities, repossession of deposits and bills through the interbank market, sale of illiquid assets, currency swaps, disposal of non-current assets, application for the use of the statutory reserve, and application for use of monetary policy tools from the PBOC.

(vii) Description of liquidity risk

The Bank actively monitors macroeconomic changes, alongside prevailing regulation of credit and monetary policy. This, combined with its own asset-liability ratio and funding balance, and the management of the Bank's cash flow gap helps to actively prevent liquidity risk and ensure overall business operations remained stable. The Bank uses the cumulative cash flow gap as a tool to manage liquidity risk, by calculating the cumulative cash flow gap size and direction.

As at 30 June 2019, the liquidity ratio for Renminbi and foreign exchange stood at 48.46 per cent., decrease by 2.94 per cent. on a year-on-year basis. The Bank's excess reserve in the PBOC amounted to RMB68,950 million, RMB38,905 million, RMB70,709 million and RMB11,920 million for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, respectively.

Market Risk

Market risk refers to the risks of loss on the Bank's balance sheet and off-balance sheet business, due to adverse changes in market prices (interest rates, exchange rates, stock prices and commodity prices). The market risks facing the Bank mainly exist on the Bank's trading accounts and bank accounts, including interest rate risk, exchange rate risk and product risk, as well as stock fluctuation risks in the Bank's wealth management business. As the financial services provided by the Bank continue to develop, the Bank continually enhances its market risk management systems in order to adapt to the ever-evolving financial environment.

The Bank has established an internal market risk management system, which introduced supportive systems on risk value measurement, model validation and data management. This improved counterparty credit risk monitoring, measurement and off-balance sheet risk exposure to derivative products. The model fully simulates all kinds of exposure such as Renminbi against the foreign exchange, bonds trading and forward freight agreements. During the year ended 31 December 2014, the Bank refined its market risk management systems and developed a series of policies taking into consideration the Bank's latest organisational structure and internal management requirements, and closely tracked the market risk exposure and market trends, to enhance the dynamic monitoring and risk anticipation, in order to promote the use of centralised market risk management by the branches, to ensure the overall market risk was controllable.

The Bank's organisational structure for market risk management consists of three levels: (i) the Board, (ii) the senior management, and (iii) the execution level.

The Board undertakes the ultimate responsibility for monitoring the market risk management, with the goal to ensure that the Bank can effectively identify, measure, monitor and control various types of market risk undertaken by the Bank's businesses. The senior management is responsible for building a Bank-wide market risk management system and establishing an organisational structure for market risk management with clear division of duties, authority and accountability. At the execution level, all departments of the Bank are responsible for executing work related to market risk management in terms of policy and procedure, measurement approach, measurement model, analysis report and limit control, identifying, measuring, monitoring and controlling the market risk, and submitting reports to the Board and the senior management.

The Bank adopts the approach of combining internal control and external supervision in market risk management. All business departments of the Bank are accountable for routine internal control, while subject to supervision from the market risk management department, the compliance department and the audit department as part of the Bank's three lines of defence.

Operational Risk

The Bank is actively engaged in the construction and refinement of its operational risk management mechanisms. Based on risk management needs and previous international experience, it has developed systematic and comprehensive operational risk management policies, clarifying the overall systematic framework for quantitative assessment methods, reporting procedures and early warning mechanisms. For areas with a high level of operational risk, the Bank conducts research and analysis on the business forms, causes of the risks and proposed specific measures and provided risk warnings. The Bank carries out research and exploration of operational risk management at the forefront, and establishes and implements the operational risk identification assessment and monitoring reporting system.

The Bank sets specific loss event collection requirements and key risk indicators, strengthens the monitoring of operational risk loss events and key risk indicators, promptly turns consultation results into internal measures and promotes the implementation of operational risk management tools such as regulatory capital measurement, business continuity, stress testing and operational risk reporting. The Bank applies various management tools and carries out its operational risk assessment, monitoring, investigation, control and reporting processes in a systematic manner, and has not discovered significant operational risk events.

Other Risks

Compliance risk: Guided by the principles of guarding against systemic risk and creating value within the framework of and in accordance with the applicable laws and regulations, the Bank continues to promote the compliance management mechanism, implement regulatory policies, and optimise management processes in a bid to further enhance compliance risk management's support for business development. The Bank actively implements regulatory requirements and improved management tools to enhance the efficiency of compliance management.

Anti-money laundering ("*AML*"): The Bank, in strict implementation of the regulators' requirement for risk-oriented, strengthened procedural management and risk control and deepened AML work with an aim of striking effectiveness of compliance. The Bank promoted integrated management of domestic and overseas institutions, strengthened management of financial sanction risk and strictly implemented relevant resolutions passed by the United Nation Security Council and the PRC government. In addition, the Bank has set up a money-laundering risk co-management mechanism to embed AML management requirements into its business procedure, with the intention to construct a three-in-one AML assessment system combining customers, products and institutions, and has refined its information system according to the AML management requirements.

Legal risk: The Bank has established an overall legal risk management framework, establishing an internal legal operational platform and process control so as to effectively control legal risks in various business areas. It has also promoted standardisation of legal work processes and formulated basic rules on legal risk management, making legal work more orderly and standardised, and has proactively worked to minimise legal risks faced by the Bank in its material litigation.

Information technology risk: The Bank has established a security scheme and control measures with respect to its core system and internet banking system to ensure effective operations and to prevent important data loss or leakage.

Strategic risk: The Bank continues to consolidate strategic management models and processes, to further promote the implementation of the "customer-centric" strategy. The Bank's response to systemic risk has been further strengthened by coordination of key projects by portfolio management, assessing strategy execution risk at a portfolio level and controlling strategy implementation deviation.

Reputational risk: The Bank manages its reputation risks by strengthening media relations, monitoring public opinion and branding and disposal of reputational risk events.

Country risk: The Bank continues to improve the country risk management system, developing Country Risk Management Policies and Country Risk Management Approach systems to optimise the reporting platform and establish country risk identification, measurement, monitoring and control methods and procedures. The Bank focuses on strengthening the monitoring and reporting of the impact of the debt crisis and the deterioration of liquidity in countries with declining credit ratings. Risk warning and control measures are submitted to establish whether there was a significant risk of emergency.

INTERNAL CONTROLS

The internal control system of the Bank seeks to ensure legal and regulation compliance of the Bank's operations, to safeguard the Bank's assets, to ensure the accuracy of financial and other data, to increase the efficiency of management and to promote the sustainable development of the Bank.

To ensure the effectiveness and efficiency of the Bank's internal control system, the Bank has implemented a central internal control information management system to allow the collection and sharing of relevant data. Access to relevant laws, regulations and internal rules are also made available to varying levels of management and operations personnel to increase effectiveness of control and coordination between different departments.

The Bank continues to improve the efficiency of its internal rules and regulations through standardisation of procedures and central management. Through regular evaluation and the establishment of channels for feedback, the Bank continues to ensure the effective distribution and implementation of the internal rules and regulations. The Bank continually enhances the rules and regulations through a systematic process of devising, approval, distribution, evaluation and revisions to ensure that they are fit for actual operation and to ensure effective coverage of risks.

The Bank has implemented a clear division of responsibilities for the monitoring of internal control. Firstly, the management and operations of the headquarters and the branches are responsible for the day-to-day supervision and evaluation. Secondly, the Internal Control Department is responsible for targeted checks, supervision and evaluation, through both conducting evaluation of the internal control management of the branches and through testing of the procedures and system. Thirdly, the Audit Department is tasked with conducting evaluation on an independent basis at the direction of the Board of Directors. The three strands share resources whilst at the same time providing checks and balances to ensure effective internal control.

SUBSTANTIAL SHAREHOLDERS

The table below sets forth shareholding information of the 10 largest ordinary shareholders of the Bank as at 30 June 2019.

Top 10 Ordinary Shareholders

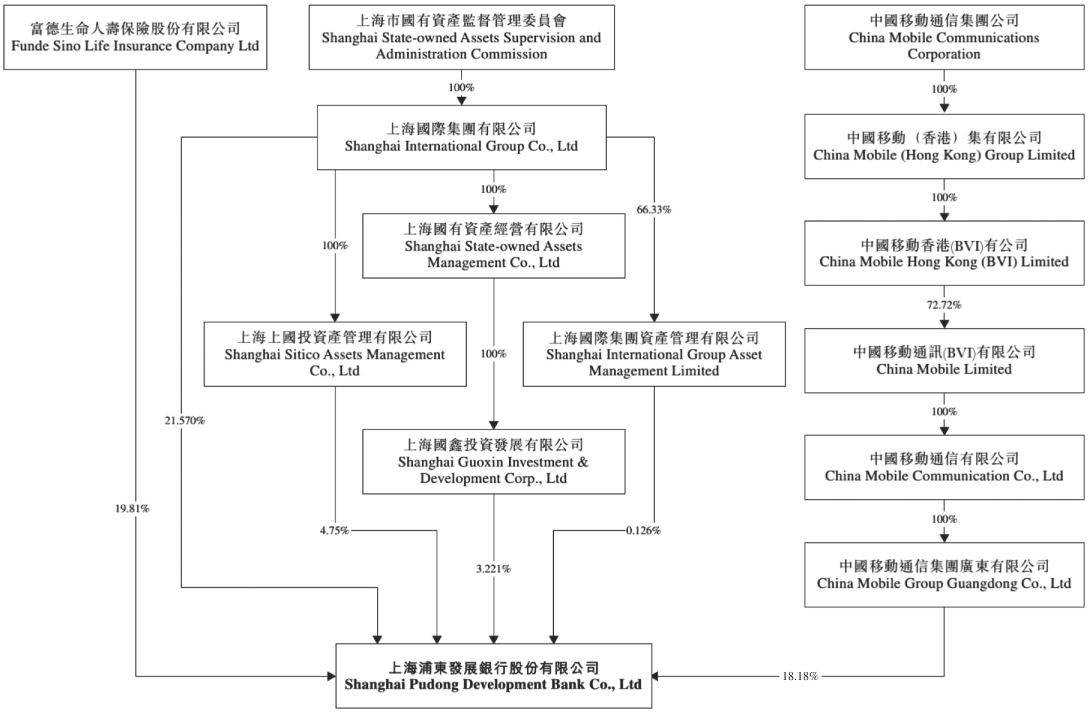
Shareholder name	Total shares held	Percentage of the total	Number of locked-up shares held	Shares pledged or frozen
Shanghai International Group	6,331,322,671	21.57	842,003,367	–
China Mobile Group Guangdong Co., Ltd	5,334,892,824	18.18	–	–
Funde Sino Life Insurance Co., Ltd. – Conventional	2,779,437,274	9.47	–	–
Funde Sino Life Insurance Co., Ltd. – Capital Investment	1,763,232,325	6.01	–	–
Shanghai Sitico Assets Management Co., Ltd	1,395,571,025	4.75	–	–
China Securities Finance Corporation Limited	1,307,994,759	4.46	–	–
Funde Sino Life Insurance Co., Ltd. – Universal H	1,270,428,648	4.33	–	–
Shanghai Guoxin Investment & Development Co., Ltd	945,568,990	3.22	406,313,131	–
Wutongshu Investment Platform Co., Ltd.	886,131,340	3.02	–	–
Hong Kong Securities Clearing Limited	440,637,332	1.50	–	–

The Bank's Largest Shareholder

As at 30 June 2019, the Bank's largest ordinary shareholder, on a consolidated basis, was Shanghai International Group. Together with its affiliates, Shanghai International Group held 29.67 per cent. of the Bank's ordinary shares as at 30 June 2019.

Shanghai International Group is a wholly state-owned limited liability company. It was founded on 20 April 2000 and had a registered capital of RMB10.56 billion as at 30 June 2019. Its registered address is at No. 511, Weihai Road, Shanghai and its legal representative is Mr. Yu Beihua. The business scope of Shanghai International Group includes financial and non-financial investment, capital operation and asset management, financial research and consultancy.

The shareholding relationships between the Bank and Shanghai International Group and its affiliates are set out as follows as at 30 June 2019:



Other Substantial Shareholders

Save as disclosed above, there are no other shareholders holding 10 per cent. or more in the ordinary shares of the Bank as at 30 June 2019.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

The following table sets out certain information relating to the Bank's directors as at the date of this Offering Circular.

Name	Position	Date of Appointment
GAO Guofu	Chairman of the Board of Directors	31 May 2017
LIU Xinyi	President and Vice Chairman of the Board of Directors	28 April 2016
PAN Weidong	Director	28 April 2016
FU Fan	Director	2 June 2017
GUAN Wei	Director	8 July 2019
XIA Bing	Director	25 March 2019
WANG Zhe	Independent Director	28 April 2016
QIAO Wenjun	Independent Director	28 April 2016
ZHANG Ming	Independent Director	28 April 2016
YUAN Zhigang	Independent Director	28 April 2016

Note: Mr. ZHENG Yang was nominated as a candidate for directorship by the board of directors of the Bank on 23 July 2019. His appointment remains subject to shareholders' approval. Mr. DONG Xin's appointment as a director of the Bank was approved by shareholders on 28 September 2018 but remains subject to further approval by the CBIRC. Mr. CAI Hongping's appointment was approved by shareholders on 24 September 2019 but also remains subject to further approval by the CBIRC.

Mr. GAO Guofu, male, born in 1956, Doctorate degree and Senior Economist. He previously served as General Manager and Party Committee Secretary of Shanghai Waigaoqiao Free Trade Zone Development (Holding) Company, Deputy Director of Shanghai Waigaoqiao Free Trade Zone Management Committee, Acting President of Shanghai Wanguo Securities Co., Ltd., General Manager and Party Committee Deputy Secretary of Shanghai Jiushi (Group) Co., Ltd., General Manager and Party Committee Deputy Secretary of Shanghai Chengtou Corporation, and Party Committee Secretary and Chairman of China Pacific Insurance (Group) Co., Ltd. He currently works as Party Committee Secretary and Chairman of the Bank, member of the 12th Chinese People's Political Consultative Conference National Committee, member of the City of London China Advisory Council, member of China Europe International Business School Board of Directors and International Advisory Board, and member of the Advisory Board of Antai College of Economics & Management, Shanghai Jiaotong University. It was announced in July 2019 that Mr. Gao would step down as Chairman of the Board.

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

Mr. PAN Weidong, male, born in 1966, Master's degree and Senior Economist. He previously served as Deputy Manager of Corporate Business Department of Ningbo Securities Company, General Manager of Asset and Finance Department of the Bank's Ningbo Branch, Director of the Bank's Beilun Sub-branch, Deputy Head of Ningbo Branch, General Manager of the Bank's Product Development Department, President Party Leadership Group Secretary of the Bank's Kunming Branch, Chief of the Financial Institutions Service Division of Shanghai Municipal Financial Service Office (temporary post from May 2005 to March 2008), Party Committee Member and Deputy General Manager of Shanghai International

Group, and Party Committee Secretary and Chairman of Shanghai International Trust Co., Ltd. He currently works as Party Committee Member, Vice President and CFO of the Bank, and Chairman of Shanghai Trust.

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

Ms. GUAN Wei, female, born in 1971, Master's degree, senior accountant. She previously served as Deputy Manager of the Finance Department of Shanghai Shentong Group Co., Ltd., Manager of the Finance Department, Member of the Disciplinary Committee, General Manager of the Audit Department and Supervisor Committee Member of Shanghai Jiushi Co., Ltd., Party Committee Secretary and General Manager of Shanghai City Tour Card Development Co., Ltd., and Chief Financial Officer of Shanghai Estate (Group) Co., Ltd. She is currently the Chief Financial officer of Shanghai International Group Co., Ltd.

Mr. XIA Bing, male, born in 1973, Doctorate degree, senior engineer. He previously served as Deputy Department Officer of Jiangsu Province Mobile (Bureau) Communications Co., Ltd., Deputy General Manager of China Mobile Communications Group Jiangsu Province Mobile Communication Co., Ltd. Nanchang Sales Centre, General Manager of the Marketing Department of Jiangsu Mobile Communications Co., Ltd., Deputy General Manager, Party Committee Member, Chairman, General Manager and Party Committee Secretary of China Mobile Communications Group Qinghai Mobile Co., Ltd.. He is currently the General Manager of the Marketing Department of China Mobile Communications Group Co., Ltd.

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

Mr. QIAO Wenjun, male, born in 1970, Master's degree. He previously served as Legal Counsel to the Package and Decoration Company of Shanghai Light Industry Bureau and Overseas Chinese Affairs of Shanghai, lawyer of Shanghai International Economic Law Firm, Partner of Shanghai Pudong Law Office, Managing Partner of Shanghai Office of Zhong Lun Law Firm and Deputy Chairman of Shanghai Bar Association. He is now executive director/partner of Zhong Lun Law Firm, legal advisor of Shanghai Municipal People's Government, arbitrator of Shanghai International Arbitration Center, member of the Managing Committee and arbitrator of Shanghai Arbitration Commission, specially engaged dean and professor of the Lawyers' School of East China University of Political Science and Law and Chairman of Pudong Legal Services Association.

Mr. ZHANG Ming, male, born in 1958, Doctorate degree and CPA. He previously served as Deputy Dean of School of Accountancy of Shanghai University of Finance and Economics. Currently, he is Dean, Professor, Tutor to PhD students, and Senior Researcher in the School of Accountancy of Shanghai University of Finance and Economics ("CUFE"). He concurrently works as Deputy Head of

Shanghai Business Accounting Society as well as member of Accounting Society of China, Banking Accounting Society of China, Accounting Society of Shanghai and other academic institutions, and member of the Academic Council of Accounting Society of China.

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

SUPERVISORS

The following table sets out certain information relating to the Bank's supervisors as at the date of this Offering Circular.

Name	Position	Date of Appointment
SUN Jianping	Chairman to the Board of Supervisors	28 April 2016
CHEN Zheng'an	Vice Chairman to the Board of Supervisors, Employee Supervisor	16 March 2017
SUN Wei	Supervisor	25 April 2017
LI Qingfeng	Supervisor	28 April 2016
CHEN Bichang	Supervisor	28 April 2016
ZHAO Jiusu	External Supervisor	28 April 2016
CHEN Shimin.	External Supervisor	28 April 2016
WU Guoyuan	Employee Supervisor	28 April 2016
GENG Guangxin	Employee Supervisor	28 April 2016

Mr. SUN Jianping was born in 1957. He holds a doctorate degree. His previous roles include secretary to the general office of the Shanghai Government, chief of the Liaison Office, the Vice General Manager of the Shanghai Municipal Information Office, a CPC Committee Secretary, Vice Secretary of Commission of Songjiang District, Mayor of the Songjiang District, Secretary of Commission of the Hongkou District and Jingan District. Mr. Sun is currently the Chairman of the Bank's board of supervisors.

Mr. CHEN Zheng'an was born in 1963. He holds a bachelor degree. His previous roles include: CPC Committee Member, Deputy Chief Prosecutor and Member of Review Committee of the Shanghai Jing'an District People's Procuratorate; Deputy CPC Committee Secretary, Chief Officer and CPC Committee Secretary; CPC Committee Secretary and Head of Shanghai Jing'an District Property and Land Bureau; Deputy District Head, District Committee Member and Head of Coordination of Shanghai Jinshan District and Deputy Secretary of the Shanghai Financial Work Committee. Currently, Mr. Chen is the Deputy CPC Committee Secretary, Disciplinary Committee Secretary and Vice Chairman to the Board of Supervisors of the Bank.

Mr. SUN Wei was born in 1970. He holds a master's degree. His previous roles include: Deputy General Manager of Shanghai Faiveley Transport Equipment Co., Ltd.; Manager of Industry Development Department of Shanghai Electric Group Co., Ltd.; General Manager Assistant and Deputy General Manager of Shanghai Rail Traffic Equipment Development Co., Ltd.; General Manager of Shanghai Rail Transit Equipment Development Co., Ltd. Screen Door Construction Co., Ltd. and Deputy Head and Head of Strategic Development Department of Shanghai Electric (Group) Corporation. Currently, Mr. SUN is the Vice President of Bailian Group Co., Ltd.

Mr. LI Qingfeng was born in 1971. He holds a master's degree. His previous roles include: General Manager and President of Hang Futures Brokerage Co., Ltd.; and Deputy General Manager and Deputy Secretary of CPC General Branch of the Shanghai Jiulian Group. Mr. LI's current roles include: General Manager and Secretary of CPC General Branch of the Shanghai Jiulian Group; and General Manager of Shanghai Petroleum Exchange Ltd.

Mr. CHEN Bichang was born in 1959. He holds a master's degree and is a senior engineer. His previous roles include: China Post's General Manager of the Electronic Post Office, the Chief of the Shenzhen Post Office, Deputy CPC Committee Secretary, Deputy Chief of the Guangdong Post Office, CCP party member; CPC Committee Secretary and General Manager of the Shandong Post Office. Mr. Chen is currently a supervisor of the Bank, the CPC Committee Secretary and the General Manager of China Post Group Corporation, Shanghai, a member of the Standing Committee of the 14th Shanghai Municipal People's Congress, a member of the Committee for Internal and Judicial Affairs and a member of the 10th CPC Shanghai People's Congress.

Mr. HU Zuliu was born in 1963. He holds a doctorate. His previous roles include: advisor to the World Bank; official at the International Monetary Fund; Chief Economist and Managing Director of the Research Department at the Geneva-Davos World Economy Forum; and Managing Director of Goldman & Sachs (Asia) Co., Ltd. Mr. HU is currently President of Primavera Capital Group, Professor at Tsinghua University, committee member of the Hong Kong SAR Government's Strategy Committee and member of the Advisory Committee of the SFC.

Mr. ZHAO Jiusu was born in 1954. He holds a doctorate and is a lawyer qualified in the United States. He previously worked for Coudert Brothers LLP and is a former partner of Clifford Chance LLP and Jones Day LLP Shanghai Representative Office. Mr. ZHAO is currently a partner of McDermott Will & Emery LLP and a senior legal consultant with MWE China Law Offices.

Mr. CHEN Shimin was born in 1958. He holds a doctorate and is a U.S. Certified Management Accountant. He has taught at numerous PRC and overseas universities, including the Shanghai University of Finance and Economics, Lingnan University in Hong Kong, Hong Kong Polytechnic University, Clarion University of Pennsylvania and the University of Louisiana Lafayette campuses. Mr. CHEN is currently Associate Dean, Department Head for MBA and a professor of accounting at China Europe International Business School, and a guest professor and tutor for doctoral degree candidates at the Accounting Institute of Shanghai University of Finance and Economics.

Mr. WU Guoyuan was born in 1961. He holds a master's degree in business administration and is a senior economist. His previous positions include: Director of the Hongqiao Business and Planning Departments at the Agricultural Bank of China, Jiangyin branch; and President, CPC Committee Secretary and Deputy Governor of the Bank's Jiangyin branch. Mr. WU is currently President and CPC Committee Secretary of the Bank's Nanjing branch and Chairman of Liyang SPD Rural Bank.

Mr. GENG Guangxin was born in 1961. He holds an MBA and is a senior economist. His previous roles include: Chief of the Credit Department of People's Bank of China, Ju County sub-branch; Deputy Chief of Program Staff in People's Bank of China, Linyi Centre branch; Chief of People's Bank of China, Rizhao branch; Director and CPC Committee Secretary of the Industrial and Commercial Bank of China, Rizhao branch; Chief and CPC Committee Secretary of the Bank's Jinan branch; and President of Zouping SPD Rural Bank. Mr. GENG is currently General Manager of the Bank's Rural Banks Management Centre and an interim coordinator on the Bank's Supervisory Committee.

SENIOR MANAGEMENT

Senior Management of the Bank

The following table sets out certain information relating to the Bank's senior management as at the date of this Offering Circular.

Name	Position	Date of Appointment
LIU Xinyi	President	28 April 2016
PAN Weidong.	Vice President and Chief Financial Officer	28 April 2016
XU Haiyan.	Vice President	29 April 2016
LIU Yiyan	Vice President	29 April 2016
WANG Xinhao	Vice President	29 April 2016
CUI Bingwen	Vice President	29 April 2016
XIE Wei	Vice President, Secretary to the Board of Directors	29 April 2016

For the biography of Mr. LIU Xinyi and Mr. PAN Weidong please refer to "Directors" in the Directors, Supervisors and Senior Management section.

Ms. XU Haiyan was born in 1960. She holds an EMBA and is a senior economist. Her previous roles include: Chief of Planning Office of China Construction Bank, Ningbo Branch; Vice President of the Bank's Ningbo branch; and General Manager of the Finance and Investment Banking Departments at the Bank's head office. Ms. XU is currently CPC Committee Member and Vice President of the Bank.

Mr. LIU Yiyan was born in 1964. He holds a doctorate and is a senior economist. His previous roles include: General Manager of the Human Resources Department, Vice President of Bank of Communications Co Ltd, Changchun Branch; President and CPC Committee Secretary of the Bank's Changchun branch; and General Manager of the Bank's Private Banking Department. Mr. LIU is currently a CPC Committee Member and Vice President of the Bank's head office.

Mr. WANG Xinhao was born in 1967 and holds a doctorate. His previous roles include: CPC Committee Secretary and President of the Bank's Shanghai branch and the CPC Committee Secretary and President of the Bank's Shanghai Free Trade Zone Branch, General Manager of the asset management department, client management department and corporate banking department of China Everbright Bank Dalian branch, CPC Committee Member, Vice President, CPC Committee Secretary and President of the Bank's Dalian Branch. Currently, he is the CPC Committee Member and the Vice President of the Bank.

Mr. CUI Bingwen was born in 1969. He holds a doctorate and is a senior economist. His previous roles include the Vice President of Industrial and Commercial Bank of China Tianjin branch Jinxi sub-branch, Vice President (executive) of Industrial and Commercial Bank of China Tianjin branch Dongli sub-branch, Director of human resources department, the general manager of the of the corporate finance department, CPC Committee Member, assistant to the President, Vice President and CPC Committee Secretary of Bank's Tianjin branch, CPC Committee Secretary, President of the Bank's Beijing branch, the General Manager of the client department of the Bank and the General Manager of the Bank's finance market department (Beijing). Currently, he is the CPC Committee Member, Vice President and Corporate Business Director of the Bank.

Mr. XIE Wei was born in 1971. He holds a master's degree and is a senior economist. His previous roles include: Vice President of China Construction Bank Zhengzhou branch Jinshui sub-branch, General Manager of corporate business department of China Construction Bank Henan branch, CPC Committee Member and President of China Construction Bank Xuchang branch, General Manager of the development management of the Bank and the investment banking head office of the Bank, Vice General Manager of the corporate and investment banking head office and General Manager of the investment banking department, development administration department and key account department, CPC Committee Secretary and President of the Bank's Fuzhou branch, and General Manager of the financial market department and asset management department of the Bank. Currently, he is the CPC Committee Member, the Vice President of the Bank, Board Secretary and Financial Market Business Director of the Bank.

TAXATION

The following summary of certain PRC, Hong Kong and EU tax consequences of the purchase, ownership and disposal of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Noteholder or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

PRC TAXATION

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

Pursuant to the Enterprise Income Tax Law promulgated on 16 March 2007 and effective on 1 January 2008, as amended on 29 December 2018, and the PRC Individual Income Tax Law, as amended on 31 August 2018 and effective on 1 January 2019, and their implementation regulations, an income tax is imposed on payment of interest by way of withholding in respect of debt securities, issued by PRC enterprises to non-resident Noteholders, including non-resident enterprises and non-resident individuals.

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation ("SAT") issued the Circular of Full Implementation of Business Tax to VAT Reform (《關於全面推開營業稅改徵增值稅試點的通知》) Caishui [2016] No. 36, "Circular 36") which confirms that business tax was replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes is likely to be treated as the holders of the Notes providing loans to the relevant Issuer.

(i) In the event that the Issuer is the Bank

In the event that the Issuer is the Bank, the Bank will be subject to withhold PRC income tax on the payment of interest of the Notes to non-resident Noteholders. The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest, in each case, unless a lower rate is available under an applicable tax treaty. For example, the tax so charged on interests paid on the Notes to non-resident Noteholders who, or which are residents of Hong Kong (including enterprise holders and individual holders) as defined under the arrangement between the mainland China and Hong Kong for purpose of the avoidance of double taxation will be 7 per cent. of the gross amount of the interest pursuant to such arrangement. Further, given that the Bank is located in the PRC, in the event that the Issuer is the Bank, holders of the Notes would be regarded as providing the financial services within China and consequently, the holders of the Notes shall be subject to VAT at the rate of 6 per cent. when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.72 per cent. Given that the Bank pays interest income to Noteholders who are located outside of the PRC, the Bank, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of the PRC. The Bank has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the "*Terms and Conditions of the Notes*".

(ii) In the event that the Issuer is a Branch Issuer

In the event that the Issuer is a Branch Issuer, the relevant Issuer is not obliged to withhold PRC income tax at the rate up to 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) on the payments of interest made by it to non-resident Noteholders provided that the payments are made outside of the territory of PRC. However, this is subject to the interpretation by the PRC tax authorities. If the PRC tax authorities take an interpretation that the interest on the Notes payable by the relevant Issuer is treated as income sourced from the PRC, a withholding tax may be imposed on such interest and the relevant Issuer will pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Conditions. If the Bank shall perform the obligation of paying interest of the Notes in the event and only when the relevant Branch Issuer fails to perform its obligations of paying the interest of the Notes, the Bank will be obliged to withhold PRC income tax at a rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) (unless a lower rate is available under an applicable tax treaty) and PRC VAT tax and local levies at the rate of 6.72 per cent. of the interest component of the amount payable by the Bank to the Noteholders if the PRC tax authority views such component as an interest income arising within the territory of the PRC.

Non-resident Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-resident Noteholders, except however, if such capital gains are determined as income sourced in China, accordingly such capital gains would be subject to the rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) of PRC withholding tax unless there is a lower tax rate applicable. There is uncertainty as to whether gains realised on the transfer of the Notes by individual holders who are not PRC citizens or residents will be treated as income sourced within the PRC which as a result will be subject to PRC individual income tax.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically VAT prescribed under Circular 36 does not apply and the Issuer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC.

Pursuant to the EIT Law, IIT Law and the VAT reform detailed above, in the case of (i) and (ii), the relevant Branch Issuer or the Bank shall withhold EIT or IIT, (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC-resident Noteholder and the relevant Branch Issuer or the Bank shall withhold VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholders located outside of the PRC. However, in the event that such relevant Branch Issuer and the Bank are required to make such a deduction or withholding (whether by way of EIT, IIT or VAT otherwise), each relevant Branch Issuer and the Bank have agreed to pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required. For more information, see "*Terms and Conditions of* the *Notes – Condition 14* (*Taxation*)".

Hong Kong

Withholding tax

Under existing Hong Kong law, payments of principal and interest in respect of the Notes can be made without withholding for or on account of any Hong Kong taxes. In addition, no tax is required to be withheld in Hong Kong in respect of any gains arising from resale of the Notes.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied by the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(b) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or

(c) interest on the Notes is derived from Hong Kong and is received by or accrues to a person (other than a corporation) carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business; or

(d) interest on the Notes is received by or accrues to a corporation (other than a financial institution) and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the Inland Revenue Ordinance).

Sums derived from the sale, disposal or redemption of the Notes (other than capital gains) will be subject to Hong Kong profits tax where received by or accrued to a person (other than a financial institution) who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of the Notes will be subject to profits tax.

Sums received by or accrued to a corporation (other than a financial institution) by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the Inland Revenue Ordinance) from the sale, disposal and redemption of the Notes will be subject to profits tax.

Stamp duty

Stamp duty will not be payable on the issue of Bearer Notes by the relevant Issuer, provided that either:

(a) such Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(b) such Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable, it is payable by the relevant Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes issued by the relevant Issuer if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfers of Registered Notes, provided that either:

(a) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(b) the Registered Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable in respect of the transfer of Registered Notes, it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. If, in the case of either the sale or purchase of such Registered Notes, stamp duty is not paid, both the seller and the purchaser may be liable jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of HK$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

FATCA WITHHOLDING

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Bank is a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the relevant Issuer) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional notes (as described under "*Terms and Conditions of the Notes – Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

THE PROPOSED FINANCIAL TRANSACTIONS TAX ("FTT")

On 14 February 2013, the European Commission published a proposal (the "Commission's proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary' market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

BANKING REGULATION AND SUPERVISION IN THE PRC

OVERVIEW

The banking industry in the PRC is highly regulated. The principal regulatory authorities in the PRC banking industry include the CBIRC and the PBOC. The CBIRC is responsible for supervising and regulating banking institutions, and the PBOC, as the central bank of the PRC, is responsible for formulating and implementing monetary policies. The principal laws and regulations relating to the PRC banking industry are the People's Bank of China Law of the People's Republic of China, the Commercial Banking Law of the People's Republic of China and the Banking Supervision and Regulatory Law of the People's Republic of China, and the rules and regulations established thereunder.

CBIRC

Functions and Powers

The CBIRC is the principal regulatory authority in the PRC responsible for the supervision and regulation of banking institutions operating within the PRC, including commercial banks, urban credit cooperatives, rural credit cooperatives, other deposit-taking financial institutions and policy banks, as well as certain non-bank financial institutions, such as asset management companies, trust and investment companies, finance companies, financial leasing companies and other financial institutions that can only be set up with the CBIRC's approval. The CBIRC is also responsible for the supervision and regulation of the entities established by domestic financial institutions outside the PRC and the overseas operations of such institutions. According to the Banking Supervision and Regulatory Law of the People's Republic of China and relevant regulations, the CBIRC's primary regulatory responsibilities include:

- formulating and issuing rules and regulations governing banking institutions and their activities;
- examining and approving the establishment, change and termination of banking institutions and their scope of business, as well as granting banking licences to commercial banks and their branches;
- regulating the business activities of banking institutions, including their products and services offered;
- setting qualification requirements for, and approving and overseeing the nomination of, directors and senior management personnel of banking institutions;
- setting prudential guidelines and standards for risk management, internal control, capital adequacy, asset quality, allowance for impairment losses, risk concentration, related party transactions and asset liquidity requirements for banking institutions;
- conducting on-site examinations and off-site surveillance of the business activities and risk levels of banking institutions;
- imposing integrated supervision on banking institutions;
- establishing emergency disposal mechanisms with relevant authorities in the banking sector and formulating emergency disposal plans;
- imposing corrective and punitive measures for violations of applicable banking regulations; and
- drafting and publishing statistics and financial reports of national banking institutions.

Supervision over Capital Adequacy

On 7 June 2012, the CBRC issued the Capital Management Rules, setting up a new capital adequacy regulatory system by reference to Basel III to replace the previous regulations. The Capital Management Rules have been in effect since 1 January 2013. In particular, the Capital Management Rules establish a unified and comprehensive capital adequacy regulatory system, redefine the meaning of capital, enlarge the scope of risks to be covered by capital, require the scientific classification and differentiated supervision of the capital adequacy levels of commercial banks, and give commercial banks a transitional period for meeting the new capital adequacy requirements.

Under the Capital Management Rules, capital adequacy ratios are calculated according to the following formulae in accordance with CBRC requirements:

$$\text{Capital Adequacy Ratio} = \frac{(\text{Total capital - corresponding capital deductions})}{(\text{Risk - weighted assets})} \times 100\%$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{(\text{Tier 1 capital - corresponding capital deductions})}{(\text{Risk-weighted assets})} \times 100\%$$

$$\text{Core Tier 1 Capital Adequacy Ratio} = \frac{(\text{Core Tier 1 capital - corresponding capital deductions})}{(\text{Risk - weighted assets})} \times 100\%$$

On 29 November 2012, the CBRC released The Guiding Opinions on Capital Instrument Innovation of Commercial Banks 《中國銀監會關於商業銀行資本工具創新的指導意見》(the "Guiding Opinions"), allowing and encouraging commercial banks to develop capital instruments (including tier 2 capital instruments) that comply with the Capital Management Rules. Pursuant to the Guiding Opinions, Additional Tier 1 Capital instruments and tier 2 capital instruments issued by a commercial bank after 1 January 2013 must contain a provision that requires such instruments to be either written-off or converted into common stock upon the occurrence of a triggering event. A triggering event for Additional Tier 1 Capital instruments occurs when the Core Tier 1 Capital Adequacy Ratio of the commercial bank falls to 5.125 per cent. or less. A triggering event for tier 2 capital instruments occurs upon the earlier of: (i) a decision of write-down or share conversion, without which the commercial bank would become non-viable, as determined by the CBRC; or (ii) a decision to make a public sector injection of capital or equivalent support, without which the commercial bank would have become nonviable, as determined by relevant authorities.

According to the Capital Management Rules, commercial banks at each tier shall meet the capital adequacy requirements set up by the CBRC before the end of 2018, and from 1 January 2013 each commercial bank must meet the minimum capital adequacy ratio as follows:

- Capital Adequacy Ratio shall not be lower than eight per cent.;
- Tier 1 Capital Adequacy Ratio shall not be lower than six per cent.; and
- Core Tier 1 Capital Adequacy Ratio shall not be lower than five per cent.

On 30 November 2012, the CBRC promulgated the Notice on Relevant Matters in Relation to Transitional Period Arrangement for the Implementation of the Measures for Administration on Capital of Commercial Banks (Provisional 《關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知》, to ensure the smooth implementation of the Capital Management Rules. Under the notice, the Capital Adequacy Ratio requirements from 2013 to 2018 for the Systemically Important Banks (as defined therein) and Other Banks (as defined therein) during the transitional period are as follows:

Category of Banks	Project	At the End of 2013	At the End of 2014	At the End of 2015	At the End of 2016	At the End of 2017	At the End of 2018
				(per cent.)			
Systemically Important Banks	Core Tier 1 Capital Adequacy Ratio	6.5	6.9	7.3	7.7	8.1	8.5
	Tier 1 Capital Adequacy Ratio	7.5	7.9	8.3	8.7	9.1	9.5
	Capital Adequacy Ratio	9.5	9.9	10.3	10.7	11.1	11.5
Other Banks	Core Tier 1 Capital Adequacy Ratio	5.5	5.9	6.3	6.7	7.1	7.5
	Tier 1 Capital Adequacy Ratio	6.5	6.9	7.3	7.7	8.1	8.5
	Capital Adequacy Ratio	8.5	8.9	9.3	9.7	10.1	10.5

Examination and Supervision

The CBIRC, through its headquarters in Beijing and its bureaux throughout the PRC, monitors the operations of banks and their branches through on-site examinations and off-site surveillance. On-site examinations generally include inspecting a bank's business premises, interviewing its employees, senior management and directors for an explanation of significant issues relating to its operations and risk management, and reviewing relevant documents and materials kept by the bank. The CBIRC also conducts off-site surveillance by reviewing financial and other reports regularly submitted by banks and monitoring banks' business activities and risk exposure status to evaluate and analyse the operational risk of the banks.

If a banking institution is not in compliance with an applicable banking regulation, the CBIRC is authorised to impose corrective and punitive measures, including fines, ordering the suspension of certain business activities, restrictions on dividends and other forms of distributions and asset transfers, and suspending the opening of new branches. In extreme cases, or when a commercial bank fails to take corrective action within the time period specified by the CBIRC, the CBIRC may order the banking institution to suspend operations and may revoke its operating-business licence. In the event of a crisis or failure within a banking institution, the CBIRC may assume control over, or facilitate the restructuring of, such banking institution.

PBOC

As the central bank of the PRC, the PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the PRC financial markets. According to the People's Bank of China Law of the People's Republic of China and relevant regulations, the PBOC is empowered to:

- issue and implement orders and regulations in relation to its duties;
- formulate and implement monetary policy in accordance with laws;
- issue Renminbi and administer its circulation;
- regulate the interbank money market and the interbank bond market;
- implement foreign exchange controls and regulate the interbank foreign exchange market;
- regulate the gold market;
- hold, administer and manage state reserves of foreign exchange and gold;
- manage the national treasury;

- safeguard the normal operation of payment and clearing systems;
- guide and coordinate the financial industry in its anti-money laundering activities and take responsibility for monitoring capital in respect of anti-money laundering;
- take responsibility for financial industry statistics, surveys, analyses and forecasts;
- participate in international financial activities in its capacity as the central bank of the PRC; and
- undertake other duties as prescribed by the State Council.

On 15 August 2013, the State Council issued the Reply of the State Council on the Establishment of the Interdepartmental Coordination Joint Meeting System for Financial Supervision 《國務院關於同意建立金融監管協調部際聯席會議制度的批復》, which aims to build up an interdepartmental coordination joint meeting system. The PBOC shall take the lead at such joint meeting, with the CBIRC, the CSRC, the CIRC and the SAFE being the major members. The National Development and Reform Commission and the MOF may be invited to attend the joint meetings, if necessary.

PRC CURRENCY CONTROLS

Current Account Items

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, Renminbi settlement of imports and exports of goods and of services and other current account items became permissible nationwide in 2012.

Since July 2013, the procedures for cross-border Renminbi trade settlement under current account items have been simplified and trades through e-commerce can also be settled in Renminbi under the current regulatory regime. A cash pooling arrangement for qualified multinational enterprise group companies was introduced in late 2014, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. In addition, the eligibility requirements for multinational enterprise groups have been lowered and the cap for net cash inflow has been increased in September 2015.

The PBOC also permit enterprises in the China (Shanghai) Free Trade Pilot Zone ("Shanghai FTZ") to establish an additional cash pool in the local scheme in the Shanghai FTZ, but each onshore company within the group may only elect to participate in one cash pooling programme. In November 2016, PBoC Shanghai Headquarters further allowed banks in Shanghai to provide multinational enterprise groups with services of full-function onshore cash pooling, which will enable broader scope for utilising pooled cash.

The regulations referred to above are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, were generally required to be made in foreign currencies. Under progressive reforms, foreign enterprises are now permitted use Renminbi to settle all capital account items that can be settled in foreign currencies. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements specifically for capital account payments in Renminbi are being removed gradually.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as "foreign debt") and lend Renminbi-denominated loans to foreign borrowers (which are referred to as "outbound loans"), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in Renminbi and make Renminbi payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as "cross-border security"). Under current rules promulgated by the State Administration of Foreign Exchange of the PRC ("SAFE") and PBoC, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. After piloting in the free trade zones, PBoC and

SAFE launched a nation-wide system of macro-prudential management on cross-border financing in 2016, which provides for a unified regime for financings denominated in both foreign currencies and Renminbi.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group. Enterprises within the Shanghai FTZ may establish another cash pool under the Shanghai FTZ rules to extend inter-company loans, although Renminbi funds obtained from financing activities may not be pooled under this arrangement.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("RQFII") regime and the China Interbank Bond Market ("CIBM"), have been further liberalised for foreign investors. PBoC has relaxed the quota control for RQFII, initiated a bond market mutual access scheme between mainland and Hong Kong to allow eligible investors to invest in CIBM and has also expanded the list of foreign investors eligible to directly invest in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening-up. In 2018, CFETS further relaxed qualifications, application materials and the procedures for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorised as capital account items. There is no assurance that the PRC Government will continue to gradually liberalise the control over Renminbi payments of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUBSCRIPTION AND SALE

Dealer Agreement

Subject to the terms and on the conditions contained in the Dealer Agreement, the Notes will be offered on a continual basis by the relevant Issuer to the Dealers. However, the relevant Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers as at the date of the Dealer Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of the relevant Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The relevant Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The relevant Issuer has agreed to reimburse each Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The relevant Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the relevant Issuer.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Arranger or Dealer or any affiliate of such Arranger or Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Arranger or Dealer or such affiliate on behalf of the relevant Issuer in such jurisdiction.

The Arrangers, the Dealers or any of their respective affiliates may have performed certain banking and advisory services for the relevant Issuer and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the relevant Issuer and/or its affiliates in the ordinary course of the relevant Issuer's or their business. The Dealers or certain of their respective affiliates may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution.

In connection with each Series of the Notes issued under the Programme, the relevant Issuer, the Arrangers, the Dealers and/or their respective affiliates may place orders, receive allocations and purchase Notes for their own account (without a view to distributing such Notes) and such orders and/or allocations of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the relevant Issuer, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering. Accordingly, references herein to the Notes being "offered" should be read as including any offering of the Notes to the relevant Issuer, the Arrangers, the Dealers and/or their respective affiliates for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Notes. If this is the case, liquidity of trading in the Notes may be constrained (see "*Risk Factors – Risks Relating to the Market Generally – Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity*"). The relevant Issuer, the Arrangers and the Dealers are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors.

Selling Restrictions

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

United States

This paragraph shall apply in respect of any Notes the Pricing Supplement for which specifies that "Regulation S Category 1" applies. The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered or sold the Notes, and that it will not offer or sell, any Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes. Terms used in this paragraph have the meaning given to them by Regulation S.

This paragraph shall apply in respect of any Notes the Pricing Supplement for which specifies that "Regulation S Category 2" applies. The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Fiscal Agent or the relevant Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Fiscal Agent or the relevant Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each distributor, dealer or person to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

European Economic Area

Prohibition of Sales to EEA Retail Investors: Unless the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or

  (ii) a customer within the meaning of Directive (EU) 2016/97, the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in the Prospectus Regulation (as defined below); and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Public Offer Selling Restriction under the Prospectus Regulation: If the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

(a) *Approved prospectus*: if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a "Non-exempt Offer"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the relevant Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(c) *Fewer than 150 offerees*: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or

(d) *Other Exempt offers*: at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (b) to (d) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "Prospectus Regulation" means Regulation (EU) 2017/1129.

United Kingdom

Each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes having a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the relevant Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the relevant Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "FIEA"). Accordingly, each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and other relevant laws and regulations of Japan.

PRC

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that the offer of the Notes is not an offer of securities within the meaning of the PRC Securities Law or other pertinent laws and regulations of the People's Republic of China and the Notes have not been offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") other than (a) to "professional investors" as defined in the SFO, and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "CWUMPO") or which do not constitute an offer to the public within the meaning of the CWUMPO; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Macau

Each of the Dealers has represented, warranted and agreed that the Notes may not be offered, sold or delivered to members of the public in Macau.

Taiwan

Each of the Dealers has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that the Notes have not been, and shall not be, offered, sold or re-sold, directly or indirectly, in Taiwan, to investors other than "professional institutional investors" as defined under Paragraph 2, Article 19-7 of the Regulations Governing Securities Firms of Taiwan, currently including overseas or domestic Banks, insurance companies, bills finance companies, securities firms, fund management companies, government investment institutions, government funds, pension funds, mutual funds, unit trusts, securities investment trust enterprises, securities investment consulting enterprises, trust enterprises, futures commission merchants, futures service enterprises, and other institutions approved by the Financial Supervisory Commission of Taiwan.

GENERAL INFORMATION

Authorisations

The Bank has obtained all necessary consents, approvals and authorisations in connection with the update of the Programme and the issue of the Notes thereunder. The establishment and update of the Programme and the issue of the Notes thereunder was authorised by the resolutions of the Board of the Bank on 29 April 2015 and 18 July 2018. PRC counsel to the Bank and the Dealers have advised that no approvals or consents were required from any regulatory authorities or other relevant authorities in the PRC for the Bank to enter into the Dealer Agreement, the Deed of Covenant and the Agency Agreement. The Bank and each relevant Branch Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Notes.

NDRC APPROVAL

Where applicable for a relevant Tranche of Notes, the Notes will be issued in accordance with the NDRC Quota pursuant to the NDRC Circular. After the issuance of such relevant Tranche of Notes, the Branch Issuer (acting through the Bank) or, as the case may be, the Bank, will provide the requisite information and documents within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Quota.

Litigation

There are no governmental, legal or arbitration proceedings against or affecting the relevant Issuer, the Bank or any of their subsidiaries or any of their respective assets, and the relevant Issuer or, as the case may be, the Bank is not aware of any pending or threatened proceedings, which are material in the context of the issue of the Notes.

No Material Adverse Change

Since 30 June 2019, there has been no material adverse change, nor any development or event involving a prospective material adverse change, in or affecting the general affairs, financial condition, results of operations or prospects of the relevant Issuer, the Bank or any of its subsidiaries.

Documents Available

For so long as Notes may be issued pursuant to this Offering Circular, copies of the following documents will be available (upon written request), during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the principal place of business of the Bank at 12, Zhongshan Road (E-1), Shanghai, 200002, PRC:

(a) the Deed of Covenant;

(b) the constitutive documents of the Bank;

(c) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2017 and 2018 and the unaudited but reviewed condensed interim financial statements of the Bank as at and for the six months ended 30 June 2019; and

(d) the most recent annual and interim reports (including the financial statements) published by the Bank,

and at the specified office of the Fiscal Agent, being at the date of this Offering Circular, at One Canada Square, London E14 5AL, United Kingdom:

(i) the Agency Agreement (which includes the form of the Global Notes, the Global Note Certificates, the Notes in definitive form, the Coupons, the Receipts and the Talons);

(ii) each Pricing Supplement (save that a Pricing Supplement related to an unlisted Series of Notes will only be available for inspection by a holder of any such Notes and such holder must produce evidence satisfactory to the Issuer or the Fiscal Agent as to its holding of Notes and identity); and

(iii) a copy of this Offering Circular together with any supplement to this Offering Circular and any other documents incorporated herein or therein referenced.

Clearing of the Notes

Notes have been accepted for clearance through the Euroclear and Clearstream systems. The relevant ISIN, the Common Code and the Legal Entity Identifier (LEI) Code will be specified in the applicable Pricing Supplement. The relevant Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be set out in the relevant Pricing Supplement.

Financial Statements

The audited consolidated financial statements of the Bank as at and for the years ended 31 December 2017 and 2018, which are included in this Offering Circular, have been prepared in accordance with IFRS and audited by PwC, as stated in its reports appearing herein. The unaudited but reviewed condensed interim financial statements of the Bank for the six months ended 30 June 2019 (which include the comparative financial information as at and for the six months ended 30 June 2018), which are included in this Offering Circular, have been prepared in accordance with IAS 34 and reviewed by KPMG, as stated in its report appearing herein.

The Bank has prepared English translations of the Bank's audited consolidated financial statements as at and for the years ended 31 December 2017 and 2018 and its unaudited but reviewed condensed interim financial statements as at and for the six months ended 30 June 2019 as set out elsewhere in this Offering Circular. The Arrangers and Dealers have not independently verified or checked the accuracy of the English translations and can give no assurance that the information contained in the English translations of the Bank's financial statements is accurate, truthful or complete.

Listing of Notes

Application will be made to the HKSE for the listing of the Programme on the HKSE by way of debt issues to Professional Investors only.

The issue price of Notes listed on the HKSE will be expressed as a percentage of their nominal amount. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of issue of the relevant Notes. Admission to the HKSE and quotation of any Notes on the HKSE is not to be taken as an indication of the merits of the Programme, the Notes, the relevant Branch Issuer or the Bank. The HKSE assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein.

Approval in-principle has been received from the SGX-ST for the establishment of the Programme and application will be made for permission to deal in and quotation for any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. If the application to the SGX-ST to list a particular Series of Notes is approved, for so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded, will be traded on the SGX-ST in a board lot size of at least S$200,000 (or its equivalent in other currencies). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval in-principle from, the admission of any Notes to the Official List of, and the quotation of any Notes on, the SGX-ST, are not to be taken as indications of the merits of the relevant Branch Issuer, the Bank, its subsidiaries and associated companies (if any), the Group, the Programme or such Notes.

For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a Paying Agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a Global Note is exchanged for Definitive Note(s). In addition, in the event that a Global Note is exchanged for Definitive Note(s), an announcement of such exchange will be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Note(s), including details of the Issuing and Paying Agent in Singapore.

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Note:

(1) The Bank's audited consolidated financial statements for the years ended 31 December 2017 and 2018 (together with the independent auditor's reports) and the Bank's unaudited but reviewed condensed interim financial statements for the six months ended 30 June 2019 (together with the review report) set out herein are reproduced from the Bank's annual reports for the years ended 31 December 2017 and 2018 and the Bank's interim report for the six months ended 30 June 2019, respectively. Page references referred to in the auditor's reports named above refer to pages set out in such annual reports.

Shanghai Pudong Development Bank Co., Ltd.

For the Period from 1 January 2019 to 30 June 2019

English translation of the Condensed Interim Financial Report

IF THERE IS ANY CONFLICT BETWEEN THE CHINESE VERSION AND ITS ENGLISH TRANSLATION, THE CHINESE VERSION WILL PREVAIL

Review Report

To the Shareholders of Shanghai Pudong Development Bank Co., Ltd.
(*Incorporated in the People's Republic of China with limited liability*)

Introduction

We have reviewed the condensed interim financial report of Shanghai Pudong Development Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 1 to 108, which comprises the condensed consolidated statement of financial position as of 30 June 2019, the condensed consolidated statement of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended and certain explanatory notes. The Bank's management is responsible for preparation and presentation of the condensed interim financial report in accordance with International Accounting Standard 34 "Interim Financial Reporting", issued by the International Accounting Standards Board. Our responsibility is to express a conclusion on this condensed interim financial report based on our review.

Scope of review

We conducted our review in accordance with International Standards on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of the condensed interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial report is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

KPMG Huazhen LLP

Beijing, the People's Republic of China

22 August 2019

Shanghai Pudong Development Bank Co., Ltd.
Condensed Consolidated Statement of Profit or Loss
for the period from 1 January 2019 to 30 June 2019
(Expressed in millions of RMB unless otherwise stated)

	Note	The Group for the period from 1 January 2019 to 30 June 2019 (Unaudited)	The Group for the period from 1 January 2018 to 30 June 2018 (Unaudited)
Interest income		140,097	132,623
Interest expense		(75,833)	(81,326)
Net interest income	3.1	64,264	51,297
Fee and commission income		27,515	22,663
Fee and commission expense		(4,825)	(2,803)
Net fee and commission income	3.2	22,690	19,860
Net trading income	3.3	8,394	8,720
Net gains arising from financial investments	3.4	1,239	933
Other operating income		949	1,181
Operating expenses	3.5	(22,493)	(20,977)
Impairment losses	3.6	(36,934)	(26,929)
Share of profits from associates and joint ventures		90	76
Profit before income tax		38,199	34,161
Income tax expense	3.7	(5,802)	(5,261)
Net profit		32,397	28,900
Net profit attributable to:			
Shareholders of the Bank		32,090	28,569
Non-controlling interests		307	331
Basic and diluted earnings per share attributable to the shareholders of the Bank's (expressed in RMB per share)	3.8	1.07	0.95

The notes on pages 12 to 108 form an integral part of this condensed interim financial report.

Shanghai Pudong Development Bank Co., Ltd.
Condensed Consolidated Statement of Comprehensive Income
for the period from 1 January 2019 to 30 June 2019
(Expressed in millions of RMB unless otherwise stated)

	Note	The Group for the period from 1 January 2019 to 30 June 2019 (Unaudited)	 for the period from 1 January 2018 to 30 June 2018 (Unaudited)
Net profit		32,397	28,900
Other comprehensive income	3.32		
Items that may be reclassified to profit or loss			
Changes in fair value of debt instruments at fair value through other comprehensive income		137	2,460
Credit impairment allowance of debt instruments at fair value through other comprehensive income		1	245
Cash flow hedge reserve		(2)	-
Exchange differences from the translation of foreign operations		(144)	24
Items that will not be reclassified to profit or loss			
Changes in fair value of equity instruments at fair value through other comprehensive income		203	(10)
Other comprehensive income, net of tax		195	2,719
Total comprehensive income		32,592	31,619
Total comprehensive income attributable to:			
Shareholders of the Bank		32,285	31,286
Non-controlling interests		307	333

The notes on pages 12 to 108 form an integral part of this condensed interim financial report.

Shanghai Pudong Development Bank Co., Ltd.
Condensed Consolidated Statement of Financial Position
as at 30 June 2019
(Expressed in millions of RMB unless otherwise stated)

	Note	The Group 30 June 2019 (Unaudited)	31 December 2018 (Audited)
Assets			
Cash and deposits with central bank	3.9	395,053	443,723
Deposits and placements with banks and other financial institutions	3.10	268,419	236,535
Precious metals		24,182	10,475
Derivative financial assets	3.11	39,552	43,274
Financial assets purchased under resale agreements	3.12	1,678	11,573
Loans and advances to customers	3.13	3,621,476	3,455,489
Financial investments:	3.14		
- Financial investments at fair value through profit or loss		441,990	395,668
- Financial investments at amortized cost		1,229,916	1,144,249
- Financial investments at fair value through other comprehensive income		417,072	382,898
Investments in associates and joint ventures	3.15	1,965	1,968
Property and equipment	3.16	24,932	23,718
Construction in progress		4,966	4,499
Intangible assets	3.17	9,247	9,257
Deferred income tax assets	3.18	37,437	36,877
Other assets	3.19	149,262	89,403
Total assets		6,667,147	6,289,606

The notes on pages 12 to 108 form an integral part of this condensed interim financial report.

Shanghai Pudong Development Bank Co., Ltd.
Condensed Consolidated Statement of Financial Position (Continued)
as at 30 June 2019
(Expressed in millions of RMB unless otherwise stated)

	Note	The Group 30 June 2019 (Unaudited)	31 December 2018 (Audited)
Liabilities			
Borrowing from central bank		195,170	221,003
Deposits and placements from banks and other financial institutions	3.20	1,044,690	1,216,391
Financial liabilities at fair value through profit or loss	3.21	39,649	34,912
Derivative financial liabilities	3.11	39,584	42,793
Financial assets sold under repurchase agreements	3.22	128,026	119,564
Deposits from customers	3.23	3,697,528	3,253,315
Income tax payable		15,098	16,657
Debt securities issued	3.24	896,520	841,440
Deferred income tax liabilities	3.18	639	643
Provisions	3.25	4,669	4,747
Other liabilities	3.26	106,324	59,761
Total liabilities		6,167,897	5,811,226

The notes on pages 12 to 108 form an integral part of this condensed interim financial report.

Shanghai Pudong Development Bank Co., Ltd.
Condensed Consolidated Statement of Financial Position (Continued)
as at 30 June 2019
(Expressed in millions of RMB unless otherwise stated)

	Note	The Group 30 June 2019 (Unaudited)	31 December 2018 (Audited)
Equity			
Share capital	3.27	29,352	29,352
Preference shares	3.28	29,920	29,920
Capital reserves	3.29	81,760	81,760
Surplus reserves	3.30	125,805	109,717
General risk reserve	3.31	76,125	75,946
Other reserves	3.32	4,854	4,659
Retained earnings	3.33	144,540	140,208
Equity attributable to the shareholders of the Bank		492,356	471,562
Non-controlling interests		6,894	6,818
Total equity		499,250	478,380
Total liabilities and equity		6,667,147	6,289,606

These financial statements were approved for issue by the Board of Directors of the Bank on 22 August 2019.

Chairman of the board of directors	President	Chief Financial Officer	Head of finance and accounting department

The notes on pages 12 to 108 form an integral part of this condensed interim financial report.

Shanghai Pudong Development Bank Co., Ltd.
Condensed Consolidated Statement of Changes in Equity (unaudited)
for the period from 1 January 2019 to 30 June 2019
(Expressed in millions of RMB unless otherwise stated)

	Equity attributable to the shareholders of the Bank									
	Share capital	Preference shares	Capital reserves	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at 31 December 2018	29,352	29,920	81,760	109,717	75,946	4,659	140,208	471,562	6,818	478,380
Changes of accounting policies (Note 2)	-	-	-	-	-	-	(393)	(393)	(13)	(406)
Balance at 1 January 2019	29,352	29,920	81,760	109,717	75,946	4,659	139,815	471,169	6,805	477,974
Net profit	-	-	-	-	-	-	32,090	32,090	307	32,397
Other comprehensive income	-	-	-	-	-	195	-	195	-	195
Total comprehensive income	-	-	-	-	-	195	32,090	32,285	307	32,592
Appropriations to surplus reserves and general risk reserve	-	-	-	16,088	179	-	(16,267)	-	-	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(10,273)	(10,273)	-	(10,273)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(825)	(825)	-	(825)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	(218)	(218)
Balance at 30 June 2019	29,352	29,920	81,760	125,805	76,125	4,854	144,540	492,356	6,894	499,250

The notes on pages 12 to 108 form an integral part of this condensed interim financial report.

Shanghai Pudong Development Bank Co., Ltd.
Condensed Consolidated Statement of Changes in Equity (unaudited)
for the period from 1 January 2018 to 30 June 2018
(Expressed in millions of RMB unless otherwise stated)

	Equity attributable to the the shareholders of the Bank									
	Share capital	Preference shares	Capital reserves	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at 31 December 2017	29,352	29,920	81,760	94,198	75,702	(5,335)	119,807	425,404	5,581	430,985
Changes of accounting policies	-	-	-	-	-	3,015	(15,090)	(12,075)	64	(12,011)
Balance at 1 January 2018	29,352	29,920	81,760	94,198	75,702	(2,320)	104,717	413,329	5,645	418,974
Net profit	-	-	-	-	-	-	28,569	28,569	331	28,900
Other comprehensive income	-	-	-	-	-	2,717	-	2,717	2	2,719
Total comprehensive income	-	-	-	-	-	2,717	28,569	31,286	333	31,619
Non-controlling interests change due to subsidiaries' capital increase	-	-	-	-	-	-	-	-	799	799
Appropriations to surplus reserves and general risk reserve	-	-	-	15,519	151	-	(15,670)	-	-	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(2,935)	(2,935)	-	(2,935)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(825)	(825)	-	(825)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	(213)	(213)
Balance at 30 June 2018	29,352	29,920	81,760	109,717	75,853	397	113,856	440,855	6,564	447,419

The notes on pages 12 to 108 form an integral part of this condensed interim financial report.

Shanghai Pudong Development Bank Co., Ltd.
Condensed Consolidated Statement of Changes in Equity (Audited)
for the period from 1 January 2018 to 31 December 2018
(Expressed in millions of RMB unless otherwise stated)

	Equity attributable to the the shareholders of the Bank									
	Share capital	Preference shares	Capital reserves	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at 31 December 2017	29,352	29,920	81,760	94,198	75,702	(5,335)	119,807	425,404	5,581	430,985
Changes of accounting policies	-	-	-	-	-	3,015	(15,090)	(12,075)	64	(12,011)
Balance at 1 January 2018	29,352	29,920	81,760	94,198	75,702	(2,320)	104,717	413,329	5,645	418,974
Net profit	-	-	-	-	-	-	55,914	55,914	601	56,515
Other comprehensive income	-	-	-	-	-	6,979	-	6,979	4	6,983
Total comprehensive income	-	-	-	-	-	6,979	55,914	62,893	605	63,498
Non-controlling interests change due to subsidiaries' capital increase	-	-	-	-	-	-	-	-	799	799
Appropriations to surplus reserves and general risk reserve	-	-	-	15,519	244	-	(15,763)	-	-	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(2,935)	(2,935)	-	(2,935)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)	-	(1,725)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	(231)	(231)
Balance at 31 December 2018	29,352	29,920	81,760	109,717	75,946	4,659	140,208	471,562	6,818	478,380

The accompanying notes from page 12 to page 108 form an integral part of this condensed interim financial report.

Shanghai Pudong Development Bank Co., Ltd.
Condensed Consolidated Statement of Cash Flows
for the period from 1 January 2019 to 30 June 2019
(Expressed in millions of RMB unless otherwise stated)

	The Group	
	for the period from 1 January 2019 to 30 June 2019 (Unaudited)	for the period from 1 January 2018 to 30 June 2018 (Unaudited)
Cash flows from operating activities		
Profit before income tax	38,199	34,161
Adjustments for:		
Depreciation and amortization	2,960	1,491
Impairment losses of loans and advances to customers	35,561	26,482
Other impairment losses	1,373	447
Interest expense from debt securities issued	15,129	15,103
Interest income from financial investments	(31,931)	(36,791)
Net (gains)/losses on disposal of property and equipment	(5)	3
Dividend income	(30)	(39)
Share of profits from associates and joint ventures	(90)	(76)
Unrealized (gains)/losses on derivative financial instruments	448	(4,039)
Net gains arising from financial investments	(1,239)	(933)
Changes in operating assets:		
Statutory reserves with central bank	(10,010)	39,991
Deposits and placements with banks and other financial institutions	(50,858)	26,712
Financial assets held for trading	(14,853)	(14,982)
Financial assets purchased under resale agreements	9,901	11,495
Precious metals	(13,707)	2,238
Loans and advances to customers	(202,703)	(151,037)
Other operating assets	(53,067)	541

The notes on pages 12 to 108 form an integral part of this condensed interim financial report.

Shanghai Pudong Development Bank Co., Ltd.
Condensed Consolidated Statement of Cash Flows (Continued)
for the period from 1 January 2019 to 30 June 2019
(Expressed in millions of RMB unless otherwise stated)

	The Group	
	for the period from 1 January 2019 to 30 June 2019 (Unaudited)	for the period from 1 January 2018 to 30 June 2018 (Unaudited)
Cash flows from operating activities (continued)		
Changes in operating liabilities:		
Borrowing from central bank	(25,833)	9,228
Deposits and placements from banks and other financial institutions	(171,701)	(171,858)
Financial assets sold under repurchase agreements	8,462	(88,287)
Deposits from customers	444,213	172,476
Financial liabilities at fair value through profit or loss	4,737	18,083
Other operating liabilities	31,716	15,144
Cash generated from / (used in) operating activities before income tax payment	16,672	(94,447)
Income tax paid	(7,840)	(8,427)
Net cash generated from / (used in) operating activities	8,832	(102,874)
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	1,308,990	1,695,608
Investment income received	39,245	44,791
Proceeds from disposal of property and equipment	13	9
Purchase of property and equipment and other long-term assets	(3,270)	(2,259)
Purchase of investments	(1,460,257)	(1,571,202)
Net cash (used in) / generated from investing activities	(115,279)	166,947

The notes on pages 12 to 108 form an integral part of this condensed interim financial report.

Shanghai Pudong Development Bank Co., Ltd.
Condensed Consolidated Statement of Cash Flows (Continued)
for the period from 1 January 2019 to 30 June 2019
(Expressed in millions of RMB unless otherwise stated)

	The Group	
	for the period from 1 January 2019 to 30 June 2019 (Unaudited)	for the period from 1 January 2018 to 30 June 2018 (Unaudited)
Cash flows from financing activities		
Equity investments	-	799
Proceeds from issuance of bonds and deposit certificates	562,417	674,615
Repayment of bonds and interbank deposits issued	(509,472)	(709,893)
Interest paid on bonds and interbank deposits issued	(12,996)	(14,263)
Dividends paid	(11,190)	(1,038)
Net cash generated from / (used in) financing activities	28,759	(49,780)
Effect of exchange rate changes on cash and cash equivalents	88	556
Net (decrease) / increase in cash and cash equivalents	(77,600)	14,849
Cash and cash equivalents at the beginning of the period	187,644	147,458
Cash and cash equivalents at the end of the period	110,044	162,307
Cash flows from operating activities include：		
Interest received	111,830	100,736
Interest paid	(56,100)	(64,139)

Composition of cash and cash equivalents	30 June 2019	31 December 2018
Cash	6,145	6,036
Surplus reserves with central bank	11,920	70,709
Deposits and placements with banks and other financial institutions with original maturities no more than three months	91,979	110,899
Total	110,044	187,644

The notes on pages 12 to 108 form an integral part of this condensed interim financial report.

1 GENERAL INFORMATION

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

The unified social credit code of the Bank is 9131000013221158XC, and the financial service certificate number of the Bank is B0015H131000001.

As at 30 June 2019, the Bank's share capital were RMB 29,352 million, with RMB 1 Yuan par value per share. The Bank's preference shares were RMB 30,000 million at par value, with RMB 100 Yuan par value per share, and the carrying amount being RMB 29,920 million net of issuance fee.

The Bank and its subsidiaries (collectively referred to as "the Group") are mainly engaged in financial businesses. The scope of business mainly includes commercial banking services, financial leasing businesses and trust services approved by the PBOC and the China Banking and Insurance Regulatory Commission (the "CBIRC"), investment banking and fund management business defined by relevant licenses issued by Securities & Futures Commission of Hong Kong. The Bank's principal regulator is the CBIRC. The Bank's overseas branches and subsidiaries are subject to the supervision by local regulators.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The condensed interim financial report is prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), issued by the International Accounting Standards Board.

The condensed interim financial report and its notes do not include all of the financial information and data required to be disclosed in an annual financial report. Accordingly, the condensed interim financial report shall be read together with the Group's annual financial report for the year ended 31 December 2018.

Significant accounting judgements and accounting estimates

The preparation of the condensed interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The major judgements made by the management in relation to the Group's policies and main sources of uncertainties are the same as those adopted in the financial statements for the year ended 31 December 2018.

Significant accounting policies

The accounting policies used in the preparation of the condensed interim financial report, other than the following changes in accounting policies, are consistent with those adopted in the preparation of the Group's financial report for the year ended 31 December 2018.

In 2019, the Group has initially adopted these new or revised International Financial Reporting Standards ("IFRSs") that are first effective in 2019. The initial adoption of these new or revised standards (other than IFRS 16, Leases) has no significant impact on the Group's financial position and financial performance. The Group hasn't adopted other IFRSs, interpretations and amendments having been issued but not yet effective.

IFRS 16, Leases

The International Financial Reporting Standards 16, Leases ("IFRS 16") has been initially adopted by the Group on 1 January 2019.

IFRS 16 introduces a single accounting model for lessees to recognise leases in their balance sheets. Accordingly, the Group (as a lessee) shall recognise a right-of-use ("ROU") asset for its right to use an underlying asset, and a lease liability for its obligation to pay lease payments. The accounting treatments for lessors are similar to those adopted before.

The Group has applied IFRS 16 using the modified retrospective approach, and recognised the cumulative effect of the initial adoption of IFRS 16 as an adjustment to the opening balance of retained earnings at 1 January 2019. Accordingly, comparative information of 2018 has not been restated and continues to be reported under International Accounting Standard 17, Leases ("IAS 17") and relevant interpretations. Further details of changes in the accounting policies are set out below:

(1) Definition of a lease

Before the initial adoption of IFRS 16, the Group determined whether an agreement was or contained a lease in accordance with IFRIC 4, determining whether an arrangement contains a lease at the commencement date of a contract. From 1 January 2019 on, the Group assessed its contracts in accordance with the lease definition specified in IFRS 16 to determine whether an agreement was or contained a lease. According to IFRS 16, a contract is or contains a lease if it transfers the right to control the use of an identified asset over a certain period for exchange of considerations.

(2) Significant accounting policies

The Group uses certain assets under leases, mainly including buildings and other office equipment.

The Group (as a lessee) used to classify leases into operating lease or financial lease base on whether almost all the risks and rewards incidental to ownership of the underlying asset have been transferred substantially. According to IFRS 16, the Group includes all significant leases into the scope of its balance sheet and recognises ROU assets and lease liabilities.

For leases of low value assets and short-term leases with terms no longer than 12 months, the Group elects to recognise no ROU assets nor lease liabilities. Their leases payments are recognised as expenses using the straight-line method over their lease terms.

The Group recognises ROU assets and lease liabilities at the commencement date of the lease.

ROU assets are initially measure at cost, and subsequently at cost less accumulated depreciation and impairment losses. The initial cost of an ROU asset includes the initial measurement amount of the lease liability, the amount of lease payments made at the commencement date of the lease or thereafter, initial direct expense incurred and restoration cost, etc.

Lease liabilities are measured at the present value of lease payments unpaid on the commencement date of the lease, discounted by using an incremental borrowing rate. Subsequently, lease liabilities will increase with interest expenses thereof and decrease with payment made for lease payments.

After the commencement date of the lease, the Group remeasures the lease liability based on the present value of the changed lease payments in the following circumstances:

- Movements arise in the expected amount of lease payments based on the guaranteed residual value.
- Movements arise in indexes or ratios used to determine the amount of lease payments.
- Movements arise in assessment of purchase options and options to extend or terminate the lease, or the actual exercise of the options to extend or terminate the lease is inconsistent with the original assessment.

On the commencement date of the lease, the Group assessed whether it is reasonably certain to exercise renewal options. Where significant but controllable events or movements occur, the Group will reassess whether it is reasonably certain to exercise renewal options. The assessment of whether the Group is reasonably certain to exercise renewal options has links with the determination of the lease term.

(3) Impact of transition to IFRS 16

According to the amount of cumulative effects at the initial adoption date of IFRS 16, the Group has adjusted the retained earnings at the initial adoption date, but left the comparable information unadjusted. As for operating leases prior to the initial adoption date, the Group determines the lease liabilities by discounting the balances of remaining lease payments to present values at the Group's incremental borrowing rates at the initial adoption date, and measures the ROU assets at the carrying amounts with the assumption that the new lease standard is adopted on the lease inception date (discounted using the Group's incremental borrowing rates at the initial adoption date).

The table below sets out the undiscounted lease payments and lease liabilities charged into the statement of financial position of the Group as at 1 January 2019. As at 1 January 2019, the Group's leases of low value assets and short-term leases for which the recognition exemption is applied was RMB 75 million in total. In calculation of lease liabilities, the amounts of lease payments were discounted by using the Group's incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rate used for determination of the present value of the remaining lease payments was 4.16%.

	The Group
Undiscounted lease payments under IFRS 16	8,134
Lease liabilities recognised at 1 January 2019	7,173

Impacts from changes in accounting policies on items in the statement of financial position at the initial adoption date are summarised as follows in accordance with the new lease standard:

	The Group		
	Carrying amount at 31 December 2018	Adjustment amount	Carrying amount at 1 January 2019
Other assets - Non-ROU assets	89,403	(605)	88,798
Other assets - ROU assets	-	7,200	7,200
Other liabilities-Non-lease liabilities	(59,761)	37	(59,724)
Other liabilities-Lease liabilities	-	(7,173)	(7,173)
Deferred tax assets	36,877	135	37,012
Retained earnings	(140,208)	393	(139,815)
Non-controlling interests	(6,818)	13	(6,805)

3 NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

3.1 Net interest income

	The Group	
	for the period from 1 January 2019 to 30 June 2019	for the period from 1 January 2018 to 30 June 2018
Interest income		
Loans and advances to customers		
- Corporate loans	44,032	42,032
- Retail loans	48,310	41,096
- Discounted bills	4,886	3,017
Financial investments		
- at amortiazed cost	24,420	31,952
- at fair value through other comprehensive income	7,511	4,839
Deposits and placements with banks and other financial institutions	5,517	4,047
Deposits with central bank	3,110	3,274
Finance lease receivables	1,191	986
Financial assets purchased under resale agreements	953	1,131
Others	167	249
Sub-total	140,097	132,623
Interest expense		
Deposits from customers	(36,183)	(27,902)
Deposits and placements from banks and other financial institutions	(18,928)	(32,538)
Debt securities issued	(15,129)	(15,103)
Borrowing from central bank	(3,255)	(3,105)
Financial assets sold under repurchase agreements	(2,273)	(1,944)
Others	(65)	(734)
Sub-total	(75,833)	(81,326)
Net interest income	64,264	51,297

3.2 Net fee and commission income

	The Group	
	for the period from 1 January 2019 to 30 June 2019	for the period from 1 January 2018 to 30 June 2018
Fee and commission income		
Fees from bank cards	14,627	10,697
Custodian and other fiduciary activities commissions	6,786	6,471
Fees from investment banking activities	1,811	1,602
Agency commissions	1,536	1,075
Credit commitment fees	1,184	1,321
Settlement and clearing fees	532	490
Others	1,039	1,007
Sub-total	27,515	22,663
Fee and commission expense	(4,825)	(2,803)
Net fee and commission income	22,690	19,860

3.3 Net trading income

	The Group	
	for the period from 1 January 2019 to 30 June 2019	for the period from 1 January 2018 to 30 June 2018
Trading assets at fair value through profit or loss	6,887	9,312
Exchange gains and losses	218	(324)
Hedged bonds	386	62
Precious metals and commodities	376	1,354
Derivative financial instruments	527	(1,684)
Total	8,394	8,720

3.4 Net gains arising from financial investments

	The Group	
	for the period from 1 January 2019 to 30 June 2019	for the period from 1 January 2018 to 30 June 2018
Financial investments at fair value through other comprehensive income	1,418	870
Financial investments at amortized cost	(209)	24
Dividend income	30	39
Total	1,239	933

3.5 Operating expenses

	The Group	
	for the period from 1 January 2019 to 30 June 2019	for the period from 1 January 2018 to 30 June 2018
Staff costs		
- Short-term employee benifits	10,587	9,100
- Post-employment benifits	1,148	1,116
- Other long-term employee benefits	1,415	1,320
Subtotal	13,150	11,536
Property and equipment depreciation	1,573	1,379
ROU assets depreciation	1,226	NA
Business tax and surcharges	923	930
Electronic equipment operating and maintenance expenses	377	364
Office expenses	200	171
Interest expenses for lease liabilities	142	NA
Others	4,902	6,597
Total	22,493	20,977

3.6 Impairment losses

	The Group	
	for the period from 1 January 2019 to 30 June 2019	for the period from 1 January 2018 to 30 June 2018
Loans and advances to customers at amortized cost	35,669	26,517
Financial investments at amortized cost	658	92
Finance lease receivables	275	38
Other receivables	259	262
Interest receivable	179	121
Deposits and placements with banks and other financial institutions	68	(116)
Financial investments at fair value through other comprehensive income	29	362
Financial assets purchased under resale agreements	(6)	(72)
Placements with banks and other financial institutions	(14)	5
Provisions	(78)	(241)
Loans and advances to customers at fair value through other comprehensive income	(108)	(35)
Repossessed assets	3	(4)
Total	36,934	26,929

3.7 Income tax expense

	The Group	
	for the period from 1 January 2019 to 30 June 2019	for the period from 1 January 2018 to 30 June 2018
Current income tax expense	6,281	1,871
Deferred income tax expense	(479)	3,390
Total	5,802	5,261

Reconciliations between the Group's income tax expenses calculated using the statutory tax rate and actual income tax expense are as follows:

	The Group	
	Period from 1 January 2019 to 30 June 2019	Period from 1 January 2018 to 30 June 2018
Profit before income tax	38,199	34,161
Tax calculated at statutory tax rate of the PRC	9,550	8,540
Tax effect from other various tax rates adopted by subsidiaries	(31)	(35)
Tax effect of non-deductible expenses	114	85
Tax effect of non-taxable income	(4,161)	(3,385)
Income tax adjustments in prior year	330	56
Income tax expense	5,802	5,261

3.8 Earnings per share

Basic earnings per share (EPS) is calculated by dividing consolidated net profit for the year attributable to the shareholders of the Bank by the weighted average number of share capital outstanding during the period. The conversion feature of preference shares is considered to fall within the category of contingently issuable share capital. As at 30 June 2019, the triggering events of share conversion did not occur. Therefore, the conversion feature of preference shares has no effect on the calculation of basic and diluted earnings per share in the current period.

	for the period from 1 January 2019 to 30 June 2019	for the period from 1 January 2018 to 30 June 2018
Profit for the period attributable to shareholders of the Bank	32,090	28,569
Less: Declared dividends attributable to preference shareholders of the Bank	(825)	(825)
Profit for the period attributable to the holders of the Bank's share capital	31,265	27,744
Weighted average number of outstanding share capital (million)	29,352	29,352
Basic and diluted EPS (RMB)	1.07	0.95

The Bank declared cash dividends of RMB 825 million for preference share in this year. For the purpose of calculating EPS, dividends on non-cumulative preference shares declared in respect of the period have been deducted from the profit attributable to ordinary shareholders of the Bank.

3.9 Cash and deposits with central bank

		The Group	
	Note	30 June 2019	31 December 2018
Cash		6,145	6,036
Statutory reserves with central bank	(1)	374,800	364,026
Surplus reserves with central bank	(2)	11,920	70,709
Fiscal deposits with central bank		1,969	2,733
Interest receivable		219	219
Total		395,053	443,723

(1) The Group is required to place statutory reserves with the PBOC and overseas central banks, including RMB and foreign currency deposit reserves and foreign exchange risk reserves for forward foreign exchange sales businesses, which are not allowed to be used in the Group's daily operations. The reserve rates for deposits denominated RMB and foreign currencies of domestic branches and sub-branches are in line with the PBOC's requirements, while the deposit requirements for overseas branches and sub-branches are regulated by local regulators.

(2) The surplus reserves refer to money deposited by the Group with the PBOC and overseas central banks for the purpose of funds liquidation.

3.10 Deposits and placements with banks and other financial institutions

	The Group	
	30 June 2019	31 December 2018
Deposits with domestic banks	58,191	47,965
Deposits with overseas banks	42,251	45,635
Deposits with domestic other financial institutions	668	399
Placements with domestic banks	13,874	14,006
Placements with overseas banks	23,415	17,231
Placements with domestic other financial institutions	108,536	87,548
Placements with overseas other financial institutions	19,288	22,292
Interest receivable	2,456	1,665
Less: impairment allowance	(260)	(206)
Total	268,419	236,535

3.11 Derivative financial instruments

	30 June 2019		
	Nominal amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Interest rate swap contracts	3,932,538	12,871	(14,376)
Currency swap contracts	2,703,097	13,079	(13,004)
Option contracts	917,363	3,112	(2,425)
Precious metal derivative financial instruments	255,682	9,646	(8,855)
Foreign exchange forward contracts	65,372	562	(333)
Commodities contracts	11,842	258	(184)
Derivative financial instruments held as hedging instruments:			
Interest rate swap	18,624	20	(401)
Cross-currency interest rate swap	607	4	(6)
Total		39,552	(39,584)

	31 December 2018		
	Nominal amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Currency swap contracts	3,745,734	23,836	(22,517)
Interest rate swap contracts	3,178,256	12,882	(14,673)
Option contracts	668,433	3,940	(3,105)
Precious metal derivative financial instruments	135,375	1,814	(1,414)
Foreign exchange forward contracts	92,855	587	(861)
Commodities contracts	2,825	62	(55)
Derivative financial instruments held as hedging instruments:			
Interest rate swap	20,777	146	(141)
Cross-currency interest rate swap	2,134	7	(27)
Total		43,274	(42,793)

The nominal amounts of the financial instruments at the date of balance sheet only provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates, market interest rates and price fluctuation of stocks or futures relative to their terms. The aggregate fair values of derivative financial assets and liabilities may fluctuate significantly from time to time.

3.12 Financial assets purchased under resale agreements

	The Group	
	30 June 2019	31 December 2018
Discounted bills	1,679	-
Bonds	-	11,575
Interest receivable	-	5
Less: impairment allowance	(1)	(7)
Total	1,678	11,573

3.13 Loans and advances to customers

	The Group	
	30 June 2019	31 December 2018
Loans and advances to customers		
- at amortized cost (a)	3,470,139	3,299,570
- at fair value through other comprehensive income (b)	244,112	249,153
- at fair value through profit or loss (c)	644	482
Subtotal	3,714,895	3,549,205
Interest receivable	12,818	11,705
Less: impairment allowance		
- Loans and advances to customers at amortized cost	(106,136)	(105,339)
- Interest receivable of loans and advances to customers at amortized cost	(101)	(82)
Subtotal	(106,237)	(105,421)
Net loans and advances to customers	3,621,476	3,455,489

	The Group	
	30 June 2019	31 December 2018
(a) Loans and advances to customers measured at amortized cost		
Corporates loans		
Commercial loans	1,837,910	1,778,999
Trade finance	30,243	36,875
Discounted bills	222	468
Retail loans		
Mortgage loans	666,395	588,988
Credit card and overdraft	439,645	433,470
Business loans	255,533	240,404
Consumer loans and others	240,191	220,366
Subtotal	3,470,139	3,299,570
(b) Loans and advances to customers measured at FVOCI		
Corporates loans		
Discounted bills	244,112	249,153
(c) Loans and advances to customers measured at FVPL		
Corporates loans		
Discounted bills	644	482
Total loans and advances to customers	3,714,895	3,549,205

3.13.1 Loans and advances to customers analysed by industry

	30 June 2019		31 December 2018	
	Amount	(%)	Amount	(%)
Corporate loans				
Manufacturing	328,592	8.85	305,290	8.60
Real estate	294,058	7.92	283,516	7.99
Lease and commercial service	269,405	7.25	265,795	7.49
Water, environment and public facilities management	159,805	4.30	165,400	4.66
Wholesale and retail	144,727	3.90	207,144	5.84
Construction	142,607	3.84	141,439	3.99
Transportation, warehouse and postal services	135,335	3.64	125,359	3.53
Financial services	103,452	2.78	56,467	1.59
Mining	77,034	2.07	77,164	2.17
Electricity, heat, gas, water production and supply	63,837	1.72	64,389	1.81
Information transmission, software and IT services	30,706	0.83	25,023	0.71
Agriculture, forestry, farming and fishery	30,162	0.81	27,205	0.77
Research and technology services	22,153	0.60	21,401	0.60
Culture, sports and entertainment	19,448	0.52	10,573	0.30
Healthcare and social welfare	14,133	0.38	11,837	0.33
Education	12,080	0.33	10,302	0.29
Others	20,619	0.55	17,570	0.50
Subtotal	1,868,153	50.29	1,815,874	51.17
Discounted bills	244,978	6.59	250,103	7.04
Retail loans	1,601,764	43.12	1,483,228	41.79
Total	3,714,895	100.00	3,549,205	100.00

3.13.2 Loans and advances to customers analysed by collateral type

	The Group	
	30 June 2019	31 December 2018
Unsecured loans	1,530,330	1,325,740
Guaranteed loans	714,370	739,258
Collateralized loans	1,266,480	1,284,367
Pledged loans	203,715	199,840
Total	3,714,895	3,549,205

3.13.3 Overdue loans and advances to customers

	30 June 2019				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Unsecured loans	14,692	14,734	3,478	425	33,329
Guaranteed loans	9,200	9,887	8,841	1,021	28,949
Collateralized loans	10,715	7,867	5,460	1,261	25,303
Pledged loans	980	1,036	495	72	2,583
Total	35,587	33,524	18,274	2,779	90,164

	31 December 2018				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Unsecured loans	9,693	9,591	1,610	177	21,071
Guaranteed loans	13,721	14,817	12,744	485	41,767
Collateralized loans	9,602	7,952	5,132	2,473	25,159
Pledged loans	833	1,853	777	47	3,510
Total	33,849	34,213	20,263	3,182	91,507

The Group classifies the totoal loans with principal or interest overdue 1 day above (including 1 day) as overdue loans and restates the comparative figures in accordance with this classification.

3.13.4 Movements of expected credit losses ("ECL") allowance

(a) Movements of ECL allowance of loans and advances to customers at amortized cost

	Note	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019		25,042	26,693	53,604	105,339
Transfers during the period:					
- Transfer to stage 1		1,873	(1,788)	(85)	-
- Transfer to stage 2		(826)	1,063	(237)	-
- Transfer to stage 3		(493)	(4,981)	5,474	-
Net increases during the period	(1)	321	3,078	32,270	35,669
Written-offs and disposals during the period		-	-	(35,900)	(35,900)
Recovery of loans and advances written off in previous period		-	-	1,750	1,750
Others		-	1	(723)	(722)
Balance at 30 June 2019		25,917	24,066	56,153	106,136

	Note	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018		31,168	35,384	38,930	105,482
Transfers during the year:					
- Transfer to stage 1		2,842	(2,720)	(122)	-
- Transfer to stage 2		(2,387)	2,540	(153)	-
- Transfer to stage 3		(550)	(7,642)	8,192	-
Net (decrease) / increase during the year	(1)	(6,172)	(871)	65,604	58,561
Written-offs and disposals during the year		-	-	(61,290)	(61,290)
Recovery of loans and advances written off in previous years		-	-	3,748	3,748
Others		141	2	(1,305)	(1,162)
Balance at 31 December 2018		25,042	26,693	53,604	105,339

(1) This item includes changes of PD, EAD, LGD due to routine updates to model parameters, and the impact of stage changes on the measurement of expected credit losses.

(2) Financial instruments whose credit risks haven't significantly increased since the initial recognition are classified into stage 1, then they will be transferred into stage 2 if their credit risks have significantly increased since the initial recognition with no objective evidence for impairment, and will be further transferred into stage 3 where there is objective impairment evidence on the balance sheet date.

(b) Movements of ECL allowance of loans and advances to customers at fair value through other comprehensive income

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019	199	4	-	203
Transfer during the period：				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Net decrease during the period	(104)	(4)	-	(108)
Balance at 30 June 2019	95	-	-	95

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018	409	1	-	410
Transfer during the year：				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Net (decrease) / increase for the year	(210)	3	-	(207)
Balance at 31 December 2018	199	4	-	203

3.14 Financial Investments

		The Group	
	Note	30 June 2019	31 December 2018
Financial investments at fair value through profit or loss	(a)	441,990	395,668
Financial investments at amortized cost	(b)	1,229,916	1,144,249
Financial investments at fair value through other comprehensive income	(c)	417,072	382,898
Financial instruments, net		2,088,978	1,922,815

(a) Financial investments at fair value through profit or loss

		The Group	
	Note	30 June 2019	31 December 2018
Fund investments		302,198	263,191
Trust and asset management plans	(1)	63,601	68,669
Corporate bonds		36,486	12,629
Bonds issued by financial institutions		11,023	5,610
Government bonds		7,471	7,859
Deposit certificates issued by other financial institutions		5,999	23,056
Bonds issued by policy banks		5,957	5,109
Equity investment		2,706	1,128
Assets backed securities ("ABS")		749	2,531
Wealth management products managed by other banks		-	208
Other investment	(2)	5,800	5,678
Total		441,990	395,668

(1) Trust and asset management plans are managed and operated by the third-party trust plan trustee or asset manager, and are ultimately invested in bonds, equity investments with third-party repurchase arrangement, etc.

(2) Other investments mainly include the long-term employee benefits payable to Changjiang Pension Insurance Co., Ltd. for investment entrusted by the Group.

(b) Financial investments at amortized cost

	Note	The Group 30 June 2019	31 December 2018
Government bonds		480,940	455,516
Trust and asset management plans	(1)	404,012	285,576
Bonds issued by policy banks		190,465	194,088
ABS		114,900	120,415
Corporate bonds		28,473	25,782
Bonds issued by financial institutions		2,641	45,167
Deposit certificates issued by other financial institutions		1,887	695
Other debt instrument		508	9,650
Subtotal		1,223,826	1,136,889
Interest receivable		14,285	14,863
Impairment allowance			
-Principal of debt investments		(8,166)	(7,488)
-Interest receivable of debt investments		(29)	(15)
Subtotal of impairment allowance		(8,195)	(7,503)
Financial investments-at amortized cost, net		1,229,916	1,144,249

(1) Trust and asset management plans are managed and operated by the third-party trust plan trustee or asset manager, and are ultimately invested in trust loans, bill assets and other financial assets.

(i) Movement for ECL allowance of the financial investments at amortized cost：

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019	2,909	238	4,341	7,488
Transfers for the period：				
- to stage 1	25	-	(25)	-
- to stage 2	(4)	4	-	-
- to stage 3	-	(81)	81	-
Net (decease) / increase for the period	(279)	(41)	978	658
Recovery of loans and advances written off in previous years	-	-	21	21
others	(1)	-	-	(1)
Balance at 30 June 2019	2,650	120	5,396	8,166

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018	2,868	418	3,724	7,010
Transfers for the year：				
- to stage 1	4	(4)	-	-
- to stage 2	(5)	5	-	-
- to stage 3	(7)	(40)	47	-
Net increase/(decrease) for the year	44	(141)	562	465
Others	5	-	8	13
Balance at 31 December 2018	2,909	238	4,341	7,488

(c) Financial investments at fair value through other comprehensive income

	Note	The Group 30 June 2019	The Group 31 December 2018
Government bonds		151,463	153,340
Bonds issued by policy banks		97,178	73,947
Corporate bonds		70,110	54,251
Bonds issued by financial institutions		60,172	57,177
Deposit certificates issued by other financial institutions		13,480	20,804
ABS		9,480	11,982
Equity investment		4,823	4,038
Trust and asset management plans	(1)	3,492	2,487
Subtotal		410,198	378,026
Interest receivable		6,874	4,872
Total		417,072	382,898

(1) Trust and asset management plans are managed and operated by the third-party trust plan trustee or asset manager, are ultimately invested in trust financial products, bill assets and bonds, etc.

(i) Movements of ECL allowance of financial investments at fair value through other comprehensive income：

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019	530	16	169	715
Transfer for the period：				
- to stage 1	-	-	-	-
- to stage 2	(48)	48	-	-
- to stage 3	-	-	-	-
Net (decrease)/increase for the period	(114)	43	100	29
Others	15	-	-	15
Balance at 30 June 2019	383	107	269	759

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018	200	-	225	425
Transfer for the year：				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Net increase fot the year	334	16	50	400
Write-offs	-	-	(110)	(110)
Others	(4)	-	4	-
Balance at 31 December 2018	530	16	169	715

15 Investments in associate and joint ventures

	The Group	
	30 June 2019	31 December 2018
Investments in joint ventures	1,767	1,757
Investments in associate	198	211
Total	1,965	1,968

Movement for the period：

	1 January 2019	Deduction	Net income adjusted by equity method	Declared cash dividend	30 June 2019
AXA SPDB Investment Managers Co., ltd.	1,247	-	85	(77)	1,255
SPD Silicon Valley Bank Co., Ltd.	510	-	2	-	512
Others	211	(16)	3	-	198
Total	1,968	(16)	90	(77)	1,965

There is no restriction for the Group to transfer long-term investment. For further information of investments in joint ventures and in associate, please refer to Note 3.36.

3.16 Property and equipment

	Land and buildings	Motor vehicles	Electronic computers and other equipments	Plane and ship equipments	Software	Leasehold improvement	Total
Cost							
1 January 2018	12,657	464	7,701	10,295	1,941	6,141	39,199
Additions	366	31	844	2,300	1,013	271	4,825
Disposals	(7)	(34)	(577)	-	-	(10)	(628)
31 December 2018	13,016	461	7,968	12,595	2,954	6,402	43,396
Additions	33	20	358	1,921	384	66	2,782
Transferred from construction in progress	13	-	-	-	-	-	13
Disposals	(1)	(21)	(113)	-	(2)	(7)	(144)
30 June 2019	13,061	460	8,213	14,516	3,336	6,461	46,047
Accumulated depreciation							
1 January 2018	(3,793)	(355)	(5,596)	(907)	(1,638)	(5,033)	(17,322)
Charge	(424)	(36)	(896)	(608)	(450)	(517)	(2,931)
Disposals	3	31	534	-	-	7	575
31 December 2018	(4,214)	(360)	(5,958)	(1,515)	(2,088)	(5,543)	(19,678)
Charge	(252)	(25)	(511)	(305)	(296)	(184)	(1,573)
Disposals	1	18	110	-	2	5	136
30 June 2019	(4,465)	(367)	(6,359)	(1,820)	(2,382)	(5,722)	(21,115)
Net book value							
30 June 2019	8,596	93	1,854	12,696	954	739	24,932
31 December 2018	8,802	101	2,010	11,080	866	859	23,718

The land and buildings with original cost of RMB 956 million and net book value of RMB 813 million are already used, whose certificates of property rights are still under registration process as at 30 June 2019.

3.17 Intangible assets

	Goodwill	Contractual customer relationships	Brand and franchise right	Total
Cost				
1 January 2018	6,981	688	2,236	9,905
Additions	-	-	-	-
31 December 2018	6,981	688	2,236	9,905
Additions	-	-	-	-
30 June 2019	6,981	688	2,236	9,905
Accumulated Amortization				
1 January 2018	-	(559)	-	(559)
Charge	-	(89)	-	(89)
31 December 2018	-	(648)	-	(648)
Charge	-	(10)	-	(10)
30 June 2019	-	(658)	-	(658)
Net book value				
30 June 2019	6,981	30	2,236	9,247
31 December 2018	6,981	40	2,236	9,257

The goodwill is recognized on March 2016 as a result of the Bank's issuance of share capital to acquire 97.33% equity of Shanghai International Trust Co., Ltd. as follows:

	Note	30 June 2019	31 December 2018
Goodwill			
- Shanghai International Trust Co., Ltd.		6,981	6,981
Less: impairment allowances	(1)	-	-
		6,981	6,981

(1) Impairment allowances

The goodwill allocated to the CGU or CGUs according to operating segments are summarised as follows:

	30 June 2019	31 December 2018
Shanghai International Trust Co., Ltd.	4,739	4,739
Subsidiaries of Shanghai International Trust Co., Ltd.	2,242	2,242
	6,981	6,981

In the case of a goodwill impairment test, the Group compares the book value of CGU or CGUs (including goodwill) with its recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss. The Group's goodwill allocation has not changed during the period from 1 January 2019 to 30 June 2019.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved five -year financial forecasts. The cash flows beyond the five-year period are forecasted based on the following estimated growth rates.

The key assumptions applied in calculating discounted future cash flows are as follows:

	Shanghai International Trust Co., Ltd.		Subsidiaries of Shanghai International Trust Co. Ltd.	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Forecast period growth rate	8.14%	8.14%	The management determines the revenue growth rate for the five-year detailed forecast period based on historical experience and market development forecasts	
Stable period growth rate	3.00%	3.00%	3.00%	3.00%
Discount rate, before tax	16.76%	16.76%	14.36% - 17.70%	14.36% - 17.70%

The Group determines the growth rate based on historical experience and market development forecasts, and uses a pre-tax rate that reflects the specific risk relating to the relevant CGU and CGUs as the discount rate. The stable period growth rate is the weighted average growth rate used for subsequent cash flows after the five-year forecast period.

3.18 Deferred income tax

3.18.1 The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts:

	The Group	
	30 June 2019	31 December 2018
Deferred income tax assets	37,437	36,877
Deferred income tax liabilities	(639)	(643)

3.18.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	30 June 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Impairment allowances for financial assets at amortized cost	143,491	35,873	148,296	37,074
Employee benefits payable	7,007	1,752	684	171
Provisions	4,669	1,167	4,747	1,187
Lease fee	560	140	NA	NA
Fair value changes of financial investments at fair value through other comprehensive income	257	64	394	98
Fair value changes of precious metals and commodities	181	45	357	89
Fair value changes of derivative financial instruments	30	8	-	-
Fair value changes of hedged debt investments	-	-	64	16
Subtotal	156,195	39,049	154,542	38,635
Offset amounts		(1,612)		(1,758)
Deferred income tax assets after offsetting		37,437		36,877

	30 June 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ liabilities)
Fair value changes of financial investments at fair value through other comprehensive income	(4,718)	(1,179)	(4,545)	(1,136)
Differences between fair value and carrying amount of identifiable net assets arising from business combinations of entities not under common control	(2,552)	(638)	(2,568)	(642)
Fair value changes of other equity investments	(849)	(212)	(579)	(145)
Fair value changes of trading assets and trading liabilities	(660)	(165)	(1,233)	(308)
fair value changes of hedged debt investments	(207)	(52)	-	-
Fair value changes of loans at fair value through other comprehensive income	(15)	(4)	(169)	(42)
Fair value changes of derivative financial instruments	-	-	(481)	(120)
Others	(4)	(1)	(33)	(8)
Subtotal	(9,005)	(2,251)	(9,608)	(2,401)
Offset amounts		1,612		1,758
Deferred tax liabilities after offsetting		(639)		(643)

3.18.3 The movement of the deferred income tax account is as follows:

		The Group	
	Note	for the period from 1 January 2019 to 30 June 2019	for the period from 1 January 2018 to 30 June 2018
Balance at beginning of the period		36,234	28,342
Impact of initial adoption of IFRS 16		135	-
Impact of initial adoption of IFRS 9		-	5,213
Restated beginning balance of the period		36,369	33,555
Charged to profit or loss	3.7	479	(3,390)
Charged to other comprehensive income	3.32	(50)	(899)
Balance at end of the period		36,798	29,266

3.19 Other assets

	The Group	
	30 June 2019	31 December 2018
Suspense accounts	64,770	13,543
Finance lease receivables (Note 1)	49,729	48,232
Margin deposits	11,079	9,754
ROU assets (Note 2)	7,547	NA
Land-use rights	6,431	6,523
Payments to Trust Protection Fund on behalf of investors	3,413	2,745
Other receivables (Note 3)	2,921	4,932
Prepayment for land-use rights and constructions	1,763	1,758
Repossessed assets	614	605
Interest receivable	444	705
Other long-term assets	551	606
Total	149,262	89,403

Note 1：Finance lease receivables

	The Group	
	30 June 2019	31 December 2018
Minimum lease receivables	17,428	17,424
Within 1 year (including 1 year)	15,098	12,642
1 to 2 years (including 2 years)	10,043	9,485
Over 3 years	14,130	15,562
Gross amount of finance lease receivables	56,699	55,113
Interest receivable	479	502
Less : unearned finance income	(6,251)	(6,460)
Net finance lease investment	50,927	49,155
Less : Impairment allowance	(1,198)	(923)
Net finance lease receivables	49,729	48,232

Note 2：ROU assets

	Leased houses and buildings	Other Leased equipments	Total
Cost			
1 January 2019	14,139	675	14,814
Addition	1,580	11	1,591
Deduction	(531)	(37)	(568)
30 June 2019	15,188	649	15,837
Depreciation			
1 January 2019	(7,299)	(315)	(7,614)
Charge	(1,151)	(75)	(1,226)
Deduction	517	33	550
30 June 2019	(7,933)	(357)	(8,290)
Net book value			
30 June 2019	7,255	292	7,547
1 January 2019	6,840	360	7,200

Note 3：Other receivables

	The Group	
	30 June 2019	31 December 2018
Analysis by aging		
Within 1 year	4,210	6,155
1 to 2 years	304	315
2 to 3 years	79	61
Over 3 years	1,093	1,052
Subtotal	5,686	7,583
Less: Impairment allowance	(2,765)	(2,651)
Net other receivables	2,921	4,932

3.20 Deposits and placements from banks and other financial institutions

	The Group	
	30 June 2019	31 December 2018
Deposits from domestic banks	193,823	231,926
Deposits from overseas banks	16,182	30,180
Deposits from other domestic financial institutions	592,282	783,406
Deposits from other overseas financial institutions	11,316	18,047
Placements from domestic banks	184,370	96,104
Placements from overseas banks	40,653	48,515
Placements from other domestic financial institutions	2,800	3,470
Interest payable	3,264	4,743
Total	1,044,690	1,216,391

3.21 Financial liabilities at fair value through profit or loss

	30 June 2019	31 December 2018
Financial liabilities related to precious metals and commodities	35,179	24,504
Interest of other unit holders in consolidated structured entities (Note 1)	4,470	10,408
Total	39,649	34,912

Note 1: The Group designated interests attributable to other unit holders in consolidated structured entities as financial liabilities at fair value through profit or loss. As at 30 June 2019 and 31 December 2018, no significant fair value changes have occurred due to changes in the Group's own credit risk.

3.22 Financial assets sold under repurchase agreements

	The Group	
	30 June 2019	31 December 2018
Bills	72,640	34,067
Bonds	55,281	85,383
Interest payable	105	114
Total	128,026	119,564

3.23 Deposits from customers

	The Group	
	30 June 2019	31 December 2018
Current deposits		
- corporate	1,383,499	1,244,437
- retail	251,875	219,601
Time deposits		
- corporate	1,443,261	1,330,802
- retail	583,933	428,273
Other deposits	2,907	3,905
Interest payable	32,053	26,297
Total	3,697,528	3,253,315

3.24 Debt securities issued

		The Group	
	Note	30 June 2019	31 December 2018
Interbank deposit certificates and deposit certificates issued	(1)	637,751	614,564
Bonds issued			
Subordinated bond issued in 2011	(2)	18,400	18,400
Subordinated bond issued in 2012	(3)	12,000	12,000
Tier II capital bond issued in 2015	(4)	30,000	30,000
Green Financial Bond 01		-	20,000
Green Financial Bond 02	(5)	15,000	15,000
Green Financial Bond 03	(6)	15,000	15,000
2017 First Financial Bond	(7)	15,000	15,000
2017 Second Financial Bond	(8)	22,000	22,000
2017 Third Financial Bond	(9)	13,000	13,000
2018 Tier II First Financial Bond	(10)	20,000	20,000
2018 Tier II Second Financial Bond	(11)	20,000	20,000
2019 First Special Financial Bond for Small and Micro Enterprise Loans	(12)	50,000	-
Hong Kong USD medium-term note	(13)	12,020	12,015
Singapore USD medium-term note	(14)	2,060	2,060
2017 SPDB Financial Leasing Financial Bond	(15)	3,000	3,000
2018 SPDB Financial Leasing Financial Bond	(16)	5,000	5,000
Sub-total		252,480	222,475
Less: Unamortized issue cost		(102)	(104)
Debt securities issued		252,378	222,371
Puxin 2017 First Leasing ABS		170	419
Interest accrued		6,221	4,086
Total		896,520	841,440

(1) The Group issued a total of 233 interbank deposit certificates in the domestic inter-bank market on 30 June 2019 which have not yet expired, with the longest term to maturity being 3 years and interest rates falling within a range from 2.50% to 4.64% (The Group issued a total of 225 interbank deposit certificates in the domestic inter-bank market on 31 December 2018 which have not yet expired, with the longest term to maturity being 3 years and interest rates falling within a range from 2.80% to 4.94%).
The deposit certificates of the Group were all publicly issued by overseas institutions of the Group. As at 30 June 2019, the number of deposit certificates

publicly issued but not yet expired were 43 in total, with the longest term to maturity being 374 days and interest rates falling within a range from 0% to 4.00% (as at 31 December 2018, the number of deposit certificates publicly issued but not yet expired were 58 in total, with the longest term to maturity being 1,826 days and interest rates falling within a range from 0% to 4.40%).

(2) The Bank issued subordinated bond in the amount of RMB 18.4 billion in the domestic inter-bank market on 11 October 2011 which have a term of 15 years through maturity, with a fixed annual coupon rate of 6.15%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

(3) The Bank issued subordinated bond in the amount of RMB 12.0 billion in the domestic inter-bank market on 27 December 2012 which have a term of 15 years through maturity, with a fixed annual coupon rate of 5.20%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

(4) The Bank issued Tier II capital instruments in the amount of RMB 30 billion in the domestic inter-bank market on 7 September 2015 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.50%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain circumstances.

(5) The Bank issued “2016 Second Green Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 25 March 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.20%.

(6) The Bank issued “2016 Third Green Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 14 July 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.40%.

(7) The Bank issued “2017 First Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 22 February 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.00%.

(8) The Bank issued “2017 Second Financial Bond” in the amount of RMB 22 billion in the domestic inter-bank market on 26 April 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

(9) The Bank issued “2017 Third Financial Bond” in the amount of RMB 13 billion in the domestic inter-bank market on 10 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

(10) The Bank issued Tier II capital instruments in the amount of RMB 20 billion in the domestic inter-bank market on 5 September 2018 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.96%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain conditions.

(11) The Bank issued Tier II capital instruments in the amount of RMB 20 billion in the domestic inter-bank market on 14 September 2018 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.96%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain conditions.

(12) The Bank issued "2019 First Special Financial Bond for Small and Micro Enterprise Loans" in the amount of RMB 50 billion in the domestic inter-bank market on 25 March 2019 which have a term of 3 years, with a fixed annual coupon rate of 3.50%.

(13) The Bank issued USD 500 million Medium-term note in Hong Kong Exchange and Clearing Limited on 13 February 2017 which have a term of 3 years through maturity, with a fixed annual coupon rate of 2.375%. The Bank issued USD 400 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July, 2017 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+85BPS. The Bank issued USD 350 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July, 2017 which has a term of 5 years through maturity, with a flexible annual coupon rate of 3ML+95BPS. The Bank issued USD 500 million medium-term note in Hong Kong Exchange and Clearing Limited on 24 September 2018 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+84BPS.

(14) The Bank issued USD 300 million medium-term note in Singapore Exchange Limited on 26 November 2018 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+87BPS.

(15) SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued "2017 Financial Bond" in the amount of RMB 3 billion in the domestic inter-bank market on 24 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.96%.

(16) SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued "2018 Financial Bond" in the amount of RMB 5 billion in the domestic inter-bank market on 19 July 2018 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.49%.

3.25 Provisions

	The Group	
	30 June 2019	31 December 2018
Impairment allowance for financial guarantees and loan commitments	4,669	4,747

3.26 Other liabilities

	The Group	
	30 June 2019	31 December 2018
Suspense accounts	63,965	28,527
Employee benefits payable	11,768	10,487
Lease liabilities (note 1)	7,691	N/A
Advances from and deposits under lease agreements	4,408	4,262
VAT and other taxes payable	4,144	4,938
Accrued expenses	3,350	3,240
Contract liabilities	2,726	2,782
Due to Trust Protection Fund	1,958	970
Others	6,314	4,555
Total	106,324	59,761

Note 1: Lease liabilities by maturity date (undiscounted)

	30 June 2019	
	Undiscounted amount	Carrying amount
Within 1 year	2,532	2,468
1 to 2 years	1,855	1,734
2 to 3 years	1,401	1,259
3 to 5 years	1,598	1,347
Over 5 years	1,222	883
Total	8,608	7,691

3.27 Share capital

	30 June 2019	31 December 2018
Domestic listed RMB share capital (A shares)	29,352	29,352

A shares issued by the Bank are all share capital, with par value of RMB 1 Yuan per share. All shares rank pari passu in all respects with each other.

3.28 Preference shares

(1) Information of other equity instruments outstanding

Name of other equity instruments outstanding	Dividend rate	Issuance price (Yuan)	Number	Opening amount	Movements during the period	Closing amount	Maturity date or renewals	Conversion (Yes/No)
Pufayou 1	6% for the first five years	100	150 million	15,000	-	15,000	No maturity date	No
Pufayou 2	5.5% for the first five years	100	150 million	15,000	-	15,000	No maturity date	No
Less: Issue expenses				(80)	-	(80)		
Carrying amount				29,920	-	29,920		

On 28 November 2014 and 6 March 2015, the Bank issued non-cumulative preference shares with a total par value of RMB 30,000 million. The proceeds after deducting transaction costs amounted to RMB 29,920 million and were recorded as other equity instruments. The Bank has the option to redeem part or all outstanding preference shares on any dividend payment date after five years from the issuance if certain conditions are met, under the approval obtained from the CBIRC. Holders of the preference shares have no right to require the Bank to redeem the outstanding preference shares. Dividends of the preference shares are payable in cash on annual basis at a fixed dividend rate which is adjusted every five years. The Bank at its discretion has the right not to declare and distribute the dividends of the preference shares in part or full.

Upon occurrence of any of the following triggering events and subject to the approval from the CBIRC, the Bank's outstanding preference shares shall be mandatorily converted in part or full to the Bank's ordinary shares:

1 When the core tier 1 capital adequacy ratio of the Bank decreases to 5.125% or below, upon the approval from the Board of Directors, the outstanding preference share shall be converted into the Bank's ordinary shares in part or full at a pre-determined mandatory conversion price so as to bring the Bank's core tier 1 capital adequacy ratio back to above 5.125%;

2 When any triggering event of the Bank's tier 2 capital instruments occurs, the outstanding preference shares shall be converted to the Bank's ordinary A shares at the pre-determined mandatory conversion price.

Under the approval from regulatory authority, the outstanding preference shares will be fully or partially converted to ordinary A shares at the price of RMB 10.96 per share when meeting the mandatory conversion triggering conditions. If the Bank subsequently appropriates bonus shares, transfers retained earnings to ordinary shares, issues new ordinary shares (excluding any increase of ordinary shares due to conversion of convertible financial instruments issued by the Bank, such as preference shares and convertible bonds, etc.) or issue rights, the conversion price shall be adjusted subject to the terms and formula provided by the offering documents to adjust for the dilutive effects of these specified increases in ordinary shares.

Pursuant to the relevant laws and regulations, and the Approval from CBIRC on the Bank's Non-Public Offering of Preference Shares and Corresponding Revisions to the Article of Association (YJF[2014]No.564), the proceeds from the issuance of preference shares shall be used to supplement the other tier 1 capital of the Bank.

Upon liquidation, the holders of the Bank's preference shares are entitled to the repayment at the par value of the outstanding preference shares prior to any distribution to the holders of the Bank's ordinary shares. If the remaining assets of the Bank are not sufficient to cover the par value, they are allocated to the holders of preference shares on proportionate basis.

(2) Equity attributable to the holders of other equity instruments

	The Group	
	30 June 2019	31 December 2018
Equity attributable to the shareholders of the Bank		
Equity attributable to the ordinary shareholders of the Bank	462,436	441,642
Equity attributable to the other equity shareholders of the Bank	29,920	29,920
Non-controlling interests	6,894	6,818

3.29 Capital reserves

	The Group	
	30 June 2019	31 December 2018
Share premium	81,689	81,689
Other capital reserves		
-Capital increase of subsidiaries	50	50
-Others	21	21
Total	81,760	81,760

3.30 Surplus reserves

	1 January 2019	Addition	30 June 2019
Statutory reserve	22,206	-	22,206
Discretionary reserve	87,511	16,088	103,599
Total	109,717	16,088	125,805

	1 January 2018	Addition	31 December 2018
Statutory reserve	22,206	-	22,206
Discretionary reserve	71,992	15,519	87,511
Total	94,198	15,519	109,717

Pursuant to related PRC regulations, the Bank is required to appropriate 10% of its annual net profit to a non-distributable statutory reserve until such reserve has reached 50% of ordinary shares. After the appropriation of statutory reserve, the Bank may further appropriate discretionary reserve.

3.31 General risk reserve

	1 January 2019	Addition	30 June 2019
General risk reserve	75,946	179	76,125

	1 January 2018	Addition	31 December 2018
General risk reserve	75,702	244	75,946

Pursuant to Caijin [2012] No. 20 “Administration Rules on Appropriation to General Risk Reserve for Financial Institutions” issued by the Ministry of Finance (“MOF”), the Bank is required to make appropriation to a general risk reserve.

General risk reserve of the Group also includes appropriation of the Bank’s subsidiaries required by industry or district regulations.

3.32 Other reserves

		for the period from 1 January 2019 to 30 June 2019					
	Opening balance of other comprehensive income attributable to the Bank's Shareholders	Transfer in before tax	Less：transfer out	Less：income tax	Attributable to the Bank after tax	Attributable to minority shareholders after tax	Ending balance of other comprehensive income attributable to the Bank's Shareholders
Items that may be reclassified to profit or loss							
Financial investments at fair value through other comprehensive income							
- Fair value changes	3,240	1,558	(1,418)	(3)	137	-	3,377
- Impairment allowance	689	(20)	-	21	-	1	689
Exchange differences from the translation of foreign operations	296	(144)	-	-	(144)	-	152
Cash flow hedge reserve	-	(2)	-	-	(1)	(1)	(1)
Item that will not be reclassified to profit or loss							
Changes in fair value of other equity instruments	434	271	-	(68)	203	-	637
	4,659	1,663	(1,418)	(50)	195	-	4,854

				for the period from 1 January 2018 to 30 June 2018					
	Pevious balance of other comprehensive income attributable to the Bank's Shareholders	Changes of accounting policies	Opening balance of other comprehensive income attributable to the Bank's Shareholders	Transfer in before tax	Less: transfer to profit or loss from the previous year	Less： income tax	Attributable to the Bank after tax	Attributable to minority shareholders after tax	Ending balance of other comprehensive income attributable to the Bank's Shareholders
Items that may be reclassified to profit or loss									
Financial investments at fair value through other comprehensive income									
- Fair value changes	NA	(3,084)	(3,084)	3,560	(280)	(820)	2,460	-	(624)
- Impairment allowance	NA	626	626	631	(304)	(82)	244	1	870
Changes in fair value of available-for-sale financial assets	(5,370)	5,370	NA	NA	NA	NA	NA	NA	NA
Exchange differences from the translation of foreign operations	35	-	35	24	-	-	23	1	58
Item that will not be reclassified to profit or loss									
Changes in fair value of other equity instruments	NA	103	103	(13)	-	3	(10)	-	93
	(5,335)	3,015	(2,320)	4,202	(584)	(899)	2,717	2	397

				2018					
	Pevious balance of other comprehensive income attributable to the Bank's Shareholders	Changes of accounting policies	Opening balance of other comprehensive income attributable to the Bank's Shareholders	Transfer in before tax	Less: transfer to profit or loss from the previous year	Less：income tax	Attributable to the Bank after tax	Attributable to minority shareholders after tax	Ending balance of other comprehensive income attributable to the Bank's Shareholders
Items that may be reclassified to profit or loss									
Financial investments at fair value through other comprehensive income									
- Fair value changes	NA	(3,084)	(3,084)	8,793	(361)	(2,108)	6,324	-	3,240
- Impairment allowance	NA	626	626	193	(110)	(21)	63	(1)	689
Changes in fair value of available-for-sale financial assets	(5,370)	5,370	NA	NA	NA	NA	NA	NA	NA
Exchange differences from the translation of foreign operations	35	-	35	266	-	-	261	5	296
Item that will not be reclassified to profit or loss									
Changes in fair value of other equity instruments	NA	103	103	441	-	(110)	331	-	434
	(5,335)	3,015	(2,320)	9,693	(471)	(2,239)	6,979	4	4,659

3.33 Profit appropriations

(1) Profit distribution for the year ended 31 December 2018

Pursuant to the approval at the Shareholders' meeting on 24 April 2019, the Bank's profit distribution plan for the year ended 31 December 2018 is as follows:

(i) The Bank appropriated for discretionary surplus reserve at 30% of the profit after tax, amounting to RMB 16,088 million;

(ii) The Bank declared and distributed cash dividends of RMB 3.50 Yuan (tax included) for every 10 shares to all shareholders based on the total share capital of 29,352,080,397 ordinary shares at the end of 2018, amounting to RMB 10, 273 million.

(2) Profit distribution for the year ended 31 December 2017

Pursuant to the approval at the Shareholders' meeting on 28 May 2018, the Bank's profit distribution plan for the year ended 31 December 2017 is as follows:

(i) The Bank appropriates for discretionary surplus reserve at 30% of the profit after tax, amounting to RMB 15,519 million;

(ii) The Bank declared and distributed cash dividends of RMB 1 Yuan (tax included) for every 10 shares to all shareholders based on the total share capital of 29,352,080,397 ordinary shares at the end of 2017, amounting to RMB 2,935 million;

(3) Dividend distribution for preference shares

On 1 February 2019, the dividend distribution plan for Pufayou 2 was approved by the Board of Directors of the Bank. The Bank distributed dividends of RMB 825 million in total (tax included) on 11 March 2019, which were calculated according to the coupon rate of Pufayou 2 (5.5%).

On 19 November 2018, the dividend distribution plan for Pufayou 1 was approved by the Board of Directors of the Bank. The Bank distributed dividends of RMB 900 million in total (tax included) on 3 December 2018, which were calculated according to the coupon rate of Pufayou 1 (6.0%).

On 2 March 2018, the dividend distribution plan for Pufayou 2 was approved by the Board of Directors of the Bank. The Bank distributed dividends of RMB 825 million in total (tax included) on 12 March 2018, which were calculated according to the coupon rate of Pufayou 2 (5.5%).

3.34 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Assets backed securitization transaction

For the period ended 30 June 2019, the Group transferred financial assets amounted to RMB 8,259 million through assets backed securitization transactions, and all have met the requirement of derecognition (For the period ended 30 June 2018, the Group transferred financial assets amounted to RMB 3,274 million through assets backed securitization transactions, all have met the requirement of derecognition).

Transfer of loans assets

For the period ended 30 June 2019, the Group directly transferred and derecognized a total amount of RMB 13,466 million loan assets to third parties, which were all non-performing loans to asset management companies and have met the requirement of derecognition (For the period ended 30 June 2018, the Group directly transferred a total amount of RMB 46,885 million loan assets to third parties. Among them, a total amount of RMB 22,049 million loan assets were transferred to structured entities and a total amount of RMB 24,836 million were non-performing loans to asset management companies. All of the transferred assets have met the requirement of derecognition).

Securities lending transaction

In the securities lending transaction, the counterparty may sell or re-use the above securities in the condition that no default exists, but at the same time bear the obligation to return the above securities on the expiration date specified in the agreement. For the above business, the Group believes that the Group retains most of the risks and rewards of the relevant securities and therefore does not derecognize the relevant securities. As at 30 June 2019, the carrying amount of the assets transferred by the Group in securities lending transactions was RMB 35,600 million (31 December 2018: RMB 44,240 million).

3.35 Structured entities

(1) Structured entities out of consolidation scope

1.1 Unconsolidated structured entities managed by the Group

Unconsolidated structured entities managed by the Group mainly include wealth management products established and managed by the Group as an agent, special purpose trusts established for assets securitization, trust plans, assets management plans and securities investments funds, etc..

i) Wealth management products

These wealth management products are designed and issued to specific customers based on analysis of potential target customers, and the proceeds from these products are invested in certain financial market or investments products in accordance with guidelines determined in the contracts. The returns on investments are distributed to investors pursuant to contract terms. As the asset manager, the Group is entitled to sales commission, management fee. The Group has concluded that its variable return related to these structured entities is not material.

As at 30 June 2019, the total assets invested by non-principle guaranteed wealth management products ("WMPs") amounted to RMB 1,365,063 million (31 December 2018: RMB 1,375,683 million). During the period ended 30 June 2019, the Group's interest in these WMPs mainly included net fee and commission income of RMB 3,692 million (For the period ended 30 June 2018: RMB 3,323 million), and net interest income of RMB 1 million, which related to placements and repo transactions entered into by the Group with these WMP vehicles (For the period ended 30 June 2018: RMB 164 million).

The Group enters into placements and repo transactions at market interest rates with these WMPs, which represented the Group's maximum exposure to the WMPs. The average balance during the period ended 30 June 2019 and the outstanding balance as at 30 June 2019 of these transactions were RMB 63 million (For the period ended 30 June 2018: RMB 6,892 million) and Nil (31 December 2018: RMB 4,000 million, all presented in financial assets purchased under resale agreements), respectively. The Group was under no obligation to enter into these transactions.

ii) Special purpose trusts established for assets securitization and transfers of credit assets

In the Group's asset securitization business, part of the Group's credit assets and investments of assets management plans are entrusted to trust companies for the establishment of special purpose trusts to issue asset-backed securities ("ABSs") based on the cash flows from credit assets. The Group acts as an agent for loan service institutions in the management, deployment and disposal of partial credit assets, and is entitled to the commission fee. In some cases, the Group may holds certain portion of the ABSs issued and credit assets transferred. The Group concluded that its variable returns from these Special purpose trusts are not material. As at 30 June 2019, the Group's maximum risk exposure in these unconsolidated special purpose trusts amounted to RMB 43,320 million (31 December 2018: RMB 10,586 million), being the aggregated carrying amount of all tiers of ABSs issued by these special purpose trusts and hold by the Group. The Group's loan service agency commission fee income is not material.

As at 30 June 2019, total assets of these unconsolidated special purpose trusts amounted to RMB 55,042 million (31 December 2018: RMB 27,009 million). During the period ended 30 June 2019, the Group has not provided any financing support to these unconsolidated special purpose trusts (2018: Nil).

iii) Trust plans managed by the Group

In accordance with the 'Trust Law of the People's Republic of China', "Trust property should be separated from properties owned by trustee ("inherent property"), and cannot be included or become part of the inherent property". Inherent property and trust property are managed and accounted for separately by the Group. Trust plans managed by the Group refer to a basic unit of trust property under the Group's separately or collectively management, utilization and disposal as per agreement. Each trust plan is an independent accounting subject which is accounted for independently as regards to the trust property's management, utilization and disposal.

As at 30 June 2019, total assets of these unconsolidated trust plans amounted to RMB 728,141 million (31 December 2018: RMB 751,250 million). During the period ended 30 June 2019, the Bank did not provide financing support to these unconsolidated trust plans (2018: Nil).

iv) Assets management plans managed by the Group

Entrusted assets management refers to business that the Group, as the manager, signed entrusted assets management contracts with clients and invests and manages the assets as various financial portfolios in financial market to maximize profit. The Group provides professional services and charges management fee, trustee fee, etc. The clients bear risks and gain profits per contracts.

As at 30 June 2019, total assets of these unconsolidated asset management plans amounted to RMB 80 million (31 December 2018: RMB 423 million). During the period ended 30 June 2019, the Group did not provide financing support to these unconsolidated asset management plans (2018: Nil).

v) Securities investment funds

In accordance with the ‘Securities Investment Fund Law of the People’s Republic of China’, “Fund assets shall be independent from a fund management institution's or a fund custodian's own assets. The fund management institution or fund custodian shall not incorporate any fund assets into its own assets”. The Group charges management fee by managing the fund property for investors. Investors take the relative risks and profits according to the contractual agreements.

As at 30 June 2019, total assets of these unconsolidated securities investment funds amounted to RMB 377,046 million (31 December 2018: RMB 379,178 million). During the period ended 30 June 2019, the Group did not provide financing support to these securities investment funds (2018: Nil).

1.2 Unconsolidated structured entities invested by the Group

As at 30 June 2019, unconsolidated structured entities that are invested by the Group amounted to RMB 890,016 million (31 December 2018: RMB 745,127million), mainly included wealth management products, ABSs, trust plans and assets management plans, etc.

The carrying amount of assets of these unconsolidated structured entities and the Group’s maximum risk exposure on loss are listed as follows:

30 June 2019	*Carrying amount*	*Maximum risk exposure on loss*	*Total volume of structured entities*
Financial investments at fair value through profit or loss			
Fund investments	302,198	302,198	Note 1
Trust and assets management plans	63,601	63,601	199,047
Assets backed securities	749	749	Note 1
Others	5,800	5,800	5,800
Financial investments at amortized cost			
Trust and assets management plans	398,418	398,418	404,102
Assets backed securities	115,366	115,366	Note 1
Financial investments at fair value through other comprehensive income			
Assets backed securities	9,486	9,486	Note 1
Trust and assets management plans	3,492	3,492	41,042

31 December 2018	*Carrying amount*	*Maximum risk exposure on loss*	*Total volume of structured entities*
Financial investments at fair value through profit or loss			
Fund investments	263,191	263,191	Note 1
Trust and assets management plans	68,669	68,669	77,126
Assets backed securities	2,531	2,531	Note 1
Wealth management products managed by other banks	208	208	Note 1
Others	5,678	5,678	5,678
Financial investments at amortized cost			
Trust and assets management plans	281,140	281,140	285,701
Assets backed securities	121,223	121,223	Note 1
Financial investments at fair value through other comprehensive income			
Assets backed securities	11,997	11,997	Note 1
Trust and assets management plans	2,487	2,487	177,199

Note1：Total volume of these unconsolidated structured entities is not available from the public information.

The Group earns interest income, commission income and investment income as return on holding these investments or providing services to these structured entities.

(2) Consolidated structured entities

Consolidated structured entities mainly include wealth management products and trust plans established and managed by the Group with a total amount of RMB 56,547 million as at 30 June 2019 (31 December 2018: RMB 67,167 million).

3.36 Interests in other entities

(1) Interests in major subsidiaries

1.1 Major subsidiaries of the Bank

Name of subsidiaries	***Place of main business***	***Place of registration***	***Obtaining method***	***Share-holding percentage (direct)***
SPDB Financial Leasing Co., Ltd.	Shanghai	Shanghai	Establishment	61.02%
Shanghai International Trust Co., Ltd.	Shanghai	Shanghai	Acquisition	97.33%
SPDB International Holding ,Ltd.	Hong Kong	Hong Kong	Acquisition	100.00%
Mianzhu SPD Rural Bank Co., Ltd.	Mianzhu, Sichuan	Mianzhu, Sichuan	Establishment	55.00%
Liyang SPD Rural Bank Co., Ltd.	Liyang, Jiangsu	Liyang, Jiangsu	Establishment	51.00%
Gongyi SPD Rural Bank Co., Ltd.	Gongyi, Henan	Gongyi, Henan	Establishment	51.00%
Fengxian SPD Rural Bank Co., Ltd.	Fengxian, Shanghai	Fengxian, Shanghai	Establishment	51.00%
Zixing SPD Rural Bank Co., Ltd.	Zixing, Hunan	Zixing, Hunan	Establishment	51.00%
Chongqing Banan SPD Rural Bank Co., Ltd.	Banan, Chongqing	Banan, Chongqing	Establishment	51.00%
Zouping SPD Rural Bank Co., Ltd.	Zouping, Shandong	Zouping, Shandong	Establishment	51.00%
Zezhou SPD Rural Bank Co., Ltd.	Jincheng Shanxi	Jincheng Shanxi	Establishment	51.00%
Dalian Ganjingzi SPD Rural Bank Co., Ltd.	Ganjingzi, Liaoning	Ganjingzi, Liaoning	Establishment	51.00%
Hancheng SPD Rural Bank Co., Ltd.	Hancheng Shaanxi	Hancheng Shaanxi	Establishment	51.00%
Jiangyin SPD Rural Bank Co., Ltd.	Jiangyin, Jiangsu	Jiangyin, Jiangsu	Establishment	51.00%
Pingyang SPD Rural Bank Co., Ltd.	Pingyang, Zhejiang	Pingyang, Zhejiang	Establishment	51.00%
Xinchang SPD Rural Bank Co., Ltd.	Xinchang, Zhejiang	Xinchang, Zhejiang	Establishment	51.00%
Yuanjiang SPD Rural Bank Co., Ltd.	Yuanjiang, Hunan	Yuanjiang, Hunan	Establishment	51.00%
Chaling SPD Rural Bank Co., Ltd.	Zhuzhou, Hunan	Zhuzhou, Hunan	Establishment	51.00%
Linchuan SPD Rural Bank Co., Ltd.	Fuzhou, Jiangxi	Fuzhou, Jiangxi	Establishment	51.00%
Linwu SPD Rural Bank Co., Ltd.	Chenzhou, Hunan	Chenzhou, Hunan	Establishment	51.00%
Hengnan SPD Rural Bank Co., Ltd.	Hengyang, Hunan	Hengyang, Hunan	Establishment	51.00%
Haerbin Hulan SPD Rural Bank Co., Ltd.	Haerbin, Heilongjiang	Haerbin, Heilongjiang	Establishment	51.00%
Gongzhuling SPD Rural Bank Co., Ltd.	Siping, Jilin	Siping, Jilin	Establishment	51.00%
Yuzhong SPD Rural Bank Co., Ltd.	Lanzhou, Gansu	Lanzhou, Gansu	Establishment	51.00%
Fumin SPD Rural Bank Co., Ltd.	Fumin, Yunnan	Fumin, Yunnan	Establishment	51.00%
Ningbo Haishu Rural Bank Co., Ltd.	Ningbo, Zhejiang	Ningbo, Zhejiang	Establishment	51.00%
Urumchi Midong SPD Rural Bank Co., Ltd.	Urumchi, Xinjiang	Urumchi, Xinjiang	Establishment	51.00%
Tianjin Baodi SPD Rural Bank Co., Ltd.	Baodi, Tianjin	Baodi, Tianjin	Establishment	49.00%
Chongqing Tongliang SPD Rural Bank Co., Ltd	Tongliang, Chongqing	Tongliang, Chongqing	Establishment	51.00%
Qianxinan yilong SPD Rural Bank Co., Ltd.	Yilong, Guizhou	Yilong, Guizhou	Establishment	51.00%
Fufeng SPD Rural Bank Co., Ltd.	Baoji, Shaanxi	Baoji, Shaanxi	Establishment	51.00%

In accordance with relevant conventions entered into by the Bank and other shareholders of Baodi Tianjin SPD Rural Bank Co., Ltd., the Bank owns 51% voting rights in Baodi Tianjin SPD Rural Bank Co., Ltd, and therefore is able to control Baodi Tianjin SPD Rural Bank Co., Ltd.

All subsidiaries are unlisted and consolidated in the Bank’s financial statements.

1.2 Relevant information of major partly-owned subsidiaries

After individual assessment, the Group concluded that no subsidiary has non-controlling interest that is material to the Group.

(2) Interests in joint ventures and associates

2.1 General information of major joint ventures and associates

Name of the investee	*Note*	*Place of main business*	*Place of registration*	*Strategic to the Group (Y/N)*	*Share-holding percentage (Direct)*	*Business nature*
Joint ventures:						
AXA SPDB Investment Managers Co., ltd.	(a)	Shanghai	Shanghai	Y	51%	Financial industry
SPD Silicon Valley Bank Co., Ltd.		Shanghai	Shanghai	Y	50%	Financial industry

Equity investments above-mentioned are all accounted for by equity method.

(a) According to the Articles of Association of AXA SPDB Investment Managers Co., Ltd. ("the Company"), resolutions on certain significant operations and finance decisions shall be approved by shareholders representing more than two thirds voting shares. These resolutions are involved with the Company's strategic plans, investment plans of the Company's own funds, authorization on the Board of Directors for approval of the Company's annual financial budget and settlement plans, approval of the Company's profit appropriations and plans to cover accumulated losses, and approval of equity transfers and modification of the Articles of Association, etc. Although the Group owns 51% voting shares of AXA SPDB Investment Management Co., Ltd., it has to exercise influences over the company jointly with other major shareholders.

2.2 Key financial information of major joint ventures and associates

The Group's joint ventures and associates are all unlisted companies. The Group is of the view that these joint ventures and associates are not material to the Group in terms of their aggregated net profit and net assets.

4 SEGMENT REPORTING

Top management of the Group reviews the performance of the Bank's branches and subsidiaries in different economic regions from geographic perspective. The branches and subsidiaries of the Bank mainly provide services to local customers domiciled in respective geographic areas, therefore operating segments are analysed principally based on the location of the assets.

The operating segments' principal income are mainly from various commercial and investment banking services, including deposits and loans, discounted bills, trade finance, inter-bank money market and investments etc.

The Group's operating segments of different regions are set out as follows:

Headquarter:	Headquarters (including the direct institutions under headquarters and the branches)
Yangtze River Delta:	Branches in Shanghai, Jiangsu, Zhejiang
Pearl River Delta and West Side of Taiwan Strait:	Branches in Guangdong and Fujian
Bohai Rim:	Branches in Beijing, Tianjin, Hebei and Shandong
Central China:	Branches in Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan
Western China:	Branches in Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongoli and Tibet
North-east China:	Branches in Liaoning, Jilin and Heilongjiang
Overseas and subsidiaries:	Overseas branches and domestic and overseas Subsidiaries

	For the period from 1 January 2019 to 30 June 2019									
	Headquarters	**Yangtze River Delta**	**Pearl River Delta and West Side of Taiwan Strait**	**Bohai Rim**	**Central China**	**Western China**	**North-east China**	**Overseas and subsidiaries**	**Elimination**	**Total**
Interest income	123,620	67,939	19,302	25,355	22,327	18,137	7,600	5,426	(149,609)	140,097
Including: External interest income	*57,301*	*31,176*	*8,538*	*10,543*	*12,262*	*11,051*	*4,378*	*4,848*	-	*140,097*
Internal interest income	*66,319*	*36,763*	*10,764*	*14,812*	*10,065*	*7,086*	*3,222*	*578*	*(149,609)*	-
Interest expense	(105,078)	(47,781)	(14,893)	(19,027)	(15,215)	(13,290)	(5,561)	(4,597)	149,609	(75,833)
Including: External interest expense	*(31,745)*	*(16,362)*	*(5,511)*	*(8,008)*	*(4,966)*	*(3,090)*	*(2,046)*	*(4,105)*	-	*(75,833)*
Internal interest expense	*(73,333)*	*(31,419)*	*(9,382)*	*(11,019)*	*(10,249)*	*(10,200)*	*(3,515)*	*(492)*	*149,609*	-
Net interest income	18,542	20,158	4,409	6,328	7,112	4,847	2,039	829	-	64,264
Net fee and commission income	16,665	342	984	899	769	513	340	2,178	-	22,690
Net trading income	6,490	338	179	353	213	123	95	603	-	8,394
Net gains arising from financial investments	1,083	-	-	-	-	-	-	156	-	1,239
Other operating income	121	32	6	27	10	31	6	716	-	949
Operating expenses	(5,709)	(5,418)	(1,863)	(2,400)	(2,248)	(2,021)	(917)	(1,917)	-	(22,493)
Impairment losses	(15,926)	(2,739)	(484)	(8,328)	(3,565)	(2,744)	(2,656)	(492)	-	(36,934)
Share of profits associates and joint ventures	90	-	-	-	-	-	-	-	-	90
Total segment profit	21,356	12,713	3,231	(3,121)	2,291	749	(1,093)	2,073	-	38,199

	30 June 2019									
	Headquarters	**Yangtze River Delta**	**Pearl River Delta and West Side of Taiwan Strait**	**Bohai Rim**	**Central China**	**Western China**	**North-east China**	**Overseas and subsidiaries**	**Elimination**	**Total**
Loans and advances to customers	516,878	1,070,020	363,470	442,523	499,751	464,155	180,819	84,255	(395)	3,621,476
Total assets	3,034,320	1,799,595	498,013	764,502	600,626	533,088	231,957	275,772	(1,070,726)	6,667,147
Deposits from customers	123,041	1,430,851	417,832	634,033	495,512	346,909	168,925	83,088	(2,663)	3,697,528
Total liabilities	2,565,868	1,787,079	494,816	767,587	598,330	532,635	233,023	259,285	(1,070,726)	6,167,897
Net position of assets and liabilities	468,452	12,516	3,197	(3,085)	2,296	453	(1,066)	16,487	-	499,250

	From 1 January 2018 to 30 June 2018									
	Headquarters	**Yangtze River Delta**	**Pearl River Delta and West Side of Taiwan Strait**	**Bohai Rim**	**Central China**	**Western China**	**North-east China**	**Overseas and subsidiaries**	**Elimination**	**Total**
Interest income	127,251	65,872	27,041	33,492	24,377	18,961	9,003	4,897	(178,271)	132,623
Including: External Interest income	*55,084*	*24,087*	*10,195*	*12,304*	*11,387*	*10,289*	*4,687*	*4,590*	-	*132,623*
Internal interest income	*72,167*	*41,785*	*16,846*	*21,188*	*12,990*	*8,672*	*4,316*	*307*	*(178,271)*	-
Interest expense	(117,720)	(49,738)	(22,191)	(26,911)	(17,732)	(14,831)	(7,033)	(3,441)	178,271	(81,326)
Including: External interest expense	*(23,607)*	*(18,100)*	*(10,768)*	*(12,810)*	*(6,400)*	*(3,780)*	*(2,899)*	*(2,962)*	-	*(81,326)*
Internal interest expense	*(94,113)*	*(31,638)*	*(11,423)*	*(14,101)*	*(11,332)*	*(11,051)*	*(4,134)*	*(479)*	*178,271*	-
Net interest income	9,531	16,134	4,850	6,581	6,645	4,130	1,970	1,456	-	51,297
Net fee and commission income	12,604	1,575	974	921	861	561	272	2,092	-	19,860
Net trading income	7,782	69	59	(36)	137	44	43	622	-	8,720
Net gains arising from financial investments	838	-	-	-	-	-	-	95	-	933
Other operating income	248	137	11	34	11	69	4	667	-	1,181
Operating expenses	(4,992)	(4,654)	(1,697)	(2,506)	(2,391)	(2,002)	(943)	(1,792)	-	(20,977)
Impairment losses	(10,816)	(1,114)	187	(3,764)	(2,344)	(5,951)	(2,651)	(476)	-	(26,929)
Share of profits associates and joint ventures	76	-	-	-	-	-	-	-	-	76
Total segment profit	15,271	12,147	4,384	1,230	2,919	(3,149)	(1,305)	2,664	-	34,161

	31 December 2018									
	Headquarters	**Yangtze River Delta**	**Pearl River Delta and West Side of Taiwan Strait**	**Bohai Rim**	**Central China**	**Western China**	**North-east China**	**Overseas and subsidiaries**	**Elimination**	**Total**
Loans and advances to customers	513,222	1,033,524	341,125	433,260	451,586	432,088	172,205	78,479	-	3,455,489
Total assets	3,122,456	1,624,513	476,554	715,037	529,596	472,223	192,223	282,312	(1,125,308)	6,289,606
Deposits from customers	140,524	1,220,107	362,570	530,809	460,398	304,694	153,818	80,395	-	3,253,315
Total liabilities	2,690,165	1,602,682	468,647	714,754	522,089	478,117	194,470	265,610	(1,125,308)	5,811,226
Net position of assets and liabilities	432,291	21,831	7,907	283	7,507	(5,894)	(2,247)	16,702	-	478,380

5 CONTINGENCIES AND COMMITMENTS

5.1 Credit commitments

The Group's credit commitments are listed as follows:

	30 June 2019	31 December 2018
Bank acceptance bills	470,638	419,815
Bank acceptance bills under letters of credit	154,777	147,587
Letters of guarantee issued	91,020	101,003
Letters of credit issued	15,145	13,533
Credit cards and loan commitments	406,237	351,725
Total	1,137,817	1,033,663

As at 30 June 2019, there was no outstanding commitment on security underwriting (31 December 2018: Nil).

5.2 Commitment on redemption of certificate treasury bonds

The Group is entrusted by the MOF to underwrite certificate treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest at the redemption date.

As at 30 June 2019, the outstanding principal value of the treasury bonds sold by the Group amounted to RMB 4,351 million (31 December 2018: RMB 4,355 million).

The MOF will not provide funding for the early redemption of these treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The management expects the amount of the bonds of which redemption is through the Group before the maturity dates will not be material.

5.3 Capital commitments

As at 30 June 2019, the major capital commitments the Group had signed but not paid amounted to RMB 4,336 million (31 December 2018: RMB 3,248 million).

As at 30 June 2019, the major capital commitments the Group had approved but not signed amounted to RMB 367 million (31 December 2018: RMB 175 million).

Additionally, as at 30 June 2019, the amount of the procurement plan of operating fixed assets that the Bank's subsidiaries had approved but not signed was RMB 5,346 million.

5.4 Legal proceedings

As at 30 June 2019, the number of outstanding legal proceedings where the Group acts as the defendant and third party defendant was 101 and 77, respectively. The corresponding amount involved was about RMB 1,665 million and RMB 383 million, respectively. The Group assessed the possibility of loss from reparations being not large, so no provisions was accrued during the period (As at 31 December 2018, the number of outstanding legal proceedings where the Group acts as the defendant and third party defendant was 93 and 82, respectively. The corresponding amount involved was about RMB 1,488 million and RMB 2,355 million, respectively. The Group assessed the possibility of loss being not large, so no provisions was accrued).

6 FIDUCIARY BUSINESSES

The Group provides safe-keeping and entrusted loan businesses to independent third party customers. The assets arising from these businesses are not recorded on the Group's balance sheet. As at 30 June 2019, the balance of entrusted loan business was RMB 145,388 million (As at 31 December 2018: RMB 150,374 million).

7 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

7.1 Major shareholders holding more than 5% shares of the Bank

As at 30 June 2019 and 31 December 2018, major shareholders holding more than 5% ordinary shares of the Bank are as follows:

	Direct shareholding percentage	Major business
Shanghai International Group Co., Ltd.	21.57%	Investment management
China Mobile Group Guangdong Company Limited	18.18%	Mobile and Communication
Funde Sino Life Insurance Co., Ltd. – Traditional	9.47%	Insurance Business
Funde Sino Life Insurance Co., Ltd. – Capital	6.01%	Insurance Business

7.2 Subsidiaries

For general information of the Group's subsidiaries, please refer to Note 3.36 "Interests in other entities".

7.3 Joint ventures and associates

For general information of the joint ventures and associates, please refer to Note 3.36 "Interests in other entities".

7.4 Other major related parties

Other related parties mainly include respective group companies of shareholders who hold 5% or more ordinary shares of the Bank, key management personnel of the Bank (including the directors, supervisors and senior executives) and their close family members, and the companies that are controlled or jointly controlled by these key management personnel and their close family members, or the companies in which key management personnel and their close family members serve as directors or senior executives.

Additionally, in accordance with relevant regulations, the Bank has reported to the Shanghai Stock Exchange on the exemption from disclosure of the transactions between the Bank and its independent directors and companies in which its external supervisors have part-time positions.

7.5 Transactions and balances with related parties

The amounts of material transactions between the Group and its related parties and related balances at the balance sheet date are summarised as follows:

	Major shareholders	Joint ventures and associates	Other major related parties - group companies of major shareholders (exclusive)	Other major related parties - companies with significant influence by key management personnel (exclusive)	Other major related parties - individuals	Total	Proportion of relavent transactions and balances
Amounts of significant transactions from 1 January 2019 to 30 June 2019 are listed below:							
Interest income	-	-	71	20	1	92	0.07%
Interest expense	(58)	(6)	(785)	(42)	(1)	(892)	1.18%
Net fee and commission income	-	5	15	10	-	30	0.11%
Net trading income	-	-	-	4	-	4	0.05%
Share of profits associates and joint ventures	-	90	-	-	-	90	100.00%
Operating expenses	(9)	-	(160)	-	-	(169)	0.75%
Other comprehensive income	-	-	-	26	-	26	13.33%

	Major shareholders	Joint ventures and associates	Other major related parties - group companies of major shareholders (exclusive)	Other major related parties - companies with significant influence by key management personnel (exclusive)	Other major related parties - individuals	Total	Proportion of relavent transactions and balances
Significant item balances at 30 June 2019：							
Deposits and placements with banks and other financial institutions	-	-	4,597	360	-	4,957	1.85%
Loans and advances to customers	-	-	191	173	23	387	0.01%
Derivative financial assets	-	-	-	51	-	51	0.13%
Financial investments：							
- Financial investments measured by amortized cost	-	-	-	40	-	40	0.01%
- FVOCI investments	-	-	-	1,304	-	1,304	0.31%
Investments in associates and Joint Ventures	-	1,965	-	-	-	1,965	100.00%
Deposits and placements from banks and other financial institutions	-	(1,148)	(5,244)	(4,756)	-	(11,148)	1.07%
Derivative financial liabilities	-	-	-	(31)	-	(31)	0.08%
Deposits from customers	(3,603)	-	(31,812)	(7,322)	(13)	(42,750)	1.16%
Significant off-balance item at 30 June 2019							
Letters of guarantee issued	-	-	3,635	-	-	3,635	3.99%

Note: as of 30 June 2019, key management of the Bank possessed a total number of 808,200 shares of common stock issued by the Bank. During the first half of 2019, key management has obtained relavent cash dividends of their shares.

Amounts of significant transactions from 1 January 2018 to 30 June 2018 are listed below：

	Major shareholders	Joint ventures and associates	Other major related parties - group companies of major shareholders (exclusive)	Other major related parties - companies with significant influence by key management personnel (exclusive)	Other major related parties - individuals	Total	Proportion of relavent transactions and balances
Interest income	-	1	10	1	-	12	0.01%
Interest expense	(160)	(23)	(782)	(90)	-	(1,055)	1.30%
Net Fee and commission income	-	17	3	-	-	20	0.09%
Share of profits associates and joint ventures	-	76	-	-	-	76	100.00%
Operating expenses	(3)	-	(190)	-	-	(193)	0.92%

	Major shareholders	Joint ventures and associates	Other major related parties - group companies of major shareholders (exclusive)	Other major related parties - companies with significant influence by key management personnel (exclusive)	Other major related parties - individuals	Total	Proportion of relavent transactions and balances
Significant item balances at 31 December 2018:							
Deposits and placements with banks and other financial institutions	-	-	4,422	-	-	4,422	1.87%
Loans and advances to customers	-	-	239	-	24	263	0.01%
Investments in associates and Joint Ventures	-	1,968	-	-	-	1,968	100.00%
Deposits and placements from banks and other financial institutions	-	(1,058)	(5,113)	-	-	(6,171)	0.51%
Deposits from customers	(5,324)	-	(37,999)	(1,500)	-	(44,823)	1.38%
Significant off-balance item at 31 December 2018:							
Letters of guarantee issued	-	-	3,766	-	-	3,766	3.73%

Note: as of 31 December 2018, key management of the Bank possessed a total number of 400,200 shares of common stock issued by the Bank.

7.6 Related parties that are controlled by the Bank

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

Balances at the period end：	30 June 2019	31 December 2018
Deposits and placements with banks and other financial institutions	5,022	4,400
Loans and advances to customers	932	991
Deposits and placements from banks and other financial institutions	8,870	8,025
Deposits from customers	2,663	609
Others	28	21

Transactions during the period：	For the period from 1 January 2019 to 30 June 2019	For the period from 1 January 2018 to 30 June 2018
Interest income from due from other banks and financial institutions	3	5
Interest income from placements with banks and other financial institutions	49	51
Interest income from loans and advances to customers	87	24
Interest expenses on deposits from banks and other financial institutions	149	100
Fee and commission income	60	17
Fee and commission expense	57	24

7.7 Compensation of key management personnel

Key management personnel are those people having authority and responsibility for planning, directing, and controlling the activities of the Group, either directly or indirectly, including directors, supervisors and senior executives.

Compensation of key management personnel for the respective periods (excluding the social insurance charges paid by the Bank) is as follows:

	For the period from 1 January 2019 to 30 June 2019	For the period from 1 January 2018 to 30 June 2018
Compensation of key management personnel	7	6

7.8 Transactions with the annuity plan

In terms of the enterprise annuity funds established by the Group, in addition to the normal contribution, there has been no other related party transactions during the reporting period.

8 FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks in its operating activities. The Group analyses, evaluates, accepts and manages certain degree of risks or risk portfolios. Managing financial risk is critical to the financial industry, and the inherent risks is an inevitable consequence of business operation. The Group's aim is therefore to strike an appropriate balance between risk and return and minimise potential adverse impact on the Group's financial performance.

The Group has designed a series of risk management policies to identify and analyse these risks, so as to set appropriate risk limits and formulate control procedures. It has also monitored the risks and their limits through reliable information systems.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk mainly consists of foreign currency risk, interest rate risk and commodity price risk.

The Board of Directors of the Bank is responsible for determining the Group's overall risk appetite. Within this framework, the senior management of the Bank designs risk management policies and procedures for credit risk, market risk and liquidity risk accordingly. After the policies and procedures are approved by the Board of Directors, relevant departments of the headquarters are responsible for the implementation.

8.1 Credit Risk

Credit risk is the risk of financial losses arising from debtors or counterparties being unable or unwilling to fulfil their contractual obligations or commitments. Credit risk is greater when counterparties are concentrated in one industry or geographic region, because a group of otherwise unrelated counterparties could be adversely affected in their ability to fulfil their obligations due to same economic factors affecting their common industry or region.

The credit risks of the trust plan are mainly arising from the possibility of counterparties' non-performance of their obligations. During the transactions including loans, asset repurchase, subsequent financial arrangements, guarantees, performance commitments, fund transfer flow and security investments and other processes, counterparties including the borrower, the guarantor or the depository (the trustee), securities investment accounts dealer and the Bank, fail to or are unable or unwilling to perform the contract commitments, which resulted in potential losses of trust property or inherent property.

(1) Credit risk management

(i) Loans

The Group manages, limits and controls the concentration of credit risks, in particular, those concentrated on an individual counterparty, group, industry and region.

The Group continuously improves the credit risk structure by setting limits on the borrower, group of borrowers, geographical and industry segments. Concentration risks are monitored on an ongoing basis and subject to more frequent review where necessary.

The Group manages its exposure to credit risks through regular analyses of borrowers and potential borrowers' abilities to fulfil interest and principal repayment obligations and amends the lending limits where appropriate.

The Group has formulated relevant policies to mitigate credit risks. One of the most important measures is to obtain collateral, pledged assets, guarantee deposits or guarantees from companies or individuals. The Group provides guidelines on the specific acceptable classes of collateral. The principal types of collateral are:

- Residential property and land use right;
- Commercial assets, such as commercial properties, inventories and accounts receivables;
- Financial instruments, such as debt securities and equity shares.

Fair value of collateral is usually required to be assessed by professional valuer designated by the Group. When there is objective evidence of impairment, the value of collateral will be reviewed by the Group to assess whether it could sufficiently cover the credit exposure of relevant loans. To mitigate credit risks, the Group has implemented the loan-to-value ratio requirement based on the type of collateral as follows:

Collateral	Maximum loan-to-value ratio
Certificates of time deposit	95% - 100%
PRC treasury bonds	90% - 100%
PRC financial institution bonds	90%
Right to collect fees	70%
Right to operate a business	60%
Commercial property and plants	60%
Residential property	70%
Land use rights	60%

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience with adjustments for current market conditions and estimated expenses to be incurred in the disposal process.

For loans guaranteed by third parties, the Group will review the financial condition and credit history of guarantors and evaluate the ability of the guarantors to meet obligations on a regular basis.

(ii) Bonds and other bills

The Group manages the credit risk exposure of bonds and other bills through controlling the investment scale, issuer's credit ratings and establishing the list of acceptable issuers and post lending management standards. Generally, the group only purchases foreign currency securities with credit ratings (by Standard & Poor or equivalent agencies) equivalent to or higher than BBB-. Overseas investments in RMB debt securities are limited to those with credit ratings equivalent to or above BBB+ assigned by rating agencies recognised by the PBOC. For medium or long term RMB domestic debt securities, issuers should have the credit ratings assigned by PBOC recognised agencies which cannot be lower than AA. For short term securities, issuers should have the credit ratings which cannot be lower than A-1 assigned by the PBOC recognised agencies

(iii) Other financial assets measured at amortised cost

Other financial assets measured at amortised cost, mainly include trust plans and asset management plans. The Group established a risk evaluation system on the trust companies, securities companies and fund management companies, set the credit limits for ultimate financing parties of asset management plans, and performs ongoing post-lending monitoring on a timely basis.

(iv) Inter-bank transactions

The Group reviews and manages the credit risks of individual financial institutions regularly. Credit limits are set for each individual bank or non-bank financial institution which has business relationship with the Group.

(v) Derivative financial instruments

The Group strictly controls the transactions of derivative financial instruments. For corporate customers, the Group mitigates the credit risk associated with derivative financial instruments by acquiring margin deposits from counterparties.

(vi) Credit commitments

The primary purpose of credit commitments is to ensure that funds are available to customers as required. Letters of guarantee issued, acceptance bills and letters of credit are irrevocable commitments the Group made and the Group will make payments on behalf of its clients in the event that its customer cannot perform the obligations to third parties. Credit commitments carry the same credit risk as loans. When the amount of credit commitment applied exceeds that of the original credit limit of the client, margin deposits are required to mitigate the credit risk. The Group's exposure to the credit risk is equivalent to the total amount of credit commitments.

(vii) Trust plans

The Group strictly implements the policy "pre-loan investigation, in-process review, post-loan inspection" over the trust plan. In designing the product trade structure, it introduces guarantee mechanism including credit of financial institutions, property mortgage, rights pledge, and the Group comprehensively applies the methods of avoidance, prevention, dispersion, transfer, compensation to manage risks, in order to spread and transfer credit risks of financing entities, and reduce risk exposure.

(2) Measurement of credit risks

The Group has established a five-grade classification system to measure and manage the quality of its credit assets. Such classification system is based on the Guideline for Credit Risk Classification ("the Guideline")(Yin Jian Fa [2007] No. 54). According to the Group's own system and the Guideline, the Group is required to classify its off-balance sheet credit assets into five categories, namely, Pass, Special-mention, Substandard, Doubtful and Loss, among which loans classified as Substandard, Doubtful and Loss categories are regarded as non-performing loans.

The core definition of the credit asset classification is as follows:

Pass: loans for which borrowers can fulfil the terms of the contracts, and there is no reason to believe their ability to repay the principal or interest of loans on a timely basis is in doubt.
Special Mention: loans for the borrowers who are able to service the loans currently, although some negative factors exist which may affect the borrower to repay the loans on time.
Substandard: loans for which borrowers' ability to service loans is apparently in doubt and borrowers cannot rely on their proceeds from normal operations to repay the principal and interest of loans. Losses may be incurred even when guarantees are executed.
Doubtful: loans for which borrowers cannot repay the principal and interest of loans in full and significant losses will be incurred even when guarantees are executed.
Loss: the principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and proceeding necessary legal procedures.

(3) Impairment from credit risks

New financial instrument standards outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarised below: Stage 1 (not credit-impaired since initial recognition): 12-month ECL; Stage 2 (significant increase in credit risk since initial recognition): lifetime expected credit losses (“lifetime ECL”); Stage 3 (credit-impaired assets): lifetime ECL. The Group developed an impairment model to calculate expected credit losses in accordance with the new standards. A top-down development method was used to establish a logistic regression model of risk parameters and macroeconomic indicators such as gross domestic product “GDP” and consumer price index “CPI”. The Group also forecasts three kind of macroeconomic scenarios (optimistic, base and pessimistic) on a timely basis, and measures ECL based on different scenarios.

<u>Credit risk rating</u>

The Group uses internal credit risk ratings to reflect its assessment of the probability of default (PD) of individual counterparties. The Group uses internal rating models tailored to various categories of counterparties. Specific information related to borrowers and loans, which are collected at the time of application (such as disposable income, and level of collateral for retail exposures, sales revenue of borrowers and the industry type) is included into this rating model. The information is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the model enables expert judgment from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows the factors which may not be captured by other sources be included into the model.

The Group does not have financial assets that are identified as "low risk" subject to the credit risk management in accordance with new financial instrument standards.

<u>Stage division</u>

Significant increase in credit risk (SICR)

The Group assesses on each balance sheet date whether the credit risk of the relevant financial asset has increased significantly since initial recognition. When considering the stage of financial assets, the Group fully considers all kinds of reasonable and supportable information that reflects whether the credit risk of the financial asset has significantly changed, including forward-looking information. The main factors to be considered are the regulatory and business environment, internal and external credit ratings, solvency, business ability, loan contract terms, repayment behaviour, etc.

The Group considers the credit risk of a financial asset has increased significantly since initial recognition when one or more of the following quantitative, qualitative or backstop criteria are met:

Quantitative criteria：

The Group considers whether the credit risk of a financial asset has increased significantly since initial recognition by considering whether the credit risk rating has migrated down to a certain level or whether the PD has increased significantly since initial recognition. For example, as at the reporting date, for corporate loans and financial investments, the counterparty’s credit risk rating migrate to or lower than B; or for personal loans, the counterparty’s PD is 8-10 times of the initial PD.

Qualitative criteria:

For corporate loans and financial investments, if the borrower is on the Watchlist and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse changes in operating results of the borrower
- Early signs of cash flow/liquidity problems such as delay in payment of accounts payable/loans

Backstop:

The counterparty has defaulted on the payment for more than 30 days after the contractual maturity date.

Default and credit-impaired

When a financial asset is impaired, the Group defines it as in default. The Group defines a financial asset as credit impaired when it meets one or more of the following criteria:

Qualitative criteria:

The borrower meets the following “unlikeliness to pay” criteria, which indicates the borrower has significant financial difficulty:

- significant financial difficulty of the issuer or borrower
- a breach of contract, such as a default or delinquency in interest or principal payments
- for economic or contractual reasons relating to the borrower’s financial difficulty, the creditor having granted to the borrower a concession that would not otherwise consider
- it is probable that the borrower will enter bankruptcy or other debt restructuring
- the disappearance of an active market for that financial asset because of financial difficulties of the issuer or borrower; or
- the fact that financial assets are purchased or originated at a deep discount that reflects the credit losses incurred

Backstop:

The counterparty has defaulted on the payment for more than 90 days after the contractual maturity date.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the goal of internal credit risk management. The default definition has been applied consistently to model of the probability of default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Group's ECL measurement.

Explanation of parameters, assumptions and estimation techniques

ECL is measured on either a 12-month (12M) or lifetime basis depending on whether the credit risk of the financial asset has increased significantly since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12M PD"), or over the remaining lifetime ("lifetime PD") of the obligation.

- The EAD is based on the amount the Group expects to be repaid at the time of default.

- Loss given default (LGD) is the amount of money the Group loses when a borrower defaults on a loan, depicted as a percentage of total exposure at the time of default.

The ECL is determined by projecting the PD, LGD and EAD for each individual future exposure, which can enable effectively calculation of the ECL for each future month.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observable data and is assumed to be the same across all assets within a portfolio and credit rating band. This analysis is supported by historical data.

The LGD are determined based on the factors which impact the recoveries after default and vary by product type.

Forward-looking economic information is also included in determining the 12-month and lifetime ECL.

There have been no significant changes in estimation techniques or significant assumptions during the reporting period.

Forward-looking information incorporated in the ECL model

Both the assessment of SICR and the calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the key economic indicators impacting credit risks and expected credit losses for each portfolio.

Based on industry best practices and the Group's internal experts' judgment, the Group chose a series of macroeconomic indicators (including GDP, industrial added value growth rate and the CPI growth rate, etc.), established the statistical relationship between actual PD and macro indicators for each model exposure, and then calculated forward-looking PD by using forecasted economic indicators.

In addition to the basic economic scenario, the Group also sets up other possible scenarios based on the analysis of product type. The number of scenarios and their attributes are reassessed at each reporting date. As at 30 June 2019 and 31 December 2018, the scenario weightings are determined by a combination of statistical analysis and expert judgment, taking account of the range of possible outcomes of each chosen scenario. The assessment of SICR is performed using the lifetime PD under each of the base and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. When determining whether the financial instrument is in Stage 1, Stage 2 or Stage 3, the corresponding election of 12-month or lifetime ECL for loss allowance should also be recorded. Following this assessment, the Group measures loss allowance at an amount equal to a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are calculated by multiplying the ECL under each scenario through the relevant ECL model by the appropriate scenario weighting (instead of the weighting of parameters).

The Group considers these forecasts have represented its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios. Similar to other economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

(4) Segmentation of business operations sharing similar credit risk characteristics

When analysing the relativeness of ECL with macroeconomic indicators, the Group classifies assets with similar credit risk characteristics into the same portfolio. In performing the grouping, there must be sufficient information for the grouping to be statistically credible. Where sufficient information is not available internally, the Group has considered to use benchmarking internal/external supplementary data for modelling purposes. The characteristics and any supplementary data used to determine the grouping are outlined below:

Corporate loans and financial investments

- Industry
- Collateral type

Personal loans

- Product type (for instance, housing loans, consumer loans and credit cards)
- Repayment type
- Utilisation percentage range
- The range of loan to value ratio (loan balance / the value of collateral)

(5) Maximum exposure to credit risk

Financial assets and commitments and guarantees subject to impairment evaluation

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	30 June 2019			
	Stage 1	Stage 2	Stage 3	Total
Balances with central bank	388,908	-	-	388,908
Deposits and placements with banks and other financial institutions	268,419	-	-	268,419
Financial assets purchased under resale agreements	1,678	-	-	1,678
Loans and advances to customers at				
- amortised cost	3,238,860	122,758	15,102	3,376,720
- other comprehensive income ("OCI")	244,112	-	-	244,112
Financial investments at				
- amortised cost	1,221,344	5,054	3,518	1,229,916
- OCI	410,730	1,489	30	412,249
Other financial assets	131,868	505	431	132,804
Total	5,905,919	129,806	19,081	6,054,806

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Balances with central bank	437,687	-	-	437,687
Deposits and placements with banks and other financial institutions	236,535	-	-	236,535
Financial assets purchased under resale agreements	11,573	-	-	11,573
Loans and advances to customers at				
- amortised cost	3,056,361	130,846	18,647	3,205,854
- OCI	249,105	48	-	249,153
Financial investments at				
- amortised cost	1,137,024	5,337	1,888	1,144,249
- OCI	378,414	446	-	378,860
Other financial assets	67,402	2,425	330	70,157
Total	5,574,101	139,102	20,865	5,734,068

	30 June 2019 Maximum exposure to credit risk	31 December 2018 Maximum exposure to credit risk
Commitments and guarantees		
Bank acceptance bills	470,184	418,035
Acceptance bills under letters of credit	154,386	147,346
Letters of guarantee issued	89,158	100,206
Letters of credit issued	13,682	13,473
Credit cards and loan commitments	405,798	349,929
Total commitments and guarantees	1,133,208	1,028,989

(6) Amounts due from banks and other financial institutions

As at 30 June 2019, the credit risk of amounts due from banks and other financial institutions, which mainly include deposits and placements with banks and other financial institutions, financial assets purchased under resale agreements, is in the stage 1. The credit risk of amounts due from banks and other financial institutions can be assessed with reference to the nature of the counterparties, which is disclosed in Note 3.10 and Note 3.12.

(7) Credit-impaired loans and advances to customers

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. As at 30 June 2019, the book value of loans and advances to customers that are credit-impaired was RMB 71.255 billion (31 December 2018: RMB 72.251 billion), including the portion secured by collateral worth RMB 27.703 billion (31 December 2018: RMB 21.88 billion).

When the Group has performed the necessary procedures and it cannot reasonably expect to recover the whole or part of the financial assets, and the financial assets meet the write-off conditions required by the Ministry of Finance, the Group writes off the financial assets.

(8) Bonds and other investments

The table below presents the ratings of the Group's bonds and other investments by external rating agencies, including S&P or equivalent agencies recognised by the PBOC.

	30 June 2019			
Investments denominated in RMB	Financial investments at fair value through profit or loss	Financial investments measured at amortised cost	Financial investments at fair value through other comprehensive income	Total
Medium or long term:				
AAA	15,236	455,078	209,364	679,678
AA+ to AA-	1,560	41,839	6,147	49,546
A+ to A-	1,424	97,584	36,662	135,670
Under A-	-	89	206	295
Short-term:				
A-1	14,953	-	1,865	16,818
Unrated:	396,376	632,476	97,000	1,125,852
	429,549	1,227,066	351,244	2,007,859

	30 June 2019			
Investments denominated in foreign currencies	Financial investments at fair value through profit or loss	Financial investments measured at amortised cost	Financial investments at fair value through other comprehensive income	Total
AAA	-	31	971	1,002
AA	201	956	276	1,433
A and below A	2,719	895	11,965	15,579
Unrated	6,815	968	47,793	55,576
	9,735	2,850	61,005	73,590

	31 December 2018			
Investments denominated in RMB	Financial investments at fair value through profit or loss	Financial investments measured at amortised cost	Financial investments at fair value through other comprehensive income	Total
Medium or long term:				
AAA	5,459	96,685	78,567	180,711
AA+ to AA-	3,491	48,954	6,751	59,196
Under A-	-	108	210	318
Short-term:				
A-1	9,705	219	2,889	12,813
Unrated:	374,165	995,305	235,386	1,604,856
	392,820	1,141,271	323,803	1,857,894

	31 December 2018			
Investments denominated in foreign currencies	Financial investments at fair value through profit or loss	Financial investments measured at amortised cost	Financial investments at fair value through other comprehensive income	Total
AAA	62	31	2,050	2,143
AA	83	1,138	2,368	3,589
A and below A	929	1,401	3,380	5,710
Unrated	646	408	47,259	48,313
	1,720	2,978	55,057	59,755

8.2 Market risk

Market risk is the risk of losses of on and off-balance sheet businesses arising from adverse movements in market prices, such as interest rates, exchange rates, equity and commodities. Both the Group's trading book and banking book is exposed to market risk, which mainly consists of interest rate risk, currency risk and commodity price risk. The Group considers the exposure to the commodity price risk to be insignificant.

The Board of Directors of the Bank is ultimately responsible for monitoring the market risk management and ensuring the Group can effectively identify, measure, monitor and control the market risk associated with the Group's business activities. Under the authorisation of the Board of Directors, the senior management of the Group is responsible for establishing the group-wide market risk management system, organisational structure with well-defined roles and responsibilities, authorisation structures and accountability mechanism. Relevant departments of headquarters are responsible for carrying out detailed market risk management activities including policies and procedures, measurement approaches and models, analyses and reporting and monitoring of various limits in order to timely and accurately identify, measure, monitor and control the market risk exposures in respective business areas and reporting to the senior management and Board of Directors on timely basis. Meanwhile, the established internal controls and independent inspections are integrated in the group-wide market risk management system. Relevant business units are responsible for executing the daily control activities. A three-line defence system includes the business units as the first line defence, the market risk management and compliance department as the second line defence and the review department as the third line defence.

The Group measures market risk based on predetermined benchmarks. The major measurement approaches include stress testing, analysis on value at risk, back testing, gap analysis and sensitivity analysis etc. The market risk of new products and businesses should be identified before these new products and businesses are launched according to relevant policies.

(1) Currency Risk

The Group mainly operates in the PRC and its main business activities are conducted in RMB. Majority of its foreign currency business are conducted in USD. The table below summarises the Group’s exposure to currency risk. Included in the table are the Group’s assets and liabilities at carrying amounts in RMB, categorised by original currency.

	30 June 2019				
	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and deposits with central bank	382,308	11,987	367	391	395,053
Deposits and placements with banks and other financial institutions	159,132	85,157	14,223	9,907	268,419
Derivative financial assets	38,821	217	511	3	39,552
Financial assets purchased under resale agreements	1,678	-	-	-	1,678
Loans and advances to customers	3,497,559	89,460	23,596	10,861	3,621,476
Financial investments:					
Financial investments at fair value through profit or loss (“FVTPL”)	430,704	11,021	265	-	441,990
Financial investments at amortized cost (“AC”)	1,227,066	1,509	354	987	1,229,916
Financial investments at fair value through other comprehensive income (“FVOCI”)	356,067	52,426	6,439	2,140	417,072
Other financial assets	89,698	40,329	2,583	194	132,804
Total financial assets	6,183,033	292,106	48,338	24,483	6,547,960
Borrowing from central bank	195,170	-	-	-	195,170
Deposits and placements from banks and other financial institutions	871,078	148,732	17,713	7,167	1,044,690
Financial liabilities at fair value through profit or loss	7,399	32,250	-	-	39,649
Derivative financial liabilities	38,494	560	522	8	39,584
Financial assets sold under repurchase agreements	119,369	8,657	-	-	128,026
Deposits from customers	3,483,902	165,920	18,309	29,397	3,697,528
Debt securities issued	867,129	24,610	4,469	312	896,520
Other financial liabilities	70,894	3,089	1,067	2,278	77,328
Total financial liabilities	5,653,435	383,818	42,080	39,162	6,118,495
Net position of Financial instruments	529,598	(91,712)	6,258	(14,679)	429,465

	31 December 2018				
	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and deposits with central bank	436,007	7,237	185	294	443,723
Deposits and placements with banks and other financial institutions	138,999	72,591	18,171	6,774	236,535
Derivative financial assets	37,153	5,927	40	154	43,274
Financial assets purchased under resale agreements	11,573	-	-	-	11,573
Loans and advances to customers	3,324,428	100,600	19,957	10,504	3,455,489
Financial investments:					
FVTPL	386,144	9,450	74	-	395,668
AC	1,141,271	1,795	207	976	1,144,249
FVOCI	327,841	45,891	6,838	2,328	382,898
Other financial assets	20,302	49,563	227	65	70,157
Total financial assets	5,823,718	293,054	45,699	21,095	6,183,566
Borrowing from central bank	221,003	-	-	-	221,003
Deposits and placements from banks and other financial institutions	1,071,882	121,084	18,553	4,872	1,216,391
Financial liabilities at fair value through profit or loss	18,435	16,477	-	-	34,912
Derivative financial liabilities	37,411	4,976	83	323	42,793
Financial assets sold under repurchase agreements	109,984	9,580	-	-	119,564
Deposits from customers	3,039,761	183,701	23,323	6,530	3,253,315
Debt securities issued	812,380	23,455	4,856	749	841,440
Other financial liabilities	29,600	1,018	3	329	30,950
Total financial liabilities	5,340,456	360,291	46,818	12,803	5,760,368
Net position of Financial instruments	483,262	(67,237)	(1,119)	8,292	423,198

The Group measures the possible effect on net profit arising from foreign exchange rate fluctuation using sensitivity analysis. The table below shows the result of sensitivity analysis of the balance sheet date.

Net profit	30 June 2019 Exchange rate fluctuation %		31 December 2018 Exchange rate fluctuation %	
(Decrease) / Increase	-1%	1%	-1%	1%
USD against RMB	(119)	119	(296)	296
Other currencies against RMB	241	(241)	30	(30)

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities, and calculated the impact on the net profit from changes in exchange rates of other foreign currencies against RMB. The assumptions are shown as below:

- Exchange rate sensitivity represents the exchange gain or loss resulting from the 1% change in daily closing exchange rates (middle) on the financial reporting date;
- Changes in exchange rates of other foreign currencies means the exchange rates of other foreign currencies against RMB are fluctuating simultaneously and in the same direction;
- Foreign currency exposure contains spot exchange exposure and forward exchange exposure. Based on the above assumption, the actual exchange gains or losses may differ from the sensitivity analysis results.

(2) Interest rate risk

Interest rate risk is the risk of losses in overall earnings and economic value arising from adverse movements in factors such as interest rates, term structure, etc., including interest rate risk from bank book and trading book respectively.

The Group determines the loan interest rate in accordance with the relevant provisions of the People's Bank of China.

The Group's interest rate risk mainly results from re-pricing risk of bank book. The Group considers its exposure to the interest rate risk of trading book to be insignificant. The Group has established an internal transfer pricing system, which enables the Group to manage the interest rate risk of bank book centrally. The Group measures and monitors interest rate risk in trading accounts using value-at-risk and sensitivity analysis etc.

The table below summarises the Group’s exposures to interest rate risk. The table presents the Group’s assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	30 June 2019						
	With in a month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and deposits with central bank	375,555	-	-	-	-	19,498	395,053
Deposits and placements with banks and other financial institutions	103,803	52,187	102,560	7,413	-	2,456	268,419
Derivative financial assets	-	-	-	-	-	39,552	39,552
Financial assets purchased under resale agreements	-	-	1,678	-	-	-	1,678
Loans and advances to customers	450,260	472,423	2,460,622	178,272	47,182	12,717	3,621,476
Financial investments:							
FVTPL	12,076	7,566	38,623	37,599	22,906	323,220	441,990
AC	75,395	52,438	277,585	513,085	297,157	14,256	1,229,916
FVOCI	19,689	15,186	34,602	218,242	117,656	11,697	417,072
Other financial assets	15,913	2,988	41,087	-	-	72,816	132,804
Total financial assets	1,052,691	602,788	2,956,757	954,611	484,901	496,212	6,547,960
Liabilities							
Borrowing from central bank	18,055	74,090	99,195	-	-	3,830	195,170
Deposits and placements from banks and other financial institutions	560,292	197,029	276,472	7,204	429	3,264	1,044,690
Financial liabilities at fair value through profit or loss	-	-	-	1,635	-	38,014	39,649
Derivative financial liabilities	-	-	-	-	-	39,584	39,584
Financial assets sold under repurchase agreements	82,751	24,632	20,538	-	-	105	128,026
Deposits from customers	2,210,318	435,778	749,085	264,562	5,732	32,053	3,697,528
Debt securities issued	146,972	233,457	297,910	111,585	100,375	6,221	896,520
Other financial liabilities	579	23	892	2,002	218	73,614	77,328
Total financial liabilities	3,018,967	965,009	1,444,092	386,988	106,754	196,685	6,118,495
Total interest repricing gap	(1,966,276)	(362,221)	1,512,665	567,623	378,147	299,527	429,465

	31 December 2018						
	With in a month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and deposits with central bank	428,273	-	-	-	-	15,450	443,723
Deposits and placements with banks and other financial institutions	91,257	25,784	100,042	17,787	-	1,665	236,535
Derivative financial assets	-	-	-	-	-	43,274	43,274
Financial assets purchased under resale agreements	11,568	-	-	-	-	5	11,573
Loans and advances to customers	2,030,010	357,903	882,466	127,754	45,733	11,623	3,455,489
Financial investments:							
FVTPL	4,199	6,745	35,445	37,082	25,924	286,273	395,668
AC	64,785	92,905	149,392	533,626	288,693	14,848	1,144,249
FVOCI	22,561	8,912	51,610	179,288	111,617	8,910	382,898
Other financial assets	44,677	1,067	1,985	-	-	22,428	70,157
Total financial assets	2,697,330	493,316	1,220,940	895,537	471,967	404,476	6,183,566
Liabilities							
Borrowing from central bank	9,020	30,090	178,630	-	-	3,263	221,003
Deposits and placements from banks and other financial institutions	894,850	142,794	168,028	5,431	499	4,789	1,216,391
Financial liabilities at fair value through profit or loss	-	-	10	8,688	603	25,611	34,912
Derivative financial liabilities	-	-	-	-	-	42,793	42,793
Financial assets sold under repurchase agreements	87,767	11,747	19,936	-	-	114	119,564
Deposits from customers	1,945,923	383,651	659,481	232,916	5,047	26,297	3,253,315
Debt securities issued	49,817	249,836	320,170	117,176	100,355	4,086	841,440
Other financial liabilities	729	970	724	-	-	28,527	30,950
Total financial liabilities	2,988,106	819,088	1,346,979	364,211	106,504	135,480	5,760,368
Total interest repricing gap	(290,776)	(325,772)	(126,039)	531,326	365,463	268,996	423,198

The Group performs sensitivity analysis to measure the potential impact of changes in interest rate on net profit and equity. The table below shows the results of the sensitivity analysis on the balance sheet date.

	30 June 2019		31 December 2018	
	Interest rate fluctuation (Basis points)		Interest rate fluctuation (Basis points)	
	-100	+100	-100	+100
Increase / (Decrease) in net profit	4,198	(4,198)	(2,964)	2,964
Increase / (Decrease) in other comprehensive income under equity	10,199	(9,535)	10,637	(10,407)

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities. The analysis only measures the impact of changes in the interest rates within one year, showing how annualised interest income would have been affected by repricing of the Group's assets and liabilities within the one-year period.

- Except for current deposits, assets and liabilities, whose maturity dates are within three months or more than three months but will be repricing within one year, are assumed to be re-priced in the middle of each specified period;
- The interest rates of current deposits and statutory deposit reserves with central bank remain unchanged;
- The yield curve moves in parallel with interest rate;
- There are no changes in assets and liabilities at year end. Based on the assumptions, the actual change in net profit may be different from the sensitivity analysis results.

Based on the assumption of the parallel movement of the yield curve along with interest rate change, the sensitivity analysis of the equity is derived by remeasuring the fair value of debt instruments at fair value through other comprehensive income as a result of changes in interest rate with a certain percentage.

8.3 Liquidity risk

The Group's liquidity risk management is intended to meet the obligations to serve customers for withdrawal and payment, to achieve the balance between the total amount and structure of assets and liabilities; to reduce the liquidity cost, avoid liquidity crisis of the Group, and to effectively respond to systematic liquidity risk by active management.

The Group's liquidity risk management system comprises mainly regular and contingent management system which includes 10 components, such as policies and strategies, management framework, regulations, management tools, daily operation, stress tests, system construction, risk monitoring, risk report, and emergency management and drilling.

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

The table below presents the undiscounted cash flows of the Group under contracts of non-derivative financial assets and liabilities by remaining contractual maturities.

(1) Cash flows of non-derivative financial assets and liabilities

	30 June 2019						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and deposits with central bank	-	395,053	-	-	-	-	395,053
Deposits and placements with banks and other financial institutions	-	61,161	86,268	112,544	12,540	-	272,513
Financial assets purchased under resale agreements	-	-	-	1,698	-	-	1,698
Loans and advances to customers	53,156	-	686,560	1,287,046	1,142,734	1,123,099	4,292,595
Financial investments:							
FVTPL	3,675	323,220	12,643	40,912	45,731	27,327	453,508
AC	2,350	-	128,155	298,797	601,121	332,452	1,362,875
FVOCI	361	4,823	62,181	37,587	244,295	122,754	472,001
Other financial assets	1,309	71,481	3,325	24,498	36,085	2,357	139,055
Total financial assets	60,851	855,738	979,132	1,803,082	2,082,506	1,607,989	7,389,298
Liabilities							
Borrowing from central bank	-	-	94,421	103,319	-	-	197,740
Deposits and placements from banks and other financial institutions	-	284,196	476,524	282,388	7,901	548	1,051,557
Financial liabilities at profit or loss	-	1,514	33,494	1,347	2,718	576	39,649
Financial assets sold under repurchase agreements	-	-	107,617	20,726	-	-	128,343
Deposits from customers	-	1,867,892	1,280,366	636,235	430,333	357	4,215,183
Debt securities issued	-	-	381,404	308,123	138,566	116,181	944,274
Other financial liabilities	-	63,982	2,139	2,028	8,660	1,441	78,250
Total financial liabilities	-	2,217,584	2,375,965	1,354,166	588,178	119,103	6,654,996
Net liquidity	60,851	(1,361,846)	(1,396,833)	448,916	1,494,328	1,488,886	734,302

	31 December 2018						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and deposits with central bank	-	443,723	-	-	-	-	443,723
Deposits and placements with banks and other financial institutions	-	60,315	57,105	105,718	17,069	-	240,207
Financial assets purchased under resale agreements	-	-	11,575	-	-	-	11,575
Loans and advances to customers	71,057	-	869,961	1,054,759	1,022,783	1,386,969	4,405,529
Financial investments:							
FVTPL	1,583	286,273	10,816	38,598	44,340	29,469	411,079
AC	4,351	-	159,543	197,612	640,567	326,329	1,328,402
FVOCI	130	4,038	20,063	62,378	241,825	130,684	459,118
Other financial assets	291	25,826	3,539	11,402	32,703	4,985	78,746
Total financial assets	77,412	820,175	1,132,602	1,470,467	1,999,287	1,878,436	7,378,379
Liabilities							
Borrowing from central bank	-	-	40,400	184,602	-	-	225,002
Deposits and placements from banks and other financial institutions	-	719,855	322,620	173,457	6,374	704	1,223,010
Financial liabilities at profit or loss	194	25,611	-	10	8,495	603	34,913
Financial assets sold under repurchase agreements	-	-	99,606	20,194	-	-	119,800
Deposits from customers	-	1,487,391	1,119,643	681,214	246,550	6,241	3,541,039
Debt securities issued	-	-	283,043	333,567	156,216	124,000	896,826
Other financial liabilities	-	28,649	1,594	-	731	-	30,974
Total financial liabilities	194	2,261,506	1,866,906	1,393,044	418,366	131,548	6,071,564
Net liquidity	77,218	(1,441,331)	(734,304)	77,423	1,580,921	1,746,888	1,306,815

(2) Cash flow of derivative financial instruments

(i) Derivative financial instruments settled on a net basis

Derivative financial instruments held by the Group that will be settled on a net basis comprise interest rate swaps, foreign exchange options, precious metals derivatives and foreign currency derivatives settled in Shanghai Clearing House. The table analyses the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	30 June 2019					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Foreign exchange derivatives	2	(6)	14	(7)	-	3
Interest rate swap	(61)	(172)	(363)	(1,250)	(38)	(1,884)
Foreign exchange options	262	(85)	497	65	-	739
Precious metals derivatives	1,360	76	(632)	-	-	804
Commodity swap contracts	26	19	39	-	-	84
Total	1,589	(168)	(445)	(1,192)	(38)	(254)

	31 December 2018					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Foreign exchange derivatives	812	988	1,394	5	-	3,199
Interest rate swap	(278)	(290)	(957)	(730)	(29)	(2,284)
Foreign exchange options	41	393	351	50	-	835
Precious metals derivatives	655	53	(282)	-	-	426
Commodity swap contracts	6	7	-	-	-	13
Total	1,236	1,151	506	(675)	(29)	2,189

(ii) Derivative financial instruments settled on a gross basis

Derivative financial instruments held by the Group that will be settled on a gross basis are foreign exchange derivatives, including currency forward and currency swaps. The table below shows the distribution of contractual maturity for derivative financial instruments held by the Group that will be settled on a gross basis. The amounts disclosed in the table are the contractual undiscounted cash flows.

	30 June 2019					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Foreign exchange derivatives						
- Outflow	(164,571)	(94,018)	(219,598)	(35,796)	-	(513,983)
- Inflow	164,597	94,021	219,678	35,081	-	513,377

	31 December 2018					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Foreign exchange derivatives						
- Outflow	(359,205)	(198,799)	(277,172)	(43,315)	-	(878,491)
- Inflow	358,717	198,006	277,176	43,515	-	877,414

(3) Off-balance-sheet items

	30 June 2019			
	Within 1 year	1 to 5 years	Over 5 years	Total
Bank acceptance bills	470,638	-	-	470,638
Bank acceptance bills under letters of credit	154,777	-	-	154,777
Letters of guarantee issued	62,199	27,863	958	91,020
Letters of credit issued	14,791	354	-	15,145
Credit cards and loan commitments	406,237	-	-	406,237
Total	1,108,642	28,217	958	1,137,817

	31 December 2018			
	Within 1 year	1 to 5 years	Over 5 years	Total
Bank acceptance bills	419,815	-	-	419,815
Bank acceptance bills under letters of credit	147,587	-	-	147,587
Letters of guarantee issued	66,175	32,658	2,170	101,003
Letters of credit issued	11,945	1,024	564	13,533
Credit cards and loan commitments	351,725	-	-	351,725
Total	997,247	33,682	2,734	1,033,663

8.4 Fair value of financial instruments

(1) Fair value hierarchy

According to the significance of the lowest inputs used in the measurements, the fair value hierarchy shall have the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange or debt instruments.

- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts and debt securities for which quotations like yield curve or counterparty credit risk are available from Thomson Reuters, Bloomberg and Chinabond.

- Level 3 - Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

(2) Financial instruments not measured at fair value

The financial assets and financial liabilities not measured at fair value in the financial statements include balances with the central bank, Deposits and placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and advances to customers (measured at amortised cost), financial investments measured at amortised cost, borrowing from central bank, deposits and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, lease liabilities and bonds issued.

The table below summarises the carrying amount and relevant fair value of the Group's financial investments - debt investments, bonds issued, which are not stated at fair value, as at the balance sheet date.

	30 June 2019				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Financial investments - debt investments	1,229,916	-	829,716	411,551	1,241,267
Financial liabilities:					
Debt securities issued	896,520	-	887,568	-	887,568

	31 December 2018				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Financial investments - debt investments	1,144,249	-	856,521	292,683	1,149,204
Financial liabilities:					
Debt securities issued	841,440	-	844,012	-	844,012

(i) Financial investments - debt investments

Debt investments are classified into level 1 when its fair value is based on quoted market price. Debt investments are classified into level 3 if its market information is not available and fair value is calculated using discounted cash flow model. Debt investments are classified into level 2, if fair value can be estimated using quoted market prices for securities with similar credit risk, maturity and yield rate.

(ii) Bonds issued

The fair value of Bonds issued is based on quoted market price. For those bonds whose quoted market price is not available, their fair value is calculated using discounted cash flow and the effective yield rate of bonds with similar maturity.

Except for the financial assets and liabilities listed above, the fair value of financial assets and financial liabilities not measured at fair value are calculated using discounted future cash flow model. Since these financial instruments are in short-term or under floating interest rate linked to market interest rate, they are carried at amounts not materially different from their fair value.

(3) Assets and liabilities measured at fair value on a recurring basis

The assets and liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

	30 June 2019			
	Level 1	Level 2	Level 3	Total
Financial investments				
FVTPL				
- Fund investments	300,932	-	1,266	302,198
- Bond investments	186	67,499	-	67,685
- Trust and asset management plans	-	17,508	46,093	63,601
- Equity investments	1,804	-	902	2,706
- Other investments	-	-	5,800	5,800
FVOCI				
- Bonds and other debt instruments	-	408,757	-	408,757
- Trust and asset management plans	-	915	2,577	3,492
- Other equity investments	438	-	4,385	4,823
Loans and advances to customers				
- at fair value through other comprehensive income	-	244,112	-	244,112
- at fair value through profit or loss	-	644	-	644
Derivative financial assets	-	39,552	-	39,552
Total financial assets	303,360	778,987	61,023	1,143,370
Derivative financial liabilities	-	39,584	-	39,584
Financial liabilities of FVTPL				
- Financial liabilities related to precious metals	-	35,179	-	35,179
- Interest of other unitholders in consolidated structured entities	1,074	7	3,389	4,470
Total financial liabilities	1,074	74,770	3,389	79,233

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial investments				
FVTPL				
- Fund investments	260,117	-	3,074	263,191
- Trust and asset management plans	-	16,069	52,600	68,669
- Bond investments	174	56,620	-	56,794
- Equity investments	345	-	783	1,128
- WMPs managed by other banks	-	-	208	208
- Other investments	-	-	5,678	5,678
FVOCI				
- Bonds and other debt instruments	35	376,338	-	376,373
- Trust and asset management plans	-	1,274	1,213	2,487
- Other equity investments	398	-	3,640	4,038
Loans and advances to customers				
- at fair value through other comprehensive income	-	249,153	-	249,153
- at fair value through profit or loss	-	482	-	482
Derivative financial assets	-	43,274	-	43,274
Total financial assets	261,069	743,210	67,196	1,071,475
Derivative financial liabilitie	-	42,793	-	42,793
Financial liabilities of FVTPL				
- Financial liabilities related to precious metals	-	24,504	-	24,504
- Interest of other unitholders in consolidated structured entities	1,107	19	9,282	10,408
Total financial liabilities	1,107	67,316	9,282	77,705

The Group takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. For the period ended 30 June 2019, there was no transfer between level 1 and level 2.

(i) Financial instruments in level 2

Valuation technique is used to calculate the fair value of financial instruments not actively traded in the markets (i.e., over-the-counter derivatives). The valuation techniques make use of observable market data (if any) as much as possible, and avoid relying on the specific estimations of the subjects. When all required significant inputs are observable in calculation of one financial instruction's fair value, the related financial instrument is classified into level 2. When one or more required significant inputs are unobservable, the related financial instrument is classified into level 3.

Financial assets classified into level 2 includes bond investments, currency swap contracts, foreign exchange forward contracts, interest rate swap contracts, option contracts, precious metal forward contracts, etc. The fair values of RMB bonds are determined based on the yield curve provided by China Central Depository and Clearing Co., Ltd. The fair values of foreign currency bonds are determined based on the valuation of Bloomberg. The fair values of currency swap contracts, foreign exchange forward contracts, and interest rate swap contracts are calculated by discounted cash flow and Black-Scholes Model, etc. All significant valuation inputs are observable market data.

(ii) Financial instruments in level 3

Movements of the Group's financial assets and liabilities classified as level 3 are listed below:

	Financial investments at fair value through profit or loss	Financial investments at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Total
1 January 2019	62,343	4,853	(9,282)	57,914
Purchase	15,118	2,090	(178)	17,030
Sales	(22,988)	(300)	6,165	(17,123)
Gains or losses recognised in profit or loss	(412)	85	(94)	(421)
Changes in gains or losses recognised in other comprehensive income	-	234	-	234
30 June 2019	54,061	6,962	(3,389)	57,634
Unrealised gains or losses recognised in profit or loss for the period ended 30 June 2019 for the positions held at 30 June 2019	(412)	-	(94)	(506)

	Financial investments at fair value through profit or loss	Financial investments at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Total
1 January 2018	76,991	3,008	(13,194)	66,805
Purchase	24,792	2,347	(961)	26,178
Sales	(40,263)	(1,221)	4,985	(36,499)
Gains or losses recognised in profit or loss	823	211	(112)	922
Changes in gains or losses recognised in other comprehensive income	-	508	-	508
31 December 2018	62,343	4,853	(9,282)	57,914
Unrealised gains or losses recognised in profit or loss for the year ended 31 December 2018 for the positions held at 31 December 2018	823	-	(112)	711

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows:

	Fair value as at 30 June 2019	Valuation technique	Unobservable input
Financial investments			
FVTPL			
- Trust and asset management plans	46,093	Income approach	Discount rate
- Equity investments	902	Income approach	Discount rate
- Fund investments	1,266	Based on the most recent transaction	NA
- Other investments	5,800	Note 1	Note 1
	54,061		
FVOCI			
- Trust and asset management plans	2,577	Income approach	Discount rate
- Equity investments	2,456	Based on the most recent transaction	NA
	1,710	Market approach	Discount For Liquidity P/B ratio
	219	Market approach	Discount For Liquidity PE ratio
	6,962		
Financial liabilities of FVTPL			
- Interest of other unitholders in consolidated structured entities	3,389	Note 2	Note 2

	Fair value as at 31 Dec 2018	Valuation technique	Unobservable input
Financial investments			
FVTPL			
- Trust and asset management plans	52,600	Income approach	Discount rate
- Fund investments	3,074	Based on the most recent transaction	NA
- Equity investments	783	Income approach	Discount rate
- WMPs managed by other banks	208	Income approach	Discount rate
- Other investments	5,678	Note 1	Note 1
	62,343		
FVOCI			
- Trust and asset management plans	1,213	Income approach	Discount rate
- Equity investments			
	1,985	Based on the most recent transaction	NA
	1,346	Market approach	Discount For Liquidity P/B ratio
	309	Market approach	Discount For Liquidity PE ratio
	4,853		
Financial liabilities of FVTPL			
- Interest of other unitholders in consolidated structured entities	9,282	Note 2	Note 2

Note 1：Financial investments at fair value through profit or loss refer to the product managed by Chang Jiang Pension Insurance Co., Ltd. in relation to the Bank's long term employee benefit plan. All of the underlying assets are financial assets and the total amount of the fair value of these financial assets is the fair value of the product. The methods to calculate the fair value of the financial assets are as follows:

- The fair value of investments in the money market fund is based on market price;
- The fair value of bonds is calculated using discounted cash flow and the yield rate of bonds with similar maturity;
- The fair value of other debt instruments is calculated using discounted cash flow model and unobservable discount rates.

Note 2: The fair value of the interests of other unitholders in consolidated structured entities is calculated based on the net asset value of the structured entities.

8.5 Offsetting of financial assets and financial liabilities

Some financial assets and financial liabilities in the Group follow executable net amount settlement arrangements or similar agreements. Such arrangements with the Group and counterparties normally allow the net amount settlement under agreements of both parties. If no agreement is reached, it would be settled in full amount. But one party could choose to settle in net amount under the condition that the other party violates the agreement. According to the requirements of the Accounting Standards for Business Enterprises, the Group did not offset these financial assets and financial liabilities.

As at 30 June 2019, the amount of the Group's financial assets and financial liabilities following executable net amount settlement arrangements or similar agreements is not significant.

8.6 Capital management

The objectives of the Group's capital management are to:

(1) Satisfy regulatory requirements for capital adequacy ratio on an ongoing basis, ensure operational compliance to ultimately optimise capital stock and structure.
(2) Ensure adequate capital for resisting corresponding risks, realise the operational safety, and keep capital at an adequate and reasonable level.
(3) Establish a capital allocation and management system that focuses on economic capital, optimise the resource allocation and management control mechanism at the group level, achieve capital intensive management to ultimately maximise shareholders' value.

The Group manages its capital structure and adjust it based on the changes in economic condition and the risk characteristics. Generally, the mechanism of adjusting the capital structure comprises dividend distribution policies and issuance of additional capital instruments such as tier 1 capital instruments and tier 2 capital instruments, etc.

In China, commercial banks should meet the requirements for capital adequacy ratio set out in the Administrative Measures on the Capital of Commercial Banks (for Trial Implementation). Specifically, for domestic systematically important banks, capital adequacy ratio of core tier 1 capital shall not be less than 8.50%, capital adequacy ratio of tier 1 capital shall not be less than 9.50% and capital adequacy ratio shall not be less than 11.50%. For banks not classified as systemically important banks, capital adequacy ratio of core tier 1 capital shall not be less than 7.50%, capital adequacy ratio of tier 1 capital shall not be less than 8.50% and capital adequacy ratio shall not be less than 10.50%.

	The Group	
	30 June 2019	31 December 2018
Core tier 1 capital - net	455,848	435,120
Tier 1 capital - net	486,121	465,398
Capital - net	607,246	589,308
Total risk weighted assets	4,652,839	4,311,886
Core tier 1 capital adequacy ratio	9.80%	10.09%
Tier 1 capital adequacy ratio	10.45%	10.79%
Capital adequacy ratio	13.05%	13.67%

(1) The scope of consolidation for the purpose of calculating the Group's Capital Adequacy Ratios includes domestic and overseas operating units and other financial subsidiaries specified in the capital rules.

(2) The Group's Core Tier 1 Capital includes ordinary shares, the capital reserve (subject to regulatory limitations), surplus reserve, general risk reserve, retained earnings, minority interests (to the extent permitted in the Core Tier 1 Capital under the Regulation).

(3) The Group's Deductible Items from Core Tier 1 Capital include other intangible assets (excluding land use rights) after deducting the related deferred tax liabilities.

(4) The Group's other Tier 1 Capital includes preference shares and minority interests to the extent permitted by the capital rules.

(5) The Group's Tier 2 Capital includes: Tier 2 capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests to the extent permitted by the capital rules.

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets. The Group adopts risk weighting approach, standardised approach and basic indicator approach to measure Credit Risk-weighted Assets, Market Risk weighted Assets and Operational Risk-weighted Assets respectively.

9 ASSETS PLEDGED

Certain assets of the Group are pledged as collateral for financial liabilities, and the carrying amounts of these assets are as follows:

	30 June 2019
Discounted bills	72,640
Financial investments	321,009
Total	393,649

10 EVENTS AFTER THE REPORTING DATE

10.1 The issuance of capital bonds without fixed terms

As approved by the CBIRC and the People's Bank of China, the Bank issued "2019 Capital Bonds Without Fixed Terms of Shanghai Pudong Development Bank Co., Ltd." in the domestic inter-bank bond market. Book-keeping of the bond was completed on 10 July 2019 and the bond was issued on 12 July 2019, with the issuance scale of RMB 30 billion. The funds raised from the bond will be used to supplement the Bank's other tier 1 capital in accordance with applicable laws and regulatory approval.

10.2 The issuance of A-share convertible corporate bonds

Approved by the shareholders' meeting, the Bank plans to issue corporate bonds worth no more than RMB 50 billion (inclusive) which can be convertible into common shares (A shares) of the Company. As at the approval date of the report, the issuance of the bond has been approved by the Shanghai Municipal State-own Assets Supervision and Administration Commission, the CBIRC and the Issuance Examination Committee Securities of China Securities Regulatory Commission.

11 COMPARATIVE FIGURES

In order to be consistent with the presentation of financial statements for the current period, a number of comparative figures have been reclassified.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS FOR THE YEAR ENDED 31 DECEMBER 2018

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2018

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Independent Auditor's Report

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

Opinion

What we have audited

The financial statements of Shanghai Pudong Development Bank Co., Ltd. ("the Bank") and its subsidiaries (the "Group") set out on pages 10 to 181, which comprise:

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

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and the Bank's financial position as at 31 December 2018, and the consolidated and the Bank's financial performance and the consolidated and the Bank's cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Independence

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

Key Audit Matters

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers, financial investment - debt investments, financial guarantees and loan commitments	
Refer to Notes 2.7, 3.1, 6.17, 6.21(b), 6.28, 6.34, 11.1.1, 11.1.3, 11.1.4, 11.1.5, 11.1.7 to the financial statements. As at 31 December 2018, the Group's principal of loans and advances to customers amounted to RMB 3,549,205 million, and loss allowance amounted to RMB 105,339 million; the principal of financial investment - debt investments amounted to RMB 1,136,889 million, and loss allowance amounted to RMB 7,488 million; the exposure of financial guarantees and loan commitments amounted to RMB 1,033,663 million, and provision amounted to RMB 4,747 million. The balances of loss allowances for loans and advances to customers, financial investment - debt investments and provision for financial guarantees and loan commitments represent the management's best estimates at the balance sheet date of expected credit losses ("ECL") under ECL models of International Financial Reporting Standard 9: Financial Instruments.	We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, financial investment - debt investments, financial guarantees and loan commitments, primarily including: (1) Governance over ECL models, including the selection, approval and application of modelling methodology; (2) Internal controls relating to significant management judgments and assumptions, including the review and approval of portfolio segmentation, model selections, parameters estimation, significant increase in credit risk, determination of defaults and credit impairments, and forward - looking adjustments; (3) Internal controls relating to the accuracy and completeness of key inputs used by the models; (4) Internal controls relating to the information systems for model - based measurement. The substantive procedures we preformed, primarily including:

Key Audit Matter	How our audit addressed the Key Audit Matter
The Group assesses whether the credit risk of loans and advances to customers, financial investment - debt investments and financial guarantees and loan commitments have increased significantly since their initial recognition, and applies a three - stage impairment model to measure their ECL. For loans and advances to customers, financial investment - debt investments and financial guarantees and loan commitments, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following: (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key parameters; (2) Criteria for determining a significant increase in credit risk, default and credit impairments; (3) Economic indicators for forward - looking measurement, and the application of economic scenarios and weightings. The Group established controls for the measurement of expected credit losses.	We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We examined the measurement of the models on a sample basis, to test whether or not the measurement models reflect the modelling methodologies documented by the management. We selected samples, in consideration of the financial information and non - financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit - impaired loans. For forward - looking measurement, we reviewed the management's model analysis of their selection of economic indicators, economic scenarios and weightings employed; we assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings. We examined key data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. .

Key Audit Matter	How our audit addressed the Key Audit Matter
For measuring expected credit losses, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, financial investment - debt investments, exposures of financial guarantees and loan commitments, the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.	For corporate loans and advances and financial investment - debt investments in stage 3, we examined, on a sample basis, the difference of loss allowance between the allowance from ELC models and the allowance from the discounted forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of expected credit losses for loans and advances to customers, financial investment - debt investments, financial guarantees and loan commitments, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.
Consolidation assessment of structured entities Refer to Notes 2.3, 3.4 and 6.45 to the financial statements. The Group managed or invested in a number of structured entities. As of 31 December 2018, structured entities of approximately RMB 67,167 million were consolidated by the Group; structured entities of RMB 2,533,543 million managed by the Group and structured entities of RMB 745,127 million invested by the Group were not consolidated. We focused on this area because the number of structured entities was significant and the assessment of whether the Group should consolidate these structured entities involved significant judgements, including the judgements regarding the Group's power over the structured entities' relevant activities, the Group's variable returns generated from the structured entities, and the Group's ability to affect these returns.	The audit procedures we performed regarding consolidation assessment of structured entities included: We understood, evaluated and validated the design and operating effectiveness of the relevant controls over the completeness of managed or invested structured entities, and the controls relating to management's assessment on whether or not to consolidate the structured entities. We checked the completeness of the list of structured entities. We verified the Group's assessment on whether the Group controlled the structured entities by examining supporting documents of selected samples of structured entities managed or invested by the Group by performing the following procedures:

Key Audit Matter	How our audit addressed the Key Audit Matter
	1.Evaluating whether the Group has power over structured entities' relevant activities by analyzing business structures and related contractual terms; 2.Reviewing contractual terms regarding variable returns of structured entities, including management fee relating to the Group's compensation in the investment contracts, the rate of return from the investments' contracts made by the structured entities and the investors' investment contracts to the structured entities, and the returns from lending support. We also checked these terms against the information in the management's list of structured entities. We recalculated the magnitude and variability of returns to the Group from these structured entities. We assessed whether the Group acted as principle or agent based on our analysis of the Group's power, the Group's variable returns generated from the structured entities, and the Group's ability to affect the returns, and compared our assessment result with management's assessment result. Based on the audit work performed, we found management's judgements in relation to the consolidation of structured entities acceptable.
Impairment of goodwill Refer to Notes 2.14, 2.16, 3.5 and 6.25 to the financial statements. In March 2016, the Group acquired Shanghai International Trust Investment Company and recognised goodwill amounted to RMB 6,981 million.	The audit procedures we performed regarding impairment test of goodwill included: Based on industry practice, we assessed the appropriateness of valuation techniques used by the management to forecast present value of future cash flows.

Key Audit Matters	How our audit addressed the Key Audit Matter
In the impairment test of goodwill, the Group allocated carrying amount of goodwill to each of the cash-generating units ("CGUs"), forecasted the future cash flows of each CGU, and applied appropriate discount rate for the calculation of present value of future cash flows. The future cash flow of CGUs is estimated based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated long-term average growth rates. The key assumptions used by the management in the calculation of present value of future cash flow including: (1) Forecast period growth rate; (2) Stable period growth rate; (3) Discount rate. We focus on this area because the calculation of recoverable amount of CGUs requires significant judgement, including forecasting future cash flows of each CGU and selecting discount rate to calculate discounted future cash flows.	We compared the actual performance of the CUGs for the year ended 31 December 2018 with the previous forecast data to assess whether the management's forecast of cash flows are reliable. We compared the main data used in cash flow models with the corresponding approved budget. We evaluated management's key assumptions by performing the following procedures: (1) Compare the five-year detailed forecast period growth rate with the historical growth rate of the CGUs and the industry historical data; (2) Compare growth rate beyond the five-year period with our independent expectations based on economic data; (3) In consideration of the market risk-free interest rate and asset-liability ratio, we assess the reasonableness of the discount rate used by management by recalculating the weighted average cost of capital of the CGUs and comparable companies in the same industry. For the sensitivity analysis prepared by management, we focus on the assumptions that have a significant impact on the present value of cash flows and assess the magnitude and likelihood that such changes will result in goodwill impairments. We tested the accuracy of the calculation of the net present value of future cash flows and compared the calculated results with the carrying amount of related goodwill. Based on the audit work performed, we found that the parameters and the key assumptions used in the goodwill impairment test are acceptable.

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Zhang Zhou.

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

22/March/2019

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED AND THE BANK'S STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in millions of RMB unless otherwise stated)

		Group		Bank	
	Note	2018	2017	2018	2017
Interest income	6.1	267,488	245,818	263,315	241,698
Interest expense	6.1	(155,644)	(138,906)	(153,198)	(136,696)
Net interest income		111,844	106,912	110,117	105,002
Fee and commission income	6.2	46,205	50,773	42,247	46,732
Fee and commission expense	6.2	(7,196)	(5,193)	(7,200)	(5,212)
Net fee and commission income		39,009	45,580	35,047	41,520
Dividend income		40	239	166	164
Net trading income	6.3	16,175	9,064	15,724	8,607
Net gains arising from financial investments	6.4	339	388	82	332
Other operating income		4,097	6,609	2,678	5,503
Employee benefit expenses	6.5	(24,643)	(23,296)	(23,093)	(21,905)
Operating expenses	6.6	(16,538)	(16,293)	(15,653)	(15,201)
Depreciation expenses for property and equipment		(2,931)	(2,577)	(2,215)	(2,087)
Tax and surcharges	6.7	(1,852)	(1,610)	(1,755)	(1,540)
Impairment losses	6.8	(60,420)	(55,285)	(59,823)	(55,037)
Share of results of associates and joint ventures		164	97	176	100
Profit before income tax		65,284	69,828	61,451	65,458
Income tax expense	6.9	(8,769)	(14,826)	(7,826)	(13,728)
Net profit		56,515	55,002	53,625	51,730

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED AND THE BANK'S STATEMENTS OF COMPREHENSIVE INCOME (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in millions of RMB unless otherwise stated)

		Group		Bank	
	Note	2018	2017	2018	2017
Other comprehensive income	6.10				
Items that may be reclassified to profit or loss					
- Changes in fair value of debt instruments at fair value through other comprehensive income		6,324	NA	6,518	NA
- Credit impairment allowance of debt instruments at fair value through other comprehensive income		62	NA	(71)	NA
- Changes in fair value of available-for-sale financial assets		NA	(5,440)	NA	(5,373)
- Exchange differences from the translation of foreign operations		266	(132)	110	(104)
Items that will not be reclassified to profit or loss					
- Changes in fair value of equity instruments at fair value through other comprehensive income		331	NA	331	NA
- Other comprehensive income, after tax		6,983	(5,572)	6,888	(5,477)
Total comprehensive income		63,498	49,430	60,513	46,253
Net profit attributable to:					
Shareholders of the Bank		55,914	54,258		
Non-controlling interests		601	744		
		56,515	55,002		
Total comprehensive income attributable to:					
Shareholders of the Bank		62,893	48,690		
Non-controlling interests		605	740		
		63,498	49,430		
Basic and diluted earnings per share attributable to the holders of the Bank's ordinary shares (expressed in RMB per share)	6.11	1.85	1.84		

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED AND THE BANK'S STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(All amounts expressed in millions of RMB unless otherwise stated)

		Group		Bank	
	Note	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Assets					
Cash and balances with central bank	6.12	443,723	486,531	439,900	482,118
Due from and placements with banks and other financial institutions	6.13	236,535	177,187	232,916	172,581
Precious metals		10,475	10,261	10,475	10,261
Financial assets at fair value through profit or loss	6.14	NA	162,866	NA	157,268
Derivative financial assets	6.15	43,274	28,264	43,274	28,264
Financial assets purchased under resale agreements	6.16	11,573	13,974	11,573	13,974
Loans and advances to customers	6.17	3,455,489	3,103,853	3,434,578	3,083,728
Available-for-sale financial assets	6.18	NA	664,508	NA	654,837
Investment securities - held-to-maturity	6.19	NA	444,726	NA	444,726
Investment securities - loans and receivables	6.20	NA	832,598	NA	817,939
Financial investments:	6.21				
Trading assets - financial investment at fair value through profit or loss		395,668	NA	382,492	NA
Debt investments-at amortized cost		1,144,249	NA	1,133,993	NA
Other debt investments-at fair value through other comprehensive income		378,860	NA	374,171	NA
Other equity investments-at fair value through other comprehensive income		4,038	NA	4,038	NA
Investments in associates and joint ventures	6.22	1,968	1,006	1,757	804
Investments in subsidiaries	5	-	-	24,307	23,056
Property and equipment	6.23	23,718	21,877	12,052	11,853
Construction in progress	6.24	4,499	4,674	4,499	4,674
Intangible assets	6.25	9,257	9,346	-	-
Deferred income tax assets	6.26	36,877	29,022	36,078	28,381
Other assets	6.27	89,403	146,547	36,765	100,569
Total assets		6,289,606	6,137,240	6,182,868	6,035,033

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED AND THE BANK'S STATEMENTS OF FINANCIAL POSITION (Continued)
AS AT 31 DECEMBER 2018
(All amounts expressed in millions of RMB unless otherwise stated)

		Group		Bank	
	Note	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Liabilities					
Due to central bank		221,003	182,387	220,263	181,500
Due to and placements from banks and other financial institutions	6.29	1,216,391	1,453,100	1,185,333	1,423,494
Trading liabilities - at fair value through profit or loss	6.30	34,912	28,333	24,504	15,121
Derivative financial liabilities	6.15	42,793	30,034	42,793	30,034
Financial assets sold under repurchase agreements	6.31	119,564	184,464	119,564	184,464
Deposits from customers	6.32	3,253,315	3,037,936	3,222,589	3,006,604
Income tax payable		16,657	16,435	16,182	15,957
Bonds issued	6.33	841,440	686,296	832,873	682,109
Deferred income tax liabilities	6.26	643	680	-	-
Provision	6.34	4,747	NA	4,742	NA
Other liabilities	6.35	59,761	86,590	49,885	75,626
Total liabilities		5,811,226	5,706,255	5,718,728	5,614,909
Equity					
Ordinary shares	6.36	29,352	29,352	29,352	29,352
Preference shares	6.37	29,920	29,920	29,920	29,920
Capital surplus	6.38	81,760	81,760	81,710	81,710
Surplus reserves	6.39	109,717	94,198	109,717	94,198
General risk reserve	6.40	75,946	75,702	74,900	74,900
Other reserves	6.41	4,659	(5,335)	4,627	(5,289)
Retained earnings	6.42	140,208	119,807	133,914	115,333
Equity attributable to the Bank's shareholders		471,562	425,404	464,140	420,124
Non-controlling interests	6.43	6,818	5,581	-	-
Total equity		478,380	430,985	464,140	420,124
Total liabilities and equity		6,289,606	6,137,240	6,182,868	6,035,033

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

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

Chairman: Governor: Chief Financial Officer: Head of finance and accounting department:

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in millions of RMB unless otherwise stated)

	Equity attributable to the Bank's shareholders									
	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
Note	6.36	6.37	6.38	6.39	6.40	6.41	6.42		6.43	
Balance at 31 December 2017	29,352	29,920	81,760	94,198	75,702	(5,335)	119,807	425,404	5,581	430,985
Changes of accounting Policies(note 4)	-	-	-	-	-	3,015	(15,090)	(12,075)	64	(12,011)
Balance at 1 January 2018	29,352	29,920	81,760	94,198	75,702	(2,320)	104,717	413,329	5,645	418,974
Net profit for the year	-	-	-	-	-	-	55,914	55,914	601	56,515
Other comprehensive income	-	-	-	-	-	6,979	-	6,979	4	6,983
Total comprehensive income	-	-	-	-	-	6,979	55,914	62,893	605	63,498
Non-controlling interest increased from capital increase of subsidiary	-	-	-	-	-	-	-	-	799	799
Appropriations to surplus reserves and general risk reserve	-	-	-	15,519	244	-	(15,763)	-	-	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(2,935)	(2,935)	-	(2,935)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)	-	(1,725)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	(231)	(231)
Balance at 31 December 2018	29,352	29,920	81,760	109,717	75,946	4,659	140,208	471,562	6,818	478,380

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in millions of RMB unless otherwise stated)

	Equity attributable to the Bank's shareholders									
	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
Note	6.36	6.37	6.38	6.39	6.40	6.41	6.42		6.43	
Balance at 1 January 2017	21,618	29,920	74,678	78,689	65,493	233	97,316	367,947	4,987	372,934
Net profit for the year	-	-	-	-	-	-	54,258	54,258	744	55,002
Other comprehensive income	-	-	-	-	-	(5,568)	-	(5,568)	(4)	(5,572)
Total comprehensive income	-	-	-	-	-	(5,568)	54,258	48,690	740	49,430
Non-controlling interest increased from capital increase of subsidiary	-	-	-	-	-	-	-	-	92	92
Private placement of ordinary shares	1,248	-	13,568	-	-	-	-	14,816	-	14,816
Appropriations to surplus reserves and general risk reserve	-	-	-	15,509	10,209	-	(25,718)	-	-	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(4,324)	(4,324)	-	(4,324)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)	-	(1,725)
Ordinary shares converted from capital surplus	6,486	-	(6,486)	-	-	-	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	(238)	(238)
Balance at 31 December 2017	29,352	29,920	81,760	94,198	75,702	(5,335)	119,807	425,404	5,581	430,985

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE BANK'S STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in millions of RMB unless otherwise stated)

	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Total
Note	6.36	6.37	6.38	6.39	6.40	6.41	6.42	
Balance at 31 December 2017	29,352	29,920	81,710	94,198	74,900	(5,289)	115,333	420,124
Changes of accounting Policies(note 4)	-	-	-	-	-	3,028	(14,865)	(11,837)
Balance at 1 January 2018	29,352	29,920	81,710	94,198	74,900	(2,261)	100,468	408,287
Net profit	-	-	-	-	-	-	53,625	53,625
Other comprehensive income	-	-	-	-	-	6,888	-	6,888
Total comprehensive income	-	-	-	-	-	6,888	53,625	60,513
Appropriations to surplus reserves and general risk reserve	-	-	-	15,519	-	-	(15,519)	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(2,935)	(2,935)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)
Balance at 31 December 2018	29,352	29,920	81,710	109,717	74,900	4,627	133,914	464,140

	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Total
Note	6.36	6.37	6.38	6.39	6.40	6.41	6.42	
Balance at 1 January 2017	21,618	29,920	74,628	78,689	65,045	188	95,016	365,104
Net profit	-	-	-	-	-	-	51,730	51,730
Other comprehensive income	-	-	-	-	-	(5,477)	-	(5,477)
Total comprehensive income	-	-	-	-	-	(5,477)	51,730	46,253
Private placement of ordinary shares	1,248	-	13,568	-	-	-	-	14,816
Appropriations to surplus reserves and general risk reserve	-	-	-	15,509	9,855	-	(25,364)	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(4,324)	(4,324)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)
Ordinary shares converted from capital surplus	6,486	-	(6,486)	-	-	-	-	-
Balance at 31 December 2017	29,352	29,920	81,710	94,198	74,900	(5,289)	115,333	420,124

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED AND THE BANK'S STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in millions of RMB unless otherwise stated)

	Group		Bank	
	2018	2017	2018	2017
1. Cash flows from operating activities				
Profit before income tax	65,284	69,828	61,451	65,458
Adjusted by:				
Depreciation	2,931	2,577	2,215	2,087
Impairment losses of loans and advances to customers	58,383	52,799	58,077	51,821
Other impairment losses	2,037	2,486	1,746	3,216
Interest expense	155,644	138,906	153,198	136,696
Interest income	(267,488)	(245,818)	(263,315)	(241,698)
Net gains on disposal of property and equipment	(33)	(16)	(34)	(17)
Dividend income	(40)	(239)	(166)	(164)
Share of results of associates and joint ventures	(164)	(97)	(176)	(100)
Unrealized (gains)/losses on derivative financial instruments	(2,695)	4,912	(2,695)	4,912
Net gains arising from financial investments	(339)	(388)	(82)	(332)
Exchange (gains)/losses from investing and financing activities	(10)	12	(10)	12
Net decrease/(increase) in operating assets:				
Mandatory reserves with central bank	74,107	2,312	74,070	2,637
Due from and placements with banks and other financial institutions	(48,259)	105,957	(45,372)	104,209
Financial assets at fair value through profit or loss	NA	14,337	NA	14,153
Financial assets held for trading	30,565	NA	29,741	NA
Financial assets purchased under resale agreements	2,406	(10,973)	2,406	(10,973)
Precious metals	(214)	(713)	(214)	(713)
Loans and advances to customers	(411,136)	(431,794)	(409,983)	(429,664)
Other assets	57,144	(53,688)	63,804	(52,693)
Net increase/(decrease) in operating liabilities:				
Due to central bank	35,354	34,765	35,500	34,500
Due to and placements from banks and other financial institutions	(241,452)	14,005	(242,839)	16,425
Financial assets sold under repurchase agreements	(65,014)	91,264	(65,014)	91,536
Deposits from customers	189,082	35,921	190,314	32,155
Trading liabilities- at fair value through profit or loss	6,579	(1,193)	9,383	(9,401)
Other liabilities	(45,183)	(13,830)	(51,849)	(13,377)
Cash used from operating activities	(402,511)	(188,668)	(399,844)	(199,315)
Interest received	208,029	177,909	204,219	174,202
Interest paid	(130,413)	(112,305)	(120,796)	(110,348)
Income tax paid	(13,465)	(17,609)	(12,291)	(16,253)
Net cash used from operating activities	(338,360)	(140,673)	(328,712)	(151,714)

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED AND THE BANK'S STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in millions of RMB unless otherwise stated)

	Group		Bank	
	2018	2017	2018	2017
2. Cash flows from investing activities				
Redemption of investment securities	1,673,028	4,740,191	1,667,415	4,740,191
Investment income received	76,363	66,441	75,570	65,782
Proceeds from disposal of property and equipment	88	151	73	131
Purchase of property and equipment	(4,857)	(3,981)	(2,484)	(1,327)
Purchase of other long term assets	(1,077)	(4,449)	(1,068)	(4,445)
Cash paid for additional equity investments	(852)	(5)	(2,082)	(77)
Proceeds from disposal of equity investments	-	1	-	-
Purchase of investment securities	(1,484,804)	(4,760,549)	(1,480,137)	(4,749,777)
Net cash generated/(used) in investing activities	257,889	37,800	257,287	50,478
3. Cash flows from financing activities				
Proceeds from equity investments	799	14,908	-	14,816
Proceeds from issuance of bonds and deposit certificates	1,288,077	1,332,184	1,283,232	1,327,237
Repayment of bonds and deposit certificates issued	(1,137,019)	(1,310,571)	(1,136,399)	(1,309,811)
Interest paid on bonds and deposit certificates issued	(29,063)	(25,415)	(28,866)	(25,398)
Dividends paid	(4,891)	(6,286)	(4,660)	(6,049)
Net cash generated from financing activities	117,903	4,820	113,307	795
4. Effect of exchange rate changes on cash and cash equivalents	2,754	(1,900)	2,734	(1,899)
5. Net increase/(decrease) in cash and cash equivalents	40,186	(99,953)	44,616	(102,340)
Cash and cash equivalents at the beginning of the year	147,458	247,411	138,838	241,178
Cash and cash equivalents at the end of the year	187,644	147,458	183,454	138,838
6. Composition of cash and cash equivalents				
Cash	6,036	7,284	5,894	7,121
Excess reserves with central bank	70,709	38,905	69,687	37,354
Due from and placements with banks and other financial institutions with original maturities no more than three months	110,899	101,269	107,873	94,363
Total	187,644	147,458	183,454	138,838

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

1 GENERAL INFORMATION

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all the years presented unless otherwise stated.

2.1 Basis of preparation

The Group's accounting year starts on 1 January and ends on 31 December.

The financial statements are prepared in accordance with International Financial Report Standards ("IFRS"), on the basis of going concern. The financial statements have been prepared under the historical cost convention, except for precious metals, loans and advances to customers at fair value through profit or loss, loans and advances to customers at fair value through other comprehensive income, financial investments-trading assets, financial investments-other debt investments, financial investments-other equity instruments, and trading liabilities-at fair value through profit or loss, which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. Estimates and judgements significant to the financial statements are disclosed in Note 3.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New and revised IFRSs applied which were effective in 2018

The Group has applied following new or amended IFRSs, which are applicable for the Group since 1 January 2018 and are set out below:

IFRS15	Revenue from Contracts with Customers
IFRS 9	Financial Instruments
Amendment to IAS 28	Annual Improvements to IASB 2014-2016 Cycle
Amendment to IFRS 4	Application of IFRS9
Amendments to IAS 40	Transfers of investment property
Amendment to IFRS 2	Share-based Payment
IFRIC 22	Foreign Currency Transactions and Advance Consideration

IFRS 15

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognize revenue when performance obligation is satisfied. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control.

IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition.

IFRS 9

The Group has adopted International Financial Report Standard 9 “Financial Instruments” (“IFRS 9”) as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which composed changes in accounting policies and resulted in adjustments to the amounts previously recognised in the financial statements. No early adoption of IFRS 9 is applied in prior period by the Group.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New and revised IFRSs applied which were effective in 2018(Continued)

IFRS 9 (Continued)

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 "Financial Instruments: Disclosures".

The Group's impact of adopting IFRS 9 is disclosed at note 4. Further details of the specific IFRS 9 accounting policies applied in the current year (as well as the previous IAS 39 accounting policies applied in the comparative period) are listed at note 2.7.

Amendments to IAS 28 (Revised)

The IASB Annual Improvements 2014 – 2016 Cycle include the amendments to IAS 28 – Investments in Associates and Joint Ventures. These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment by- investment basis, upon initial recognition.

Amendments to IFRS 4 (Revised)

These amendments provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied.

Amendments to IAS 40 (Revised)

These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties.

Amendments to IFRS 2 (Revised)

These amendments provide guidance on three matters regarding classification and measurement. These amendments also provide additional guidance on the accounting for cash-settled share-based payments and provision of award with a net settlement feature for withholding tax obligations.

These amendments clarify the measurement basis for cash-settled awards and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception that requires an award to be treated as if it is wholly equity-settled, where it has a net settlement feature for withholding tax obligations.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New and revised IFRSs applied which were effective in 2018(Continued)

IFRIC 22

IFRIC 22 clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

Except for IFRS 9, the adoption of the above amendments does not have a significant impact on the operating results, comprehensive income and financial position of the Group.

(b) New and revised IFRSs issued but not yet effective

		Effective for annual period beginning on or after
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 16	Leases	1 January 2019
Amendments to IFRS 10 and IAS 28(Revised)	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015 - 2017 Cycle	1 January 2019
Amendments to IFRS 9	Prepayment Features with negative compensation and modifications of financial liabilities	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IAS 28(Revised)	Long-term Interests in Associates and Joint Ventures	1 January 2019
IAS 19(Revised)	Plan Amendment, Curtailment or Settlement	1 January 2019

IFRIC 23

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New and revised IFRSs issued applicable to the Group but not yet effective (Continued)`

IFRS 16

IFRS 16 was officially issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. The new standards improve the identification, breakdown and merger of leases and require lessees to recognize leases in balance sheets. For lessees, the new leasing standards will recognize all the leases in balance sheets as the classification of operating leases and financial leases has been removed. According to new standards, the entity is required to recognize the right-of-use assets and leasing liabilities, and exemptions applied only to short-term and low-value leases. Meanwhile, the new standards also improve the accounting treatment of the lessee on subsequent measurement and leasing changes. The new standards have not undergone substantial changes in the accounting of lessors.

The Group will adopt the standards for annual periods beginning on or after January 1, 2019 and intends to use the simple transition methods stated in the standards to restate the comparative amount for the previous year impacted by the first adoption. On the first day of implementation, the Group will measure the leasing liabilities on the basis of the present value of the remaining lease payment at the interest rate of the lessee's incremental borrowing for the first day of implementation and the right-of-use assets for the leases of inventory using the new standards as from the beginning of the lease period. For short-term and low-value leases, the Group is subject to the recognition exemptions.

The Group expects that the first adoption of the new standards will not have a significant impact on the financial statements.

Amendments to IFRS 10 and IAS 28 (Revised)

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

Amendments to IFRS :The Annual Improvements to IFRSs 2015 - 2017 Cycle

The Annual Improvements to IFRSs 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments to IFRS 3 - Business Combinations, the amendments to IFRS 11 - Joint Arrangements, the amendments to IAS 12 - Income taxes and IAS 23 - Borrowing Costs.

Amendments to IFRS 9

These amendments permit more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New and revised IFRSs issued applicable to the Group but not yet effective (Continued)

IFRS 17

IFRS 17 was issued as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the “variable fee approach” for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

IAS 28(revised)

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures.

IAS 19(Revised)

The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must :

- calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change;

- any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling;

- separately recognise any changes in the asset ceiling through other comprehensive income.

The adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group’s operating results, financial position or other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Business Combinations

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Acquisition-related costs are expensed as incurred. The transaction costs incurred for the issuance of equity or debt securities in connection with the business combination are included in part of the initial recognition cost of these securities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Consolidation

The scope of consolidation is determined based on control, including the financial statements of the Bank and all its subsidiaries.

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

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

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

Where necessary, amounts reported by subsidiaries have been adjusted to conform to the policies adopted by the Group. Intra-group balances, transactions and unrealised profits on transactions between group companies are eliminated. The Group's non-controlling interests, including subsidiaries' equity, net profit for the year and comprehensive income that are not attributable to the Bank's shareholders, are separately presented in the respective sections of the consolidated financial statements.

With respect to a subsidiary acquired through business combination, the consideration paid and the identifiable net assets acquired in a business combination are measured at initially their fair values on the acquisition date. Goodwill is initially measured at cost being the excess of the aggregate fair value of the consideration paid and the acquirer's interest in the fair value of the acquiree's net identifiable assets. If the fair value of consideration is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss. The operating results and cash flows of the subsidiary shall be consolidated into the Group's financial statements from the date the Group obtains control of the subsidiary and deconsolidated from the Group's financial statements when the Group loses the control of the subsidiary. While preparing the consolidated financial statements, the Group should adjust the subsidiary's financial statements by using the fair values of the identifiable assets, liabilities and contingent liabilities recognized on the acquisition date.

2.4 Foreign currency translation

The functional currency of the Group's operations in Mainland China is Renminbi (RMB). The functional currency of the Group's operations oversea depends on the primary economic environment in which the entity operates. The presentation currency of the Group is RMB.

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

At the financial reporting date, monetary items denominated in foreign currencies are translated to RMB using the exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other reserves of equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation(Continued)

At the financial reporting date, non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the exchange rates at the date of transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets at fair value through other comprehensive income are recognized in other reserves in equity. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognized in the profit or loss.

The results and financial positions of the Group entities that have a functional currency difference from the presentation currency are translated into the presentation currency as follows:

(i) asset and liability items are translated at the closing rate at the date of the statement of financial position;
(ii) income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions.

The resulting translation differences are recorded in other comprehensive income.

2.5 Cash and cash equivalents

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

2.6 Precious metals

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

2.7 Financial assets and financial liabilities

2.7.1 Recognition and derecognition

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities(Continued)

2.7.1 Recognition and derecognition(Continued)

Modification of financial assets

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

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

If the terms are not substantially different, the renegotiation or modification does nor result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired (“POCI”) financial assets). In assessing whether the credit risk of the relevant financial assets has increased significantly, the Group compares the risk of default on the statement of financial position based on the changed contract terms with the risk of default based on the original contract terms at initial recognition.

The impact of modification of financial assets on the expected credit loss calculation is discussed in Note 11.1.3

Derecognition other than on modification

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

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

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities(Continued)

2.7.1 Recognition and derecognition(Continued)

Derecognition other than on a modification(Continued)

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

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

2.7.2 Classification and measurement

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

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

a) At initial recognition, the fair value of a financial asset or financial liability is determined based on the quotation of the same asset or liability in an active market or valuation techniques using only observable market data, the difference between the fair value and the transaction price is recognized as a gain or loss.

b) In the initial recognition, if the fair value of financial assets or financial liabilities is determined in other ways, the difference between the fair value and the transaction price is deferred. After the initial recognition, the deferred difference is recognized as the gain or loss of the corresponding accounting period based on the degree of change in the corresponding accounting period. This factor should be limited to factors that market participants will consider when pricing the financial instrument, including time.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities (Continued)

2.7.2 Classification and measurement (Continued)

Fair value

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

Financial assets

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

Amortized cost and effective interest rate

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities (Continued)

2.7.2 Classification and measurement (Continued)

<u>Financial assets (Continued)</u>

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and

(ii) the cash flow characteristics of the asset.

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

(i) Amortized cost;

(ii) Fair value through other comprehensive income; or

(iii) Fair value through profit or loss.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. The Group determines business model based on key management personnel's specific business objectives.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities (Continued)

2.7.2 Classification and measurement (Continued)

Financial assets(Continued)

Debt instruments(Continued)

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

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

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

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

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss.

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

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

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities (Continued)

2.7.2 Classification and measurement (Continued)

Financial assets(Continued)

Equity instruments

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

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

(i) The Group's right to receive dividends is established;

(ii) The economic interest relating to the dividend is very likely to flow in the Group; and

(iii) The amount of dividends can be measured reliably.

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

Financial liabilities

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

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability).

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2.7.1; and

- Financial guarantee contracts not mentioned above, and loan commitments promised to provide loans at below market interest rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities (Continued)

2.7.3 Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument carried at amortized cost and FVOCI and with the exposure arising from financial guarantee contracts and loan commitments. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- The time value of money; and

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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

2.7.4 Offset

The Group shows financial assets and financial liabilities separately in the statement of financial position and may not offset each other, except for:

(i) The Group has a statutory right to offset the confirmed amount and the legal right is now enforceable；

(ii) The Group plans to net settle the assets and liabilities or realize the financial assets and repay the financial liabilities at the same time.

2.8 Derivatives and hedging activities

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

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes (Note2.7.2). Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) The hybrid contract is not measured at fair value through profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Derivatives and hedging activities (Continued)

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

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

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

<u>Fair value hedge</u>

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

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

<u>Cash flow hedge</u>

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2.10 Investments in associates and joint ventures

Associates are all entities over which the Group has significant influence but no control. Significant influence is the power to participate in the financial and operating policy decision process but does not control or jointly control those policy decisions.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Investments in associates and joint ventures are initially recognized at cost and are accounted for using the equity method of accounting. The Group's "Investments in associates and joint ventures" includes goodwill.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognized for the amounts by which the investments in associates and joint ventures' carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

2.11 Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The cash dividends and profit announced by subsidiaries are recognized is recognised in profit or loss as "Dividend income".

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Property and equipment

2.12.1 Recognition and initial measurement

Property and equipment mainly comprise buildings, motor vehicles, mainframe computers, computer equipment, electrical equipment, office equipment, aircraft equipment, software and leasehold improvement, etc.

Property and equipment shall be recognized only when the economic benefits associated with the asset will likely flow into the Group and the cost of the asset can be measured reliably. Subsequent expenditure incurred for property and equipment that meet the recognition criteria shall be included in the cost of the asset, and carrying amount of the component of the asset that is replaced shall be derecognized. Otherwise, such expenditure shall be recognized in profit or loss.

Property and equipment are initially measured at cost, comprising purchase price, relevant taxes and any directly attributable expenditure for bringing the asset to working condition for its intended use, such as delivery and handling costs, installation costs and other surcharge.

2.12.2 Depreciation methods of property and equipment

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For the impaired property and equipment, the annual depreciation amount should be calculated on the basis of carrying amount less impairment and estimated remaining useful life. The estimated useful lives, estimated residual values and annual depreciation rates are as follows:

Category	Useful life	Estimated residual value	Annual depreciation rate
Buildings	30 years	3-5%	3.17-3.23%
Motor Vehicles	5 years	3-5%	19.00-19.40%
Mainframe computers	5 years	3-5%	19.00-19.40%
Computer equipment	3-5 years	3-5%	19.00-32.33%
Electronic equipment	5 years	3-5%	19.00-19.40%
Office equipment	5 years	3-5%	19.00-19.40%
Software	5 years	0%	20%
Leasehold improvement	5 years	0%	20%
Aircraft equipment	20 years	5%	4.75%

The Group’s Aircraft equipment is purchased to conduct operating lease activities.

Estimated useful lives, residual values, and depreciation method are reviewed and adjusted if appropriate at the end of each year by the Group.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 2.16).

2.13 Constructions in progress

Construction in progress is stated at cost. Cost comprises cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences from the following month after such assets are transferred to property and equipment. When the recoverable amount is lower than its carrying amount, it shall be written down immediately to the recoverable amount (Note 2.16).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Intangible assets

The Group's intangible assets mainly include goodwill, brand, franchise right and contractual customer relationships etc., Brand, franchise right and contractual customer relationships acquired in a business combination are measured with fair value.

Goodwill is recognized at the excess of the cost of a business combination involving enterprises not under common control over the interest in the fair value of the acquirees' identifiable net assets acquired in the business combination as at the acquisition date. Goodwill arises on acquisition shall be subject to an impairment test annually or more frequently, and whenever events or changes indicate a potential impairment.

Brand and franchise right are intangible assets with no expected useful lives, which are not subject to amortization but require impairment test annually.

Customer contract relationship is amortized on the straight-line basis over the maximum beneficial life upon the acquisition date.

The Group reviews the useful life and amortization method of a finite useful life intangible assets at the end of each year and adjusts it if necessary. Intangible assets with indefinite useful life are not subject to amortization and are tested annually for impairment.

When the recoverable amount is lower than its carrying amount, book value should be reduced to the recoverable amount (Note 2.17).

2.15 Foreclosed assets

Foreclosed assets included in 'Other assets' are initially recognized at fair value plus related costs when they are obtained as the compensation for the loan principal and interest and subsequently measured at the lower of their carrying amount and net realizable value. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its net realizable value, through profit or loss.

2.16 Impairment of long term assets

Except for goodwill, property and equipment, construction in progress, intangible assets with finite useful lives, and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the reporting date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. Cash-generating unit is the smallest identifiable group of assets that generates cash inflows independently of the cash flows from other assets or groups of assets.

Goodwill arises on acquisition shall be subject to an impairment test annually or more frequently, and whenever events or changes indicate a potential impairment. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that are expected to benefit from the synergies of the combination. Impairment is recognized if the impairment testing indicates the recoverable amount of the CGU containing the goodwill is lower than the carrying amount. The amount of the impairment loss shall be firstly offset by the carrying amount of the goodwill allocated to the CGU, and then offset by the carrying amount of other assets other than goodwill in the CGU or groups of CGUs by their proportion of the carrying amount. Any Goodwill impairment recognized cannot be subsequently reversed in future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Bonds issued

Bonds issued are initially measured at fair value less transaction cost, and subsequently measured at amortized cost, using the effective interest method.

2.18 Provisions

Except for provision arising from business combination, provisions are recognized by the Group when obligations related to contingent matters meet all the following conditions:

(i) The Group has present legal or constructive obligations as a result of past events;

(ii) It is probable that an outflow of resources from the Group will be required to settle the obligation; and

(iii) The amount has been reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

At the reporting date, the Group reviews and adjusts the provisions to reflect current best estimation.

The Group's expected credit losses of financial guarantees and loan commitments are presented as provision.

2.19 Fiduciary activities

The Group acts as an agent to safeguard assets for customers in accordance with agreements. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

2.20 Financial guarantee contracts and loan commitments

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

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

- The amount of the loss allowance (calculated as described in Note 11.1.3); and

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Financial guarantee contracts and loan commitments (Continued)

- The premium received on initial recognition less the accumulated amount of income recognised in accordance with the principles of IFRS 15.

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

The Group's expected credit losses of financial guarantees and loan commitments are presented as “provision”.

2.21 Revenue and expense recognition

2.21.1 Interest income and interest expense

Other than derivative financial instruments, interest income and expense that are generated by interest generating financial instruments are calculated by using effective interest rate method. They are recognised in profit or loss as “Interest income” and “Interest expense”. Interest income and expense that are generated by derivative financial instruments are recognised in profit or loss as “Net trading income”.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Interest income on an impaired financial asset or a group of impaired similar financial assets is recognised using the original interest rate.

2.21.2 Fee and commission income

For the performance obligation implemented at a certain point of time, the Group recognises revenue when the customer obtains and consumes the economic benefits of the performance of the Group. For the performance obligation implemented during a certain period, the Group recognizes the income according to the progress of the performance during the period.

2.22 Employee benefits

Employee benefits are all forms of benefits provided by the Group in exchange for service rendered by employees. Employee benefits are recognized in the period in which services are rendered.

The Group has participated in various defined contribution social security schemes set up by government agency including pension and medical insurance, housing fund and other social security plans. According to the relevant regulations and contracts, insurance and housing fund shall be paid to the social security agencies or insurance company based on certain percentages of the gross salary subject to a ceiling. The Group’s contributions to these plans are charged to profit or loss.

Other than the social security schemes described above, the Group has no further material benefit obligations to its employees.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Income tax

Income tax comprises current and deferred tax. Income taxes are recognized as an expense or income and include in profit or loss, except to the extent that the tax arises from a business combination or if it relates to a transaction or event which is recognized directly in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years. The Group recognizes current income tax asset or liability as expected tax returns or payables on the taxable income for the year and in respect of previous periods.

Deferred income tax is provided in full, and recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilized except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/ (tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognized to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities shall be recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognized, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Deferred tax assets and liabilities are offset when:

- The deferred taxes are related to the same taxable entity within the Group and the same taxation authority; and

- The taxable entity within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Operating leases and finance leases

A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

- As a lessee under operating leases

Lease payments under an operating lease are recognized in profit or loss by a lessee on a straight-line basis over the lease term. Initial direct cost is also charged to profit or loss. Contingent rents are recorded into profit or loss of the period in which they actually arise.

- As a lessor under finance leases

At the lease commencement date, the present value of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognized as a receivable. The difference between the receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using an interest rate which reflects a constant rate of return, as interest income in the comprehensive income statement. Contingent rents are recorded into profit or loss of the period in which they actually arise. The differences between the finance lease receivables less the unearned finance income are presented in "other assets". When making the judgment of derecognition or impairment measurement, finance lease receivables are considered as loans and receivables.

- As a lessor under operating lease

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. Rental income from operating leases is recognized as Other Operating Income in the consolidated income statement on a straight-line basis over the term of the related lease. Large amount initial direct cost is capitalized as incurred, and is recorded into profit or loss of the period over the term of the related lease with the same recognition basis as rental income; other small amount initial direct cost is charged to profit or loss of the period as incurred. Contingent rents are recorded into profit or loss of the period in which they actually arise.

2.25 Segment reporting

The Group identifies operating segment on the basis of internal organization structure, management requirement and internal report system, and forms the segment report and discloses the segment information based on operating segment.

Operating segment represents the segment satisfying the following conditions at the same time: (i) the segment produces income and expense in daily activities; (ii) the Group's management regularly evaluates the performance of the segment, and decides to allocate resources to the segment and to assess its performance; and (iii) the Group can obtain financial position, operation performance, cash flow and other relevant accounting information of the segment. Two or more operating segments with similar economic characteristics are combined into an operating segment, provided that certain conditions are met.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes regular assessments on accounting judgments and estimates based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to significant changes in estimates and judgments, which affect the carrying value of assets and liabilities of next accounting period, are set out below. It is possible that actual results may be materially different from the estimates and judgments referred below.

3.1 Expected credit loss measurement

The models and assumptions used in the measurement of the expected credit loss allowance for debt instruments measured at amortized cost and FVOCI, financial guarantee contracts and loan commitments involve future economic conditions and credit behavior of borrowers (e.g. the likelihood of customers defaulting and the resulting losses).

According to the requirement of IFRS, the measurement of ECL involves many key assumptions, such as:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;

- Criteria for determining significant increase in credit risk, default and credit-impaired; and

- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings.

The detailed measurement method of ECL is described at Note 11.1.3.

3.2 Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments that are not quoted in an active market. These valuation techniques include reference to transaction price determined by a fair deal between two economic entities with complete information and willingness to trade in the market, reference to the fair value of a similar financial instrument in the market, or estimation using discounted cash flow analysis and option pricing model. Valuation techniques make maximum use of market information. However, when market information is not available, the Group uses calibrated assumptions as close as possible to market observable data. The management will make estimates to credit risk, volatility and correlation of the Group and its counterparties. Changes in these assumptions will influence the fair value of financial instruments.

3.3 Income taxes and value added taxes

Significant estimates are required in calculating the income tax, value added tax and other taxes. During the ordinary business activities, there is uncertainty in the final tax treatment of some transactions and events. The Group recognizes liabilities for anticipated tax issues arising from new tax regulations or other uncertain tax arrangements based on estimates of whether additional taxes will be due. The deductibility of certain items is subject to tax authority’s final approval. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will affect the current income taxes, deferred tax provisions and taxes and surcharges in the period in which such determination is made.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

3.4 Consolidation of structured entities

Management applies its judgment to determine whether the Group is acting as an agent or a principle in relation to the structured entities in which the Group acts as an asset manager. In assessing whether the Group is acting as an agent, the Group considers factors such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to viability of returns by other arrangements (such as direct investments).

For further disclosure in respect of unconsolidated structured entities in which the Group has an interest or provides finance funds, see Note 6.45.

3.5 Impairment of Goodwill

Goodwill impairment reviews are undertaken annually or more frequently by the Group, and it's also needed if events or changes indicate a potential impairment. For the purpose of impairment testing, Goodwill acquired in a business combination is allocated to each of the CGU, or groups of CGUs. The Group forecasts future cash flow of the CGU and CGUs, and applies appropriate discount rate for the calculation of the present value of future cash flow.

3.6 Derecognition of financial assets

The Group's transfer of financial assets include transfer of loans and advances to customers, securitization and financial assets sold under repurchase agreements. When assess whether the transfer of financial asset meet the derecognition requirement of financial asset, it is required to assess whether the Group has transferred the right to receive cash flows of financial asset, or has transferred the contractual rights to receive cash flows from the financial asset to another party which meet the requirement of "pass-through", whether nearly all the risks and rewards of ownership of the financial asset have been transferred out and whether its control over the transferred financial asset has been given up

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES

IFRS 9 – Financial Instruments (the “New Financial Instruments Guidelines”) came into effect on January 1, 2018. The Group has adopted IFRS9 with a date of transition of 1 January 2018. As permitted by the transitional provisions of IFRS9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period.

The impact of the Group by adopting IFRS9 is disclosed at notes 4.1, 4.2 and 4.3. The new financial instruments accounting policies applied at the current period are disclosed at notes 2.7, 2.8, and 2.9

The financial instrument guidelines applicable during the comparative period are as follows:

Financial Instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchased and sales of financial assets are recognized on trade-date. Regular way of buying or selling financial assets refers to the collection or delivery of financial assets within the time limit stipulated by regulations or common practices in accordance with the terms of the contract. The trading date is the date on which the Group commits to buy or sell financial assets.

Financial assets are derecognized when:

i. the contractual rights to receive cash flows from the financial asset have expired；

ii. the contractual rights to receive cash flows from the financial asset have been transferred, and the Group has transferred nearly all the risks and rewards of ownership of the financial asset to the transferee；

iii. the Group transfers the financial asset to another party, but maintains the contractual rights to receive cash flows from the financial asset and undertaken the obligations to pay the cash flow it received to the final recipient, and meets the three conditions at the same time (the requirement of “pass-through”), and transferred nearly all the risks and rewards of ownership of the financial asset to the transferee.

－ the Group is not obliged to make any payment to the final recipient until it receives the cash flow which is equivalent to the financial asset. For any short-term payment made by the enterprise on behalf of others, if the enterprise has the right to recover the full amount of the payment and charge interests according to the market bank loan interest rate of the same period, the conditions shall be deemed to have been satisfied.

－in accordance with the contractual stipulations, the Group can't sell the financial asset or use it as a guaranty, but may use it as an guarantee for paying the cash flow to the final recipient.

－ the Group is obliged to pay the cash flow it receives to the final recipient in a timely manner. The Group has no right to make a re-investment with the cash flow, but in accordance with the contractual stipulations, it may make investment with cash or cash equivalent by using the cash flow it receives during the interval of between 2 consecutive payments. If the Group makes a reinvestment in accordance with the contractual stipulations, it shall pay the proceeds by investment to the final recipient in accordance with the contractual stipulations.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Recognition and derecognition (Continued)

iv. the financial asset has been transferred (the contractual right to receive the cash flow of the financial asset has been transferred or meet the requirement of “pass-through”) . Though the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it has not retained control of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the considerations received together with the accumulated change of fair value recorded in equity through other reserves is recognized in profit or loss.

If the obligation relating to a financial liability has been partially or fully discharged, the financial liability is derecognized partially or in full. If the existing financial liability is replaced by the same creditor with another financial liability that is with substantially different terms, or if the terms of the existing liability are substantially revised, such replacement or revision is accounted for as derecognition of the original liability and recognition of a new liability, and the difference is recognized in profit or loss.

Classification and measurement of financial assets

Financial assets are, on initial recognition, classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group determines the classification of the financial assets on initial recognition. Financial assets are recognized at fair value on initial recognition. For financial assets at fair value through profit or loss, relevant transaction costs are directly charged to the profit or loss. Transaction costs relating to financial assets in other categories are included in the initial recognized amount.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated at fair value through profit or loss upon initial recognition.

A financial asset held for trading is the financial asset that satisfies one of the following conditions: 1) the financial asset is acquired for the purpose of selling in the near term; 2) the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the Group has a recent actual pattern of short-term profit-taking; or 3) It is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative linked to investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

A financial asset is classified at fair value through profit or loss at inception if it meets either of the following criteria and is designated as such by management on initial recognition:1) The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; 2) A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; 3) The financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Classification and measurement of financial assets(Continued)

Financial assets at fair value through profit or loss(Continued)

These financial assets are subsequently measured at fair value. Changes of fair value are recognized in profit or loss. Interest accrued during the assets holding period, dividend received and gains or loss arising from disposal are recognized in profit or loss.

Held-to-maturity investments

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the positive intention and the ability to hold to maturity.

Held-to-maturity investments shall be measured at amortized cost using the effective interest rate method.

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

Except for specific situations such as disposal of insignificant amount of held-to-maturity investments at a date sufficiently close to maturity date, if the Group fails to hold such investments through their maturities or reclassifies a portion of held-to-maturity investments into available-for-sale prior to their maturities, the Group shall reclassify all held-to-maturity investments into available-for-sale category measured at fair value. The Group is further prohibited to reclassify these financial assets as held-to-maturity during the current financial year or the two preceding financial years.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When the Group provides funds or services directly to customers without the intention to sell the receivables, the Group classifies such financial assets as loans and receivables. Subsequently, such financial assets are measured at amortized cost using effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) financial assets at fair value through profit or loss, (b) loans and receivables or (c) held-to-maturity investments.

Available-for-sale financial assets are measured at fair value. For available-for-sale debt instruments, premium or discount is amortized using effective interest method and recognized as interest income or expense. A gain or loss arising from changes in fair value of an available-for-sale financial asset is recognized in a separate component of equity, except for impairment losses and foreign exchange gains and losses resulting from monetary financial assets, until the financial asset is derecognized or is determined to be impaired. At this time, the cumulative gain or loss previously recognized in equity shall be reclassified to profit or loss.

Dividends and interests relating to an available-for-sale financial asset are recognized in profit or loss.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Classification and measurement of financial liabilities

Financial liabilities of the Group are, upon initial recognition, classified into financial liabilities at fair value through profit or loss and other financial liabilities. The Group determines the classification of the financial liabilities on initial recognition. For financial liabilities at fair value through profit or loss, relevant transaction costs are directly recognized in profit or loss, and transaction costs relating to other financial liabilities are included in the initially recognized amount.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

A financial liability held for trading is the financial liability that satisfies one of the following conditions: 1) the financial liability is acquired for the purpose of selling or repurchasing in the near term; 2) the financial liability is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the Group has a recent actual pattern of short-term profit-taking; or 3) it is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative linked to investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Conditions under which a financial liability is designated at fair value through profit or loss upon initial recognition is same as a financial asset.

These financial liabilities are subsequently measured at fair value. All realized and unrealized gains or losses on these financial liabilities are recognized in profit or loss.

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using effective interest method on the financial reporting date.

Equity instruments

An equity instrument is a contract that demonstrates the residual interest in the assets of the Group after deducting all liabilities.

An instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met

(a) The instrument includes no contractual obligation:

- (i) to deliver cash or another financial asset to another entity; or
- (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Equity instruments (Continued)

(b) If the instrument will or may be settled in the issuer's own equity instruments, it is:

(i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or

(ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Other equity instruments issued by the Group are recognised at the amount actually received, minus the transaction costs directly attributable to equity transactions.

The distribution of dividends during the existence of other equity instruments shall be treated as profit distribution.

Derivative financial instruments and embedded derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Gains or losses arising from changes in fair value on derivatives are reported in profit or loss.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

(i) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(ii) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Hedge accounting

Within the Group, overseas branch of the Bank adopts hedge accounting. The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at inception and throughout the life of the hedge whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Currently overseas branch uses fair value hedge. Changes in fair value of hedging instruments that are designated and qualified as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is recorded as net trading profit or loss in the profit or loss as ineffective portion. If the hedge relationship no longer satisfies the criteria for hedge accounting, the unamortized carrying value adjustments to the carrying amount of a hedged item that is measured at amortized cost is amortized to profit or loss using the effective interest method over the period to maturity.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. The Group applies valuation technique that is suitable for current situation and supported by sufficient data and related information, and adopts inputs whose features on assets and liabilities are in accordance with the ones that are considered the same by market participants in relevant transactions. Observable inputs are preferred and unobservable inputs are used under the condition that relevant observable inputs are not available and not feasible to be obtained.

Impairment of financial assets

The Group assesses at each financial reporting date whether there is any objective evidence that a financial asset or a group of financial assets excluding those fair valued through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulties of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: 1) adverse changes in the payment status of borrowers in the group; 2) national or local economic conditions that correlate with defaults on the assets in the group;

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Impairment of financial assets (Continued)

- any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
- a significant or prolonged decline in the fair value of an equity instrument; or
- other objective evidence indicating impairment of the financial asset.

Financial assets carried at amortized cost

When there is an objective evidence that a financial asset is impaired, the carrying amount of the financial asset shall be reduced to the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The amount of reduction is recognized as an impairment loss in the profit or loss. Present value of estimated future cash flows is discounted at the financial asset's original effective interest rate (the effective interest rate determined by calculation upon initial recognition) taking into consideration the value of any related collateral. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognized in the comprehensive income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified through individually assessment by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and impairment losses are or continue to be recognized are not included in a collective assessment of impairment.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. The previously recognized impairment loss is reversed. The amount of the reversal is recognized in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial assets

A significant or prolonged decline in the fair value of an equity instrument is an objective indicator of impairment of available-for-sale equity instrument. The Group separately checks all available-for-sale equity investments at reporting date. If a decline in the fair value of an equity instrument is below its initial cost by 50% or more, or fair value is below cost for one year or longer at reporting date, it indicates that such an equity instrument is impaired; If such a decline in fair value is below its initial cost by 20% or more but not up to 50% at reporting date, the Group takes other factors such as price volatility into consideration to judge whether the equity instrument is impaired, The Group calculate the initial cost of available-for-sale equity instrument using weighted average method.

If available-for-sale financial asset is impaired, the cumulative loss from declines in fair value that had been recognized directly in other reserves of equity is reclassified from equity to the profit or loss. The amount of the cumulative loss that is transferred out and recognized in the profit or loss equals to the difference between its initial cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss shall be reversed with the amount of the reversal recognized in profit or loss. Any subsequent increase in the fair value of such assets is recognized in other reserves.

When an available-for-sale financial asset measured at cost is impaired, the difference between the carrying amount and the present value determined by discounting future cash flow shall be recognized as impairment loss in profit or loss. The previously recognized impairment loss shall not be reversed in later period.

Offsetting financial instruments

Financial assets and financial liabilities are presented separately in the statement of financial position by the Group, and they shall not be offset against each other; financial assets and financial liabilities should be presented at their net amount when both of the below criteria are met:

(i) The Group has the legal right to offset the recognized amount, and the legal right is enforceable;

(ii) The Group has the intention to settle on a net basis or realize the asset and settle the liability simultaneously.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements applicable during the comparative period are as follows:

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment regularly besides individual impairment loss assessment on identified non-performing loans. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable evidence indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets. Management makes estimation based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The management regularly reviews the methods and assumptions adopted to forecast the future cash flows to reduce the difference between the estimated loss and actual loss.

Held-to-maturity investments

The Group classifies certain non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Group has both the positive intention and the ability to hold to maturity as held-to-maturity. The classification of held-to-maturity investment requires significant judgment.

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

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

4.1 The Impact of the adoption of IFRS9 on the Group

The classification and measurement of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

Group	**31 December 2017**	**Reclassification**	**Remeasurement**	**1 January 2018**
Financial assets				
Cash and balances with central bank	486,531	-	-	486,531
Due from and placements with banks and other financial institutions	177,187	-	(248)	176,939
Financial assets at fair value through profit or loss	162,866	(162,866)	-	NA
Derivative financial assets	28,264	(444)	-	27,820
Financial assets purchased under resale agreements	13,974	-	(66)	13,908
Loans and advances to customers	3,103,853	2,649	(17,803)	3,088,699
Available-for-sale financial assets	664,508	(664,508)	-	NA
Investment securities - held-to-maturity	444,726	(444,726)	-	NA
Investment securities - loans and receivables	832,598	(832,598)	-	NA
Financial investments				
Trading assets- at fair value through profit or loss	NA	401,559	(66)	401,493
Debt investments- at amortized cost	NA	1,477,323	2,660	1,479,983
Other debt investments- at fair value through other comprehensive income	NA	224,879	-	224,879
Other Equity instrument at fair value through other comprehensive income	NA	1,381	(24)	1,357
Other financial assets	128,498	-	1,104	129,602
Subtotal	6,043,005	2,649	(14,443)	6,031,211
Non-financial assets				
Precious metals	10,261	-	-	10,261
Deferred income tax assets	29,022	-	5,213	34,235
Other non-financial assets	54,952	-	-	54,952
Subtotal	94,235	-	5,213	99,448
Total assets	6,137,240	2,649	(9,230)	6,130,659
Income tax payable	20,034	-	903	20,937
Provision	-	2,649	1,878	4,527
Other liabilities	5,686,221	-	-	5,686,221
Total liabilities	5,706,255	2,649	2,781	5,711,685
Other reserves	(5,335)	-	3,015	(2,320)
Retained earnings	119,807	-	(15,090)	104,717
Other equity attributable to the Bank's shareholders	310,932	-	-	310,932
Total equity attributable to the Bank's shareholders	425,404	-	(12,075)	413,329
Non-controlling interests	5,581	-	64	5,645
Total equity	430,985	-	(12,011)	418,974
Total liabilities and equity	6,137,240	2,649	(9,230)	6,130,659

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

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

4.2 Reconciliation of financial assets balances at statement of financial position from IAS 39 to IFRS 9

The Group analyzed the business mode and cash flow characteristics of the financial assets it managed. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Financial assets at amortized cost	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Cash and balances with central bank				
Closing balance under IAS 39 and openning balance under IFRS 9	486,531	-	-	486,531
Due from and placements with banks and other financial institutions				
Closing balance under IAS 39	177,187	-	-	-
Remeasurement: ECL allowance	-	-	(248)	-
Openning balance under IFRS 9	-	-	-	176,939
Financial assets purchased under resale agreements				
Closing balance under IAS 39	13,974	-	-	-
Remeasurement: ECL allowance	-	-	(66)	-
Openning balance under IFRS 9	-	-	-	13,908
Loans and advances to customers				
Closing balance under IAS 39	3,103,853	-	-	-
Less: transfer to Loans and advances to customers at fair value through other comprehensive income(IFRS 9)	-	(134,357)	-	-
Less: impairment allowance to provision(IFRS 9)	-	2,649	-	-
Remeasurement: ECL allowance	-	-	(17,384)	-
Openning balance under IFRS 9	-	-	-	2,954,761
Investment securities - held-to-maturity				
Closing balance under IAS 39	444,726	-	-	-
Less: transfer to Debt investments- at amortized cost (IFRS 9)	-	(444,726)	-	-
Openning balance under IFRS 9	-	-	-	-
Investment securities - loans and receivables				
Closing balance under IAS 39	832,598	-	-	-
Less: transfer to Debt investments- at amortized cost (IFRS 9)	-	(767,024)	-	-
Less: transfer to Trading assets- at fair value through profit or loss (IFRS 9)	-	(65,574)	-	-
Openning balance under IFRS 9	-	-	-	-

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

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

4.2 Reconciliation of financial assets balances at statement of financial position from IAS 39 to IFRS 9 (Continued)

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Financial assets at amortized cost (Continued)				
Debt investments- at amortized cost				
Closing balance under IAS 39	-	-	-	-
Addition: transfer from Investment securities - loans and receivables	-	767,024	-	-
Addition: transfer from Investment securities-held-to-maturity	-	444,726	-	-
Addition: transfer from Financial assets at fair value through profit or loss	-	93,677	-	-
Addition: transfer from Available-for-sale financial assets	-	171,896	-	-
Remeasurement: ECL allowance	-	-	(1,362)	-
Remeasurement: from FV to amortized cost	-	-	4,022	-
Opennning balance under IFRS 9	-	-	-	1,479,983
Other financial assets				
Closing balance under IAS 39	128,498	-	-	-
Remeasurement: ECL allowance	-	-	1,104	-
Openning balance under IFRS 9	-	-	-	129,602
Total financial assets measured at amortized cost				5,241,724
Financial assets at fair value through profit or loss(FVPL)				
Financial assets at fair value through profit or loss				
Closing balance under IAS 39	162,866	-	-	-
Less: transfer to Trading assets- at fair value through profit or loss	-	(69,189)	-	-
Less: transfer to Debt investments - at amortized cost	-	(93,677)	-	-
Openning balance under IFRS 9	-	-	-	-
Trading assets- at fair value through profit or loss				
Closing balance under IAS 39				
Addition: transfer from Investment securities - loans and receivables	-	65,574	-	-
Addition: transfer from Available-for-sale financial assets	-	266,352	-	-
Addition: transfer from Derivative financial assets	-	444	-	-
Addition: transfer from financial assets at fair value through profit or loss	-	69,189	-	-
Remeasurement: from amortized cost to FV	-		(66)	-
Openning balance under IFRS 9	-	-		401,493
Derivative financial assets				
Closing balance under IAS 39	28,264	-	-	-
Less: transfer to Trading assets- at fair value through profit or loss (IFRS 9)	-	(444)	-	-
Openning balance under IFRS 9	-	-	-	27,820
Total FVPL				429,313

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

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

4.2 Reconciliation of financial assets balances at statement of financial position from IAS 39 to IFRS 9 (Continued)

	IAS 39 Carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 Carrying amount 1 January 2018
Financial assets at fair value through other comprehensive income (FVOCI)				
Loans and advances to customers				
Closing balance under IAS 39	-	-	-	-
Addition: transfer from Loans and advances to customers- amortized cost	-	134,357	-	-
Remeasurement: from amortized cost to FV	-	-	(419)	-
Openning balance under IFRS 9	-	-	-	133,938
Available-for-sale financial assets				
Closing balance under IAS 39	664,508	-	-	-
Less: transfer to Trading assets- at fair value through profit or loss (IFRS 9)	-	(266,352)	-	-
Less: transfer to Debt investments - at amortized cost (IFRS 9)	-	(171,896)	-	-
Less: transfer to Other debt investments- at fair value through other comprehensive income	-	(224,879)	-	-
Less: transfer to other equity investments- at fair value through other comprehensive income	-	(1,381)	-	-
Openning balance under IFRS 9	-	-	-	-
Other debt investments- at fair value through other comprehensive income				
Closing balance under IAS 39	-	-	-	-
Addition: transfer from Available-for-sale financial assets	-	224,879	-	-
Openning balance under IFRS 9	-	-	-	224,879
Other equity investments- at fair value through other comprehensive income				
Closing balance under IAS 39	-	-	-	-
Addition: transfer from Available-for-sale financial assets	-	1,381	-	-
Remeasurement: Valuation	-	-	(24)	-
Openning balance under IFRS 9	-	-	-	1,357
Total FVOCI				360,174
Total financial assets				6,031,211

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

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

4.3 Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected credit loss model at 1 January 2018:

Measurement category	Loan loss allowance under IAS39/Provision under IAS 37	Reclassification	Expected credit loss	Loan loss allowance / provision under IFRS 9
Amortized cost				
Due from and placements with banks and other financial institutions	-	-	248	248
Financial assets purchased under resale agreements	7	-	66	73
Loans and advances to customers	90,747	(2,649)	17,384	105,482
Investment securities - held-to-maturity	73	(73)	-	-
Investment securities - loans and receivables	7,027	(7,027)	-	-
Debt investments- at amortized cost	-	5,648	1,362	7,010
Other assets	4,606	-	(1,104)	3,502
Financial guarantees and loan commitments	-	2,649	1,878	4,527
Fair value through other comprehensive income (FVOCI)				
Loans and advances to customers	-	-	410	410
Available-for-sale financial assets	225	(225)	-	-
Other debt investments-at fair value through other comprehensive income	-	225	200	425
Total	102,685	(1,452)	20,444	121,677

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

5 SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

5.1 Major subsidiaries of the Bank

Name of major subsidiaries	Place of incorporation	Percentage of equity interest %	Percentage of non-controlling interest %	Investment cost
SPD Bank Financial Leasing Co., Ltd.	Shanghai	61.02%	38.98%	3,051
Shanghai Internatioanl Trust Co., Ltd.	Shanghai	97.33%	2.67%	19,494
SPDB International Holding ,Ltd.	Hong Kong	100.00%	-	410
Mianzhu SPD Rural Bank Co., Ltd.	Sichuan	55.00%	45.00%	28
Liyang SPD Rural Bank Co., Ltd.	Jiangsu	51.00%	49.00%	118
Gongyi SPD Rural Bank Co., Ltd.	Henan	51.00%	49.00%	80
Fengxian SPD Rural Bank Co., Ltd.	Shanghai	51.00%	49.00%	113
Zixing SPD Rural Bank Co., Ltd.	Hunan	51.00%	49.00%	81
Chongqing Banan SPD Rural Bank Co., Ltd.	Chongqing	51.00%	49.00%	25
Zouping SPD Rural Bank Co., Ltd.	Shandong	51.00%	49.00%	89
Zezhou SPD Rural Bank Co., Ltd.	Shanxi	51.00%	49.00%	111
Dalian Ganjingzi SPD Rural Bank Co., Ltd.	Liaoning	51.00%	49.00%	25
Hancheng SPD Rural Bank Co., Ltd.	Shaanxi	51.00%	49.00%	25
Jiangyin SPD Rural Bank Co., Ltd.	Jiangsu	51.00%	49.00%	51
Pingyang SPD Rural Bank Co., Ltd.	Zhejiang	51.00%	49.00%	51
Xinchang SPD Rural Bank Co., Ltd.	Zhejiang	51.00%	49.00%	51
Yuanjiang SPD Rural Bank Co., Ltd.	Hunan	51.00%	49.00%	25
Chaling SPD Rural Bank Co., Ltd.	Hunan	51.00%	49.00%	25
Linchuan SPD Rural Bank Co., Ltd.	Jiangxi	51.00%	49.00%	51
Linwu SPD Rura Bank Co., Ltd.	Hunan	51.00%	49.00%	25
Hengnan SPD Rural Bank Co., Ltd.	Hunan	51.00%	49.00%	25
Haerbin Hulan SPD Rural Bank Co., Ltd.	Heilongjiang	51.00%	49.00%	51
Gongzhuling SPD Rural Bank Co., Ltd.	Jilin	51.00%	49.00%	25
Yuzhong SPD Rural Bank Co., Ltd.	Gansu	51.00%	49.00%	25
Yunnan Fumin Rural Bank Co., Ltd.	Yunnan	51.00%	49.00%	25
Ningbo Haishu Rural Bank Co., Ltd.	Zhejiang	51.00%	49.00%	51
Urumchi Midong SPD Rural Bank Co., Ltd.	Xinjiang	51.00%	49.00%	51
Tianjin Baodi SPD Rural Bank Co., Ltd. (Note a)	Tianjin	49.00%	51.00%	49
Chongqing Tongliang SPD Rural Bank Co., Ltd	Chongqing	51.00%	49.00%	25
Qianxinan yilong SPD Rural Bank Co., Ltd.	Guizhou	51.00%	49.00%	25
Fufeng SPD Rural Bank Co., Ltd.	Shanxi	51.00%	49.00%	25

All subsidiaries are unlisted and consolidated in the Bank’s financial statements.

(a) In accordance with Articles of association of Baodi Tianjin SPD Rural Bank Co., Ltd., resolutions on the company’s operating and development strategy, operating plan and investment scheme are required to be approved by more than 50% directors and the Bank has 4 of 7 seats in the Board of Directors. Although the Bank only has 49% voting rights in Baodi Tianjin SPD Rural Bank Col, Ltd., the Bank is able to control it through the Board of Directors. As a result, it is a consolidated subsidiary of the Bank.

All subsidiaries are unlisted and consolidated in the Bank’s financial statements.

None of these subsidiaries is restricted to transfer funds to the Bank.

After individual assessment, the Group concluded that no subsidiary has non-controlling interest that is material to the Group. Therefore, the Group does not require the disclosure of such financial information.

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

6 NOTES TO THE FINANCIAL STATEMENTS

6.1 Net interest income

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Interest income				
Balance with central bank	6,806	7,529	6,759	7,484
Due from and placements with banks and other financial institutions	8,434	8,225	8,287	8,003
Financial assets purchased under resale agreements	2,141	1,177	2,141	1,177
Loans and advances to customers				
- Corporate loans	85,927	81,025	85,300	80,306
- Retail loans	85,560	69,502	84,869	68,911
- Discounted and rediscounted bills	7,939	2,554	7,932	2,536
Financial investments				
- Debt investments	57,856	NA	57,537	NA
- Other debt investments	10,150	NA	9,886	NA
- Bond investments and deposit certificates	NA	37,130	NA	36,951
- Investments other than bonds investment and deposit certificates	NA	36,319	NA	35,872
Finance lease activities receivables	2,071	1,899	-	-
Others	604	458	604	458
Sub-total	267,488	245,818	263,315	241,698
Interest expense				
Due to central bank	(6,734)	(5,339)	(6,716)	(5,322)
Due to and placements from banks and other financial institutions	(54,672)	(56,463)	(53,150)	(54,887)
Financial assets sold under repurchase agreements	(3,436)	(2,432)	(3,436)	(2,432)
Deposits from customers	(59,653)	(47,776)	(59,036)	(47,240)
Bonds issued	(29,788)	(25,795)	(29,499)	(25,714)
Others	(1,361)	(1,101)	(1,361)	(1,101)
Sub-total	(155,644)	(138,906)	(153,198)	(136,696)
Net interest income	111,844	106,912	110,117	105,002

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.2 Net fee and commission income

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Fee and commission income				
Fees from bank cards	23,390	17,717	23,388	17,715
Custodian and other fiduciary activities commissions	12,831	21,051	9,425	17,626
Fees from investment banking activities	3,048	3,521	2,920	3,355
Credit commitment fees	2,276	2,311	2,274	2,306
Agency commissions	1,883	1,700	1,882	1,699
Settlement and clearing fees	1,020	1,201	1,019	1,200
Others	1,757	3,272	1,339	2,831
Sub-total	46,205	50,773	42,247	46,732
Fee and commission expense	(7,196)	(5,193)	(7,200)	(5,212)
Net fee and commission income	39,009	45,580	35,047	41,520

6.3 Net trading income

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Precious metals	(1,214)	942	(1,214)	942
Non-foreign exchange derivative financial instruments	(277)	1,037	(277)	1,037
Trading securities	NA	1,110	NA	1,013
Fund investments	NA	4,537	NA	4,128
Trading assets - at fair value through profit or loss	16,408	NA	15,974	NA
Financial assets designated at fair value through profit or loss	-	6,163	-	6,531
Hedged bonds	103	46	103	46
Exchange gains and losses	1,155	(5,090)	1,138	(5,090)
Others	NA	319	NA	-
Total	16,175	9,064	15,724	8,607

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.4 Net gains arising from financial investments

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Available-for-sale financial assets	NA	337	NA	281
Investment securities loans and receivables	NA	51	NA	51
Debt investments- at amortized cost	(22)	NA	(68)	NA
Other debt investments- at fair value through other comprehensive income	361	NA	150	NA
Total	339	388	82	332

6.5 Employee benefit expenses

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Wages and salaries, bonuses, allowances and subsidies	19,137	18,238	17,818	17,035
Welfare fund	592	647	550	610
Social insurance	3,387	2,967	3,267	2,871
Housing fund	1,105	1,056	1,062	1,027
Labor union fund and staff education fund	422	388	396	362
Total	24,643	23,296	23,093	21,905

6.6 Operating expenses

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Advertising expenses	4,535	4,616	4,474	4,589
Rental expenses	2,995	2,957	2,826	2,798
Electronic equipment operating and maintenance expenses	760	927	717	880
Cash carrier expenses	392	377	382	368
Property management expenses	347	321	334	321
General and administrative expenses	303	503	291	493
Transportation expenses	52	68	48	63
Others	7,154	6,524	6,581	5,689
Total	16,538	16,293	15,653	15,201

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.7 Business tax and surcharges

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Urban maintenance and construction tax	922	782	869	753
Education fee and levy	410	353	385	334
Others	520	475	501	453
Total	1,852	1,610	1,755	1,540

6.8 Impairment losses on assets

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Loans and advances to customers at amortized cost	58,590	52,799	58,284	51,821
Loans and advances to customers at fair value through other comprehensive income	(207)	NA	(207)	NA
Other receivables	559	575	550	554
Finance lease receivables	191	(156)	-	-
Past due interest receivable	315	340	315	340
Debt investments- at amortized cost	470	NA	556	NA
Other debt investments- at fair value through other comprehensive income	400	NA	222	NA
Financial assets purchased under resale agreements	(66)	7	(66)	7
Due from and placements with banks and other financial institutions	(42)	-	(45)	-
Provision	207	-	211	-
Foreclosed assets	3	14	3	14
Investment securities - loans and receivables	NA	1,537	NA	2,132
Available-for-sale financial assets	NA	144	NA	144
Investment securities - held-to-maturity	NA	25	NA	25
Total	60,420	55,285	59,823	55,037

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.9 Income tax expense

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Current income tax expense	13,687	20,233	12,516	18,816
Deferred income tax expense	(4,918)	(5,407)	(4,690)	(5,088)
Total	8,769	14,826	7,826	13,728

Reconciliations between the Group's income tax expense calculated using the statutory tax rate and actual amount are as follows:

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Profit before income tax	65,284	69,828	61,451	65,458
Tax calculated at applicable tax rate	16,289	17,411	15,363	16,365
Tax effect of expenses that are not deductible for tax purpose	302	533	202	422
Tax effect arising from income not subject to tax	(7,878)	(3,158)	(7,769)	(3,093)
Adjustments on income tax for prior years which affect current profit or loss	56	40	30	34
Income tax expense	8,769	14,826	7,826	13,728

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.10 Other comprehensive income

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Items that may be reclassified to profit or loss				
1. Changes in fair value of Debt instrument measured at FVOCI				
Transfer in, after tax	6,595	NA	6,630	NA
Transfer out, after tax	(271)	NA	(112)	NA
Sub-total	6,324	NA	6,518	NA
2. Impairment allowances of Debt instrument measured at FVOCI				
Transfer in, after tax	144	NA	11	NA
Transfer out, after tax	(82)	NA	(82)	NA
Sub-total	62	NA	(71)	NA
3. Changes in fair value of available-for-sale financial assets				
Transfer in, after tax	NA	(2,427)	NA	(2,419)
Transfer out, after tax	NA	(3,013)	NA	(2,954)
Sub-total	NA	(5,440)	NA	(5,373)
4. Exchange differences from the translation of foreign operations	266	(132)	110	(104)
Sub-total	6,652	(5,572)	6,557	(5,477)
Items that will not be reclassified to profit or loss				
1. Changes in fair value of Equity instrument measured at FVOCI				
Transfer in, after tax	331	NA	331	NA
Transfer out, after tax	-	NA	-	NA
Sub-total	331	NA	331	NA
Total	6,983	(5,572)	6,888	(5,477)

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.11 Earnings per share

Basic earnings per share (EPS) is calculated by dividing consolidated net profit for the year attributable to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the period. The conversion feature of preference shares is considered to fall within the category of contingently issuable ordinary shares. The triggering events of share conversion did not occur during the year of 2018. Therefore, the conversion feature of preference shares has no effect on the calculation of basic and diluted earnings per share.

	Year ended 31 December	
	2018	2017
Profit for the year attributable to equity holders of the Bank	55,914	54,258
Less: declared dividends attributable to preference shareholders of the Bank	(1,725)	(1,725)
Profit for the year attributable to the holders of the Bank's ordinary shares	54,189	52,533
Weighted average number of outstanding ordinary shares (million)	29,352	28,520
Basic and diluted EPS (RMB)	1.85	1.84

On 28 November 2014 and 6 March 2015, the Bank issued non-cumulative preference shares with aggregated par value of RMB 30 billion. The bank declared cash dividends of RMB 1,725 million for preference share in this year. For the purpose of calculating EPS, dividends on non-cumulative preference shares declared in respect of the period have been deducted from the profit attributable to ordinary shareholders of the Bank.

Pursuant to the resolution of 2016 Annual General Meeting on 25 April 2017, the Bank converted the capital surplus into ordinary shares in the proportion of 3 share for every 10 shares held. The total number of shares increased due to conversion is 6,485,483,977. And the number of shares after conversion is 28,103,763,899 shares. The Bank issued 1,248,316,498 domestic RMB ordinary shares and completed share registration in September 2017. Upon the issuance, ordinary shares of the Bank was increased from 28,103,763,899 shares to 29,352,080,397 shares.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.12 Cash and balances with central bank

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Cash	6,036	7,284	5,894	7,121
Mandatory reserves with central bank	364,026	438,133	361,390	435,460
Excess reserves with central bank	70,709	38,905	69,687	37,354
Fiscal deposits with central bank	2,733	2,209	2,710	2,183
Interest receivable	219	NA	219	NA
Total	443,723	486,531	439,900	482,118

The Group is required to place mandatory reserves with the PBOC, including RMB and foreign currency deposit reserves which are not allowed to be used in the Group's daily operations. The reserve rate for deposits denominated in RMB is 12% on 31 December 2018 (31 December 2017: 15%). The reserve rate for deposits denominated in foreign currencies is 5% on 31 December 2018 (31 December 2017: 5%).

6.13 Due from and placements with banks and other financial institutions

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Due from domestic banks	48,364	54,630	41,443	48,113
Due from overseas banks	45,635	41,718	45,555	41,583
Placements with domestic banks	14,006	8,504	13,506	7,954
Placements with overseas banks	17,231	10,057	17,231	10,057
Placements with domestic other financial institutions	109,840	62,278	113,728	64,874
Interest receivable	1,665	NA	1,633	NA
Less: impairment allowance	(206)	-	(180)	-
Total	236,535	177,187	232,916	172,581

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.14 Financial assets at fair value through profit or loss

	Group	
	31 December 2018	31 December 2017
Trading financial assets:		
Government bonds	NA	3,106
Bonds issued by policy banks	NA	12,947
Bonds issued by financial institutions	NA	78
Deposit certificates issued by other financial institutions	NA	21,197
Corporate bonds	NA	11,101
Fund investments	NA	12,088
Sub-total	NA	60,517
Financial assets designated at fair value through profit or loss		
Borrowings from non-bank financial institutions (Note 2)	NA	996
Trust and asset management plans	NA	3,032
Other debt instruments (Note 2, Note 3)	NA	93,233
Other investments (Note 4)	NA	5,088
Sub-total	NA	102,349
Total	NA	162,866

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.14 Financial assets at fair value through profit or loss (Continued)

	Bank	
	31 December 2018	31 December 2017
Government bonds	NA	3,106
Bonds issued by policy banks	NA	12,947
Bonds issued by financial institutions	NA	78
Deposit certificates issued by other financial institutions	NA	21,197
Corporate bonds	NA	10,248
Fund investments	NA	10,700
Sub-total	NA	58,276
Financial assets designated at fair value through profit or loss		
Borrowings from non-bank financial institutions (Note 2)	NA	996
Trust and asset management plans	NA	332
Other debt instruments (Note 2, Note 3)	NA	93,233
Other investments (Note 4)	NA	4,431
Sub-total	NA	98,992
Total	NA	157,268

Note 1: There is no restriction on the realization of the financial assets held by the Group for trading purposes.

Note 2: Current year's fair value changes and the cumulative changes caused by credit risk changes of the debt instruments are not significant.

Note 3: Other debt instruments are financing products issued to corporates by the Bank. The official written documents of the Bank's risk management have stated that the credit instruments are managed, evaluated on a fair value basis and reported to key management personnel.

Note 4: Other investments mainly include the long-term employee benefits payable to Changjiang Pension Insurance Co., Ltd. for investment entrusted by the Group. As at 31 December 2017, the fair value of the investment amounts to RMB 4,633 million.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.15 Derivative financial instruments

	Group and Bank		
	31 December 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Currency swap contracts	3,745,734	23,836	(22,517)
Interest rate swap contracts	3,178,256	12,882	(14,673)
Option contracts	668,433	3,940	(3,105)
Precious metal derivative financial instruments	135,375	1,814	(1,414)
Foreign exchange forward contracts	92,855	587	(861)
Commodity contracts	2,825	62	(55)
Derivative financial instruments held as hedging instruments at fair value:			
Interest rate swap	20,777	146	(141)
Cross-currency interest rate swap	2,134	7	(27)
Total		43,274	(42,793)

	Group and Bank		
	31 December 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Currency swap contracts	1,877,844	19,561	(22,850)
Interest rate swap contracts	2,174,427	4,521	(4,322)
Option contracts	297,449	1,713	(1,154)
Precious metal derivative financial instruments	106,916	1,009	(869)
Foreign exchange forward contracts	75,092	824	(755)
Commodity contracts	9,732	512	(5)
Derivative financial instruments held as hedging instruments at fair value:			
Interest rate swap	2,711	124	(15)
Cross-currency interest rate swap	740	-	(64)
Total		28,264	(30,034)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.16 Financial assets purchased under resale agreements

	Group and Bank	
	31 December 2018	31 December 2017
Bonds	11,575	12,625
Deposit certificates issued by other financial institutions	-	756
Bills	-	600
Interest receivable	5	NA
Less: impairment allowance	(7)	(7)
Total	11,573	13,974

6.17 Loans and advances to customers

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Loans and advances to customers				
-Amortized cost(a)	3,299,570	3,194,600	3,277,027	3,172,916
-Fair value through other comprehensive income(b)	249,153	NA	249,153	NA
-Fair value through profit or loss(FVPL)(c)	482	NA	482	NA
Subtotal	3,549,205	3,194,600	3,526,662	3,172,916
Interest receivable	11,705	NA	11,642	NA
Impairment allowances				
-Loans and advances to customers at amortized cost(a)	(105,339)	(90,747)	(103,649)	(89,188)
-Interest receivable of loans and advances to customers at amortized cost	(82)	NA	(77)	NA
Subtotal	(105,421)	(90,747)	(103,726)	(89,188)
Net loans and advances to customers	3,455,489	3,103,853	3,434,578	3,083,728

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
(a) Loans and advances to customers measured at amortized cost				
Corporates loans				
Commercial Loans	1,778,999	1,772,962	1,769,084	1,762,221
Trade finance	36,875	44,898	36,875	44,898
Discounted bills	468	134,609	314	134,357
Retail loans				
Mortgage loans	588,988	505,135	585,007	502,836
Loans to finance family business	240,404	187,209	233,422	180,483
Credit card and overdraft	433,470	418,347	433,470	418,347
Consumer loans and others	220,366	131,440	218,855	129,774
Subtotal	3,299,570	3,194,600	3,277,027	3,172,916
Less: impairment allowance	(105,339)	(90,747)	(103,649)	(89,188)
Individual impairment allowances	*NA*	*(22,155)*	*NA*	*(22,155)*
Collective impairment allowances	*NA*	*(68,592)*	*NA*	*(67,033)*
Loans and advances to customers measured at amortized cost, net	3,194,231	3,103,853	3,173,378	3,083,728
(b) Loans and advances to customers measured at FVOCI				
Corporates loans				
Discounted bills	248,984	NA	248,984	NA
Add: Fair value changes	169	NA	169	NA
Loans and advances to customers measured at FVOCI, net	249,153	NA	249,153	NA
(c) Loans and advances to customers measured at FVPL				
Corporates loans				
Discounted bills	482	NA	482	NA
Add: Fair value changes	-	NA	-	NA
Loans and advances to customers measured at FVPL, net	482	NA	482	NA
Total loans and advances to customers	3,443,866	3,103,853	3,423,013	3,083,728

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.1 Loans and advances to customers analysed by industry

Group

	31 December 2018		31 December 2017	
	Amount	(%)	Amount	(%)
Corporate loans				
Manufacturing	305,290	8.60	303,242	9.49
Real estate	283,516	7.99	277,054	8.67
Lease and commercial service	265,795	7.49	312,879	9.79
Wholesale and retail	207,144	5.84	262,569	8.22
Water, environment and public facilities management	165,400	4.66	119,900	3.75
Construction	141,439	3.99	126,382	3.96
Transportation, warehouse and postal services	125,359	3.53	120,846	3.78
Mining	77,164	2.17	76,505	2.39
Electricity, heat, gas, water production and supply	64,389	1.81	61,298	1.92
Financial services	56,467	1.59	14,778	0.46
Agriculture, forestry, farming and fishery	27,205	0.77	29,765	0.93
Information transmission, software and IT services	25,023	0.71	32,447	1.02
Research and technology services	21,401	0.60	18,980	0.59
Healthcare and social welfare	11,837	0.33	10,823	0.34
Culture, sports and entertainment	10,573	0.30	10,444	0.33
Education	10,302	0.29	10,395	0.33
Hotel and catering	8,835	0.25	8,550	0.27
Resident services, repairing and other services	5,621	0.16	12,256	0.38
Public management, social security and social organization	2,104	0.06	7,306	0.23
Others	1,010	0.03	1,441	0.05
	1,815,874	51.17	1,817,860	56.90
Discounted bank acceptances	135,273	3.81	98,611	3.09
Re-discount	111,814	3.15	34,420	1.08
Discounted commercial acceptances	3,016	0.08	1,578	0.05
	250,103	7.04	134,609	4.22
Retail loans	1,483,228	41.79	1,242,131	38.88
Total	3,549,205	100.00	3,194,600	100.00

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.1 Loans and advances to customers analysed by industry (Continued)

Bank

	31 December 2018		31 December 2017	
	Amount	(%)	Amount	(%)
Corporate loans				
Manufacturing	299,984	8.51	297,361	9.37
Real estate	283,488	8.04	277,039	8.73
Lease and commercial service	266,381	7.55	313,601	9.88
Wholesale and retail	205,237	5.82	260,540	8.21
Water, environment and public facilities management	165,321	4.69	119,807	3.78
Construction	140,879	3.99	125,705	3.96
Transportation, warehouse and postal services	125,240	3.55	120,746	3.81
Mining	77,019	2.18	76,340	2.41
Electricity, heat, gas, water production and supply	63,948	1.81	60,858	1.92
Financial services	56,467	1.60	14,778	0.47
Agriculture, forestry, farming and fishery	25,782	0.73	28,217	0.89
Information transmission, software and IT services	24,958	0.71	32,358	1.02
Research and technology services	21,376	0.61	18,964	0.60
Healthcare and social welfare	11,787	0.33	10,751	0.34
Culture, sports and entertainment	10,514	0.30	10,392	0.33
Education	10,257	0.29	10,348	0.33
Hotel and catering	8,656	0.25	8,385	0.26
Resident services, repairing and other services	5,551	0.16	12,182	0.38
Public management, social security and social organization	2,104	0.06	7,306	0.23
Others	1,010	0.03	1,441	0.04
	1,805,959	51.21	1,807,119	56.96
Discounted bank acceptances	135,119	3.83	98,359	3.10
Re-discount	111,814	3.17	34,420	1.08
Discounted commercial acceptances	3,016	0.09	1,578	0.05
	249,949	7.09	134,357	4.23
Retail loans	1,470,754	41.70	1,231,440	38.81
Total	3,526,662	100.00	3,172,916	100.00

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.2 Loans and advances to customers analyzed by geography

Group

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

Bank

	31 December 2018		31 December 2017	
	Amount	(%)	Amount	(%)
Headquarter	526,613	14.94	535,413	16.87
Yangtze River Delta	1,049,321	29.75	855,652	26.97
Pearl River Delta and West Side of Taiwan Strait	345,174	9.79	304,451	9.60
Bohai Rim	445,160	12.62	404,818	12.76
Central China	458,935	13.01	407,555	12.84
Western China	464,613	13.17	451,520	14.23
North-east China	179,470	5.09	160,985	5.07
Overseas and subsidiaries	57,376	1.63	52,522	1.66
Total	3,526,662	100.00	3,172,916	100.00

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.3 Loans and advances to customers analysed by collateral type

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Collateralized loans	1,284,367	1,180,094	1,273,603	1,171,050
Guaranteed loans	739,258	723,672	729,446	713,351
Unsecured loans	1,325,740	1,090,899	1,324,946	1,090,121
Pledged loans	199,840	199,935	198,667	198,394
Total	3,549,205	3,194,600	3,526,662	3,172,916

6.17.4 Overdue loans and advances to customers

Group

	31 December 2018				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	13,486	14,817	12,744	485	41,532
Collateralized loans	7,363	7,952	5,132	2,473	22,920
Unsecured loans	6,215	9,591	1,610	177	17,593
Pledged loans	810	1,853	777	47	3,487
Total	27,874	34,213	20,263	3,182	85,532

	31 December 2017				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	17,426	16,391	11,523	624	45,964
Collateralized loans	7,657	10,209	9,573	817	28,256
Unsecured loans	4,251	4,592	3,044	433	12,320
Pledged loans	949	986	855	202	2,992
Total	30,283	32,178	24,995	2,076	89,532

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.4 Overdue loans and advances to customers (Continued)

Bank

	31 December 2018				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	13,195	14,295	12,269	451	40,210
Collateralized loans	7,260	7,754	4,996	2,429	22,439
Unsecured loans	6,198	9,551	1,539	177	17,465
Pledged loans	754	1,853	756	47	3,410
Total	27,407	33,453	19,560	3,104	83,524

	31 December 2017				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	17,153	16,099	11,236	622	45,110
Collateralized loans	7,533	10,103	9,452	816	27,904
Unsecured loans	4,249	4,585	3,044	433	12,311
Pledged loans	948	983	840	202	2,973
Total	29,883	31,770	24,572	2,073	88,298

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.5 Movements of ECL allowance

(a) Movements of ECL allowance of loans and advances to customers at amortized cost

Group	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	31,168	35,384	38,930	105,482
Additions/ (Deduction), net (Note 1)	(6,172)	(871)	65,604	58,561
Write-off and disposal	-	-	(61,290)	(61,290)
Transfer between stages:	(95)	(7,822)	7,917	-
Transfer from stage 1 to stage 2	*(2,387)*	*2,387*	-	-
Transfer from stage 1 to stage 3	*(550)*	-	*550*	-
Transfer from stage 2 to stage 1	*2,720*	*(2,720)*	-	-
Transfer from stage 2 to stage 3	-	*(7,642)*	*7,642*	-
Transfer from stage 3 to stage 2	-	*153*	*(153)*	-
Transfer from stage 3 to stage 1	*122*	-	*(122)*	-
Recovery of loans and advances written off in previous years	-	-	3,748	3,748
Unwind of discount on impairment allowance	-	-	(1,309)	(1,309)
Exchange difference	141	2	4	147
Balance at the end of the year	25,042	26,693	53,604	105,339

Note 1: This item includes PD, EAD, LGD change due to routine updates to model parameters, and the impact of stage changes on the measurement of expected credit losses.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.5 Movements of ECL allowance (Continued)

(a) Movements of ECL allowance of loans and advances to customers at amortized cost (Continued)

Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	30,587	35,308	37,908	103,803
Additions/ (Deduction), net (Note 1)	(6,084)	(999)	65,333	58,250
Write-off and disposal	-	-	(60,912)	(60,912)
Transfer between stages:	(93)	(7,810)	7,903	-
Transfer from stage 1 to stage 2	*(2,381)*	*2,381*	-	-
Transfer from stage 1 to stage 3	*(540)*	-	*540*	-
Transfer from stage 2 to stage 1	*2,718*	*(2,718)*	-	-
Transfer from stage 2 to stage 3	-	*(7,607)*	*7,607*	-
Transfer from stage 3 to stage 2	-	*134*	*(134)*	-
Transfer from stage 3 to stage 1	*110*	-	*(110)*	-
Recovery of loans and advances written off in previous years	-	-	3,670	3,670
Unwind of discount on impairment allowance	-	-	(1,309)	(1,309)
Exchange difference	141	2	4	147
Balance at the end of the year	24,551	26,501	52,597	103,649

Note 1: This item includes PD, EAD, LGD change due to routine updates to model parameters, and the impact of stage changes on the measurement of expected credit losses.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.5 Movements of ECL allowance (Continued)

(a) Movements of ECL allowance of loans and advances to customers at amortized cost (Continued)

Group	Year ended 31 December 2017		
	Individually assessed	Collectively assessed	Total
Balance at beginning of the year	15,475	72,774	88,249
Charge for the year	19,680	33,119	52,799
Write-off	(17,435)	(33,819)	(51,254)
Recovery of loans and advances written off in previous years	768	1,992	2,760
Unwind of discount on impairment allowance	(977)	(461)	(1,438)
Other transfer in/ (transfer out)	4,644	(4,644)	-
Exchange difference	-	(369)	(369)
Balance at end of the year	22,155	68,592	90,747

Bank	Year ended 31 December 2017		
	Individually assessed	Collectively assessed	Total
Balance at beginning of the year	15,475	71,882	87,357
Charge for the year	19,680	32,141	51,821
Write-off	(17,435)	(33,508)	(50,943)
Recovery of loans and advances written off in previous years	768	1,992	2,760
Unwind of discount on impairment allowance	(977)	(461)	(1,438)
Other transfer in/ (transfer out)	4,644	(4,644)	-
Exchange difference	-	(369)	(369)
Balance at end of the year	22,155	67,033	89,188

(b) Movements of ECL allowance of loans and advances to customers at FVOCI

Group and Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	409	1	-	410
Additions/ (Deduction), net	(210)	3	-	(207)
Balance at end of the year	199	4	-	203

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.6 Impact of movements of gross carrying amount of loans and advances to customers to impairment allowance

(a) Movements of gross carrying amount of loans and advances to customers at amortized cost

The following table illustrates the changes in the gross carrying amount of loans and advances to customers to explain the impact of these changes on the allowance for impairment losses on loans and advances to customers:

Group	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	2,804,951	184,302	70,989	3,060,242
Additions/ (Deduction), net	384,654	(39,043)	(15,899)	329,712
Transfer out (Note 1)	(22,049)	-	(13,277)	(35,326)
Write-offs and disposal	-	-	(61,290)	(61,290)
Transfer between stages:	(103,254)	11,639	91,615	-
Transfer from stage 1 to stage 2	*(78,369)*	*78,369*	-	-
Transfer from stage 1 to stage 3	*(55,598)*	-	*55,598*	-
Transfer from stage 2 to stage 1	*30,397*	*(30,397)*	-	-
Transfer from stage 2 to stage 3	-	*(36,719)*	*36,719*	-
Transfer from stage 3 to stage 2	-	*386*	*(386)*	-
Transfer from stage 3 to stage 1	*316*	-	*(316)*	-
Exchange difference	5,810	309	113	6,232
Balance at the end of the year	3,070,112	157,207	72,251	3,299,570

Note 1: The Group transfers Loans and advances to customer to third parties.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.6 Impact of movements of gross carrying amount of loans and advances to customers to impairment allowance (Continued)

(a) Movements of gross carrying amount of loans and advances to customers at amortized cost (Continued)

Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	2,785,830	183,666	69,063	3,038,559
Additions/ (Deduction), net	382,332	(38,483)	(15,375)	328,474
Transfer out (Note 1)	(22,049)	-	(13,277)	(35,326)
Write-offs and disposal	-	-	(60,912)	(60,912)
Transfer between stages:	(100,998)	10,250	90,748	-
Transfer from stage 1 to stage 2	*(76,920)*	*76,920*	-	-
Transfer from stage 1 to stage 3	*(54,756)*	-	*54,756*	-
Transfer from stage 2 to stage 1	*30,387*	*(30,387)*	-	-
Transfer from stage 2 to stage 3	-	*(36,603)*	*36,603*	-
Transfer from stage 3 to stage 2	-	*320*	*(320)*	-
Transfer from stage 3 to stage 1	*291*	-	*(291)*	-
Exchange difference	5,810	309	113	6,232
Balance at the end of the year	3,050,925	155,742	70,360	3,277,027

Note 1: The Bank transfers Loans and advances to customer to third parties.

(b) Movements of gross carrying amount of loans and advances to customers at fair value through other comprehensive income

The following table illustrates the changes in the gross carrying amount of loans and advances to customers to explain the impact of these changes on the allowance for impairment losses on loans and advances to customers:

Group and Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	134,315	34	-	134,349
Additions/ (Deduction), net	114,706	(33)	-	114,673
Transfer between stages:	(48)	48	-	-
Transfer from stage 1 to stage 2	*(48)*	*48*	-	-
Changes in fair value	331	3	-	334
Balance at the end of the year	249,304	52	-	249,356

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.18 Available-for-sale financial assets

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
At fair value:				
Government bonds	NA	64,429	NA	64,429
Bonds issued by policy banks	NA	29,770	NA	29,770
Bonds issued by financial institutions	NA	63,089	NA	63,089
Deposit certificates issued by other financial institutions	NA	24,872	NA	24,872
Corporate bonds	NA	41,251	NA	37,682
Assets backed securities (“ABS”)	NA	169,276	NA	169,276
Trust and asset management plans	NA	52,951	NA	48,809
Equity investments	NA	2,237	NA	1,468
Wealth management products managed by other banks	NA	354	NA	-
Fund investments	NA	215,396	NA	215,124
Others	NA	883	NA	318
Total	NA	664,508	NA	654,837

6.19 Investment securities - held-to-maturity

	Group and Bank	
	31 December 2018	31 December 2017
Government bonds	NA	269,515
Bonds issued by policy banks	NA	166,016
Bonds issued by financial institutions	NA	3,744
Corporate bonds	NA	5,524
Less：impairment allowance	NA	(73)
Total	NA	444,726

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.20 Investment securities - loans and receivables

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bonds				
Government bonds	NA	135,733	NA	135,733
Bonds issued by financial institutions	NA	97,509	NA	97,509
Corporate bonds	NA	20,762	NA	20,762
ABS	NA	3,411	NA	3,411
	NA	257,415	NA	257,415
Trust and asset management plans (Note 1)	NA	581,690	NA	567,626
Wealth management products managed by other banks	NA	520	NA	520
	NA	582,210	NA	568,146
Individual assessed impairment allowances	NA	(2,856)	NA	(3,451)
Collectively assessed impairment allowances	NA	(4,171)	NA	(4,171)
Sub-total	NA	(7,027)	NA	(7,622)
Loans and receivables, net	NA	832,598	NA	817,939

Note 1: Trust and asset management plans are managed and operated by the third-party, they ultimately invested in trust loans, bill assets, etc.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Trading assets - at fair value through profit or loss(a)	395,668	NA	382,492	NA
Debt investments - at amortized cost(b)	1,144,249	NA	1,133,993	NA
Other debt investments- at fair value through other comprehensive income(c)	378,860	NA	374,171	NA
Other equity investments- at fair value through other comprehensive income(d)	4,038	NA	4,038	NA
Financial instruments, net	1,922,815	NA	1,894,694	NA

(a) Trading assets- at fair value through profit or loss

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Government bonds	7,859	NA	7,859	NA
Bonds issued by policy banks	5,109	NA	5,109	NA
Bonds issued by financial institutions	5,610	NA	5,610	NA
Deposit certificates issued by other financial institutions	23,056	NA	23,056	NA
Corporate bonds	12,629	NA	12,410	NA
Fund investment	263,191	NA	257,693	NA
Assets backed securities ("ABS")	2,531	NA	2,531	NA
Equity investment	1,128	NA	97	NA
Wealth management products managed by other banks	208	NA	-	NA
Trust and asset management plans (note 1)	68,669	NA	62,683	NA
Other investment (note 2)	5,678	NA	5,444	NA
Total	395,668	NA	382,492	NA

Note 1: Trust and asset management plans are managed and operated by the third-party, they ultimately invested in trust loans, bill assets, etc.

Note 2: Other investments mainly include the long-term employee benefits payable to Changjiang Pension Insurance Co., Ltd. for investment entrusted by the Group. As at 31 December 2018, the fair value of the investment amounts to RMB 5,678 million.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(b) Debt investments - at amortized cost

	Group		Bank	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Government bonds	455,516	NA	455,516	NA
Bonds issued by policy banks	194,088	NA	194,088	NA
Bonds issued by financial institutions	45,167	NA	45,167	NA
Corporate bonds	25,782	NA	25,374	NA
Deposit certificates issued by other financial institutions	695	NA	695	NA
Assets backed securities (“ABS”)	120,415	NA	120,415	NA
Other debt instrument (Note1)	9,650	NA	9,650	NA
Trust and asset management plans (Note 2)	285,576	NA	276,204	NA
Subtotal	1,136,889	NA	1,127,109	NA
Interest receivable	14,863	NA	14,690	NA
Impairment allowance				
—Debt investments	(7,488)	NA	(7,791)	NA
—Interest receivable of debt investments	(15)	NA	(15)	NA
Subtotal of impairment allowance	(7,503)	NA	(7,806)	NA
Debt investments, net	1,144,249	NA	1,133,993	NA

Note 1：Other debt investments are financing products issued to corporates by the Bank.

Note 2：Trust and asset management plans are managed and operated by the third-party, they ultimately invested in trust loans, bill assets etc.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(b) Debt investments - at amortized cost (Continued)

(i) Movements of ECL allowance：

Group	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	2,868	418	3,724	7,010
Charge for the year	1,269	47	1,584	2,900
Reverse	(1,225)	(188)	(1,022)	(2,435)
Transfers between stages:	(8)	(39)	47	-
Transfer from stage 1 to stage 2	*(5)*	*5*	*-*	-
Transfer from stage 1 to stage 3	*(7)*	*-*	*7*	-
Transfer from stage 2 to stage 1	*4*	*(4)*	*-*	-
Transfer from stage 2 to stage 3	*-*	*(40)*	*40*	-
Exchange difference	5	-	8	13
Balance at the end of the year	2,909	238	4,341	7,488

Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	2,778	418	4,032	7,228
Charge for the year	1,231	47	1,556	2,834
Reverse	(1,074)	(188)	(1,022)	(2,284)
Transfers between stages:	(8)	(39)	47	-
Transfer from stage 1 to stage 2	*(5)*	*5*	*-*	-
Transfer from stage 1 to stage 3	*(7)*	*-*	*7*	-
Transfer from stage 2 to stage 1	*4*	*(4)*	*-*	-
Transfer from stage 2 to stage 3	*-*	*(40)*	*40*	-
Exchange difference	5	-	8	13
Balance at the end of the year	2,932	238	4,621	7,791

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(b) Debt investments - at amortized cost (Continued)

(ii) The following table illustrates movements of gross carrying amount of debt investments to explain the impact of these changes on the allowance for impairment losses on debt investments:

Group	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	1,469,339	11,348	6,306	1,486,993
Originated or purchased	616,119	-	-	616,119
Derecognised (except for write off)	(959,438)	(5,269)	(1,648)	(966,355)
Transfers between stages:	(1,065)	(505)	1,570	-
Transfer from stage 1 to stage 2	*(679)*	*679*	-	-
Transfer from stage 1 to stage 3	*(455)*	-	*455*	-
Transfer from stage 2 to stage 1	*69*	*(69)*	-	-
Transfer from stage 2 to stage 3	-	*(1,115)*	*1,115*	-
Exchange difference	130	1	1	132
Balance at the end of the year	1,125,085	5,575	6,229	1,136,889

Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	1,454,278	11,348	7,138	1,472,764
Originated or purchased	615,619	-	-	615,619
Derecognised (except for write off)	(954,536)	(5,269)	(1,601)	(961,406)
Transfers between stages:	(1,065)	(505)	1,570	-
Transfer from stage 1 to stage 2	*(679)*	*679*	-	-
Transfer from stage 1 to stage 3	*(455)*	-	*455*	-
Transfer from stage 2 to stage 1	*69*	*(69)*	-	-
Transfer from stage 2 to stage 3	-	*(1,115)*	*1,115*	-
Exchange difference	130	1	1	132
Balance at the end of the year	1,114,426	5,575	7,108	1,127,109

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(c) Other debt investments - at fair value through other comprehensive income

	Group		Bank	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Government bonds	153,340	NA	153,340	NA
Bonds issued by policy banks	73,947	NA	73,947	NA
Bonds issued by financial institutions	57,177	NA	57,177	NA
Deposit certificates issued by other financial institutions	20,804	NA	20,804	NA
Corporate bonds	54,251	NA	50,775	NA
Assets backed securities ("ABS")	11,982	NA	11,982	NA
Trust and asset management plans (note 1)	2,487	NA	1,274	NA
Subtotal	373,988	NA	369,299	NA
Interest receivable	4,872	NA	4,872	NA
Total	378,860	NA	374,171	NA

(i) Analysis of relevant information on other debt investments is as follows:

	Group		Bank	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Debt instrument				
—Fair value	373,988	NA	369,299	NA
—Initial recognition cost	369,901	NA	364,818	NA
— Amounts accumulated in other comprehensive income	4,151	NA	4,545	NA
—Amounts accumulated in profit or loss (note 2)	(64)	NA	(64)	NA

Note 1: Trust and asset management plans are managed and operated by the third-party, they ultimately invested in trust loans, bill assets, etc.

Note 2: The Bank's Hong Kong branch hedged the fair value changes of available-for-sale bonds caused by interest rates using cross currency and interest rate swaps. The fair value changes of these hedged bonds are recognized in current profits or losses.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(c) Other debt investments - at fair value through other comprehensive income (Continued)

(ii) Movements of ECL allowance of other debt investments：

Group	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	200	-	225	425
Charge for the year	374	16	50	440
Reverse	(40)	-	-	(40)
Write-offs	-	-	(110)	(110)
Exchange difference	(4)	-	4	-
Balance at the end of the year	530	16	169	715

Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	200	-	225	425
Charge for the year	198	14	50	262
Reverse	(40)	-	-	(40)
Write-offs	-	-	(110)	(110)
Exchange difference	(4)	-	4	-
Balance at the end of the year	354	14	169	537

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(c) Other debt investments at fair value through other comprehensive income (Continued)

(iii) The following table illustrates the changes in the carrying amount of other debt instruments to explain the impact of these changes on the allowance for impairment losses on other debt instruments:

Group	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	224,919	-	385	225,304
Originated or purchased	434,245	-	-	434,245
Derecognised (except for write off)	(294,602)	(35)	(110)	(294,747)
Write-offs	-	-	(110)	(110)
Transfers between stages:	(493)	493	-	-
Transfer from stage 1 to stage 2	*(493)*	*493*	-	-
Changes in fair value	8,129	4	-	8,133
Exchange difference	1,874	-	4	1,878
Balance at the end of the year	374,072	462	169	374,703

Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	219,343	-	385	219,728
Originated or purchased	434,473	-	-	434,473
Derecognised (except for write off)	(294,203)	(35)	(110)	(294,348)
Write-offs	-	-	(110)	(110)
Transfers between stages:	(493)	493	-	-
Transfer from stage 1 to stage 2	*(493)*	*493*	-	-
Changes in fair value	8,211	4	-	8,215
Exchange difference	1,874	-	4	1,878
Balance at the end of the year	369,205	462	169	369,836

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(d) Other equity instruments

	Group and Bank	
	31 December 2018	31 December 2017
Equity instruments	4,038	NA

Analysis of relevant information on other equity instruments is as followed:

	Group and Bank	
	31 December 2018	31 December 2017
—Fair value	4,038	NA
—Initial recognition cost	3,459	NA
—Amounts accumulated in other comprehensive income	579	NA

6.22 Investments in associate and joint ventures

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Investment in associate	211	202	-	-
Investment in joint ventures	1,757	804	1,757	804
Total	1,968	1,006	1,757	804

Amounts recorded in the statement of comprehensive income are analysed as follows:

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Investments in associates				
—Share of profits	(12)	(3)	-	-
Investments in joint ventures				
—Share of profits	176	100	176	100
—Exchange differences	10	(12)	10	(12)
Subtotal	186	88	186	88
Total	174	85	186	88

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.22 Investments in associate and joint ventures (Continued)

Major associates and joint ventures

Name of the investees	Places of incorporation	Shareholding percentage	Nature of business	Accounting Method
Joint venture-AXA SPDB Investment Managers Co., ltd.	Shanghai, China	51%	Financial industry	Equity method

According to the Articles of Association of AXA SPDB Investment Managers Co., Ltd., resolutions on certain significant operate and finance decisions shall be approved by shareholders representing more than two thirds voting shares. These resolutions include the company's strategic plan, investment plan, annual financial budget and financial statements and profit appropriations etc. Although the Group owns 51% voting shares of AXA SPDB Investment Management Co., Ltd., it has to exercise influences over the company jointly with another major shareholder.

Name of the investees	Places of incorporation	Shareholding percentage	Nature of business	Accounting Method
Joint venture-SPD Silicon Valley Bank Co., Ltd.	Shanghai, China	50%	Financial industry	Equity method

The Group's associates and joint ventures are all unlisted companies.

As at 31 December 2018, there is no restriction for capital transfer from the Group's and the Bank's subsidiaries and joint ventures to the Group and the Bank.

There is no contingent liabilities of the Group in these associates and joint ventures.

The Bank is of the view that the above associates and joint ventures are not material to the Group in terms of their net profit and net assets and therefore no additional information disclosure is required.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.23 Property and equipment

Group	31 December 2017	Additions	Disposals	31 December 2018
Cost	39,199	4,825	(628)	43,396
Land and buildings	12,657	366	(7)	13,016
Motor vehicles	464	31	(34)	461
Software	1,941	1,013	-	2,954
Electronic computers and other equipment	7,701	844	(577)	7,968
Aircraft equipment	10,295	2,300	-	12,595
Leasehold improvement	6,141	271	(10)	6,402
Accumulated depreciation	17,322	2,931	(575)	19,678
Land and buildings	3,793	424	(3)	4,214
Motor vehicles	355	36	(31)	360
Software	1,638	450	-	2,088
Electronic computers and other equipment	5,596	896	(534)	5,958
Aircraft equipment	907	608	-	1,515
Leasehold improvement	5,033	517	(7)	5,543
Net book value	21,877			23,718
Land and buildings	8,864			8,802
Motor vehicles	109			101
Software	303			866
Electronic computers and other equipment	2,105			2,010
Aircraft equipment	9,388			11,080
Leasehold improvement	1,108			859

The depreciation expense recognized in profit or loss for the year ended 31 December 2018 is RMB 2,931 million (31 December 2017: RMB 2,577 million).

As at 31 December 2018, the net book value of 11,080 million (31 December 2017: net book value of 9,388million) of Flight equipment of Group's subsidiary SPDB Financial Leasing Co., Ltd has been leased.

As at 31 December 2018, the Group's land and buildings with cost of 388 million and net book value of 311 million (31 December 2017: the cost of 873 million, the net book value of 764 million) are already in use but the property registration are in progress.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.23 Property and equipment (Continued)

Bank	31 December 2017	Additions	Disposals	31 December 2018
Cost	27,946	2,452	(589)	29,809
Land and buildings	12,140	357	(7)	12,490
Motor vehicles	435	26	(25)	436
Software	1,902	1,004	-	2,906
Electronic computers and other equipment	7,536	809	(550)	7,795
Leasehold improvement	5,933	256	(7)	6,182
Accumulated depreciation	16,093	2,215	(551)	17,757
Land and buildings	3,745	392	(3)	4,134
Motor vehicles	336	32	(23)	345
Software	1,616	437	-	2,053
Electronic computers and other equipment	5,514	861	(519)	5,856
Leasehold improvement	4,882	493	(6)	5,369
Net book value	11,853			12,052
Land and buildings	8,395			8,356
Motor vehicles	99			91
Software	286			853
Electronic computers and other equipment	2,022			1,939
Leasehold improvement	1,051			813

The depreciation expense recognized in profit or loss for the year ended 31 December 2018 is RMB 2,215 million (31 December 2017: RMB 2,087million).

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.24 Construction in progress

Group	31 December 2017	Additions	Transfer out	31 December 2018
Buildings	1,845	57	(73)	1,829
Others	2,829	6,269	(6,428)	2,670
Total	4,674	6,326	(6,501)	4,499

Bank	31 December 2017	Additions	Transfer out	31 December 2018
Buildings	1,845	57	(73)	1,829
Others	2,829	6,269	(6,428)	2,670
Total	4,674	6,326	(6,501)	4,499

6.25 Intangible assets

Group	31 December 2017	Additions	Disposals	31 December 2018
Cost	9,905	-	-	9,905
Goodwill(Note 1)	6,981	-	-	6,981
Contractual customer relationships	688	-	-	688
Brand and franchise right	2,236	-	-	2,236
Accumulated Amortization	559	89	-	648
Goodwill	-	-	-	-
Contractual customer relationships	559	89	-	648
Brand and franchise right	-	-	-	-
Net book value	9,346			9,257
Goodwill	6,981			6,981
Contractual customer relationships	129			40
Brand and franchise right	2,236			2,236

The amortization expense recognized in profit or loss for the year ended 31 December 2018 is RMB 89 million (31 December 2017: RMB 158 million).

Note1: Goodwill is recognized on March 2016 as a result of the Bank’s issuance of ordinary shares to acquire 97.33% equity of Shanghai International Trust Co., Ltd.

According to the Group’s impairment test result, the brand and franchise right are not impaired as at 31 December, 2018 (31 December 2017：are not impaired).

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.25 Intangible assets (Continued)

According to the Group’s impairment testing result, the goodwill is not impaired as at 31 December, 2018 (31 December 2017：is not impaired).

The goodwill allocated to the CGU or CGUs according to operating segments are summarised as follows:

	31 December 2018	31 December 2017
Shanghai International Trust Co., Ltd.	4,739	4,739
Subsidiaries of Shanghai International Trust Co., Ltd.	2,242	2,242
	6,981	6,981

In the case of a goodwill impairment test, the Group compares the book value of CGU or CGUs (including goodwill) with its recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss. The Group's goodwill allocation has not changed in 2018.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management’s approved five -year financial forecasts. The cash flows beyond the five-year period are forecasted based on the following estimated growth rates.

The key assumptions applied in calculating discounted future cash flows are as follows:

	Shanghai International Trust Co., Ltd		Subsidiaries of Shanghai International Trust Co., Ltd.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Forecast period growth rate	8.14%	10.96%	The management determines the revenue growth rate for the five-year detailed forecast period based on historical experience and market development forecasts	
Stable period growth rate	3.00%	3.00%	3.00%	3.00%
Discount rate, before tax	16.76%	18.50%	14.36%-17.70%	18.42%-21.92%

The Group determines the growth rate based on historical experience and market development forecasts, and uses a pre-tax rate that reflects the specific risk relating to the relevant CGU and CGUs as the discount rate. The stable period growth rate is the weighted average growth rate used for subsequent cash flows after the five-year forecast period, which is consistent with the forecasts included in industry reports and does not exceed the long-term average growth rates of each product.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.26 Deferred income tax

6.26.1 The table below includes the deferred income tax assets and liabilities of the Group and the Bank after offsetting qualifying amounts:

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Deferred income tax assets	36,877	29,022	36,078	28,381
Deferred income tax liabilities	(643)	(680)	-	-

6.26.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

Group

	31 December 2018		31 December 2017	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (Liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (Liabilities)
Impairment allowances for financial assets at amortized cost	148,296	37,074	110,820	27,705
Provision	4,747	1,187	NA	NA
Amortization for long-term assets	-	-	28	7
Employee benefits payable	684	171	260	65
Fair value changes of financial assets and liabilities recognised in profit or loss	NA	NA	36	9
Fair value changes of other debt investments recognised in other comprehensive income	394	98	NA	NA
Fair value changes of available-for-sale financial assets recognized in other comprehensive income	NA	NA	7,165	1,792
Fair value changes of hedged other debt investments recognised in profit or loss	64	16	NA	NA
Fair value changes of hedged available-for-sale financial assets recognized in profit or loss	NA	NA	167	42
Fair value changes of precious metals	357	89	-	-
Fair value changes of derivative financial instruments	-	-	1,770	443
Deferred income tax assets before offsetting	154,542	38,635	120,246	30,063

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.26 Deferred income tax (Continued)

6.26.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:(continued)

Group

	31 December 2018		31 December 2017	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (Liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (Liabilities)
Fair value changes of trading assets and trading liabilities	(1,233)	(308)	NA	NA
Fair value changes of financial assets and liabilities at fair value through profit or loss	NA	NA	(3,949)	(987)
Fair value changes of other debt investments recognized in other comprehensive income	(4,545)	(1,136)	NA	NA
Fair value changes of other equity instruments recognized in other comprehensive income	(579)	(145)	NA	NA
Fair value changes of loans at fair value through other comprehensive income	(169)	(42)	NA	NA
Fair value changes of precious metals	-	-	(216)	(54)
Fair value changes of derivative financial instruments	(481)	(120)	-	-
Depreciation	(29)	(7)	(32)	(8)
Differences between fair value and carrying amount of identifiable net assets arising from business combinations of entities not under common control	(2,568)	(642)	(2,676)	(669)
Others	(4)	(1)	(12)	(3)
Deferred tax liabilities before offsetting	(9,608)	(2,401)	(6,885)	(1,721)

As at 31 December 2018, the Group offset deferred income tax assets and liabilities of RMB 1,758 million (31 December 2017: RMB 1,041 million).

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.26 Deferred income tax (Continued)

6.26.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items (continued):

Bank

	31 December 2018		31 December 2017	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)
Impairment allowances for financial assets at amortized cost	145,976	36,494	108,604	27,151
Provision	4,742	1,186	NA	NA
Amortization for long-term assets	-	-	28	7
Fair value changes of available-for-sale financial assets recognized in other comprehensive income	NA	NA	7,043	1,761
Fair value changes of hedged other debt investments recognised in profit or loss	64	16	NA	NA
Fair value changes of hedged available-for-sale financial assets recognized in profit or loss	NA	NA	167	42
Fair value changes of precious metals	357	89	-	-
Fair value changes of derivative financial instruments	-	-	1,770	443
Deferred income tax assets before offsetting	151,139	37,785	117,612	29,404
Fair value changes of trading assests and trading liabilities	(1,028)	(257)	NA	NA
Fair value changes of financial assets and liabilities at fair value through profit or loss	NA	NA	(3,847)	(962)
Fair value changes of precious metals	-	-	(216)	(54)
Fair value changes of other debt investments recognized in other comprehensive income	(4,545)	(1,136)	NA	NA
Fair value changes of other equity instruments recognized in other comprehensive income	(579)	(145)	NA	NA
Fair value changes of loans at fair value through other comprehensive income	(169)	(42)	NA	NA
Fair value changes of derivative financial instruments	(481)	(120)	-	-
Depreciation	(29)	(7)	(27)	(7)
Deferred tax liabilities before offsetting	(6,831)	(1,707)	(4,090)	(1,023)

As at 31 December 2018, the Bank offset deferred income tax assets and liabilities of RMB 1,707 million (31 December 2017: RMB 1,023 million).

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.26 Deferred income tax (Continued)

6.26.3 The movement of the deferred income tax account is as follows:

Group	Year ended 31 December 2018
Balance at beginning of the year	28,342
Impact of IFRS9	5,213
Restated beginning balance of the period	33,555
Credited to profit or loss (Note 6.9)	4,918
Credited to other comprehensive income (Note 6.10)	(2,239)
Balance at end of the year	36,234

Bank	Year ended 31 December 2018
Balance at beginning of the year	28,381
Impact of IFRS9	5,266
Restated beginning balance of the period	33,647
Credited to profit or loss (Note 6.9)	4,690
Credited to other comprehensive income (Note 6.10)	(2,259)
Balance at end of the year	36,078

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.27 Other assets

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Finance lease receivable (Note 1)	48,232	41,017	-	-
Settlement and clearing accounts	13,543	17,466	13,543	17,465
Margin deposits for precious metal trading	9,754	9,318	9,754	9,318
Land use rights	6,523	341	6,520	338
Other receivables (Note 2)	4,932	35,657	3,316	34,790
Payments to Trust Protection Fund on behalf of investors	2,745	3,264	-	-
Prepayment for land use rights and constructions	1,758	7,077	1,758	7,077
Past due interest receivable, net	705	-	700	-
Foreclosed assets	605	768	595	765
Other long-term assets	606	545	579	522
Interest receivable, net	NA	31,094	NA	30,294
Total	89,403	146,547	36,765	100,569

From the fiscal year beginning on January 1, 2018, the Group's interest receivable on financial instruments recognized based on the effective interest method is included in the carrying amount of the corresponding financial instrument.

“Other assets” or “Other liabilities” items only list the interest receivable that has been due but not figures received or paid at the balance sheet date. The Group has not restated the comparables.

Note 1: Finance lease receivable

Group

	2018-12-31	2017-12-31
Within 1 year (including 1 year)	17,424	13,524
1 to 2 years (including 2 years)	12,642	11,051
2 to 3 years (including 3 years)	9,485	8,967
Over 3 years	15,562	14,149
Gross amount of finance lease receivable	55,113	47,691
Interest receivable	502	NA
Less：Unearned finance income	(6,460)	(5,493)
Less：Impairment allowance	(923)	(1,181)
Net finance lease receivable	48,232	41,017

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.27 Other assets (Continued)

Note 2: Other receivables are analyzed by aging as follows:

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Within 1 year	6,155	36,493	4,680	35,781
1 to 2 years	315	263	161	109
2 to 3 years	61	68	51	59
Over 3 years	1,052	1,011	1,048	997
	7,583	37,835	5,940	36,946
Less: Impairment allowance	(2,651)	(2,178)	(2,624)	(2,156)
Net other receivables	4,932	35,657	3,316	34,790

6.28 Impairment allowances for assets

Group	31 December 2017	Restated beginning balance of the period	Charge and reserve	Write-off and disposal	Others	31 December 2018
Due from and placements with banks and other financial institutions	-	248	(42)	-	-	206
Financial assets purchased under resale agreements	7	73	(66)	-	-	7
Loans and advances to customers at amortized cost	90,747	105,525	58,590	(61,290)	2,596	105,421
Loans and advances to customers at fair value through other comprehensive income	NA	410	(207)	-	-	203
Available-for-sale financial assets	225	NA	NA	NA	NA	NA
Investment securities- held –to –maturity	73	NA	NA	NA	NA	NA
Investments securities - loans and receivables	7,027	NA	NA	NA	NA	NA
Debt investments- at amortized cost	NA	7,020	470	-	13	7,503
Other debt investments- at fair value through other comprehensive income	NA	425	400	(110)	-	715
Other receivables	2,178	2,317	559	(225)	-	2,651
Other assets- interest receivable	1,247	NA	NA	NA	NA	NA
Other assets- past due interest receivable	-	400	315	-	-	715
Finance lease receivable	1,181	732	191	-	-	923
Foreclosed assets	178	178	3	-	(10)	171
Total	102,863	117,328	60,213	(61,625)	2,599	118,515

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.28 Impairment allowances for assets (Continued)

Bank	31 December 2017	Restated beginning balance of the period	Charge and reserve	Write-off and disposal	Others	31 December 2018
Due from and placements with banks and other financial institutions	-	225	(45)	-	-	180
Financial assets purchased under resale agreements	7	73	(66)	-	-	7
Loans and advances to customer at amortized cost	89,188	103,846	58,284	(60,912)	2,508	103,726
Loans and advances to customers at fair value through other comprehensive income	NA	410	(207)	-	-	203
Available-for-sale financial assets	225	NA	NA	NA	NA	NA
Investment securities- held –to -maturity	73	NA	NA	NA	NA	NA
Investments securities - loans and receivables	7,622	NA	NA	NA	NA	NA
Debt investments- at amortized cost	NA	7,237	556	-	13	7,806
Other debt investments- at fair value through other comprehensive income	NA	425	222	(110)	-	537
Other receivables	2,156	2,298	550	(224)	-	2,624
Other assets- interest receivable	1,247	NA	NA	NA	NA	NA
Other assets- past due interest receivable	-	396	315	-	-	711
Foreclosed assets	178	178	3	-	(10)	171
Total	100,696	115,088	59,612	(61,246)	2,511	115,965

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.28 Impairment allowances for assets (Continued)

Group	31 December 2016	Charge and reverse	Write-off and disposal	Others	31 December 2017
Financial assets purchased under resale agreements	-	7	-	-	7
Loans and advances to customers	88,249	52,799	(51,254)	953	90,747
Available-for-sale financial assets	87	144	-	(6)	225
Investment securities- held-to -maturity	48	25	-	-	73
Investments securities - loans and receivables	5,809	1,537	(319)	-	7,027
Other receivables	1,887	575	(284)	-	2,178
Interest receivable	907	340	-	-	1,247
Finance lease receivable	1,337	(156)	-	-	1,181
Foreclosed assets	613	14	-	(449)	178
Total	98,937	55,285	(51,857)	498	102,863

Bank	31 December 2016	Charge and reverse	Write-off and disposal	Others	31 December 2017
Financial assets purchased under resale agreements	-	7	-	-	7
Loans and advances to customers	87,357	51,821	(50,943)	953	89,188
Available-for-sale financial assets	87	144	-	(6)	225
Investment securities- held-to -maturity	48	25	-	-	73
Investments securities - loans and receivables	5,809	2,132	(319)	-	7,622
Other receivables	1,883	554	(281)	-	2,156
Interest receivable	907	340	-	-	1,247
Foreclosed assets	613	14	-	(449)	178
Total	96,704	55,037	(51,543)	498	100,696

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.29 Due to and placements from banks and other financial institutions

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Due to domestic banks	231,926	340,355	238,492	347,707
Due to other domestic financial institutions	783,406	937,994	784,655	938,945
Due to overseas banks	30,180	11,953	30,180	11,953
Due to other overseas financial institutions	18,047	24,016	18,047	24,016
Placements from domestic banks	96,104	81,919	61,910	46,514
Placements from overseas banks	48,515	52,400	45,571	51,396
Placements from other domestic financial institutions	3,470	4,463	1,800	2,963
Interest payable	4,743	NA	4,678	NA
Total	1,216,391	1,453,100	1,185,333	1,423,494

6.30 Trading liabilities - at fair value through profit or loss

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Financial liabilities related to precious metals	24,504	15,121	24,504	15,121
Interest of other unitholders in consolidated structured entities (Note 1)	10,408	13,212	-	-
Total	34,912	28,333	24,504	15,121

Note 1: The Group designated interests attributable to other unitholders in consolidated structured entities as financial liabilities at fair value through profit or loss. As at 31 December 2018, no significant fair value changes have occurred due to changes in the Group's own credit risk. (As at 31 December 2017: no significant fair value changes have occurred).

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.31 Financial assets sold under repurchase agreements

	Group and Bank	
	31 December 2018	31 December 2017
Bonds	85,383	156,778
Bills	34,067	21,488
Certificates of deposit issued	-	6,198
Interest payable	114	NA
Total	119,564	184,464

6.32 Deposits from customers

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Current deposits				
-Corporate	1,244,437	1,353,271	1,235,699	1,342,465
-Retail	219,601	184,666	216,471	181,624
Time deposits				
-Corporate	1,330,802	1,191,860	1,325,892	1,185,849
-Retail	428,273	303,767	415,068	292,474
Other deposits	3,905	4,372	3,788	4,192
Subtotal	3,227,018	3,037,936	3,196,918	3,006,604
Interest payable	26,297	NA	25,671	NA
Total	3,253,315	3,037,936	3,222,589	3,006,604

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.33 Bonds issued

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bonds issued				
Subordinated bond issued in 2011 (Note1)	18,400	18,400	18,400	18,400
Subordinated bond issued in 2012 (Note 2)	12,000	12,000	12,000	12,000
Tier II capital bond issued in 2015 (Note3)	30,000	30,000	30,000	30,000
Hong kong USD medium-term note (Note 4)	12,015	11,396	12,015	11,396
Green Financial Bond 01 (Note 5)	20,000	20,000	20,000	20,000
Green Financial Bond 02 (Note 6)	15,000	15,000	15,000	15,000
Green Financial Bond 03 (Note 7)	15,000	15,000	15,000	15,000
2017 First Financial Bond (Note 8)	15,000	15,000	15,000	15,000
2017 Second Financial Bond (Note 9)	22,000	22,000	22,000	22,000
2017 Third Financial Bond (Note 10)	13,000	13,000	13,000	13,000
2018 Tier II First Financial Bond (Note 11)	20,000	-	20,000	-
2018 Tier II Second Financial Bond(Note 12)	20,000	-	20,000	-
SGD USD medium-term note (Note 13)	2,060	-	2,060	-
2017 SPDB Financial Leasing Financial Bond (Note 14)	3,000	3,000	-	-
2018 SPDB Financial Leasing Financial Bond(Note 15)	5,000	-	-	-
Sub-total	222,475	174,796	214,475	171,796
Less: Unamortized issue cost	(104)	(139)	(97)	(128)
Net book value of bonds issued	222,371	174,657	214,378	171,668
Assets backed securities (“ABS”)				
Puxin 2017 First Leasing ABS (Note 16)	419	1,198	-	-
Deposit certificates issued	614,564	510,441	614,564	510,441
Interest payable	4,086	NA	3,931	NA
Total	841,440	686,296	832,873	682,109

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.33 Bonds issued (Continued)

Note 1：The Bank issued subordinated bond in the amount of RMB 18.4 billion in the domestic inter-bank market on 11 October 2011 which have a term of 15 years through maturity, with a fixed annual coupon rate of 6.15%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

Note 2：The Bank issued subordinated bond in the amount of RMB 12.0 billion in the domestic inter-bank market on 28 December 2012 which have a term of 15 years through maturity, with a fixed annual coupon rate of 5.20%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

Note 3：The Bank issued Tier II capital instruments in the amount of RMB 30 billion in the domestic inter-bank market on 10 September 2015 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.50%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain circumstances.

Note 4：The Bank issued USD 500 million Medium-term note in Hong Kong Exchange and Clearing Limited on 13 February 2017 which have a term of 3 years through maturity, with a fixed annual coupon rate of 2.375%. The Bank issued USD 400 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July, 2017 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+85BPS. The Bank issued USD 350 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July, 2017 which has a term of 5 years through maturity, with a flexible annual coupon rate of 3ML+95BPS. The Bank issued USD 500 million medium-term note in Hong Kong Exchange and Clearing Limited on 26 September 2018 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+84BPS.

Note 5：The Bank issued “2016 First Green Financial Bond” in the amount of RMB 20 billion in the domestic inter-bank market on 27 January 2016 which has a term of 3 years through maturity, with a fixed annual coupon rate of 2.95%.

Note 6：The Bank issued “2016 Second Green Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 25 March 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.20%.

Note 7：The Bank issued “2016 Third Green Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 14 July 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.40%.

Note 8：The Bank issued “2017 First Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 24 February 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.00%.

Note 9：The Bank issued “2017 Second Financial Bond” in the amount of RMB 22 billion in the domestic inter-bank market on 28 April 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

Note 10：The Bank issued “2017 Third Financial Bond” in the amount of RMB 13 billion in the domestic inter-bank market on 10 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.33 Bonds issued (Continued)

Note 11: The Bank issued Tier II capital instruments in the amount of RMB 20 billion in the domestic inter-bank market on 7 September 2018 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.96%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain conditions.

Note 12: The Bank issued Tier II capital instruments in the amount of RMB 20 billion in the domestic inter-bank market on 18 September 2018 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.96%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain conditions.

Note 13: The Bank issued USD 300 million medium-term note in Singapore Exchange Limited on 26 November 2018 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+87BPS.

Note 14：SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued “2017 Financial Bond” in the amount of RMB 3 billion in the domestic inter-bank market on 24 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.96%.

Note 15: SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued “2018 Financial Bond” in the amount of RMB 5 billion in the domestic inter-bank market on 23 July 2018 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.49%.

Note 16: On 18 August 2017, SPDB financial leasing Co., Ltd, the subsidiary of the Bank, transferred its finance lease receivables with a par value of RMB 2,286 million to a trust company to issue the “Puxin 2017 First Leasing Asset-Backed Securities”. This ABS is divided into primary and secondary tranche with a par value of totalling RMB 2,286 million. The primary tranche has a par value of RMB 1,966 million with a floating annual coupon rate, which is the benchmark interest rate plus the corresponding interest rate margin. The benchmark interest rate is the one-to-five-year benchmark lending rate announced by the PBOC. The secondary tranche has a par value of RMB 320 million with no annual coupon rate. SPDB Financial Leasing Co., Ltd. holds all the secondary tranche. As of 30 June 2018, the remaining balance of the primary tranche is RMB 716 million. Since the above-mentioned structure is not satisfied with the requirement for derecognition of the asset, the finance lease receivables transferred that have not expired are still recognised for in the balance sheet.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.34 Provision

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Impairment allowance for financial guarantees and loan commitments	4,747	NA	4,742	NA

(a) Change of impairment allowance for financial guarantees and loan commitments

Group	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	3,435	807	285	4,527
Charge for the year	980	612	74	1,666
Reverse for the year	(764)	(443)	(252)	(1,459)
Transfers between stages:	36	(10)	(26)	-
Transfer from stage 1 to stage 2	*(39)*	*39*	-	-
Transfer from stage 1 to stage 3	*(1)*	-	*1*	-
Transfer from stage 2 to stage 1	*76*	*(76)*	-	-
Transfer from stage 2 to stage 3	-	*(23)*	*23*	-
Transfer from stage 3 to stage 2	-	*50*	*(50)*	-
Exchange difference	11	2	-	13
Balance at the end of the year	3,698	968	81	4,747

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.34 Provision (Continued)

(a) Change of impairment allowance for financial guarantees and loan commitments (Continued)

Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	3,427	807	285	4,519
Charge for the year	980	612	73	1,665
Reverse for the year	(760)	(443)	(251)	(1,454)
Transfers between stages:	36	(10)	(26)	-
Transfer from stage 1 to stage 2	(39)	39	-	-
Transfer from stage 1 to stage 3	(1)	-	1	-
Transfer from stage 2 to stage 1	76	(76)	-	-
Transfer from stage 2 to stage 3	-	(23)	23	-
Transfer from stage 3 to stage 2	-	50	(50)	-
Exchange difference	10	2	-	12
Balance at the end of the year	3,693	968	81	4,742

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.35 Other liabilities

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Settlement and clearing accounts	28,527	22,362	28,527	22,362
Employee benefits payable	10,487	7,911	9,311	6,880
Business tax and surcharge, value added tax and other tax payables	4,938	3,599	3,832	3,397
Advances from and deposits under lease agreements	4,262	3,965	-	-
Accrued expenses	3,240	1,973	3,240	1,972
Contract liabilities	2,782	NA	1,156	NA
Due to Trust Protection Fund	970	3,400	-	-
Relending	724	793	724	793
Proceeds from customers for subscribing mutual funds	627	549	627	549
Fiscal deposits in transition	607	376	535	374
Long term undrawn deposits	122	117	122	117
Interest payable	NA	35,064	NA	34,422
Others	2,475	6,481	1,811	4,760
Total	59,761	86,590	49,885	75,626

From the fiscal year beginning on January 1, 2018, the Group's interest receivable on financial instruments recognized based on the effective interest method is included in the carrying amount of the corresponding financial instrument.

“Other assets” or “Other liabilities” items only list the interest receivable that has been due but not figures received or paid at the balance sheet date. The Group has not restated the comparables.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.36 Ordinary shares

	Group and bank	
	31 December 2018	31 December 2017
RMB ordinary shares	29,352	29,352

6.37 Preference shares

(a) Information of other equity instruments

Name of other equity instrument	Dividend rate	Par value	Number	2017-12-31 Carrying value	Increase in this Year	2018-12-31 Carrying value	Maturity Date	Converted (Yes/No)
Pufayou 1	6% for the first five years	100	150 million	14,960	-	14,960	No Maturity Date	No
Pufayou 2	5.5% for the first five years	100	150 million	14,960	-	14,960	No Maturity Date	No
				29,920	-	29,920		

On 28 November 2014 and 6 March 2015, the Bank issued non-cumulative preference shares with the total par value of RMB 30 billion. The proceeds after deducting transaction costs amounted to RMB 29.92 billion and were recorded as Preference shares. The Bank has the option to redeem part or all outstanding preference shares on any dividend payment date after five years from the issuance if certain conditions are met, under the approval obtained from the CBRC. Holders of the preference shares have no right to require the Bank to redeem the outstanding preference shares. Dividends of the preference shares are payable in cash on annual basis at a fixed dividend rate which is adjusted every five years. The Bank at its discretion has the right not to declare and distribute the dividends of the preference shares in part or full.

Upon occurrence of any of the following triggering events and subject to the approval from the CBRC, the Bank's outstanding preference shares shall be mandatorily converted in part or full to the Bank's ordinary shares:

- When the core tier 1 capital adequacy ratio of the Bank decreases to 5.125% or below, upon the approval from the Board of Directors, the outstanding preference share shall be converted into the Bank's ordinary shares in part or full at a pre-determined mandatory conversion price so as to bring the Bank's core tier 1 capital adequacy ratio back to above 5.125%;

- When any triggering event of the Bank's tier 2 capital instruments occurs, the outstanding preference shares shall be converted to the Bank's ordinary A shares at the pre-determined mandatory conversion price.

Under the approval from regulatory authority, the outstanding preference shares will be fully or partially converted to ordinary A shares at the price of RMB 10.96 per share when meeting the mandatory conversion triggering conditions. If the Bank subsequently appropriates bonus shares, transfers retained earnings to ordinary shares, issues new ordinary shares (excluding any increase of ordinary shares due to conversion of convertible financial instruments issued by the Bank, such as preference shares and convertible bonds, etc) or issue rights, the conversion price shall be adjusted subject to the terms and formula provided by the offering documents to adjust for the dilutive effects of these specified increases in ordinary shares.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.37 Preference shares (Continued)

Pursuant to the relevant laws and regulations, and the Approval from CBRC on the Bank's Non-Public Offering of Preference Shares and Corresponding Revisions to the Article of Association (YJF[2014]No.564), the proceeds from the issuance of preference shares shall be used to supplement the other tier 1 capital of the Bank.

Upon liquidation, the holders of the Bank's preference shares are entitled to the repayment at the par value of the outstanding preference shares prior to any distribution to the holders of the Bank's ordinary shares. If the remaining assets of the Bank are not sufficient to cover the par value, they are allocated to the holders of preference shares on proportionate basis.

(b) Equity attributable to the holders of other equity instruments

	Group	
	31 December 2018	31 December 2017
Equity attributable to the Bank's shareholders		
Equity attributable to the Bank's ordinary shareholders	441,642	395,484
Equity attributable to the Bank's other equity shareholders (Note1)	29,920	29,920
Non-controlling interests	6,818	5,581

Note 1：For cash dividends paid to preference shareholders in 2018, please refer to Note 6.42.

6.38 Capital surplus

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Share premium	81,689	81,689	81,689	81,689
Other capital surplus—				
Capital increase of subsidiaries	50	50	-	-
Others	21	21	21	21
Total	81,760	81,760	81,710	81,710

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.39 Surplus reserves

Group and Bank

	31 December 2017	Addition	31 December 2018
Statutory reserve	22,206	-	22,206
Discretionary reserve	71,992	15,519	87,511
Total	94,198	15,519	109,717

	31 December 2016	Addition	31 December 2017
Statutory reserve	22,206	-	22,206
Discretionary reserve	56,483	15,509	71,992
Total	78,689	15,509	94,198

Pursuant to related PRC regulations, the Bank is required to appropriate 10% of its annual net profit to a non-distributable statutory reserve until such reserve has reached 50% of ordinary shares. After the appropriation of statutory reserve, the Bank may further appropriate discretionary reserve.

6.40 General risk reserve

Group

	31 December 2017	Addition	31 December 2018
General risk reserve	75,702	244	75,946

	31 December 2016	Addition	31 December 2017
General risk reserve	65,493	10,209	75,702

Bank

	31 December 2017	Addition	31 December 2018
General risk reserve	74,900	-	74,900

	31 December 2016	Addition	31 December 2017
General risk reserve	65,045	9,855	74,900

Pursuant to Caijin [2012] No. 20 “Administration Rules on Appropriation to General Risk Reserve for Financial Institutions” issued by the Ministry of Finance (“MOF”), the Bank and its domestic subsidiaries are required to make appropriation to a general risk reserve effective from 1 July 2012 and the balance of such reserve shall not be less than 1.5% of the entity’s risk assets in five-year time.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.41 Other reserves

Group	Changes in fair value of available-for-sale financial assets	Fair value changes of debt instruments at fair value through other comprehensive income	Impairment allowance of debt instruments at fair value through other comprehensive income	Exchange differences from the translation of foreign operations	Fair value changes of equity instruments at fair value through other comprehensive income	Total
31 December 2017	(5,370)	NA	NA	35	-	(5,335)
Impact of IFRS 9	5,370	(3,084)	626	-	103	3,015
1 January 2018	NA	(3,084)	626	35	103	(2,320)
Changes in fair value of debt instruments at fair value through other comprehensive income:						
Transfer in, after tax	NA	6,595	-	-	-	6,595
Transfer out, after tax	NA	(271)	-	-	-	(271)
Debt instruments at fair value through other comprehensive income:						
Impairment allowance	NA	-	145	-	-	145
Transfer out, after tax	NA	-	(82)	-	-	(82)
Exchange differences from the translation of foreign operations	NA	-	-	261	-	261
Fair value changes of equity investments-at fair value through other omprehensive income	NA	-	-	-	331	331
31 December 2018	NA	3,240	689	296	434	4,659

Group	Changes in fair value of available-for-sale financial assets	Exchange differences from the translation of foreign operations	Total
31 December 2016	69	164	233
Changes in fair value of available-for-sale financial assets:			
Transfer in, after tax	(2,426)	-	(2,426)
Transfer out, after tax	(3,013)	-	(3,013)
Exchange differences from the translation of foreign operations	-	(129)	(129)
31 December 2017	(5,370)	35	(5,335)

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.41 Other reserves (Continued)

Bank	Changes in fair value of available-for-sale financial assets	Fair value changes of debt instruments at fair value through other comprehensive income	Impairment allowance of debt instruments at fair value through other comprehensive income	Exchange differences from the translation of foreign operations	Fair value changes of equity instruments at fair value through other comprehensive income	Total
31 December 2017	(5,281)	NA	NA	(8)	-	(5,289)
Impact of IFRS 9	5,281	(2,982)	626	-	103	3,028
1 January 2018	NA	(2,982)	626	(8)	103	(2,261)
Changes in fair value of debt investments- at fair value through other comprehensive income:						
Transfer in, after tax	NA	6,630	-	-	-	6,630
Transfer out, after tax	NA	(112)	-	-	-	(112)
Debt instruments at fair value through other comprehensive income:						
Impairment allowance	NA	-	12	-	-	12
Transfer out, after tax	NA	-	(83)	-	-	(83)
Exchange differences from the translation of foreign operations	NA	-	-	110	-	110
Fair value changes of equity investments- at fair value through other comprehensive income	NA	-	-	-	331	331
31 December 2018	NA	3,536	555	102	434	4,627

Bank	Changes in fair value of available-for-sale financial assets	Exchange differences from the translation of foreign operations	Total
31 December 2016	92	96	188
Changes in fair value of available-for-sale financial assets:			
Transfer in, after tax	(2,419)	-	(2,419)
Transfer out, after tax	(2,954)	-	(2,954)
Exchange differences from the translation of foreign operations	-	(104)	(104)
31 December 2017	(5,281)	(8)	(5,289)

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.42 Retained earnings

Group

	Year ended 31 December	
	2018	2017
Opening balance of retained earnings	119,807	97,316
Impact of IFRS 9	(15,090)	NA
Restated opening balance of retained earnings	104,717	NA
Plus: Net profit attributable to the Bank's Shareholders for the year	55,914	54,258
Less: Appropriation to discretionary reserve	(15,519)	(15,509)
Appropriation to general risk reserve	(244)	(10,209)
Cash dividends paid to ordinary shareholders	(2,935)	(4,324)
Cash dividends paid to preference shareholders	(1,725)	(1,725)
Ending balance of retained earnings	140,208	119,807

Bank

	Year ended 31 December	
	2018	2017
Opening balance of retained earnings	115,333	95,016
Impact of IFRS 9	(14,865)	NA
Restated opening balance of retained earnings	100,468	NA
Plus: Net profit attributable to the Bank's Shareholders for the year	53,625	51,730
Less: Appropriation to discretionary reserve	(15,519)	(15,509)
Appropriation to general risk reserve	-	(9,855)
Cash dividends paid to ordinary shareholders	(2,935)	(4,324)
Cash dividends paid to preference shareholders	(1,725)	(1,725)
Ending balance of retained earnings	133,914	115,333

In accordance with a resolution of the board meeting on 2 March 2018, the Bank declared cash dividends on Pufayou 2. The dividend is calculated at a rate of 5.50% of the Par value of Pufayou 2. The dividend was paid at a rate of RMB 5.50 per share (before tax), totaling RMB 825 million (before tax).

In accordance with a resolution of the 2017 Annual General Meeting on 2 May 2018, the Bank appropriated 30% of its net profit for the year ended 31 December 2017 to the discretionary reserve in the amount of RMB 15,509 million. The Bank also appropriated cash dividends of RMB 2,935 million (RMB 1 before tax per 10 ordinary shares) based on the total number of ordinary shares of 29,352,080,397 at the end of 2017.

In accordance with a resolution of the board meeting on 22 November 2018, the Bank declared cash dividends on Pufayou 1. The dividend is calculated at a rate of 6.00% of the Par value of Pufayou 1. The dividend was paid at a rate of RMB 6.00 per share (before tax), totaling RMB 900 million (before tax).

In accordance with a resolution of the board meeting on 22 March 2019, the Board of Directors proposed to appropriate 30% of the Bank's net profit for the year ended 31 December 2018 to the discretionary reserve in the amount of RMB 16,088 million. Cash dividends of RMB 10,273 million (RMB 3.5 before tax per 10 ordinary shares) based on the total number of ordinary shares of 29,352,080,397 at the end of 2018. These appropriations are subject to final approval by Annual General Meeting.

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.43 Non-controlling interests

Non-controlling interests of the Group are as follows:

	31 December 2018	31 December 2017
SPD Financial Leasing Co., Ltd.	3,212	2,117
Shanghai International Trust Co., Ltd.	1,447	1,332
Mianzhu SPD Rural Bank Co., Ltd.	46	58
Liyang SPD Rural Bank Co., Ltd.	181	171
Gongyi SPD Rural Bank Co., Ltd.	152	156
Fengxian SPD Rural Bank Co., Ltd.	170	145
Zixing SPD Rural Bank Co., Ltd.	122	108
Chongqing Banan SPD Rural Bank Co., Ltd.	63	65
Zouping SPD Rural Bank Co., Ltd.	62	128
Zezhou SPD Rural Bank Co., Ltd.	179	168
Dalian Ganjingzi SPD Rural Bank Co., Ltd.	35	34
Hancheng SPD Rural Bank Co., Ltd.	58	52
Jiangyin SPD Rural Bank Co., Ltd.	111	103
Pingyang SPD Rural Bank Co., Ltd.	76	71
Xinchang SPD Rural Bank Co., Ltd.	126	117
Yuanjiang SPD Rural Bank Co., Ltd.	48	43
Chaling SPD Rural Bank Co., Ltd.	67	58
Linchuan SPD Rural Bank Co., Ltd.	109	112
Linwu SPD Rural Bank Co., Ltd.	68	53
Hengnan SPD Rural Bank Co., Ltd.	56	44
Haerbing hulan SPD Rural Bank Co., Ltd.	52	56
Gongzhulin SPD Rural Bank Co., Ltd.	18	21
Yuzhong SPD Rural Bank Co., Ltd.	23	52
Yunnan Fumin Rural Bank Co., Ltd.	40	37
Ningbo Haishu Rural Bank Co., Ltd.	65	60
Urumchi Midong SPD Rural Bank Co., Ltd.	76	70
Tianjin Baodi SPD Rural Bank Co., Ltd.	83	75
Qianxinan Yilong SPD Rural Bank Co., Ltd.	33	30
Chongqing Tongliang SPD Rural Bank Co., Ltd.	20	22
Fufeng SPD Rural Bank Co., Ltd.	20	23
Total	6,818	5,581

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.44 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

The disclosure of financial assets sold under repurchase agreements refers to Note 6.31. For the year ended 31 December 2018, the Group transferred financial assets amounted to RMB 119,728 million through asset backed securitization transactions, external transfer and securities lending transactions of financial assets.(2017: RMB 157,600 million)

Assets backed securitization transaction

For the year ended 31 December 2018, the Group transferred financial assets amounted to RMB 7,893 million through assets backed securitization transactions, all have met the requirement of derecognition (For the year ended 31 December 2017, the Group transferred financial assets amounted to RMB 19,669 million through assets backed securitization transactions, all have met the requirement of derecognition except for Puxin 2017 First Leasing ABS (Note 6.33) issued by the Bank's subsidiary SPD Financial Leasing Co., Ltd.).

Transfer of loans assets

For the year ended 31 December 2018, the Group directly transferred total amount of RMB 67,595 million loan assets to third parties. Among them, the Group transferred total amount of RMB 22,049 million loan assets to structured entities and all have met the requirement of derecognition (For the year ended 31 December 2017, the Group directly transferred total amount of RMB 98,388 million loan assets to third parties. Among them, the Group transferred total amount of RMB 56,185 million loan assets to structured entities and all have met the requirement of derecognition). The Group transferred total amount of RMB 45,546 million impaired loans to assets management companies and all have met the requirement of derecognition (2017: RMB 42,203 million, all have met the requirement of derecognition).

Securities lending transaction

In the securities lending transaction, the counterparty may sell or re-use the above securities in the condition that no default exists, but at the same time bear the obligation to return the above securities on the expiration date specified in the agreement. For the above business, the Group believes that the Group retains most of the risks and rewards of the relevant securities and therefore does not derecognize the relevant securities. As at December 31, 2018, the book value of the assets transferred by the Group in securities lending transactions was RMB 44,240 million.(2017: Nil).

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.45 Structured entities

(1) Structured entities that are not consolidated

i) Unconsolidated structured entities managed by the Group

As at 31 December 2018, unconsolidated structured entities managed by the Group amounted to RMB 2,533,543 million. It mainly includes wealth management product vehicles, securitization vehicles and trust plans that the Group established and managed as an agent.

(a) Wealth management products

These wealth management products are designed and issued to specific customers based on analysis of potential target customers, and the proceeds from these products are invested in certain financial market or investment products in accordance with guidelines determined in the contracts. The returns on investment are distributed to investors pursuant to contract terms. As the asset manager, the Group is entitled to sales commission, a fixed management fee and a floating management fee based on performance of the product. The Group has performed analysis and concluded that its variable return related to these structured entities is not material.

As at 31 December 2018, the total assets invested by non-principle guaranteed wealth management products (“WMPs”) amounted to RMB 1,375,683 million (December 31, 2017: RMB 1,535,344 million). During the year ended 31 December 2018, the Group's interest in these WMPs mainly included net fee and commission income of RMB 6,290 million (2017: RMB 14,101 million), and net interest income of RMB 177 million , which related to placements and repo transactions entered into by the Group with these WMP vehicles (2017: RMB 89 million).

The Group enters into placements and repo transactions at market interest rates with these WMPs, which represented the Group’s maximum exposure to the WMPs. The average balance during 2018 and the outstanding balance as at 31 December 2018 of these transactions were RMB 3,490 million (2017: RMB 2,721 million) and RMB 4,000 million (31 December 2017: RMB 16,000 million), respectively. The Group was under no obligation to enter into these transactions. As at 31 December 2018 and 31 December 2017, the outstanding balance of these transactions was presented in due from and placements with banks and other financial institutions and financial assets purchased under resale agreements.

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMPs or any third parties that could increase the level of the Group’s risk from WMPs disclosed above during the years ended 31 December 2018 and 31 December 2017. The Group was not required to absorb any losses incurred by WMPs ahead of other parties. During the years ended 31 December 2018 and 2017, no losses 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.

(b) The special purpose vehicles established by trust company for the asset securitization

In the Group’s asset securitization business, another type of unconsolidated structured entities originated by the Group is the special purpose vehicles (“SPV”) established by trust company for the asset securitization of part of the Group’s credit assets. The Group acts as a service provider and manages loan assets transferred to SPVs and is entitled to the commission fee. The Group also holds part of the issued asset backed securities. The Group concluded that its variable returns from these SPVs are not material. As at 31 December 2018, the Group’s maximum risk exposure in these unconsolidated SPVs amounted to RMB 10,586 million (31 December 2017: RMB 15,253 million), being the aggregated carrying value of asset backed securities classified as “investments”, and the Group’s loan service agency commission fee income is not material.

As at 31 December 2018, total assets of these unconsolidated SPVs amounted to RMB 27,009 million (31 December 2017: RMB 43,557 million). The Group has not provide any financing support to these unconsolidated SPVs (2017: Nil).

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.45 Structured entities (Continued)

(1) Structured entities that are not consolidated (Continued)

i) Unconsolidated structured entities managed by the Group (Continued)

(c) Trust plans managed by the Group

In accordance with the 'Trust Law of the People's Republic of China', "Trust property should be separated from properties owned by trustee ("inherent property"), and cannot be included or become part of the inherent property". Inherent property and trust property are managed and accounted for separately by the Group. Trust plans managed by the Group refer to a basic unit of trust property under the Group's separately or collectively management, utilization and disposal as per agreement. Each trust plan is an independent accounting subject which is accounted for independently as regards to the trust property's management, utilization and disposal.

As at 31 Dec 2018, total assets of these unconsolidated trust plans amounted to RMB 751,250 million (31 December 2017: RMB 888,091 million). The Bank did not provide financing support to these unconsolidated trust plans for 2018 (2017: Nil).

(d) Asset management plans managed by the Group

Entrusted assets management refers to business that the Group, as the manager, signed entrusted assets management contracts with clients and invests and manages the assets as various financial portfolios in financial market to maximize profit. The Group provides professional services and charges management fee, trustee fee, etc. The clients bear risks and gain profits per contracts.

As at 31 Dec 2018, total assets of these unconsolidated asset management plans amounted to RMB 423 million (31 December 2017: RMB 3,482 million). The Group did not provide financing support to these unconsolidated asset management plans for 2018 (2017: Nil).

(e) Securities investment funds

In accordance with the 'Securities Investment Fund Law of the People's Republic of China', "Fund assets shall be independent from a fund management institution's or a fund custodian's own assets. The fund management institution or fund custodian shall not incorporate any fund assets into its own assets". The Group charges management fee by managing the fund property for investors. Investors take the relative risks and profits according to the contractual agreements.

As at 31 Dec 2018, total assets of these unconsolidated securities investment funds amounted to RMB 379,178 million (31 December 2017: RMB 469,642 million). The Group did not provide financing support to these securities investment funds for 2018 (2017: Nil).

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.45 Structured entities (Continued)

(1) Structured entities that are not consolidated (Continued)

ii) Unconsolidated structured entities invested by the Group

As at 31 Dec 2018 unconsolidated structured entities that are invested by the Group amounted to RMB 745,127million (31 December 2017: RMB 1,039,778 million), mainly included wealth management products, asset backed securities, and trust and assets management plans. The Group did not provide financing support to these structured entities in 2018 (2017: Nil).

The carrying value (includes interest receivable) of assets of these unconsolidated structured entities and the Group's maximum risk exposure on loss are listed as follows:

As at 31 December 2018	Carrying Value	Maximum risk exposure on loss	Total volume of structured entities
Trading assets- at fair value through profit or loss			
Trust and asset management plans	68,669	68,669	77,126
Wealth management products managed by other banks	208	208	Note 1
Fund investments	263,191	263,191	Note 1
Assets backed securities (“ABS”)	2,531	2,531	Note 1
Other investments	5,678	5,678	5,678
Debt investments- at amortized cost			
Trust and asset management plans	281,140	281,140	285,701
Assets backed securities (“ABS”)	121,223	121,223	Note 1
Other debt investments- at fair value through other comprehensive income			
Trust and asset management plans	2,487	2,487	177,199

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

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.45 Structured entities (Continued)

(1) Structured entities that are not consolidated (Continued)

ii) Unconsolidated structured entities invested by the Group (Continued)

As at 31 December 2017	Carrying Value	Maximum risk exposure on loss	Total volume of structured entities
Financial assets at fair value through profit or loss			
Trust and asset management plans	3,032	3,032	42,363
Fund investments	12,088	12,088	Note 1
Other investments	4,633	4,633	4,633
Available-for-sale financial assets			
Trust and asset management plans	52,951	52,951	168,281
Fund investments	215,396	215,396	Note 1
Wealth management products managed by other banks	354	354	Note 1
ABS	170,492	170,492	Note 1
Others	888	888	Note 1
Investment securities - loans and receivables			
Wealth management products managed by other banks	520	520	Note 1
ABS	3,481	3,481	Note 1
Trust and asset management plans	575,943	575,943	583,204

Note 1: Total volume of these unconsolidated structured entities is not available from the public information.

The Group earns interest income, commission income and investment income as return on holding these investments or providing services to these structured entities.

(2) Consolidated structured entities

Consolidated structured entities include wealth management product vehicles established and managed by the Group with the total amount of RMB 67,167 million at 31 December 2018 (RMB 84,226 million at 31 December 2017). The Group did not provide financial support to these consolidated structured entities in 2018 (2017: Nil).

7 SEGMENT REPORTING

Top management of the Group reviews the performance of the Bank’s branches and subsidiaries in different economic regions from geographic perspective. The branches and subsidiaries of the Bank mainly provide services to local customers domiciled in respective geographic areas, therefore operating segments are analysed principally based on the location of the assets.

The operating segments’ principal income are mainly from various commercial and investment banking services, including deposits and loans, discounted bills, trade finance, inter-bank money market and investments etc.

The Group’s operating segments of different regions are set out as follows:

Headquarter：	Headquarters (including the direct institutions under headquarters and the branches)
Yangtze River Delta：	Shanghai, Jiangsu, Zhejiang
Pearl River Delta and West Side of Taiwan Strait：	Guangdong, Fujian
Bohai Rim：	Beijing, Tianjin, Hebei, Shandong
Central China：	Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi, Hainan
Western China：	Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongoli, Tibet
North-east China：	Liaoning, Jilin, Heilongjiang
Overseas and subsidiaries：	Overseas branches and domestic and overseas Subsidiaries

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

7 SEGMENT REPORTING (Continued)

	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and Subsidiaries	Elimination between Segments	Total
Year ended 31 December 2018										
Interest income	247,422	131,074	48,998	61,916	46,287	37,206	16,894	10,547	(332,856)	267,488
Including: External interest income	*111,510*	*51,678*	*18,622*	*22,711*	*22,865*	*21,273*	*8,848*	*9,981*	-	*267,488*
Internal interest income	*135,912*	*79,396*	*30,376*	*39,205*	*23,422*	*15,933*	*8,046*	*566*	*(332,856)*	-
Interest expense	(222,140)	(96,871)	(39,503)	(48,932)	(32,662)	(28,020)	(12,879)	(7,493)	332,856	(155,644)
Including: External interest expense	*(47,381)*	*(35,075)*	*(18,652)*	*(23,463)*	*(11,719)*	*(6,943)*	*(5,354)*	*(7,057)*	-	*(155,644)*
Internal interest expense	*(174,759)*	*(61,796)*	*(20,851)*	*(25,469)*	*(20,943)*	*(21,077)*	*(7,525)*	*(436)*	*332,856*	-
Net interest income	25,282	34,203	9,495	12,984	13,625	9,186	4,015	3,054	-	111,844
Net fee and commission income	26,699	1,495	1,864	1,571	1,500	1,042	457	4,381	-	39,009
Dividend income	40	-	-	-	-	-	-	-	-	40
Net trading income	15,314	128	9	(122)	231	14	4	597	-	16,175
Net gains arising from financial investment	82	-	-	-	-	-	-	257	-	339
Other operating income	447	736	281	567	312	216	119	1,419	-	4,097

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

7 SEGMENT REPORTING (Continued)

	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and Subsidiaries	Elimination between Segments	Total
Year ended 31 December 2018										
Employee expenses, depreciation and other general and administrative expenses	(14,453)	(8,524)	(3,304)	(4,599)	(4,098)	(3,711)	(1,782)	(3,641)	-	(44,112)
Tax and surcharges	(513)	(440)	(145)	(184)	(206)	(188)	(75)	(101)	-	(1,852)
Impairment losses	(22,491)	(5,579)	(401)	(9,988)	(3,910)	(12,308)	(5,024)	(719)	-	(60,420)
Net investment income of associates and joint ventures	164	-	-	-	-	-	-	-	-	164
Total profit	30,571	22,019	7,799	229	7,454	(5,749)	(2,286)	5,247	-	65,284
31 December 2018										
Loans and advances to customers	513,222	1,033,524	341,125	433,260	451,586	432,088	172,205	78,479	-	3,455,489
Total assets	3,122,456	1,624,513	476,554	715,037	529,596	472,223	192,223	282,312	(1,125,308)	6,289,606
Deposits from customers	140,524	1,220,107	362,570	530,809	460,398	304,694	153,818	80,395	-	3,253,315
Total liabilities	2,690,165	1,602,682	468,647	714,754	522,089	478,117	194,470	265,610	(1,125,308)	5,811,226
Net position of assets and liabilities	432,291	21,831	7,907	283	7,507	(5,894)	(2,247)	16,702	-	478,380

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

7 SEGMENT REPORTING (Continued)

	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and Subsidiaries	Elimination between Segments	Total
Year ended 31 December 2017										
Interest income	231,598	120,669	51,767	71,870	50,657	46,964	19,917	7,960	(355,584)	245,818
Including: External interest income	*76,832*	*44,051*	*21,079*	*33,460*	*26,645*	*24,913*	*11,384*	*7,454*	-	*245,818*
Internal interest income	*154,766*	*76,618*	*30,688*	*38,410*	*24,012*	*22,051*	*8,533*	*506*	*(355,584)*	-
Interest expense	(211,526)	(93,446)	(42,336)	(57,031)	(35,817)	(34,031)	(15,084)	(5,219)	355,584	(138,906)
Including: External interest expense	*(37,904)*	*(31,837)*	*(18,384)*	*(21,041)*	*(11,044)*	*(8,171)*	*(5,669)*	*(4,856)*	-	*(138,906)*
Internal interest expense	*(173,622)*	*(61,609)*	*(23,952)*	*(35,990)*	*(24,773)*	*(25,860)*	*(9,415)*	*(363)*	*355,584*	-
Net interest income	20,072	27,223	9,431	14,839	14,840	12,933	4,833	2,741	-	106,912
Net fee and commission income	30,965	3,393	1,418	1,768	1,731	1,289	572	4,444	-	45,580
Dividend income	37	-	-	-	-	-	-	202	-	239
Net trading income	8,079	435	56	79	-	-	-	415	-	9,064
Net gains arising from financial investment	338	74	-	(78)	5	-	-	49	-	388
Other operating income	2,340	1,434	386	652	232	207	109	1,249	-	6,609

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

7 SEGMENT REPORTING (Continued)

	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and Subsidiaries	Elimination between Segments	Total
Year ended 31 December 2017										
Employee expenses, depreciation and other general and administrative expenses	(12,248)	(8,674)	(3,040)	(4,908)	(4,002)	(4,088)	(1,903)	(3,303)	-	(42,166)
Tax and surcharges	(538)	(331)	(109)	(158)	(153)	(177)	(73)	(71)	-	(1,610)
Impairment losses	(2,663)	(10,291)	(568)	(7,022)	(7,891)	(22,388)	(4,036)	(426)	-	(55,285)
Net investment income of associates and joint ventures	97	-	-	-	-	-	-	-	-	97
Total profit	46,479	13,263	7,574	5,172	4,762	(12,224)	(498)	5,300	-	69,828
31 December 2017										
Loans and advances to customers	523,689	839,777	299,361	396,191	398,757	418,553	154,807	72,718	-	3,103,853
Total assets	2,653,169	1,519,227	630,510	881,331	626,629	546,323	244,906	245,486	(1,210,341)	6,137,240
Deposits from customers	156,037	1,089,455	318,430	486,605	449,948	332,733	134,121	70,607	-	3,037,936
Total liabilities	2,252,916	1,505,964	622,936	876,159	621,867	558,547	245,404	232,803	(1,210,341)	5,706,255
Net position of assets and liabilities	400,253	13,263	7,574	5,172	4,762	(12,224)	(498)	12,683	-	430,985

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

8 CONTINGENCIES AND COMMITMENTS

8.1 Credit commitment

The Group's credit commitment is listed as follows:

Item	31 December 2018	31 December 2017
Bank acceptances	419,815	396,414
Bills acceptance under letters of credit	147,587	144,602
Letters of guarantee issued	101,003	121,346
Letters of credit issued	13,533	14,143
Credit card and other commitments	351,725	269,748
Total	1,033,663	946,253

As at 31 December 2018, there is no outstanding commitment on security underwriting (31 December 2017: Nil).

8.2 Commitment on early redemption of certificate treasury bonds

The Group is entrusted by the MOF to underwrite certificate treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest at the redemption date.

As at 31 December 2018, the outstanding principal value of the treasury bonds sold by the Group amounted to RMB 4,355 million (31 December 2017: RMB 4,221 million).

The MOF will not provide funding for the early redemption of these treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The management expects the amount of the bonds of which redemption is through the Group before the maturity dates will not be material.

8.3 Operating lease commitment

According to the lease contract terms, the minimum lease payment commitment of the Group is as follows:

	31 December 2018	31 December 2017
Within 1 year	2,415	2,363
1 to 5 years	5,995	5,853
Over 5 years	1,731	1,884
Total	10,141	10,100

8.4 Capital commitment

As at 31 December 2018, the major capital commitment the Group had signed but not paid amounted to RMB 3,248 million (31 December 2017: RMB 5,293 million).

As at 31 December 2018, the major capital commitment the Group had approved but not signed amounted to RMB 175 million (31 December 2017: RMB 1,135 million).

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

8 CONTINGENCIES AND COMMITMENTS (Continued)

8.5 Legal proceedings

As at 31 December 2018, the number of outstanding legal proceedings where the Group acts as the defendant and third party defendant was 93 and 82, respectively. The corresponding amount involved was about RMB 1,488 million and RMB 2,355 million, respectively. The Group assessed the possibility of loss being not large, so no provision was accrued (As at 31 December 2017: the number of outstanding legal proceedings where the Group acts as the defendant and third party defendant was 83 and 92, respectively. The corresponding amount involved was about RMB 1,087 million and RMB 1,108 million, respectively. The Group assessed the possibility of loss is not large, no provision was accrued).

9 FIDUCIARY BUSINESSES

The Group provides safe-keeping and entrusted loan businesses to independent third party customers. The assets arising from these businesses are not recorded on the Group's statement of financial position. As at 31 December 2018, the balance of entrusted loan business was RMB 150,374 million (As at 31 December 2017: RMB 178,120 million).

10 RELATED PARTIES

10.1 Major related parties

The related parties of the Bank mainly include its subsidiaries, associates, joint ventures, the major shareholders who hold 5% or more ordinary shares of the Bank and their Group companies (including parent and all subsidiaries), key management personnel of the Bank (including directors, supervisors and senior management personnel) and their close family members, and the companies that are controlled, or under common control of, or significant influence by these key management personnel and their close family members.

10.2 Major shareholders holding more than 5% shares of the Bank

As at 31 December 2018, major shareholders holding more than 5% ordinary shares of the Bank are as follows:

	Percentage	Major business
Shanghai International Group Co., Ltd.	21.57%	Financial Services
China Mobile Group Guangdong Company Limited	18.18%	Mobile and Communication
Funde Sino Life Insurance Co., Ltd. – Traditional	9.47%	Insurance Business
Funde Sino Life Insurance Co., Ltd. – Capital	6.01%	Insurance Business

10.3 Subsidiaries

For general information of the Group's subsidiaries, please refer to Note 5 "Scope of consolidated financial statements."

10.4 Associates and joint ventures

For general information of associates and joint ventures, please refer to Note 6.22 "Investments in associates and joint ventures."

10.5 Other major related parties

Other related parties mainly include respective Group companies of shareholders who hold 5% or more ordinary shares of the Bank, key management personnel of the Bank (including the directors, supervisors and senior management) and their close family members, and the companies that are controlled, or under common control of, or significant influence by these key management personnel and their close family members.

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

10 RELATED PARTIES (Continued)

10.6 Transactions and balances with related parties

The major transactions between the Group and its related parties are loans and deposits. These transactions are conducted and priced under the normal commercial terms and business procedures as if they were conducted with independent third parties. The amount of transactions with related parties is not significant to the total volume of each type of the Group's business.

(1) Due from and placements with banks and other financial institutions

	31 December 2018	31 December 2017
Other major related parties - group companies of major shareholders	4,422	-

	Year ended 31 December 2018	Year ended 31 December 2017
Interests income	109	-

(2) Loans and advances to customers

	31 December 2018	31 December 2017
Associates and joint ventures	-	61
Other major related parties - group companies of major shareholders	239	500
Other major related parties - individuals	24	25
Total	263	586

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income	19	7

(3) Deposits from customers

	31 December 2018	31 December 2017
Major shareholders	5,324	6,330
Other major related parties - companies with significant influence by key management personnel	1,500	7,494
Other major related parties - group companies of major shareholders	37,999	47,678
Total	44,823	61,502

	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense	1,483	1,374

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

10 RELATED PARTIES (Continued)

10.6 Transactions and balances with related parties (Continued)

(4) Due to and placements from banks and other financial institutions

	31 December 2018	31 December 2017
Associates and joint ventures	1,058	2,430
Other major related parties - group companies of major shareholders	5,113	14,798
Total	6,171	17,228

	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense	124	223

(5) Commission income

	Year ended 31 December 2018	Year ended 31 December 2017
Associates and joint ventures	22	32
Other major related parties - group companies of major shareholders	3	7
Total	25	39

(6) Commission expense

	Year ended 31 December 2018	Year ended 31 December 2017
Other major related parties - group companies of major shareholders	-	40

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

10 RELATED PARTIES (Continued)

10.6 Transactions and balances with related parties (Continued)

(7) Operating expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Major shareholders	7	7
Other major related parties - group companies of major shareholders	383	350
Total	390	357

The Group makes payments to one major shareholder and its Group companies for purchase of mobile communication services.

(8) Letters of guarantee issued

	31 December 2018	31 December 2017
Associates and joint ventures	-	21
Other major related parties - group companies of major shareholders	3,766	5,442
Total	3,766	5,463

As at 31 December 2018, the outstanding letters of guarantee will expire before the end of 2020.

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

10 RELATED PARTIES (Continued)

10.6 Transactions and balances with related parties (Continued)

(9) Related parties that are controlled by the Bank

Related parties that are controlled by the Bank are the subsidiaries of the Bank (refer to Note 5 for details). Major transactions with these subsidiaries are eliminated in the consolidated financial statements, and are summarized as follows:

Balances at year end	31 December 2018	31 December 2017
Due from and placements with banks and other financial institutions	4,400	2,904
Loans and advances to customers	991	1,096
Due to and placements from banks and other financial institutions	8,025	8,382
Deposits from customers	609	454
Other assets	21	93
Other liabilities	-	24

Transactions for the year:	Year ended 31 December 2018	Year ended 31 December 2017
Loans transferred from subsidiaries	-	1,189
Interest income from Due from banks and other financial institutions	10	28
Interest income from placements with other banks and financial institutions	108	83
Interest income from loans and advances to customers	114	45
Interest expense from due to and placements from banks and other financial institutions	191	193
Fee and commission income	21	25
Fee and commission expense	41	40

(10) Compensation of key management personnel

Transactions between the Group and its key management personnel are conducted under normal commercial terms. During 2018, individual amounts of transactions with key management personnel are not significant.

According to the relevant regulations, the 2018 annual compensation of Bank's directors, supervisors and senior management personnel is yet to be approved by relevant authorities. The compensation of key management personnel does not have significant impact on the Group and the Bank's financial statements of 2018 (The aggregated compensation of Bank's directors, supervisors and other senior management personnel approved by government for 2017 was RMB 19.1020 million. The aggregated compensation of Bank's other directors, supervisors and other senior management personnel was RMB 9.9358 million).

11 FINANCIAL RISK MANAGEMENT

The Group exposes to a variety of financial risks. The Group analyses, evaluates, accepts and manages some degree of risks or risk portfolios. Managing financial risk is core to the financial industry, and the inherent risks are an inevitable consequence of business operation. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse impact on the Group's financial performance.

The Group designs a series of risk management policies to identify and analyse these risks, and has set appropriate risk limits and control procedures to monitor the risks and limits through reliable information systems.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk mainly consists of currency risk, interest rate risk and commodity risk.

The Board of Directors of the Bank is responsible for determining the Group's overall risk appetite. Within this framework, the senior management of the Bank designs risk management policies and procedures for credit risk, market risk and liquidity risk accordingly. After the policies and procedures are approved by the Board of Directors, related departments of the headquarter are responsible for their implementation.

11.1 Credit risk

Credit risk is the risk that a customer or counterparty may be failing or unwilling to discharge an obligation or commitment to the Group resulting in a financial loss to the Group. Credit risk is greater when counterparties are concentrated in one industry or geographic region, because a Group of otherwise unrelated counterparties could be adversely affected in their ability to fulfill their obligations due to same economic factors affecting their common industry or region.

The credit risks of trust plan are mainly arising from the possibility of counter parties' non-performance of their obligations; mainly in the process of loan, asset repurchase, subsequent financial arrangement, guarantee, performance commitment, fund transfer flow and security investment, etc.; counter parties including the borrower, the guarantor or the depository (the trustee), securities investment accounts dealer and the Bank, are failing to or unable or unwilling to perform the contract commitments, thus resulting in the possibility of potential loss of trust property or inherent property.

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.1 Credit risk management

(i) Loans

The Group manages and limits the concentrations of credit risk, including concentration to individual counterparty, Group, industry and region.

The Group continuously optimizes the credit risk structure by setting limits on the borrower, Group of borrowers, geographical and industry segments. Concentration risks are monitored on ongoing basis and subject to an annual or more frequent review where necessary.

The Group manages the exposure to credit risk through regular analyses of borrowers and potential borrowers' abilities to fulfill interest and principal repayment obligations and amends the lending limits where appropriate.

The Group has established relevant policies to mitigate credit risk. One of the most important measures is to obtain collateral, pledged assets, guarantee deposits or guarantees from corporates or individuals. The Group provides guidelines on the acceptance of specific classes of collateral. The principal types of collateral for loans and advances are:

- Residential property and land use right;
- Commercial assets, such as commercial property, inventory and accounts receivables;
- Financial instruments, such as debt securities and equity shares.

Fair value of collateral is usually required to be assessed by professional valuer designated by the Group. When there is objective evidence of impairment, the value of collateral will be reviewed by the Group to assess whether it could sufficiently cover the credit exposure of relevant loans. To mitigate the credit risk, the Group has implemented loan-to-value ratio requirement based on type of collateral as follows:

Collateral	Maximum loan-to-value ratio
Time deposit	95%-100%
PRC treasury bonds	90%-100%
PRC financial institution bonds	90%
Right to collect fees	70%
Right to operate a business	60%
Commercial property and plant	60%
Residential property	70%
Land use right	60%

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience adjustments for current market conditions and estimated expenses to be incurred in the disposal process.

For loans guaranteed by third parties, the Group will review the financial condition and credit history of guarantors and evaluate the ability of the guarantors to meet obligations on regular basis.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.1 Credit risk management (Continued)

(ii) Bonds and other bills

The Group manages the credit risk exposure of bonds and other bills through controlling the investment scale and issuer's credit rating and establishing post lending management standards. Generally, for foreign currency securities, only those with credit ratings (by Standard & Poor or equivalent agencies) equivalent to or higher than BBB- can be invested. Overseas investments in RMB debt securities are limited to those bonds with credit rating equivalent to or above BBB+ assigned by rating agencies recognized by the PBOC. For middle or long term RMB domestic debt securities, their credit ratings granted by PBOC recognized agencies cannot be lower than AA. For short term RMB debt securities, their credit ratings granted by the PBOC recognized agencies cannot be lower than A-1.

(iii) Other financial assets measured at amortized cost

Other financial assets measured at amortized cost, mainly include wealth management products, trust plans and asset management plans. The Group established a risk evaluation system on the trust companies, security companies and fund management companies, set up credit limit for parties repurchasing trust beneficial rights, issuers of wealth management products, ultimate borrowers of asset management schemes, and performs ongoing post-lending monitoring on timely basis.

(iv) Inter-bank transactions

The Group reviews and monitors the credit risk of individual financial institutions on regularly basis. Limits are set for each individual bank or non-banking financial institution which has business relationship with the Group.

(v) Derivative financial instruments

The Group strictly controls the volume of derivative transactions. For corporate customers, the Group mitigates credit risk associated with derivative financial instruments by acquiring margin deposits from counterparties.

(vi) Credit commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Letters to guarantee issued, acceptances, bill acceptance and letters of credit, which represent irrevocable commitment that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. When the amount of credit commitment exceeds the original credit limit, margin deposits are required to mitigate the credit risk. The Group's exposure of credit risk is equivalent to the total amount of credit commitments.

(vii) Trust plan

The Group strictly enforces the policy "pre-loan investigation, in-process review, post-loan inspection" over trust plan. In the design of the product trade structure, it introduces guarantee mechanism including financial institution credit, property mortgage, rights pledge in terms of product transaction structure design. And the Group comprehensively applies the methods of avoidance, prevention, dispersion, transfer, compensation to manage risks, disperses and transfers credit risks of financing entities, so as to reduce risk exposure.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.2 Credit risk limit measurement

The Group has established a five-grade classification system to measure and manage the credit quality of its loans and advances to corporate and retail customers. Such classification system is based on "Guideline for Credit Risk Classification" (the "Guideline") issued by the CBRC on 3 July 2007. The Group's own system and the Guideline require the Group to classify its credit assets and off-balance sheet credit exposures into five categories, which are namely pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans.

The core definition of the credit asset classification is as follows:

Pass: loans for which borrowers can fulfill the terms of the contracts, and there is no reason to believe their ability to repay principal or interest of loans on a timely basis is in doubt.

Special Mention: loans for which borrowers are able to service the loans currently, although there exist some negative factors which may affect the borrower to repay the loans on time.

Substandard: loans for which borrowers' ability to service loans is apparently in doubt and borrowers cannot rely on their proceeds from normal operations to repay the principal and interest of loans. Certain losses may be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot repay the principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and proceeding necessary legal procedures.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.3 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

Stage 1 (not credit-impaired since initial recognition): 12-month expected credit losses (ECL);
Stage 2 (significant increase in credit risk since initial recognition): lifetime expected credit losses;
Stage 3 (credit- impaired assets): lifetime expected credit losses

The Group developed an impairment model to calculate expected credit losses in accordance with the new standards. A top-down development method was used to establish a logistic regression model of risk parameters and macroeconomic indicators such as gross domestic product "GDP" and consumer price index "CPI". The Group also forecasts three kind of macroeconomic scenarios (optimistic, base and pessimistic) on a timely basis, and measures ECL based on different scenarios.

Credit risk grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group use internal rating models tailored to the various categories of counterparty. Specific information related to borrowers and loans, which are collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The Group does not have financial assets that are identified as "low risk" and managed credit risk in accordance with IFRS 9.

Staging

Significant increase in credit risk (SICR)

The Group assesses on each balance sheet date whether the credit risk of the relevant financial asset has increased significantly since initial recognition. When considering the stage of financial assets, the Group fully considers all kinds of reasonable and evidence-based information that reflects whether the credit risk of the financial asset has significantly changed, including forward-looking information. The main factors to be considered are regulatory and business environment, internal and external credit rating, solvency, business ability, loan contract terms, repayment behavior, etc.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria:

The Group considers whether the credit risk of financial assets has increased significantly since initial recognition by considering whether the credit risk rating has migrated down to a certain level or whether the probability of default has increased significantly since initial recognition. For example,

As at the reporting date, for corporate loans and financial investments, the counterparty's credit risk rating migrate to or lower than B; or for retail loans, the counterparty's PD is 8-10 times of initial PD.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.3 Expected credit loss measurement (Continued)

Qualitative criteria:

Corporate loans and financial investments

For corporate loans and financial investments, if the borrower is on the Watchlist and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Early signs of cashflow/liquidity problems such as delay in payment of account payables/loans

Backstop:

If the borrower is more than 30 days past due on its contractual payments.

Sensitivity analysis

Assuming that there is a significant change in credit risk, causing the financial assets and credit commitments of stage 2 all transfer into stage 1, the impairment allowances and provisions in the financial statement will be reduced by RMB 5,071 million.

Default and credit-impaired

When a financial asset is impaired, the Group defines it as in default. The Group defines a financial asset as credit impaired when it meets one or more of the following criteria:

Qualitative criteria:

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The issuer or borrower is in significant financial difficulties
- The borrower is in breach of financial contract(s), such as past due of interest or principal
- Concessions have been made by the lender relating to the borrower’s financial difficulty or contracts.
- The borrower is likely to go bankrupt or carry out other debt restructuring
- An active market for that financial asset has disappeared because of financial difficulties
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.3 Expected credit loss measurement (Continued)

Credit-impaired assets(Continued)

Backstop:

The borrower is more than 90 days past due on its contractual payments.

The criteria above have been applied to all financial instruments held by the Group and are consistent with internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's ECL measurement.

Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- The EAD is based on the amounts the Group expects to be owed at the time of default.

- LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

The ECL is determined by projecting the PD, LGD and EAD for each individual future exposure. This effectively calculates an ECL for each future month.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The LGD are determined based on the factors which impact the recoveries after default. These vary by product type.

Forward-looking economic information is also included in determining the 12-month and lifetime ECL.

There have been no significant changes in estimation techniques or significant assumptions during the reporting period.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.3 Expected credit loss measurement (Continued)

Forward-looking information incorporated in the ECL models

Both the assessment of SICR and the calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the key economic indicators impacting credit risk and expected credit losses for each portfolio.

Based on industry best practices and the Group's internal experts' judgement, the Group chose a series of macroeconomic indicators (including GDP, industrial added value growth rate and CPI growth rate, etc.), established statistical relationship between actual PD and macro indicators for each model exposure, and then calculated forward-looking PD by using forecasted economic indicators.

In addition to the base economic scenario, the Group also sets up other possible scenarios. The number of scenarios and their attributes are reassessed at each reporting date. As at 1 January 2018 and 31 December 2018, the scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by calculating the ECL under each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting(as opposed to weighting the inputs).

The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios. As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.3 Expected credit loss measurement (Continued)

Economic indicators assumptions

In 2018, the Group considered different macroeconomic scenarios. The important macroeconomic assumptions used to estimate expected credit losses are set out below:

Item	Range
GDP	6.00%-6.50%
Consumer Price Index Growth Rate	2.00%-3.00%
Broad money Growth Rate, year-on-year	8.00%-9.00%
Consumer Confidence Index	110-120

As of 31 December 2018, comparing with the 3 scenario weighted average impairment allowance, the impairment allowance under the baseline scenario will decrease as follows:

	31 December 2018
	Amount
Corporate loans	292
Retail loans	72
Financial investments	36

If the baseline, rising and falling scenario weights are changed from 80%, 10% and 10% to 60%, 20% and 20%, the allowance of loans and advances will increase by RMB 364 million, and the impairment allowance of financial investments will increase by RMB 36 million.

11.1.4 Segmentation of business operations sharing similar credit risk characteristics

When analyzing the relativeness of ECL with macroeconomic indicators, a grouping of exposures is performed on the basis of shared risk characteristics. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Corporate loans and financial investments

- Industry
- Collateral type

Retail lonas

- Product type (for instance , mortgage loans, consumer loan and credit card)
- Repayment type
- Utilisation percentage range
- Loan to value ratio range

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.5 Maximum exposure to credit risk

Financial instruments and commitment and guarantee subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The book value of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	Maximum exposure to credit risk	
	31 December 2018	31 December 2017
Financial instrument		
Cash and balances with central bank (Stage 1)	437,687	479,247
Due from and placements with banks and other financial institutions (Stage 1)	236,535	177,187
Financial assets purchased under resale agreements (Stage 1)	11,573	13,974
Loans and advances to customers(a)	3,455,007	3,103,853
—Amortized cost	3,194,231	3,103,853
Stage 1	3,045,070	NA
Stage 2	130,514	NA
Stage 3	18,647	NA
—FVOCI	249,153	NA
Stage 1	249,105	NA
Stage 2	48	NA
—Interests receivable	11,623	NA
Stage 1	11,291	NA
Stage 2	332	NA
Available-for-sale financial assets	NA	399,528
Investment securities - held-to-maturity	NA	444,726
Investment securities - loans and receivables	NA	832,598
Financial investment(b)		
Debt investments	1,144,249	NA
—Amortized cost	1,129,401	NA
Stage 1	1,122,176	NA
Stage 2	5,337	NA
Stage 3	1,888	NA
—Interests receivable	14,848	NA
Stage 1	14,848	NA
Other Debt investments	378,860	NA
—FVOCI	373,988	NA
Stage 1	373,542	NA
Stage 2	446	NA
—Interests receivable	4,872	NA
Stage 1	4,872	NA
Other financial assets	70,157	128,498
Stage 1	67,402	NA
Stage 2	2,425	NA
Stage 3	330	NA
Total financial instrument	5,734,068	5,579,611
Commitment and guarantee		
Bank acceptance	418,035	396,414
Bills acceptance under letter of credit	147,346	144,602
Letters of guarantee issued	100,206	121,346
Letters of credit issued	13,473	14,143
Unused credit card and other commitments	349,929	269,748
Total commitment and guarantee	1,028,989	946,253

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.5 Maximum exposure to credit risk (Continued)

The Group internally ranks the asset risk characteristics according to the quality status of the assets. The credit rating of the financial assets included in the ECL measurement is classified into "low risk", "medium risk" and "high risk" according to the internal rating scale. The rate is used by the company for internal credit risk management purposes. "Low risk" means that the assets are of good quality, the possibility of future default is low, and it is less affected by external unfavorable factors; "medium risk" refers to the customer has certain solvency, but persistent major instability or poor commercial or financial economic conditions may reduce its solvency; "high risk" refers to assets that contain unfavorable factors that may have a great impact on solvency, the risk of default is high or meet the definition of default of the Group.

(a) The analysis of the maximum credit risk exposure for loans and advances by credit rating is as follows：

	Loans and advances to customers				
	31 December 2018				31 December 2017
	ECL stages				
	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total	Total
Credit rating					
Low risk	2,883,646	5,266	-	2,888,912	NA
Medium risk	426,419	69,055	-	495,474	NA
High risk	9,351	82,938	72,251	164,540	NA
Principal	3,319,416	157,259	72,251	3,548,926	3,194,600
Impairment allowance	(25,241)	(26,697)	(53,604)	(105,542)	(90,747)
Total	3,294,175	130,562	18,647	3,443,384	3,103,853

(b) The analysis of the maximum credit risk exposure for financial investments by credit rating is as follows：

	Financial investments				
	31 December 2018				31 December 2017
	ECL stages				
	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total	Total
Credit rating					
Low risk	1,487,010	205	-	1,487,215	NA
Medium risk	12,147	4,846	-	16,993	NA
High risk	-	986	6,398	7,384	NA
Principal	1,499,157	6,037	6,398	1,511,592	1,684,111
Impairment allowance	(3,439)	(254)	(4,510)	(8,203)	(7,259)
Total	1,495,718	5,783	1,888	1,503,389	1,676,852

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.5 Maximum exposure to credit risk (Continued)

Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

	Maximum exposure to credit risk	
	31 December 2018	31 December 2017
loans and advances to customers		
—at fair value through profit or loss	482	NA
Financial investment		
Trading assets- at fair value through profit or loss		
—Debt investments	56,794	NA
—Trust and asset management plans	68,669	NA
—Fund investments	263,191	NA
—Wealth management products managed by other banks	208	NA
—Other investments	5,678	NA
Subtotal	394,540	NA
Financial assets at fair value through profit or loss		
— Debt investments	NA	48,429
— Other debt investments	NA	93,233
— Loans from non bank financial institutions	NA	996
Subtotal	NA	142,658
Total	395,022	142,658

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.6 Due from and placements with banks and other financial institutions and financial assets purchased under resale agreements

The credit risks of the Group's due from and placements with banks and other financial institutions and financial assets purchased under resale agreements are in the stage 1. For due from and placements with banks and other financial institutions, the credit risk is evaluated by referring to the nature of counterparties.

	31 December 2018	31 December 2017
Domestic commercial banks	62,370	63,134
Overseas commercial banks	62,866	51,775
Domestic non-bank financial institutions	109,840	62,278
Interest receivable	1,665	NA
Less: Impairment allowance	(206)	-
Total	236,535	177,187

Other financial assets purchased under resale agreements, which are fully pledged by bank accepted bills and bonds or deposit certificates issued by other banks ,amounted to RMB 11,574 million as at 31 December 2018 (31 December 2017: RMB 13,981 million). The Group does not expect significant credit risk from them.

11.1.7 Credit-impaired loans and advances to customers

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. As at 31 December 2018, financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Corporate loan	Retail loans	Total
31 December 2018			
Total exposure	53,106	19,145	72,251
Impairment loss	(38,319)	(15,285)	(53,604)
Carrying amount	14,787	3,860	18,647
Fair value of corresponding collateral	30,974	6,198	37,172

When the Group has performed the necessary procedures and cannot reasonably expect to recover the whole or part of the financial assets, and the financial assets meet the write-off conditions required by the Ministry of Finance, the Group writes off the financial assets.

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.8 Bonds and other investments

The table below analyses the Group's investment securities by external rating agencies, including S&P or equivalent agencies recognized by the PBOC.

Investments denominated in foreign currencies

	Financial investments Financial assets held for trading at fair value through profit or loss	Financial investments Debt investments- at amortized cost	Financial investments Other debt investments at fair value through other comprehensive income	Total
Bonds and other investments				
31 December 2018				
AAA	62	31	2,050	2,143
AA	83	1,138	2,368	3,589
A and below A	929	1,401	3,380	5,710
Unrated- Bonds	646	408	46,573	47,627
	1,720	2,978	54,371	59,069

	Financial assets at fair value through profit or loss	Available-for -sale financial assets	Investment securities - held-to-maturity	Investment securities - loans and receivables	Total
31 December 2017					
AAA	-	851	30	-	881
AA	-	4,221	161	926	5,308
A and below A	201	3,103	932	-	4,236
Unrated- Bonds	856	31,863	-	-	32,719
	1,057	40,038	1,123	926	43,144

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.8 Bonds and other investments (Continued)

Investments denominated in RMB

	Financial investments Financial assets held for trading at fair value through profit or loss	Financial investments Debt investments- at amortized cost	Financial investments Other debt investments at fair value through other comprehensive income	Total
31 December 2018				
Medium or long term:				
AAA	5,459	96,685	78,567	180,711
AA+ to AA-	3,491	48,954	6,751	59,196
Under A-	-	108	210	318
Short term:				
A-1	9,705	219	2,889	12,813
Unrated bonds and other investments:				
Government bonds (Note 1)	7,443	460,614	146,716	614,773
Notes	5,109	-	-	5,109
Bonds issued by policy banks	-	199,140	75,516	274,656
Financial bonds	205	44,109	-	44,314
Deposit certificates issued by other banks	23,055	695	11,318	35,068
Wealth management products managed by other banks	208	-	-	208
Corporate bonds	538	-	35	573
Assets backed securities (“ABS”)	69	-	-	69
Trust and asset management plans (Note 2)	68,669	281,140	2,487	352,296
Fund investments	263,191	-	-	263,191
Other investments	5,678	-	-	5,678
Other debt instruments (Note 3)	-	9,607	-	9,607
	392,820	1,141,271	324,489	1,858,580

Note 1: Included in unrated financial bonds held by the Group, local municipal government bonds are mainly issued under the name of local municipal government or Ministry of Finance.

Note 2: As at 31 December 2018, the notional amount of overdue fund trust plan and wealth management plan is RMB 7,591 million, and the provision for impairment recognized is RMB 4,014 million.(31 December 2017: notional amount is RMB 5,004 million, provision for impairment is RMB 2,641 million).

Note 3: Other debt instruments are financing products issued by the Bank to enterprises, as at 31 December 2018, such instruments are not overdue.(31 December 2017: not overdue)

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.8 Bonds and other investments (Continued)

Investments denominated in RMB

	Financial assets at fair value through profit or loss	Available -for-sale financial assets	Investment securities - held-to-maturity	Investment securities - loans and receivables	Total
31 December 2017					
Medium or long term:					
AAA	248	159,486	8,210	120,487	288,431
AA+ to AA-	61	86,909	52	7,602	94,624
A to A-	-	-	-	286	286
Under A-	-	289	-	448	737
Short term:					
A-1	9,812	1,255	-	-	11,067
Unrated bonds and other investments:					
Government bonds	3,107	56,928	269,325	31,985	361,345
Bonds issued by policy banks	12,947	29,643	166,016	-	208,606
Financial bonds	-	4,067	-	95,320	99,387
Deposit certificates issued by other banks	21,197	13,671	-	-	34,868
Corporate bonds	-	401	-	-	401
Trust and asset management plans	-	6,841	-	575,024	581,865
Wealth management products purchased from other banks	-	-	-	520	520
Loans to non-bank financial institutions	996	-	-	-	996
Other investments	93,233	-	-	-	93,233
	141,601	359,490	443,603	831,672	1,776,366

11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk

Market risk is the risk of loss arising from on and off-balance sheet businesses from adverse movements in market prices, such as interest rates, exchange rates, equity and commodities. Both the Group’s trading book and banking book face market risk, which mainly consists of interest rate risk, currency risk and commodity risk. The Group considers the exposure to the commodity risk to be insignificant.

The Board of Directors of the Bank is ultimately responsible for monitoring the market risk management activities and ensuring the Group can effectively identify, measure, monitor and control the market risk associated with the Group's business activities. Under the authorisation of the Board of Directors, the senior management of the Group is responsible for establishing the Group-wide market risk management system, organisational structure with well defined roles and responsibilities, limit structures and accountability mechanism. Relevant departments of headquarter are responsible for carrying out detailed market risk management activities including policies and procedures, measurement approaches and models, analyses and reporting and monitoring of various limits etc in order to timely and accurately identify, measure, monitor and control the market risk exposures in respective business areas and reporting to the senior management and Board of Directors on timely basis. Meanwhile, Group-wide market risk management system incorporates the established internal controls and independent inspections. Relevant business units are responsible for executing the daily control activities. A three-line defence system includes business units as the fine line defence, market risk management and compliance departments as the second line defence and internal audit department as the third line defence.

The Group measures market risk based on predetermined benchmarks. The major measurement approaches include stress testing, analysis on value at risk, back testing, gap analysis and sensitivity analysis etc. The market risk of new products and businesses should be identified before these new products and businesses are launched according to relevant policies.

11.2.1 Currency risk

The Group mainly operates in the PRC and its main business activities are conducted in the PRC. Majority of its foreign currency business are conducted in USD.

The table below summarizes the Group’s exposure to currency risk. Included in the table are the Group’s assets and liabilities at carrying amounts in RMB, categorized by original currency.

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.1 Currency risk (Continued)

Item	31 December 2018 RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and balances with central bank	436,007	7,237	185	294	443,723
Due from and placements with banks and other financial institutions	138,999	72,591	18,171	6,774	236,535
Derivative financial assets	37,153	5,927	40	154	43,274
Financial assets purchased under resale agreements	11,573	-	-	-	11,573
Loans and advances to customers	3,324,428	100,600	19,957	10,504	3,455,489
Financial investment:					
Trading assets- at fair value through profit or loss	386,144	9,450	74	-	395,668
Debt investments-at amortized cost	1,141,271	1,795	207	976	1,144,249
Other debt investments-at fair value through other comprehensive income	323,803	45,891	6,838	2,328	378,860
Other equity investments-at fair value through other comprehensive income	4,038	-	-	-	4,038
Other financial assets	20,302	49,563	227	65	70,157
Total financial assets	5,823,718	293,054	45,699	21,095	6,183,566
Due to central bank	221,003	-	-	-	221,003
Due to and placements from banks and financial institutions	1,071,882	121,084	18,553	4,872	1,216,391
Trading liabilities - at fair value through profit or loss	18,435	16,477	-	-	34,912
Derivative financial liabilities	37,411	4,976	83	323	42,793
Financial assets sold under repurchase agreements	109,984	9,580	-	-	119,564
Deposits from customers	3,039,761	183,701	23,323	6,530	3,253,315
Bonds issued	812,380	23,455	4,856	749	841,440
Other financial liabilities	29,600	1,018	3	329	30,950
Total financial liabilities	5,340,456	360,291	46,818	12,803	5,760,368
Net position of financial instruments	483,262	(67,237)	(1,119)	8,292	423,198

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.1 Currency risk (Continued)

Item	31 December 2017				
	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and balances with central bank	476,379	9,711	210	231	486,531
Due from and placements with banks and other financial institutions	100,814	49,634	18,965	7,774	177,187
Financial assets at fair value through profit or loss	160,844	2,022	-	-	162,866
Derivative financial assets	24,911	3,139	46	168	28,264
Financial assets purchased under resale agreements	13,974	-	-	-	13,974
Loans and advances to customers	2,965,236	110,231	16,786	11,600	3,103,853
Available-for-sale financial assets	624,470	32,412	6,530	1,096	664,508
Investment securities - held-to-maturity	443,603	1,093	-	30	444,726
Investment securities - loans and receivables	831,672	-	-	926	832,598
Other financial assets	95,240	32,409	339	510	128,498
Total financial assets	5,737,143	240,651	42,876	22,335	6,043,005
Due to central bank	182,387	-	-	-	182,387
Due to and placements from banks and financial institutions	1,307,450	116,895	25,774	2,981	1,453,100
Financial liabilities at fair value through profit or loss	21,139	7,194	-	-	28,333
Derivative financial liabilities	27,820	2,081	12	121	30,034
Financial assets sold under repurchase agreements	180,639	3,825	-	-	184,464
Deposits from customers	2,845,508	161,173	20,747	10,508	3,037,936
Bonds issued	658,791	20,771	6,207	527	686,296
Other financial liabilities	59,278	2,104	148	582	62,112
Total financial liabilities	5,283,012	314,043	52,888	14,719	5,664,662
Net position of financial instruments	454,131	(73,392)	(10,012)	7,616	378,343

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.1 Currency risk (Continued)

The Group measures the possible effect on net profit arising from foreign exchange rate fluctuation using sensitivity analysis. The table below shows the result of sensitivity analysis on the financial reporting date.

Net profit for the year	31 December 2018		31 December 2017	
(decrease)/Increase of	Exchange rate fluctuation %		Exchange rate fluctuation %	
	-1%	1%	-1%	1%
USD against RMB	(296)	296	(60)	60
Other currencies against RMB	30	(30)	(33)	33

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by repricing of the Group's assets and liabilities within the one-year period. The assumptions are shown as below:

- Exchange rate sensitivity represents the exchange gain or loss resulting from the 1% change in daily closing exchange rates (middle) on the financial reporting date;
- Exchange rates for all currencies are fluctuating simultaneously and in the same direction;
- Foreign currency position contains spot exchange position and forward exchange position.

The actual exchange gain or loss may differ from the sensitivity analysis result due to these assumptions.

11.2.2 Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in factors such as interest rates, term structure, etc., including interest rate risk from bank book and trading book respectively.

On 26 August 2015, PBOC removed the upper limit of interest rate of time deposit with term longer than a year (excluding one year), and set the upper limit of interest rate of other kinds of deposit as 1.5 times of the benchmark interest rate. On 24 October 2015, PBOC removed the upper limit of deposit interest rate of commercial banks and rural cooperative financial institutions. On 20 July 2013 PBOC also removed the bottom limit (i.e. 70% of benchmark) for loans (excluding retail mortgage loans). The Group determines the loan interest rate independently.

The Group's interest rate risk mainly results from re-pricing risk of bank book. The Group considers its exposure to the interest rate risk of trading book to be insignificant. The Group has established an internal transfer pricing system, which enables the Group to manage the interest rate risk of bank book centrally. The Group measures and monitors interest rate risk in trading accounts using value-at-risk and sensitivity analysis etc.

The table below summarizes the Group's exposures to interest rate risk. The table presents the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.2 Interest rate risk (Continued)

	31 December 2018						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central banks	428,273	-	-	-	-	15,450	443,723
Due from and placements with banks and other financial institutions	91,257	25,784	100,042	17,787	-	1,665	236,535
Derivative financial assets	-	-	-	-	-	43,274	43,274
Financial assets purchased under resale agreements	11,568	-	-	-	-	5	11,573
Loans and advances to customers	2,030,010	357,903	882,466	127,754	45,733	11,623	3,455,489
Financial investments:							
Trading assets- at fair value through profit or loss	4,199	6,745	35,445	37,082	25,924	285,145	394,540
Debt investments-at amortized cost	64,785	92,905	149,392	533,626	288,693	14,848	1,144,249
Other debt investments-at fair value through other comprehensive income	22,561	8,912	51,610	179,288	111,617	4,872	378,860
Other financial assets	44,677	1,067	1,985	-	-	22,428	70,157
Total financial assets	2,697,330	493,316	1,220,940	895,537	471,967	399,310	6,178,400

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.2 Interest rate risk (Continued)

	31 December 2018						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to central bank	9,020	30,090	178,630	-	-	3,263	221,003
Due to and placements from banks and other financial institutions	894,850	142,794	168,028	5,431	499	4,789	1,216,391
Trading liabilities- at fair value through profit or loss	-	-	10	8,688	603	25,611	34,912
Derivative financial liabilities	-	-	-	-	-	42,793	42,793
Financial assets sold under repurchase agreements	87,767	11,747	19,936	-	-	114	119,564
Deposits from customers	1,945,923	383,651	659,481	232,916	5,047	26,297	3,253,315
Bonds issued	49,817	249,836	320,170	117,176	100,355	4,086	841,440
Other financial liabilities	729	970	724	-	-	28,527	30,950
Total financial liabilities	2,988,106	819,088	1,346,979	364,211	106,504	135,480	5,760,368
Total interest repricing gap	(290,776)	(325,772)	(126,039)	531,326	365,463	263,830	418,032

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.2 Interest rate risk (Continued)

	31 December 2017						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central banks	468,527	-	-	-	-	18,004	486,531
Due from and placements with banks and other financial institutions	99,693	22,667	47,793	7,034	-	-	177,187
Financial assets at fair value through profit or loss	31,811	66,738	24,125	19,662	322	-	142,658
Derivative fi nancial assets	-	-	-	-	-	28,264	28,264
Financial assets purchased under resale agreements	13,974	-	-	-	-	-	13,974
Loans and advances to customers	1,814,563	331,891	776,013	140,111	41,275	-	3,103,853
Available-for-sale financial assets	28,154	18,797	77,105	235,613	39,859	-	399,528
Investment securities - held-to-maturity	12,776	4,095	42,689	246,938	138,228	-	444,726
Investment securities - loans and receivables	38,967	57,553	330,084	280,876	125,118	-	832,598
Other financial assets	39,734	216	1,067	-	-	87,481	128,498
Total financial assets	2,548,199	501,957	1,298,876	930,234	344,802	133,749	5,757,817

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.2 Interest rate risk (Continued)

	31 December 2017						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to central bank	13	17,143	165,231	-	-	-	182,387
Due to and placements from banks and other financial institutions	633,383	501,378	312,438	3,070	2,333	498	1,453,100
Financial liabilities at fair value through profit or loss	-	-	2,051	10,695	466	15,121	28,333
Derivative financial liabilities	-	-	-	-	-	30,034	30,034
Financial assets sold under repurchase agreements	166,431	10,427	7,606	-	-	-	184,464
Deposits from customers	2,103,261	313,668	459,616	161,391	-	-	3,037,936
Bonds issued	58,100	226,982	213,321	127,538	60,355	-	686,296
Other financial liabilities	493	-	1,393	2,800	-	57,426	62,112
Total financial liabilities	2,961,681	1,069,598	1,161,656	305,494	63,154	103,079	5,664,662
Total interest repricing gap	(413,482)	(567,641)	137,220	624,740	281,648	30,670	93,155

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.2 Interest rate risk (Continued)

The Group performs sensitivity analysis by measuring the potential impact of a change in interest rate on net profit and equity. The table below shows the results of the sensitivity analysis on the financial reporting date.

	31 December 2018		31 December 2017	
	Interest rate fluctuation (Basis points)		Interest rate fluctuation (Basis points)	
	-100	+100	-100	+100
(Decreases)/Increases in net profit	(2,964)	2,964	(1,069)	1,069
Increase/(Decrease) in other reserves	10,637	(10,407)	5,620	(5,318)

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by repricing of the Group's assets and liabilities within the one-year period.

- Except for current deposits, assets and liabilities, which the maturity date is within three months or more than three months but will be repricing within one year, are re-priced in the middle of each specified period;
- The interest rates of current deposits and statutory deposit reserves with central bank remain unchanged;
- The yield curve moves in parallel with interest rate;
- There are no changes of assets and liabilities at year end.

Due to the assumptions, the actual change in net profit may be different from the sensitivity analysis results.

Based on the assumption of the parallel movement of the yield curve along with interest rate change, the sensitivity analysis of the equity is derived by remeasuring the fair value of debt instruments at fair value through other comprehensive income as a result of changes in interest rate.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk

The Group's liquidity risk management is intended to meet the obligations to customers for withdrawal and payment, to achieve the balance between the maturities of assets and liabilities, to reduce the liquidity cost, avoid liquidity crisis of the Group, and to effectively respond to systematic liquidity risk.

The Group's liquidity risk management system comprises mainly regular and contingent management system which includes 10 components, such as policies and strategies, management framework, regulations, management tool, daily operation, stress test, system construction, risk monitoring, risk report, and emergency management and drilling.

In addition, the Group carries out various liquidity risk management activities such as liquidity forecast, real-time monitoring of liquidity position by each currency, analysis of liquidity gap for on and off-balance sheet position, and early reporting of large disbursement requests etc. The Group also assesses the liquidity risk arising from on and off-balance sheet exposures, actively obtains the external fundings and manages the maturities of its assets and liabilities in accordance with the Group's liquidity risk management policy and limit requirement. The objective of these activities is to maintain the appropriate level of liquidity to support the Group's business development.

The table below presents the cash flows payable by the Group under non-derivative financial assets and liabilities by remaining contractual maturities at the financial reporting date.

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.1 Cash flows of non-derivative financial assets and liabilities

	31 December 2018						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with central bank	-	443,723	-	-	-	-	443,723
Due from and placements with banks and other financial institutions	-	60,315	57,105	105,718	17,069	-	240,207
Financial assets purchased under resale agreements	-	-	11,575	-	-	-	11,575
Loans and advances to customers	71,057	-	869,961	1,054,759	1,022,783	1,386,969	4,405,529
Financial investments:							
Trading assets- at fair value through profit or loss	1,583	285,145	10,816	38,598	44,340	29,469	409,951
Debt investments-at amortized cost	4,351	-	159,543	197,612	640,567	326,329	1,328,402
Other debt investments-at fair value through other comprehensive income	130	-	20,063	62,378	241,825	130,684	455,080
Other financial assets	291	25,826	3,539	11,402	32,703	4,985	78,746
Total financial assets	77,412	815,009	1,132,602	1,470,467	1,999,287	1,878,436	7,373,213

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.1 Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2018						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities							
Due to central bank	-	-	40,400	184,602	-	-	225,002
Due to and placements from banks and other financial institutions	-	719,855	322,620	173,457	6,374	704	1,223,010
Trading liabilities- at fair value through profit or loss	194	25,611	-	10	8,495	603	34,913
Financial assets sold under repurchase agreements	-	-	99,606	20,194	-	-	119,800
Deposits from customers	-	1,487,391	1,119,643	681,214	246,550	6,241	3,541,039
Bonds issued	-	-	283,043	333,567	156,216	124,000	896,826
Other financial liabilities	-	28,649	1,594	-	731	-	30,974
Total financial liabilities	194	2,261,506	1,866,906	1,393,044	418,366	131,548	6,071,564
Net liquidity	77,218	(1,446,497)	(734,304)	77,423	1,580,921	1,746,888	1,301,649

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.1 Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2017						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with central bank	-	486,750	-	-	-	-	486,750
Due from and placements with banks and other financial institutions	-	61,395	61,724	51,787	7,951	-	182,857
Financial assets at fair value through profit or loss	-	-	97,133	26,384	22,059	398	145,974
Financial assets purchased under resale agreements	-	-	13,998	-	-	-	13,998
Loans and advances to customers	78,608	-	750,499	919,638	980,569	1,208,804	3,938,118
Available-for-sale financial assets	628	-	48,961	86,362	269,895	48,567	454,413
Investment securities - held-to-maturity	-	-	12,997	55,715	295,881	160,573	525,166
Investment securities - loans and receivables	3,760	-	95,022	359,884	342,503	142,333	943,502
Other financial assets	261	26,292	2,798	40,840	29,202	4,965	104,358
Total financial assets	83,257	574,437	1,083,132	1,540,610	1,948,060	1,565,640	6,795,136

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.1 Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2017						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities							
Due to central bank	-	-	17,701	170,607	-	-	188,308
Due to and placements from banks and other financial institutions	-	240,097	904,390	321,507	3,295	3,258	1,472,547
Financial liabilities at fair value through profit or loss	234	15,121	-	2,159	10,676	490	28,680
Financial assets sold under repurchase agreements	-	-	177,161	7,670	-	-	184,831
Deposits from customers	-	1,547,147	926,228	480,484	177,435	-	3,131,294
Bonds issued	-	-	288,883	223,146	148,638	72,096	732,763
Other financial liabilities	-	22,479	985	2,879	801	-	27,144
Total financial liabilities	234	1,824,844	2,315,348	1,208,452	340,845	75,844	5,765,567
Net liquidity	83,023	(1,250,407)	(1,232,216)	332,158	1,607,215	1,489,796	1,029,569

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.2 Cash flow of derivative financial instruments

a. Derivative financial instruments settled on a net basis

Derivative financial instruments held by the Group that will be settled on a net basis comprise interest rate swaps, foreign exchange options, precious metals derivatives and foreign currency derivatives settled in Shanghai Clearing House. The table analyses the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2018	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Foreign exchange derivatives	812	988	1,394	5	-	3,199
Interest rate swap	(278)	(290)	(957)	(730)	(29)	(2,284)
Foreign exchange options	41	393	351	50	-	835
Precious metals derivatives	655	53	(282)	-	-	426
Commodity swap contracts	6	7	-	-	-	13
Total	1,236	1,151	506	(675)	(29)	2,189

31 December 2017	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Foreign exchange derivatives	(945)	(1,743)	(3,336)	(17)	-	(6,041)
Interest rate swap	23	(36)	(23)	340	(1)	303
Foreign exchange options	358	82	109	5	-	554
Precious metals derivatives	179	218	(206)	-	-	191
Commodity swap contracts	-	2	111	432	-	545
Total	(385)	(1,477)	(3,345)	760	(1)	(4,448)

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.2 Cash flow of derivative financial instruments (Continued)

b. Derivative financial instruments settled on a gross basis

Derivative financial instruments held by the Group that will be settled on a gross basis are foreign exchange derivatives, including currency forward and currency swaps. The table below shows the distribution of contractual maturity for derivative financial instruments held by the Group that will be settled on a gross basis. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 month	1-3 months	3-12 months	1-5 years	Total
31 December 2018					
Foreign exchange derivatives					
-Outflow	(359,205)	(198,799)	(277,172)	(43,315)	(878,491)
-Inflow	358,717	198,006	277,176	43,515	877,414

	Within 1 month	1-3 months	3-12 months	1-5 years	Total
31 December 2017					
Foreign exchange derivatives					
-Outflow	(160,745)	(97,608)	(228,632)	(25,944)	(512,929)
-Inflow	160,599	97,182	230,056	26,353	514,190

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.3 Off-balance sheet items

31 December 2018	Within 1 year	1 to 5 years	Over 5 years	Total
Bank bill acceptance	419,815	-	-	419,815
Acceptance bills of exchange under letter of credit	147,587	-	-	147,587
Letters to guarantee issued	66,175	32,658	2,170	101,003
Letters of credit issued	11,945	1,024	564	13,533
Credit cards and other commitments	351,725	-	-	351,725
Total	997,247	33,682	2,734	1,033,663

31 December 2017	Within 1 year	1 to 5 years	Over 5 years	Total
Bank bill acceptance	396,414	-	-	396,414
Acceptance bills of exchange under letter of credit	144,602	-	-	144,602
Letters to guarantee issued	70,679	45,051	5,616	121,346
Letters of credit issued	13,381	762	-	14,143
Credit cards and other commitments	269,748	-	-	269,748
Total	894,824	45,813	5,616	946,253

11.4 Fair value of financial instruments

11.4.1 Fair value hierarchy

According to the significance of the lowest inputs used in making the measurements, the fair value hierarchy shall have the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange or debt instruments.

- Level 2 - Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts and debt securities for which quotations like yield curve or counterparty credit risk are available from Thomson Reuters, Bloomberg and China Bond.

- Level 3 - Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.2 Financial instruments not measured at fair value

As at 31 December 2018, The financial assets and financial liabilities not measured at fair value in the financial statements include balances with central banks, due from and placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and advances to customers (amortized cost), investments measured at amortized cost, due to and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and bonds issued (31 December 2017：Include balances with central banks, due from and placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and advances to customers, investment securities classified as held-to-maturity, investment securities-classified as loans and receivables, due to and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and bonds issued).

The table below summarizes the carrying amount and relevant fair value of the Group’s investment securities classified as investments at amortized cost, held-to-maturity and loans and receivable, bonds issued as at financial reporting date.

	31 December 2018				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Debt investments-at amortized cost	1,144,249	-	856,521	292,683	1,149,204
Financial liabilities:					
Bonds issued	841,440	-	844,012	-	844,012

	31 December 2017				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Investment securities - held-to-maturity	444,726	-	432,780	-	432,780
Investment securities - loans and receivables	832,598	-	251,739	570,282	822,021
Financial liabilities:					
Bonds issued	686,296	-	684,611	-	684,611

11.4.2.1 Investments measured at amortized cost

Investment measured at amortized cost is classified into level 1 when its fair value is based on quoted market price. Investment measured at amortized cost is classified into level 3 if its market information is not available and fair value is calculated using discounted cash flow model. Investment measured at amortized cost is classified into level 2, if fair value can be estimated using quoted market prices for securities with similar credit risk, maturity and yield rate.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.2 Financial instruments not measured at fair value (Continued)

11.4.2.2 Bonds issued

The fair value of bonds issued is based on quoted market price. For those bonds whose quoted market price is not available, their fair value is calculated using discounted cash flow and the effective interest rate of bonds with similar maturity.

11.4.2.3 Investment securities classified as held-to-maturity, investment securities-classified as loans and receivables

Held-to-maturity securities and loans and receivables are classified into level 1 when its fair value is based on quoted market price. Held-to-maturity securities and loans and receivables are classified into level 3 if its market information is not available and fair values of are calculated using discounted cash flow model. Held-to-maturity securities and loans and receivables are classified into level 2, if fair value can be estimated using quoted market prices for securities with similar credit risk, maturity and yield rate.

Except for the financial assets and liabilities listed above, fair values of financial assets and financial liabilities not measured at fair value are calculated using discounted future cash flow model. Since these financial instruments are in short-term or under floating interest rate linked to market interest rate, their carrying value is approximate to the fair value.

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value

As at 31 December 2018, Fair value hierarchy of financial instruments measured at fair value is listed as below:

Group

31 December 2018	Level 1	Level 2	Level 3	Total
Financial investment				
Trading assets- financial investment at fair value through profit or loss				
-Debt investments-at amortized cost	174	56,620	-	56,794
-Trust and asset management plans	-	16,069	52,600	68,669
-Fund investments	260,117	-	3,074	263,191
-Equity instruments	345	-	783	1,128
-Wealth management products of other banks	-	-	208	208
-Other investments	-	-	5,678	5,678
Other debt investments-at fair value through other comprehensive income				
-Bonds and other debt instruments	35	376,338	-	376,373
-Trust and asset management plans	-	1,274	1,213	2,487
Other equity investments-at fair value through other comprehensive income	398	-	3,640	4,038
Loans and advances to customers				
-at fair value through other comprehensive income	-	249,153	-	249,153
-at fair value through profit or loss	-	482	-	482
Derivative financial assets	-	43,274	-	43,274
Total financial assets	261,069	743,210	67,196	1,071,475
Derivative financial liabilities	-	42,793	-	42,793
Trading liabilities - at fair value through profit or loss				
-Financial liabilities related to precious metals	-	24,504	-	24,504
-Interest of other unitholders in consolidated structured entities	1,107	19	9,282	10,408
Total financial liabilities	1,107	67,316	9,282	77,705

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

	Level 1	Level 2	Level 3	Total
31 December 2017				
Financial assets at fair value through profit or loss				
-Trading securities	-	49,425	-	49,425
-Trust and asset management plans	-	3,032	-	3,032
-Fund investments	11,004	-	1,084	12,088
-Other debt instruments	-	88,224	5,009	93,233
-Other investments	455	-	4,633	5,088
Available-for-sale financial assets				
-Available-for-sale bonds and other debt instruments	111	392,576	-	392,687
-Fund investments	143,039	72,357	-	215,396
-Available-for-sale equity investment	406	-	1,831	2,237
-Trust and asset management plans	-	45,317	7,634	52,951
-Wealth management products of other banks	-	-	354	354
-Others	-	565	318	883
Derivative financial assets	-	28,264	-	28,264
Total financial assets	155,015	679,760	20,863	855,638
Derivative financial liabilities	-	30,034	-	30,034
Financial liabilities at fair value through profit or loss				
-Financial liabilities related to precious metals	-	15,121	-	15,121
-Interest of other unitholders in consolidated structured entities	-	18	13,194	13,212
Total financial liabilities	-	45,173	13,194	58,367

11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

The Group reclassifies the financial instruments when the specific event happens which leads to conversion among different level of fair value hierarchy. For the year ended 31 December 2018, there is no financial instrument reclassification between level 1 and level 2.

(i) Financial instruments in level 2

Valuation technique is used to calculate the fair value of financial instruments not actively traded in the markets (i.e., over-the-counter derivatives). The valuation techniques make use of observable market data as much as possible, and avoid relying on the specific estimations of the subjects. When all required significant inputs are observable in calculation of one financial instruction's fair value, the related financial instrument is classified into level 2. When one or more required significant inputs are unobservable, the related financial instrument is classified into level 3.

Financial assets classified into level 2 includes bonds investment, currency swap contracts, foreign exchange forward contracts, interest rate swap contracts, option contracts, precious metal forward contracts, etc. The fair values of RMB bonds are determined based on the yield curve provided by China Central Depository and Clearing Co., Ltd. The fair values of foreign currency bonds are determined based on the valuation of Bloomberg. The fair values of currency swap contracts, foreign exchange forward contracts, interest rate swap contracts are calculated by discounted cash flow and Black-Scholes Model, etc. All significant valuation inputs are observable market data.

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3

Movements of the Group's financial assets and liabilities classified as level 3 are listed below

Group	Financial Investment Trading assets - at fair value through profit or loss	Financial Investment Other debt investments - at fair value through other comprehensive income	Financial Investment Other equity investments - at fair value through other comprehensive income	Financial Investment Trading liabilities - at fair value through profit or loss	Total
At 1 January 2018 (Restated)	76,991	1,868	1,140	13,194	66,805
Purchase	24,792	362	1,985	961	26,178
Sales	(40,263)	(1,221)	-	(4,985)	(36,499)
Changes in fair value recognized in profit or loss	823	211	-	112	922
Changes in fair value recognized in other comprehensive income	-	(7)	515	-	508
At 31 December 2018	62,343	1,213	3,640	9,282	57,914
Unrealized gain or loss recognized in profit or loss for the year ended 31 December 2018 for the positions held at 31 December 2018	823	-	-	(112)	711

Group	Financial assets at fair value through profit or loss	Available for sale financial assets	Financial liabilities at fair value through profit or loss	Total
At 1 January 2017	28,118	19,063	5,223	41,958
Purchase	5,010	5,755	8,734	2,031
Sales	(22,662)	(14,770)	(1,220)	(36,212)
Changes in fair value recognized in profit or loss	260	258	457	61
Changes in fair value recognized in other comprehensive income	-	(169)	-	(169)
At 31 December 2017	10,726	10,137	13,194	7,669
Unrealized gain or loss recognized in profit or loss for the year ended 31 December 2017 for the positions held at 31 December 2017	260	(169)	(457)	(366)

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows:

Group	Fair value as at 31 December 2018	Valuation techniques	Unobservable Inputs: Note	Unobservable Inputs: Range/ weighted average	Unobservable Inputs: Correlation with fair value
Financial investments:					
Trading assets- at fair value through profit or loss					
—Trust and asset management plans	52,600	Income approach	Discount rate	1.82%-8.81%	Negative
—Equity investments	783	Income approach	Discount rate	5.50%-6.40%	Negative
—Fund investments	3,074	Based on the most recent transaction	NA	NA	NA
—Wealth management products managed by other banks	208	Income approach	Discount rate	5.10%-5.50%	Negative
—Other investments	5,678	Note 1	Note 1	Note 1	Note 1
	62,343				
Other debt investments-at fair value through other comprehensive income					
—Trust and asset management plans	1,213	Income approach	Discount rate	4.95%-7.00%	Negative
	1,213				
Other equity investments-at fair value through other comprehensive income					
—Equity investments	649	Market approach	Discount For Liquidity	14.82%	Negative
			p/b ratio	0.88	Positive
	697	Market approach	Discount For Liquidity	19.27%	Negative
			p/b ratio	0.86	Positive
	309	Market approach	Discount For Liquidity	26.68%	Negative
			p/b ratio	8.43	Positive
	1,985	Based on the most recent transaction	NA	NA	NA
	3,640				

11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows (Continued):

Group	Fair value as at 31 December 2018	Valuation techniques	Unobservable Inputs		
			Note	Range/ weighted average	Correlation with fair value
Trading liabilities - at fair value through profit or loss					
—Interest of other unitholders in consolidated structured entities	9,282	Note 2	Note 2	Note 2	Note 2
	9,282				

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows(Continued):

Group	Fair value as at 31 December 2017	Valuation techniques	Unobservable Inputs		
			Note	Range/ weighted average	Correlation with fair value
Financial assets at fair value through profit or loss					
—Fund investments	1,084	Based on the most recent transaction	NA	NA	NA
—Other debt instruments	5,009	Income approach	Discount rate	1.65%-7.78%	Negative
—Other investment	4,633	Note 1	Note 1	Note 1	Note 1
	10,726				
Available-for-sale financial assets					
—Equity investment	620	Market approach	Discount for liquidity	20% 0.99	Negative Positive
	104	Based on the most recent transaction	NA	NA	NA
	691	Income approach	Discount rate	6.53%-6.93%	Negative
	416	Based on the most recent transaction	NA	NA	NA
—Trust and asset management plans	4,142	Income approach	Discount rate	5.25%-8.80%	Negative
	3,492	Income approach	Discount rate	5.45%-5.90%	Negative
—Wealth management products managed by other banks	354	Income approach	Discount rate	4.98%	Negative
—Others	318	Income approach	Discount rate	8.30%	Negative
	10,137				
Financial liabilities at fair value through profit or loss					
—Interest of other unitholders in consolidated structured entities	13,194	Note 2	Note 2	Note 2	Note 2
	13,194				

11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows (Continued):

Note 1：This refers to the fair value of the assets managed by Chang Jiang Pension Insurance Co., Ltd. in relation to the Bank's long term employee benefit plan. All of the underlying assets are financial assets and the methods to calculate the fair value of the financial assets are as follows:

- The fair value of investments in the Money market fund is based on market price;
- The fair value of bonds is calculated using discounted cash flow and the yield rate of bonds with similar maturity;
- The fair value of other debt instrument is calculated using discounted cash flow model and unobservable discount rates, ranging from 4.75%-6.70% (31 December 2017: 4.75%-7.25%).

Note 2：The fair value of interest of other unitholders in consolidated structured entities is calculated based on the net asset value of the structured entities.

11.5 Offsetting of financial assets and financial liabilities

Some financial assets and financial liabilities in the Group follow executable net amount settlement arrangements or similar agreements. Such arrangements with the Group and counterparties normally allow the net amount settlement under agreements of both parties. If no agreement is reached, it would be settled in full amount. But one party could choose to settle in net amount under the condition that the other party violates the agreement. According to the requirement of IFRS, the Group did not offset these financial assets and financial liabilities.

As at 31 December 2018, the amount of the Group's financial assets and financial liabilities following executable net amount settlement arrangements or similar agreements is not significant.

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.6 Capital management

The Group adopts the capital management approaches that can adequately respond to the interest risks associated with the Group's business and manages capital adequacy strictly in accordance with regulatory requirements. The primary objectives of the Group's capital management are to maintain capital adequacy ratio to support its businesses and to maximize shareholders' value. The Group actively adjusts the capital structure in response to the changing economic environment and risk characteristics. Generally, the mechanism of adjusting the capital structure comprises dividend policy and issuance of additional capital instruments such as preference shares and tier-two capital instruments etc.

From 1 January 2013, the Group calculates the capital adequacy ratios in accordance with Provisional Administrative Rule on Capital Management of Commercial Banks (CBRC: No.1 2012) issued by the CBRC on 7 June 2012.

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Core tier 1 capital – net	435,120	388,200	408,426	366,921
Tier 1 capital - net	465,398	418,425	438,346	396,841
Capital - net	589,308	490,884	561,231	468,467
Total risk weighted assets	4,311,886	4,084,499	4,196,285	3,982,115
Core tier 1 capital adequacy ratio	10.09%	9.50%	9.73%	9.21%
Tier 1 capital adequacy ratio	10.79%	10.24%	10.45%	9.97%
Capital adequacy ratio	13.67%	12.02%	13.37%	11.76%

i. The scope of consolidation for the purpose of calculating the Group's Capital Adequacy Ratios includes domestic and overseas operating units and other financial subsidiaries specified in the capital rules.

ii. The Group's Core Tier-one Capital includes ordinary shares, the capital reserve (subject to regulatory limitations), surplus reserve, general risk reserve, retained earnings, minority interests (to the extent permitted in the Core Tier-one Capital under the Regulation).

iii. The Group's Deductible Items from Core Tier-one Capital include other intangible assets (excluding land use rights).

iv. The Group's other Tier 1 Capital includes preference shares and minority interests to the extent permitted by the capital rules.

v. The Group's Tier 2 Capital includes: Tier 2 capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests to the extent permitted by the capital rules.

vi. Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets. The Group adopts risk weighting approach, standardized approach and basic indicator approach to measure Credit Risk-weighted Assets, Market Risk weighted Assets and Operational Risk-weighted Assets respectively.

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

12 ASSETS PLEDGED

Following assets of the Group are pledged as collateral under repurchase agreements and for fiscal deposits.

	31 December 2018	31 December 2017
Financial assets- other debt investments	87,717	NA
Financial assets- debt investments	55,324	NA
Discounted bills and Re-discount bills	34,067	21,592
Investment securities - loans and receivables	NA	27,327
Available-for-sale financial assets	NA	163,526
Investment securities - held-to-maturity	NA	20,035
Total	177,108	232,480

13 EVENTS AFTER THE REPORTING DATE

As of 22 March 2019, the Group has no material events that requires additional disclosure in its financial statements for the year ended 31 December 2018.

14. COMPARATIVE DATA

In order to be consistent with the presentation of financial statements for the current year, a number of comparative figures have been reclassified.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2017

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2017

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Independent Auditor's Report

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

Opinion

What we have audited

The financial statements of Shanghai Pudong Development Bank Co., Ltd. ("the Bank") and its subsidiaries (the "Group") set out on pages 9 to 139, which comprise:

- the Consolidated and the Bank's statements of comprehensive income for the year ended 31 December 2017;
- the Consolidated and the Bank's statements of financial position as at 31 December 2017;
- the Consolidated and the Bank's statements of changes in equity for the year then ended;
- the Consolidated and the Bank's statements of cash flows for the year then ended; and
- notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and the Bank's financial position as at 31 December 2017, and the consolidated and the Bank's financial performance and the consolidated and the Bank's cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

- Impairment allowances of loans and advances to customers
- Consolidation assessment of structured entities
- Disclosure of estimated impact upon initial application of the New Financial Instrument Standard – expected credit losses model

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment allowances of loans and advances to customers	
Refer to Notes 2.7, 3.1, 5.17, 5.27, 10.1.1, 10.1.5 to the financial statements. As at 31 December 2017, the Group's gross balance of loans and advances to customers amounted to RMB 3,194,600 million, the related impairment allowances amounted to RMB 90,747 million and the net balance amounted to RMB 3,103,853 million. The Group firstly performed impairment assessment for the loans and advances to customers that was individually significant. Individually significant loans and advances to customers that were not identified as impaired and loans and advances to customers that were not individually significant were grouped by similar credit risk characteristics and collectively assessed for impairment. The individually assessed impairment loss was the difference between the present value of estimated discounted future cash flows and the gross carrying amount of the loans and advances to customers. When loans and advances were collectively assessed for impairment, management used estimates based on historical loss experience for assets with similar credit risk characteristics. The historical loss experience was adjusted by reference to the relevant observable data that reflect current economic conditions.	The audit procedures we performed regarding impairment allowances of loans and advances to customers included: We understood, evaluated and validated the design and operating effectiveness of the relevant controls over impairment assessment and calculation for loans and advances to customers. These controls included controls over timely identification of individual impaired loans and advances to customers, periodically review of the calculation of forecasted future cash flows and assessment of mortgages' value for individually assessed impairment loss, timely review of the selection of key models and the process of determining, inputting and adjusting key assumptions and parameters used in these models for collective impairment assessment. We tested the loans and advances to customers that were not identified by management as impaired, on a sample basis, by examining the underlying loan information and external evidence available to evaluate if management had timely identified impaired loans and advances to customers. When impairment allowances were assessed on an individual basis, we assessed the management's forecasted discounted future cash flows and key assumptions by reviewing the financial information of the borrowers and guarantors as well as the assessment of the value of the mortgages by taking consideration of available external market information.

Key Audit Matter	How our audit addressed the Key Audit Matter
We focused on this area because the net balance of loans and advances to customers accounted for 50.57% of the Group's total assets and significant estimates and judgements were involved in the assessment of impairment allowances. We particularly focused on the following area: timely identification of impaired loans, estimation of future cash flows of impaired loans for individual assessment, selection of models, assumptions and parameters used for collective assessment. These assumptions and parameters included historical loss experience, loss identification period, risk adjustment for specific industries, regions and macro-economic environment.	When impairment allowances were assessed on a collective basis, we assessed whether the models used by management reflected the current economic environment and the credit risk of loans and advances. We also assessed the key assumptions and parameters used in the models, including historical loss, loss identification period, risk adjustment for specific industries, regions and macro-economic environment, based on our knowledge on industry practices and industry experience. Based on the audit work performed, we found the impairment models, assumptions and parameters used by management in the assessment of impairment allowances acceptable.
Consolidation assessment of structured entities Refer to Notes 2.3, 3.5 and 5.43 to the financial statements. The Group managed or invested in a number of structured entities. As of 31 December 2017, structured entities of approximately RMB 84,226 million were consolidated by the Group; structured entities of RMB 2,940,116 million managed by the Group and structured entities of RMB 1,039,778 million invested by the Group were not consolidated. We focused on this area because the number of structured entities was significant and the assessment of whether the Group should consolidate these structured entities involved significant judgements, including the judgements regarding the Group's power over the structured entities' relevant activities, the Group's variable returns generated from the structured entities, and the Group's ability to affect these returns.	The audit procedures we performed regarding consolidation assessment of structured entities included: We understood, evaluated and validated the design and operating effectiveness of the relevant controls over the completeness of managed or invested structured entities, and the controls relating to management's assessment on whether or not to consolidate the structured entities. We checked the completeness of the list of structured entities. We verified the Group's assessment on whether the Group controlled the structured entities by examining supporting documents of selected samples of structured entities managed or invested by the Group by performing the following procedures:

Key Audit Matters	How our audit addressed the Key Audit Matter
	1.Evaluating whether the Group has power over structured entities' relevant activities by analyzing business structures and related contractual terms; 2.Reviewing contractual terms regarding variable returns of structured entities, including management fee relating to the Group's compensation in the investment contracts, the rate of return from the investments' contracts made by the structured entities and the investors' investment contracts to the structured entities, and the returns from lending support. We also checked these terms against the information in the management's list of structured entities. We recalculated the magnitude and variability of returns to the Group from these structured entities. We assessed whether the Group acted as principle or agent based on our analysis of the Group's power, the Group's variable returns generated from the structured entities, and the Group's ability to affect the returns, and compared our assessment result with management's assessment result. Based on the audit work performed, we found management's judgements in relation to the consolidation of structured entities acceptable.

Key Audit Matters	How our audit addressed the Key Audit Matter
Disclosure of estimated impact upon initial application of the New Financial Instrument Standard - expected credit losses model Refer to Notes 2.1 to the financial statements International Financial Reporting Standard 9: Financial Instruments ("IFRS 9" or "the New Financial Instrument Standard") took effect on 1 January 2018. The Group disclosed that with the adoption of the New Financial Instrument Standard. It is expected to reduce the Group's total equity as at 1 January 2018 by less than 3%, mainly due to the application of the expected credit losses measurement models ("ECL models") in determining the loan impairment allowance. The New Financial Instrument Standard requires the Group to make considerable judgements, assumptions, and interpretations of the standard and requires the use of new parameters in the development of new models to estimate the impairment allowance on financial assets measured at amortized costs and fair value through other comprehensive income, certain loan commitments and financial guarantee contracts using the expected credit losses concept. The Group has developed new governance and controls in relation to the implementation of IFRS 9 and the disclosure of the estimated impact. The Group's estimation of the possible impact upon initial application of the New Financial Instrument Standard is a highly complex process and involves significant management judgments and interpretations, and accordingly, we included this as a key audit matter.	We performed the following procedures to assess the reasonableness of the Group's disclosed possible impact of the initial adoption of the New Financial Instrument Standard: We understood the relevant controls over the selection and approval of the accounting policies and modelling methodologies; We obtained an understanding of ECL model methodologies and development processes through review of documentation and discussion with management and the Group's credit modelling experts. With the support of our credit loss and modelling specialists, we assessed the reasonableness of judgments and assumptions made by management in models and parameters used; We examined the major data inputs to the ECL models on a sample basis to assess their accuracy and completeness; and We gained an understanding of the Group's key processes over the preparation of the disclosure of estimated impact upon initial application of New Financial Instrument Standard and inspected the related approval documentation. Based on the procedures we have performed, the disclosure of estimated impact upon initial application of the New Financial Instrument Standard disclosed by the Group is acceptable.

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Zhang Zhou.

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

26/April/2018

	Note	Group 2017	Group 2016	Bank 2017	Bank 2016
Interest income	5.1	245,818	214,814	241,698	210,704
Interest expense	5.1	(138,906)	(106,694)	(136,696)	(105,191)
Net interest income		106,912	108,120	105,002	105,513
Fee and commission income	5.2	50,773	43,236	46,732	40,203
Fee and commission expense	5.2	(5,193)	(2,544)	(5,212)	(2,559)
Net fee and commission income		45,580	40,692	41,520	37,644
Dividend income		239	64	164	118
Net trading income	5.3	9,064	4,199	8,607	4,369
Net gains arising from financial investments	5.4	388	4,334	332	4,184
Net gains on disposal of associate		-	1,068	-	1,068
Other operating income		6,609	2,594	5,503	2,350
Employee benefit expenses	5.5	(23,296)	(21,410)	(21,905)	(20,441)
Operating expenses	5.6	(16,293)	(13,667)	(15,201)	(12,651)
Depreciation expenses for property and equipment		(2,577)	(2,651)	(2,087)	(2,197)
Business tax and surcharges	5.7	(1,610)	(4,444)	(1,540)	(4,348)
Impairment losses on assets	5.8	(55,285)	(49,104)	(55,037)	(48,500)
Share of results of associates and joint ventures		97	180	100	163
Profit before income tax		69,828	69,975	65,458	67,272
Income tax expense	5.9	(14,826)	(16,297)	(13,728)	(15,575)
Net profit for the year		55,002	53,678	51,730	51,697

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

	Note	Group 2017	Group 2016	Bank 2017	Bank 2016
Other comprehensive income	5.10				
Items that may be subsequently reclassified to profit or loss					
- Share of other comprehensive income of associates and joint ventures, after tax		-	18	-	18
- Changes in fair value of available-for-sale financial assets		(5,440)	(5,624)	(5,373)	(5,600)
- Exchange differences from the translation of foreign operations		(132)	127	(104)	69
- Other comprehensive income, after tax		(5,572)	(5,479)	(5,477)	(5,513)
Total comprehensive income for the year		49,430	48,199	46,253	46,184
Net profit for the year attributable to:					
- Shareholders of the Bank		54,258	53,099		
- Non-controlling interests		744	579		
		55,002	53,678		
Total comprehensive income for the year attributable to:					
- Shareholders of the Bank		48,690	47,619		
- Non-controlling interests		740	580		
		49,430	48,199		
Basic and diluted earnings per share attributable to the holders of the Bank's ordinary shares (expressed in RMB per share)	5.11	1.84	1.85		

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

	Note	Group		Bank	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
Assets					
Cash and balances with central bank	5.12	486,531	517,230	482,118	513,623
Due from and placements with banks and other financial institutions	5.13	177,187	353,115	172,581	348,659
Precious metals		10,261	9,548	10,261	9,548
Financial assets at fair value through profit or loss	5.14	162,866	177,203	157,268	171,421
Derivative financial assets	5.15	28,264	16,233	28,264	16,233
Financial assets purchased under resale agreements	5.16	13,974	3,001	13,974	3,001
Loans and advances to customers	5.17	3,103,853	2,674,557	3,083,728	2,655,895
Available-for-sale financial assets	5.18	664,508	620,463	654,837	612,601
Investment securities - held-to-maturity	5.19	444,726	326,950	444,726	326,950
Investment securities - loans and receivables	5.20	832,598	1,010,472	817,939	1,005,282
Investments in associates and joint ventures	5.21	1,006	949	804	731
Investments in subsidiaries	4	-	-	23,056	22,980
Property and equipment	5.22	21,877	20,592	11,853	12,704
Construction in progress	5.23	4,674	2,749	4,674	2,740
Intangible assets	5.24	9,346	9,504	-	-
Deferred income tax assets	5.25	29,022	21,838	28,381	21,502
Other assets	5.26	146,547	92,859	100,569	47,876
Total assets		6,137,240	5,857,263	6,035,033	5,771,746

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

	Note	Group 31 December 2017	Group 31 December 2016	Bank 31 December 2017	Bank 31 December 2016
Liabilities					
Due to central bank		182,387	147,622	181,500	147,000
Due to and placements from banks and other financial institutions	5.28	1,453,100	1,439,095	1,423,494	1,407,069
Financial liabilities at fair value through profit or loss	5.29	28,333	29,526	15,121	24,522
Derivative financial liabilities	5.15	30,034	13,091	30,034	13,091
Financial assets sold under repurchase agreements	5.30	184,464	93,200	184,464	92,928
Deposits from customers	5.31	3,037,936	3,002,015	3,006,604	2,974,449
Income tax payable		16,435	13,811	15,957	13,394
Bonds issued	5.32	686,296	664,683	682,109	664,683
Deferred income tax liabilities	5.25	680	717	-	-
Other liabilities	5.33	86,590	80,569	75,626	69,506
Total liabilities		5,706,255	5,484,329	5,614,909	5,406,642
Equity					
Ordinary shares	5.34	29,352	21,618	29,352	21,618
Preference shares	5.35	29,920	29,920	29,920	29,920
Capital surplus	5.36	81,760	74,678	81,710	74,628
Surplus reserves	5.37	94,198	78,689	94,198	78,689
General risk reserve	5.38	75,702	65,493	74,900	65,045
Other reserves	5.39	(5,335)	233	(5,289)	188
Retained earnings	5.40	119,807	97,316	115,333	95,016
Equity attributable to the Bank's shareholders		425,404	367,947	420,124	365,104
Non-controlling interests	5.41	5,581	4,987	-	-
Total equity		430,985	372,934	420,124	365,104
Total liabilities and equity		6,137,240	5,857,263	6,035,033	5,771,746

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

These financial statements were approved for issue by the Board of Directors of the Bank on 26 April 2018.

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

	Equity attributable to the Bank's shareholders									
	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
Note	5.34	5.35	5.36	5.37	5.38	5.39	5.40		5.41	
Balance at 1 January 2017	21,618	29,920	74,678	78,689	65,493	233	97,316	367,947	4,987	372,934
Net profit for the year	-	-	-	-	-	-	54,258	54,258	744	55,002
Other comprehensive income	-	-	-	-	-	(5,568)	-	(5,568)	(4)	(5,572)
Total comprehensive income	-	-	-	-	-	(5,568)	54,258	48,690	740	49,430
Non-controlling interest increased from capital increase of subsidiary	-	-	-	-	-	-	-	-	92	92
Private placement of ordinary shares	1,248	-	13,568	-	-	-	-	14,816	-	14,816
Appropriations to surplus reserves and general risk reserve	-	-	-	15,509	10,209	-	(25,718)	-	-	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(4,324)	(4,324)	-	(4,324)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)	-	(1,725)
Ordinary shares converted from capital surplus	6,486	-	(6,486)	-	-	-	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	(238)	(238)
Balance at 31 December 2017	29,352	29,920	81,760	94,198	75,702	(5,335)	119,807	425,404	5,581	430,985

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

	Equity attributable to the Bank's shareholders									
	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
Note	5.34	5.35	5.36	5.37	5.38	5.39	5.40		5.41	
Balance at 1 January 2016	18,653	29,920	60,639	63,651	45,924	5,713	90,670	315,170	3,430	318,600
Net profit for the year	-	-	-	-	-	-	53,099	53,099	579	53,678
Other comprehensive income	-	-	-	-	-	(5,480)	-	(5,480)	1	(5,479)
Total comprehensive income	-	-	-	-	-	(5,480)	53,099	47,619	580	48,199
Non-controlling interest increased from capital increase of subsidiary	-	-	-	-	-	-	-	-	68	68
Share issued for acquisition of subsidiaries	1,000	-	16,004	-	-	-	-	17,004	1,187	18,191
Appropriations to surplus reserves and general risk reserve	-	-	-	15,038	19,569	-	(34,607)	-	-	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(10,121)	(10,121)	-	(10,121)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)	-	(1,725)
Ordinary shares converted from capital surplus	1,965	-	(1,965)	-	-	-	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	(278)	(278)
Balance at 31 December 2016	21,618	29,920	74,678	78,689	65,493	233	97,316	367,947	4,987	372,934

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

	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Total
Note	5.34	5.35	5.36	5.37	5.38	5.39	5.40	
Balance at 1 January 2017	21,618	29,920	74,628	78,689	65,045	188	95,016	365,104
Net profit for the year	-	-	-	-	-	-	51,730	51,730
Other comprehensive income	-	-	-	-	-	(5,477)	-	(5,477)
Total comprehensive income	-	-	-	-	-	(5,477)	51,730	46,253
Private placement of ordinary shares	1,248	-	13,568	-	-	-	-	14,816
Appropriations to surplus reserves and general risk reserve	-	-	-	15,509	9,855	-	(25,364)	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(4,324)	(4,324)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)
Ordinary shares converted from capital surplus	6,486	-	(6,486)	-	-	-	-	-
Balance at 31 December 2017	29,352	29,920	81,710	94,198	74,900	(5,289)	115,333	420,124

	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Total
Note	5.34	5.35	5.36	5.37	5.38	5.39	5.40	
Balance at 1 January 2016	18,653	29,920	60,589	63,651	45,600	5,701	89,648	313,762
Net profit for the year	-	-	-	-	-	-	51,697	51,697
Other comprehensive income	-	-	-	-	-	(5,513)	-	(5,513)
Total comprehensive income	-	-	-	-	-	(5,513)	51,697	46,184
Share issued for acquisition of subsidiaries	1,000	-	16,004	-	-	-	-	17,004
Appropriations to surplus reserves and general risk reserve	-	-	-	15,038	19,445	-	(34,483)	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(10,121)	(10,121)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)
Ordinary shares converted from capital surplus	1,965	-	(1,965)	-	-	-	-	-
Balance at 31 December 2016	21,618	29,920	74,628	78,689	65,045	188	95,016	365,104

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

	Group 2017	Group 2016	Bank 2017	Bank 2016
1. Cash flows from operating activities				
Profit before income tax	69,828	69,975	65,458	67,272
Adjusted by:				
Depreciation	2,577	2,651	2,087	2,197
Impairment losses of loans and advances to customers	52,799	46,845	51,821	46,581
Impairment losses of other assets	2,486	2,259	3,216	1,919
Interest expense	138,906	106,694	136,696	105,191
Interest income	(245,818)	(214,814)	(241,698)	(210,704)
Net (gains)/losses on disposal of property and equipment	(16)	4	(17)	4
Dividend income	(239)	(64)	(164)	(118)
Share of results of associates and joint ventures	(97)	(180)	(100)	(163)
Unrealized losses on derivative financial instruments	4,912	149	4,912	149
Net gains arising from financial investments	(388)	(4,334)	(332)	(4,184)
Exchange losses/(gains) from investing and financing activities	12	(13)	12	(13)
Net decrease/(increase) in operating assets:				
Mandatory reserves with central bank	2,312	(34,235)	2,637	(33,963)
Due from and placements with banks and other financial institutions	105,957	(123,170)	104,209	(124,084)
Financial assets at fair value through profit or loss	14,337	(113,457)	14,153	(107,675)
Financial assets purchased under resale agreements	(10,973)	107,217	(10,973)	107,217
Precious metals	(713)	19,176	(713)	19,176
Loans and advances to customers	(431,794)	(517,288)	(429,664)	(516,710)
Other assets	(53,688)	(20,205)	(52,693)	(7,354)
Net increase/(decrease) in operating liabilities:				
Due to central bank	34,765	123,977	34,500	124,000
Due to and placements from banks and other financial institutions	14,005	296,558	16,425	287,511
Financial assets sold under repurchase agreements	91,264	(26,005)	91,536	(25,771)
Deposits from customers	35,921	47,866	32,155	45,986
Financial liabilities at fair value through profit or loss	(1,193)	29,316	(9,401)	24,312
Other liabilities	(13,830)	(22,240)	(13,377)	(31,583)
Cash used from operating activities	(188,668)	(223,318)	(199,315)	(230,807)
Interest received	177,909	142,108	174,202	138,137
Interest paid	(112,305)	(90,442)	(110,348)	(89,036)
Income tax paid	(17,609)	(20,341)	(16,253)	(19,759)
Net cash used from operating activities	(140,673)	(191,993)	(151,714)	(201,465)

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

	Group 2017	Group 2016	Bank 2017	Bank 2016
2. Cash flows from investing activities				
Redemption of investment securities	4,740,191	5,155,924	4,740,191	5,152,993
Investment income received	66,441	62,152	65,782	62,033
Net cash received from acquired subsidiaries	-	779	-	-
Proceeds from disposal of property and equipment	151	23	131	23
Purchase of property and equipment	(3,981)	(3,755)	(1,327)	(1,869)
Purchase of other long term assets	(4,449)	(1,009)	(4,445)	(974)
Cash paid for additional equity investments	(5)	(181)	(77)	(2,482)
Proceeds from disposal of equity investments	1	2,134	-	2,134
Purchase of investment securities	(4,760,549)	(5,280,082)	(4,749,777)	(5,268,709)
Net cash generated/(used) in investing activities	37,800	(64,015)	50,478	(56,851)
3. Cash flows from financing activities				
Proceeds from equity investments	14,908	68	14,816	-
Proceeds from issuance of bonds and deposit certificates	1,332,184	1,012,676	1,327,237	1,012,676
Repayment of bonds and deposit certificates issued	(1,310,571)	(747,899)	(1,309,811)	(747,899)
Interest paid on bonds and deposit certificates issued	(25,415)	(18,379)	(25,398)	(18,379)
Dividends paid	(6,286)	(12,124)	(6,049)	(11,846)
Net cash generated from financing activities	4,820	234,342	795	234,552
4. Effect of exchange rate changes on cash and cash equivalents	(1,900)	4,390	(1,899)	4,370
5. Net decrease in cash and cash equivalents	(99,953)	(17,276)	(102,340)	(19,394)
Cash and cash equivalents at the beginning of the year	247,411	264,687	241,178	260,572
Cash and cash equivalents at the end of the year	147,458	247,411	138,838	241,178
6. Composition of cash and cash equivalents				
Cash	7,284	7,221	7,121	7,101
Excess reserves with central bank	38,905	68,950	37,354	67,845
Due from and placements with banks and other financial institutions with original maturities no more than three months	101,269	171,240	94,363	166,232
Total	147,458	247,411	138,838	241,178

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

1 GENERAL INFORMATION

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

Pursuant to the resolution of 2016 Annual General Meeting on 25 April 2017, the Bank converted the capital surplus into ordinary shares in the proportion of 3 share for every 10 shares held, which increased the total number of capital shares by 6,485,483,977 shares. And the number of shares after conversion is 28,103,763,899 shares

In August 2017, the Bank completed private placement of domestic RMB ordinary shares (A shares) to Shanghai International Group Co.,Ltd. and Shanghai Guoxin Investment Development Co., Ltd. A total of 1,248,316,498 ordinary shares were issued and were used to strengthen the Bank's capital base. After this private placement, the Bank's total ordinary shares were 29,352,080,397 shares.

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

As of 31 December 2017, the Bank's ordinary shares were RMB 29,352 million, with RMB 1 Yuan par value, of which RMB 1,248 million were restricted for trading. The Bank's preference shares was RMB 29,920 million.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all the years presented unless otherwise stated.

2.1 Basis of preparation

The Group's accounting year starts on 1 January and ends on 31 December.

The financial statements are prepared in accordance with International Financial Report Standards ("IFRS"), on the basis of going concern. The financial statements have been prepared under the historical cost convention, except for precious metals, available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss, which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. Estimates and judgements significant to the financial statements are disclosed in Note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New and revised IFRSs applied which were effective in 2017

The Group has applied following new or amended IFRSs, which are applicable for the Group's financial year beginning on 1 January 2017:

Amendments to IAS 12	Income taxes
Amendments to IAS 7	Statement of cash flows
Amendments to IFRS 12 (Revised)	IASB Annual Improvements 2014 – 2016 cycle

Amendments to IAS 12

The IASB has issued amendments to IAS 12,'Income taxes'. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to IAS 7

The IASB has issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to IFRS 12 (Revised)

The IASB Annual Improvements 2014 – 2016 Cycle include the amendments to IFRS 12, 'Disclosure of Interest in Other Entities'. These amendments clarify the scope of IFRS 12 by specifying that the disclosure requirements, expect for those summarized financial information for subsidiaries, associates and joint ventures, apply to an entity's interests which are classified as held for sale or discontinued operations in accordance with IFRS 5.

The adoption of the above amendments does not have a significant impact on the operating results, comprehensive income and financial position of the Group.

(b) New and revised IFRSs issued applicable to the Group but not yet effective

		Effective for annual period beginning on or after
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
Amendments to IAS 28	IASB Annual Improvements 2014 - 2016 cycle	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 Financial instruments with IFRS 4 insurance contracts	1 January 2018
Amendments to IAS 40	Transfer of investment property	1 January 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 16	Leases	1 January 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New and revised IFRSs issued applicable to the Group but not yet effective (Continued)

Amendments to IFRS 10 and IAS 28(Revised)	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015 - 2017 Cycle	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021

IFRS 15

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognize revenue when performance obligation is satisfied. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control.

IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition.

IFRS 9

IFRS 9 (2014) Financial instruments replaces the whole of IAS 39, effective from 1 January 2018. IFRS 9 allows a simplified manner. According to the rules of transition, the Group is not required to restate the comparable figures of the prior period. Upon initial application of IFRS 9, differences caused by the adoption of IFRS 9 is adjusted to the beginning balance of retained earnings and other comprehensive income.

IFRS 9 has three financial asset classification categories for investments in debt instruments: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New and revised IFRSs issued applicable to the Group but not yet effective (Continued)

IFRS 9 (Continued)

For financial liabilities there are two classification categories: amortized cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit losses ("ECL") model, as opposed to an incurred credit loss model under IAS 39. The impairment requirements apply to debt financial assets measured at amortized cost and FVOCI, certain loan commitments and financial guarantee contracts. At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognized are considered to be "stage 1"; financial assets which are considered to have experienced a significant increase in credit risk are in "stage 2"; and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired are in "stage 3".

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

In order to assess the potential impact on the Group's financial statements resulting from the adoption of IFRS 9, the Group developed the expected loss model and analyzed changes to the credit risk of financial assets. The Group has also performed analysis of business models and cash flow characteristics in the contract terms of its investments and other financial instruments, and completed the classification of its existing financial assets under IFRS 9. The adoption of IFRS 9 is expected to reduce the Group's total equity as at 1 January 2018 by less than 3%, mainly due to the application of the ECL model in determining the impairment allowance.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New and revised IFRSs issued applicable to the Group but not yet effective (Continued)

Amendments to IAS 28 (Revised)

The IASB Annual Improvements 2014 – 2016 Cycle include the amendments to IAS 28 – Investments in Associates and Joint Ventures. These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment by- investment basis, upon initial recognition.

Amendments to IFRS 4 (Revised)

These amendments provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied.

Amendments to IAS 40 (Revised)

These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties.

Amendments to IFRS 2 (Revised)

These amendments provide guidance on three matters regarding classification and measurement. These amendments also provide additional guidance on the accounting for cash-settled share-based payments and provision of award with a net settlement feature for withholding tax obligations.

These amendments clarify the measurement basis for cash-settled awards and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception that requires an award to be treated as if it is wholly equity-settled, where it has a net settlement feature for withholding tax obligations.

IFRIC 22

IFRIC 22 clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New and revised IFRSs issued applicable to the Group but not yet effective (Continued)

IFRIC 23

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

IFRS 16

For the lessee, under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts unless the underlying asset is of low value, in the statement of financial position. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the liability in the statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB 10,100 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects that, as a lessor, there will be no significant impact on the financial information.

Amendments to IFRS 10 and IAS 28 (Revised)

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

Amendments to IFRS :The Annual Improvements to IFRSs 2015 - 2017 Cycle

The Annual Improvements to IFRSs 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments to IFRS 3 - Business Combinations, the amendments to IFRS 11 - Joint Arrangements, the amendments to IAS 12 - Income taxes and IAS 23 - Borrowing Costs.

Amendments to IFRS 9

These amendments permit more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New and revised IFRSs issued applicable to the Group but not yet effective (Continued)

IFRS 17

IFRS 17 was issued as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

Except the above mentioned impact of IFRS 9 and IFRS 16, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2.2 Business Combinations

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Acquisition-related costs are expensed as incurred. The transaction costs incurred for the issuance of equity or debt securities in connection with the business combination are included in part of the initial recognition cost of these securities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Consolidation

The scope of consolidation is determined based on control, including the financial statements of the Bank and all its subsidiaries.

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

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

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

Where necessary, amounts reported by subsidiaries have been adjusted to conform to the policies adopted by the Group. Intra-group balances, transactions and unrealised profits on transactions between group companies are eliminated. The Group's non-controlling interests, including subsidiaries' equity, net profit for the year and comprehensive income that are not attributable to the Bank's shareholders, are separately presented in the respective sections of the consolidated financial statements.

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

2.4 Foreign currency translation

The functional currency of the Group's operations in Mainland China is Renminbi (RMB). The functional currency of the Group's operations oversea depends on the primary economic environment in which the entity operates. The presentation currency of the Group is RMB.

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

At the financial reporting date, monetary items denominated in foreign currencies are translated to RMB using the exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of security. Translation differences related to changes in amortised cost are recognized in profit or loss, and other changes in carrying amount are recognized in other reserves of equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation(Continued)

At the financial reporting date, non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the exchange rates at the date of transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as available-for-sale are recognized in other reserves in equity. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognized in the profit or loss.

The results and financial positions of the Group entities that have a functional currency difference from the presentation currency are translated into the presentation currency as follows:

(i) asset and liability items are translated at the closing rate at the date of the statement of financial position;
(ii) income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions.

The resulting translation differences are recorded in other comprehensive income.

2.5 Cash and cash equivalents

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

2.6 Precious metals

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

2.7 Financial instruments

Financial instruments - Recognition and derecognition

The Group recognizes a financial asset or a financial liability at the time the Group becomes a party to the contractual obligation of financial instruments.

Financial assets are derecognized when:

(i) the contractual rights to receive cash flows from the financial asset have expired.

(ii) the contractual rights to receive cash flows from the financial asset have been transferred, and the Group has transferred nearly all the risks and rewards of ownership of the financial asset to the transferee.

(iii) the Group transfers the financial asset to another party, but maintains the contractual rights to receive cash flows from the financial asset and undertaken the obligations to pay the cash flow it received to the final recipient, and meets the three conditions at the same time (the requirement of “pass-through”), and transferred nearly all the risks and rewards of ownership of the financial asset to the transferee.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Financial instruments - Recognition and derecognition (Continued)

the Group is not obliged to make any payment to the final recipient until it receives the cash flow which is equivalent to the financial asset. For any short-term payment made by the enterprise on behalf of others, if the enterprise has the right to recover the full amount of the payment and charge interests according to the market bank loan interest rate of the same period, the conditions shall be deemed to have been satisfied.

in accordance with the contractual stipulations, the Group can't sell the financial asset or use it as a guaranty, but it may use it as an guarantee for paying the cash flow to the final recipient

the Group is obliged to pay the cash flow it receives to the final recipient in a timely manner. The Group has no right to make a re-investment with the cash flow, but in accordance with the contractual stipulations, it may make investment with cash or cash equivalent by using the cash flow it receives during the interval of between 2 consecutive payments. If the Group makes a reinvestment in accordance with the contractual stipulations, it shall pay the proceeds by investment to the final recipient in accordance with the contractual stipulations.

(iv) the financial asset has been transferred (the contractual right to receive the cash flow of the financial asset has been transferred or meet the requirement of “pass-through”) . Though the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it has not retained control of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the considerations received together with the accumulated change of fair value recorded in equity through other reserves is recognized in profit or loss.

If the obligation relating to a financial liability has been partially or fully discharged, the financial liability is derecognized partially or in full. If the existing financial liability is replaced by the same creditor with another financial liability that is with substantially different terms, or if the terms of the existing liability are substantially revised, such replacement or revision is accounted for as derecognition of the original liability and recognition of a new liability, and the difference is recognized in profit or loss.

Regular way transactions of financial assets are recognized and derecognized, using trade date accounting. A regular way of purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. Trade date is the date on which the Group commits to purchase or sell the asset.

Classification and measurement of financial assets

Financial assets are, on initial recognition, classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group determines the classification of the financial assets on initial recognition. Financial assets are recognized at fair value on initial recognition. For financial assets at fair value through profit or loss, relevant transaction costs are directly charged to the profit or loss. Transaction costs relating to financial assets in other categories are included in the initial recognized amount.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Classification and measurement of financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated at fair value through profit or loss upon initial recognition. A financial asset held for trading is the financial asset that satisfies one of the following conditions: 1) the financial asset is acquired for the purpose of selling in the near term; 2) the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the Group has a recent actual pattern of short-term profit-taking; or 3) It is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative linked to investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These financial assets are subsequently measured at fair value. Changes of fair value are recognized in profit or loss. Interest accrued during the assets holding period, dividend received and gains or loss arising from disposal are recognized in profit and loss.

Held-to-maturity investments

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the positive intention and the ability to hold to maturity. Held-to-maturity investments shall be measured at amortized cost using the effective interest rate method. Except for specific situations such as disposal of insignificant amount of held-to-maturity investments at a date sufficiently close to maturity date, if the Group fails to hold such investments through their maturities or reclassifies a portion of held-to-maturity investments into available-for-sale prior to their maturities, the Group shall reclassify all held-to-maturity investments into available-for-sale category measured at fair value. The Group is further prohibited to reclassify these financial assets as held-to-maturity during the current financial year or the two preceding financial years.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When the Group provides funds or services directly to customers without the intention to sell the receivables, the Group classifies such financial assets as loans and receivables. Subsequently, such financial assets are measured at amortized cost using effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) financial assets at fair value through profit or loss, (b) loans and receivables or (c) held-to-maturity investments. Available-for-sale financial assets are measured at fair value. For available-for-sale debt instruments, premium or discount is amortized using effective interest method and recognized as interest income or expense. A gain or loss arising from changes in fair value of an available-for-sale financial asset is recognized in a separate component of equity, except for impairment losses and foreign exchange gains and losses resulting from monetary financial assets, until the financial asset is derecognized or is determined to be impaired. At this time, the cumulative gain or loss previously recognized in equity shall be reclassified to profit or loss. Dividends and interests relating to an available-for-sale financial asset are recognized in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Classification and measurement of financial liabilities

Financial liabilities of the Group are, upon initial recognition, classified into financial liabilities at fair value through profit or loss and other financial liabilities. The Group determines the classification of the financial liabilities on initial recognition. For financial liabilities at fair value through profit or loss, relevant transaction costs are directly recognized in profit or loss, and transaction costs relating to other financial liabilities are included in the initially recognized amount.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition. A financial liability held for trading is the financial liability that satisfies one of the following conditions: 1) the financial liability is acquired for the purpose of selling or repurchasing in the near term; 2) the financial liability is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the Group has a recent actual pattern of short-term profit-taking; or 3) it is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative linked to investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. These financial liabilities are subsequently measured at fair value. All realized and unrealized gains or losses on these financial liabilities are recognized in profit or loss.

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using effective interest method on the financial reporting date.

Equity instruments

An instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.

(a) The instrument includes no contractual obligation:

- (i) to deliver cash or another financial asset to another entity; or
- (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

(b) If the instrument will or may be settled in the issuer's own equity instruments, it is:

- (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
- (ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Hedge accounting

Within the Group, overseas branch of the Bank adopts hedge accounting. The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at inception and throughout the life of the hedge whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Currently overseas branch uses fair value hedge. Changes in fair value of hedging instruments that are designated and qualified as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is recorded as net trading profit or loss in the profit or loss as ineffective portion. If the hedge relationship no longer satisfies the criteria for hedge accounting, the unamortised carrying value adjustments to the carrying amount of a hedged item that is measured at amortised cost is amortised to profit or loss using the effective interest method over the period to maturity.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (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.

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 techniques by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

Impairment of financial assets

The Group assesses at each financial reporting date whether there is any objective evidence that a financial asset or a group of financial assets excluding those fair valued through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Impairment of financial assets(Continued)

- significant financial difficulties of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: 1) adverse changes in the payment status of borrowers in the group; 2) national or local economic conditions that correlate with defaults on the assets in the group;
- any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
- a significant or prolonged decline in the fair value of an equity instrument; or
- other objective evidence indicating impairment of the financial asset.

Financial assets carried at amortized cost

When there is an objective evidence that a financial asset is impaired, the carrying amount of the financial asset shall be reduced to the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The amount of reduction is recognized as an impairment loss in the profit or loss. Present value of estimated future cash flows is discounted at the financial asset's original effective interest rate (the effective interest rate determined by calculation upon initial recognition) taking into consideration the value of any related collateral. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognized in the comprehensive income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified through individually assessment by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and impairment losses are or continue to be recognized are not included in a collective assessment of impairment.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. The previously recognized impairment loss is reversed. The amount of the reversal is recognized in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial assets

A significant or prolonged decline in the fair value of an equity instrument is an objective indicator of impairment of available-for-sale equity instrument. The Group separately checks all available-for-sale equity investments at reporting date. If a decline in the fair value of an equity instrument is below its initial cost by 50% or more, or fair value is below cost for one year or longer at reporting date, it indicates that such an equity instrument is impaired; If such a decline in fair value is below its initial cost by 20% or more but not up to 50% at reporting date, the Group takes other factors such as price volatility into consideration to judge whether the equity instrument is impaired, The Group calculate the initial cost of available-for-sale equity instrument using weighted average method.

If available-for-sale financial asset is impaired, the cumulative loss from declines in fair value that had been recognized directly in other reserves of equity is reclassified from equity to the profit or loss. The amount of the cumulative loss that is transferred out and recognized in the profit or loss equals to the difference between its initial cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss shall be reversed with the amount of the reversal recognized in profit or loss. Any subsequent increase in the fair value of such assets is recognized in other reserves.

Offsetting financial instruments

Financial assets and financial liabilities are presented separately in the statement of financial position by the Group, and they shall not be offset against each other; financial assets and financial liabilities should be presented at their net amount when both of the below criteria are met:

(i) The Group has the legal right to offset the recognized amount, and the legal right is enforceable;

(ii) The Group has the intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.8 Assets purchased under resale agreements (“Reverse repos”) and assets sold under repurchase agreements (“Repos”)

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Derivative financial instruments and embedded derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Gains or losses arising from changes in fair value on derivatives are reported in profit or loss.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

An embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

(i) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(ii) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(iii) The hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

2.10 Investments in associates and joint ventures

Associates are all entities over which the Group has significant influence but no control. Significant influence is the power to participate in the financial and operating policy decision process but does not control or jointly control those policy decisions.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Investments in associates and joint ventures are initially recognized at cost and are accounted for using the equity method of accounting. The Group's "Investments in associates and joint ventures" includes goodwill.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognized for the amounts by which the investments in associates and joint ventures' carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

2.11 Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Bank on the basis of dividend received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Property and equipment

2.12.1 Recognition and initial measurement

Property and equipment mainly comprise buildings, motor vehicles, mainframe computers, computer equipment, electrical equipment, office equipment, aircraft equipment, software and leasehold improvement, etc.

Property and equipment shall be recognized only when the economic benefits associated with the asset will likely flow into the Group and the cost of the asset can be measured reliably. Subsequent expenditure incurred for property and equipment that meet the recognition criteria shall be included in the cost of the asset, and carrying amount of the component of the asset that is replaced shall be derecognized. Otherwise, such expenditure shall be recognized in profit or loss.

Property and equipment are initially measured at cost, comprising purchase price, relevant taxes and any directly attributable expenditure for bringing the asset to working condition for its intended use, such as delivery and handling costs, installation costs and other surcharge.

2.12.2 Depreciation methods of property and equipment

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For the impaired property and equipment, the annual depreciation amount should be calculated on the basis of carrying amount less impairment and estimated remaining useful life. The estimated useful lives, estimated residual values and annual depreciation rates are as follows:

Category	Useful life	Estimated residual value	Annual depreciation rate
Buildings	30 years	3-5%	3.17-3.23%
Motor Vehicles	5 years	3-5%	19.00-19.40%
Mainframe computers	5 years	3-5%	19.00-19.40%
Computer equipment	3-5 years	3-5%	19.00-32.33%
Electronic equipment	5 years	3-5%	19.00-19.40%
Office equipment	5 years	3-5%	19.00-19.40%
Software	5 years	0%	20%
Leasehold improvement	5 years	0%	20%
Aircraft equipment	20 years	5%	4.75%

The Group’s Aircraft equipment is purchased to conduct operating lease activities.

Estimated useful lives, residual values, and depreciation method are reviewed and adjusted if appropriate at the end of each year by the Group.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 2.16).

2.13 Constructions in progress

Construction in progress is stated at cost. Cost comprises cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences from the following month after such assets are transferred to property and equipment. When the recoverable amount is lower than its carrying amount, it shall be written down immediately to the recoverable amount (Note 2.16).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Intangible assets

The Group's intangible assets mainly include goodwill, brand, franchise right and contractual customer relationships etc., Brand, franchise right and contractual customer relationships acquired in a business combination are measured with fair value.

Goodwill is recognized at the excess of the cost of a business combination involving enterprises not under common control over the interest in the fair value of the acquirees' identifiable net assets acquired in the business combination as at the acquisition date. Goodwill arises on acquisition shall be subject to an impairment test annually or more frequently, and whenever events or changes indicate a potential impairment.

Brand and franchise right are intangible assets with no expected useful lives, which are not subject to amortization but require impairment test annually.

Customer contract relationship is amortized on the straight-line basis over the maximum beneficial life upon the acquisition date.

The Group reviews the useful life and amortization method of a finite useful life intangible assets at the end of each year and adjusts it if necessary. Intangible assets with indefinite useful life are not subject to amortization and are tested annually for impairment.

When the recoverable amount is lower than its carrying amount, book value should be reduced to the recoverable amount (Note 2.16).

2.15 Foreclosed assets

Foreclosed assets included in 'Other assets' are initially recognized at fair value plus related costs when they are obtained as the compensation for the loan principal and interest and subsequently measured at the lower of their carrying amount and net realizable value. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its net realizable value, through profit or loss.

2.16 Impairment of long term assets

Except for goodwill, property and equipment, construction in progress, intangible assets with finite useful lives, and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the reporting date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. Cash-generating unit is the smallest identifiable group of assets that generates cash inflows independently of the cash flows from other assets or groups of assets.

Goodwill arises on acquisition shall be subject to an impairment test annually or more frequently, and whenever events or changes indicate a potential impairment. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that are expected to benefit from the synergies of the combination. Impairment is recognized if the impairment testing indicates the recoverable amount of the CGU containing the goodwill is lower than the carrying amount. The amount of the impairment loss shall be firstly offset by the carrying amount of the goodwill allocated to the CGU, and then offset by the carrying amount of other assets other than goodwill in the CGU or groups of CGUs by their proportion of the carrying amount. Any Goodwill impairment recognized cannot be subsequently reversed in future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Bonds issued

Bonds issued are initially measured at fair value less transaction cost, and subsequently measured at amortised cost, using the effective interest method.

2.18 Provisions

Except for provision arising from business combination, provisions are recognized by the Group when obligations related to contingent matters meet all the following conditions:

(i) The Group has present legal or constructive obligations as a result of past events;

(ii) It is probable that an outflow of resources from the Group will be required to settle the obligation; and

(iii) The amount has been reliably estimated.

The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

2.19 Fiduciary activities

The Group acts as an agent to safeguard assets for customers in accordance with agreements. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

2.20 Financial guarantee contract

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

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 measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the financial reporting date. Any increase in the liability relating to guarantees is taken to profit or loss. These estimates are determined based on experience of similar transactions, historical losses and by the judgement of management.

2.21 Revenue and expense recognition

2.21.1 Interest income and interest expense

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognized within “Interest income” and “Interest expense” in profit or loss using the effective interest method. Interest income and expense for derivatives is recognized in “Net trading gains” in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue and expense recognition (Continued)

2.21.1 Interest income and interest expense (Continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.21.2 Fee and commission income

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 period of time, fee and commission income are accrued over that period. For other services, fee and commission income are recognized when the transactions are completed.

2.22 Employee benefits

Employee benefits are all forms of benefits provided by the Group in exchange for service rendered by employees. Employee benefits are recognized in the period in which services are rendered.

The Group has participated in various defined contribution social security schemes set up by government agency including pension and medical insurance, housing fund and other social security plans. According to the relevant regulations and contracts, insurance and housing fund shall be paid to the social security agencies or insurance company based on certain percentages of the gross salary subject to a ceiling. The Group's contributions to these plans are charged to profit or loss.

Other than the social security schemes described above, the Group has no further material benefit obligations to its employees.

2.23 Income tax

Income tax comprises current and deferred tax. Income taxes are recognized as an expense or income and include in profit or loss, except to the extent that the tax arises from a business combination or if it relates to a transaction or event which is recognized directly in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years. The Group recognizes current income tax asset or liability as expected tax returns or payables on the taxable income for the year and in respect of previous periods.

Deferred income tax is provided in full, and recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Income tax (Continued)

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilized except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/ (tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognized to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities shall be recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognized, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Deferred tax assets and liabilities are offset when:

- The deferred taxes are related to the same taxable entity within the Group and the same taxation authority; and

- The taxable entity within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

2.24 Operating leases and finance leases

A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

- As a lessee under operating leases

Lease payments under an operating lease are recognized in profit or loss by a lessee on a straight-line basis over the lease term. Initial direct cost is also charged to profit or loss. Contingent rents are recorded into profit or loss of the period in which they actually arise.

- As a lessor under finance leases

At the lease commencement date, the present value of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognized as a receivable. The difference between the receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using an interest rate which reflects a constant rate of return, as interest income in the comprehensive income statement. Contingent rents are recorded into profit or loss of the period in which they actually arise. The differences between the finance lease receivables less the unearned finance income are presented in “other assets”. When making the judgment of derecognition or impairment measurement, finance lease receivables are considered as loans and receivables.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Operating leases and finance leases (Continued)

- As a lessor under operating lease

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. Rental income from operating leases is recognized as Other Operating Income in the consolidated income statement on a straight-line basis over the term of the related lease. Large amount initial direct cost is capitalized as incurred, and is recorded into profit or loss of the period over the term of the related lease with the same recognition basis as rental income; other small amount initial direct cost is charged to profit or loss of the period as incurred. Contingent rents are recorded into profit or loss of the period in which they actually arise.

2.25 Segment reporting

The Group identifies operating segment on the basis of internal organization structure, management requirement and internal report system, and forms the segment report and discloses the segment information based on operating segment.

Operating segment represents the segment satisfying the following conditions at the same time: (i) the segment produces income and expense in daily activities; (ii) the Group's management regularly evaluates the performance of the segment, and decides to allocate resources to the segment and to assess its performance; and (iii) the Group can obtain financial position, operation performance, cash flow and other relevant accounting information of the segment. Two or more operating segments with similar economic characteristics are combined into an operating segment, provided that certain conditions are met.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes regular assessments on accounting judgments and estimates based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to significant changes in estimates and judgments, which affect the carrying value of assets and liabilities of next accounting period, are set out below. It is possible that actual results may be materially different from the estimates and judgments referred below.

3.1 Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment regularly besides individual impairment loss assessment on identified non-performing loans. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable evidence indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets. Management makes estimation based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The management regularly reviews the methods and assumptions adopted to forecast the future cash flows to reduce the difference between the estimated loss and actual loss.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

3.2 Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments that are not quoted in an active market. These valuation techniques include reference to transaction price determined by a fair deal between two economic entities with complete information and willingness to trade in the market, reference to the fair value of a similar financial instrument in the market, or estimation using discounted cash flow analysis and option pricing model. Valuation techniques make maximum use of market information. However, when market information is not available, the Group uses calibrated assumptions as close as possible to market observable data. The management will make estimates to credit risk, volatility and correlation of the Group and its counterparties. Changes in these assumptions will influence the fair value of financial instruments.

3.3 Income taxes and value added taxes

Significant estimates are required in determining the provision for income tax, value added tax and other taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax issues arising from new tax regulations or other uncertain tax arrangements based on estimates of whether additional taxes will be due. The deductibility of certain items is subject to tax authority's final approval. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will affect the current income taxes, deferred tax provisions and taxes and surcharges in the period in which such determination is made.

3.4 Held-to-maturity investments

The Group classifies certain non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Group has both the positive intention and the ability to hold to maturity as held-to-maturity. The classification of held-to-maturity investment requires significant judgment.

3.5 Consolidation of structured entities

Management applies its judgment to determine whether the Group is acting as an agent or a principle in relation to the structured entities in which the Group acts as an asset manager. In assessing whether the Group is acting as an agent, the Group considers factors such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to viability of returns by other arrangements (such as direct investments).

For further disclosure in respect of unconsolidated structured entities in which the Group has an interest or provides finance funds, see Note 5.43.

3.6 Goodwill impairment

Goodwill impairment reviews are undertaken annually or more frequently, and it's also needed if events or changes indicate a potential impairment. For the purpose of impairment testing, Goodwill acquired in a business combination is allocated to each of the CGU, or groups of CGUs. The Group forecasts future cash flow of the CGU and CGUs, and applies appropriate discount rate for the calculation of the present value of future cash flow.

3.7 Derecognition of financial assets

The Group's transfer of financial assets include transfer of loans and advances to customers, securitization and financial assets sold under repurchase agreements. When assess whether the transfer of financial asset meet the derecognition requirement of financial asset, it is required to assess whether the Group has transferred the right to receive cash flows of financial asset, or has transferred the contractual rights to receive cash flows from the financial asset to another party which meet the requirement of "pass-through", whether nearly all the risks and rewards of ownership of the financial asset have been transferred out and whether its control over the transferred financial asset has been given up

4 SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

4.1 Major subsidiaries of the Bank

Name of major subsidiaries	Place of incorporation	Percentage of equity interest %	Percentage of non-controlling interest %	Investment cost
SPD Bank Financial Leasing Co., Ltd.	Shanghai	61.02%	38.98%	1,800
Shanghai Internatioanl Trust Co., Ltd.	Shanghai	97.33%	2.67%	19,494
SPDB International Holding ,Ltd.	Hong Kong	100.00%	-	410
Mianzhu SPD Rural Bank Co., Ltd.	Sichuan	55.00%	45.00%	28
Liyang SPD Rural Bank Co., Ltd.	Jiangsu	51.00%	49.00%	118
Gongyi SPD Rural Bank Co., Ltd.	Henan	51.00%	49.00%	80
Fengxian SPD Rural Bank Co., Ltd.	Shanghai	51.00%	49.00%	113
Zixing SPD Rural Bank Co., Ltd.	Hunan	51.00%	49.00%	81
Chongqing Banan SPD Rural Bank Co., Ltd.	Chongqing	51.00%	49.00%	25
Zouping SPD Rural Bank Co., Ltd.	Shandong	51.00%	49.00%	89
Zezhou SPD Rural Bank Co., Ltd.	Shanxi	51.00%	49.00%	111
Dalian Ganjingzi SPD Rural Bank Co., Ltd.	Liaoning	51.00%	49.00%	25
Hancheng SPD Rural Bank Co., Ltd.	Shaanxi	51.00%	49.00%	25
Jiangyin SPD Rural Bank Co., Ltd.	Jiangsu	51.00%	49.00%	51
Pingyang SPD Rural Bank Co., Ltd.	Zhejiang	51.00%	49.00%	51
Xinchang SPD Rural Bank Co., Ltd.	Zhejiang	51.00%	49.00%	51
Yuanjiang SPD Rural Bank Co., Ltd.	Hunan	51.00%	49.00%	25
Chaling SPD Rural Bank Co., Ltd.	Hunan	51.00%	49.00%	25
Linchuan SPD Rural Bank Co., Ltd.	Jiangxi	51.00%	49.00%	51
Linwu SPD Rura Bank Co., Ltd.	Hunan	51.00%	49.00%	25
Hengnan SPD Rural Bank Co., Ltd.	Hunan	51.00%	49.00%	25
Haerbin Hulan SPD Rural Bank Co., Ltd.	Heilongjiang	51.00%	49.00%	51
Gongzhuling SPD Rural Bank Co., Ltd.	Jilin	51.00%	49.00%	25
Yuzhong SPD Rural Bank Co., Ltd.	Gansu	51.00%	49.00%	25
Yunnan Fumin Rural Bank Co., Ltd.	Yunnan	51.00%	49.00%	25
Ningbo Haishu Rural Bank Co., Ltd.	Zhejiang	51.00%	49.00%	51
Urumchi Midong SPD Rural Bank Co., Ltd.	Xinjiang	51.00%	49.00%	51
Tianjin Baodi SPD Rural Bank Co., Ltd. (Note a)	Tianjin	49.00%	51.00%	49
Chongqing Tongliang SPD Rural Bank Co., Ltd (Note b)	Chongqing	51.00%	49.00%	25
Qianxinan yilong SPD Rural Bank Co., Ltd. (Note c)	Guizhou	51.00%	49.00%	25
Fufeng SPD Rural Bank Co., Ltd. (Note d)	Shanxi	51.00%	49.00%	25

All subsidiaries are unlisted and consolidated in the Bank's financial statements.

(a) In accordance with Articles of association of Baodi Tianjin SPD Rural Bank Co., Ltd., resolutions on the company's operating and development strategy, operating plan and investment scheme are required to be approved by more than 50% directors and the Bank has 4 of 7 seats in the Board of Directors. Although the Bank only has 49% voting rights in Baodi Tianjin SPD Rural Bank Col, Ltd., the Bank is able to control it through the Board of Directors. As a result, it is a consolidated subsidiary of the Bank.

4 SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.1 Major subsidiaries of the Bank (Continued)

(b) On 22 March 2017, the Group invested RMB 25.50 million to set up the subsidiary Chongqing Tongliang SPD Rural Ban Co., Ltd, holding a share of 51%.

(c) On 11 April 2017, the Group invested RMB 25.50 million to set up the subsidiary Qianxinan Yilong SPD Rural Ban Co., Ltd, holding a share of 51%.

(d) On 13 September, 2017, the Group invested RMB 25.50 million to set up the subsidiary Fufeng SPD Rural Bank Co., Ltd. holding a share of 51%.

All subsidiaries are unlisted and consolidated in the Bank's financial statements.

None of these subsidiaries is restricted to transfer funds to the Bank.

After individual assessment, the Group concluded that no subsidiary has non-controlling interest that is material to the Group. Therefore, the Group does not require the disclosure of such financial information.

5 NOTES TO THE FINANCIAL STATEMENTS

5.1 Net interest income

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
Interest income				
Balance with central bank	7,529	7,422	7,484	7,384
Due from banks and other financial institutions	3,903	2,688	3,602	2,547
Placements with banks and other financial institutions	4,322	5,527	4,401	5,545
Financial assets purchased under resale agreements	1,177	1,012	1,177	1,012
Loans and advances to customers				
- Corporate loans	81,025	79,751	80,306	78,983
- Retail loans	69,502	36,918	68,911	36,426
- Discounted and rediscounted bills	2,554	2,562	2,536	2,548
Bonds investment and deposit certificates issued by other financial institutions	37,130	21,165	36,951	21,165
Investment classified as loans and receivables other than bonds investment and deposit certificates issued by other financial institutions	36,319	54,956	35,872	54,649
Finance lease activities receivables	1,899	2,368	-	-
Others	458	445	458	445
Sub-total	245,818	214,814	241,698	210,704
Including: interest income accrued on impaired financial assets	1,438	1,166	1,438	1,166
Interest expense				
Due to central bank	(5,339)	(2,142)	(5,322)	(2,128)
Due to and placements from banks and other financial institutions	(56,463)	(34,335)	(54,887)	(33,321)
Financial assets sold under repurchase agreements	(2,432)	(1,898)	(2,432)	(1,879)
Deposits from customers	(47,776)	(47,666)	(47,240)	(47,210)
Bonds issued	(25,795)	(19,499)	(25,714)	(19,499)
Others	(1,101)	(1,154)	(1,101)	(1,154)
Sub-total	(138,906)	(106,694)	(136,696)	(105,191)
Net interest income	106,912	108,120	105,002	105,513

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.2 Net fee and commission income

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
Fee and commission income				
Custodian and other fiduciary activities commissions	21,051	18,894	17,626	16,411
Fees from bank cards	17,717	12,670	17,715	12,668
Fees from investment banking activities	3,521	3,713	3,355	3,609
Credit commitment fees	2,311	2,261	2,306	2,252
Agency commissions	1,700	1,938	1,699	1,936
Settlement and clearing fees	1,201	863	1,200	863
Others	3,272	2,897	2,831	2,464
Sub-total	50,773	43,236	46,732	40,203
Fee and commission expense	(5,193)	(2,544)	(5,212)	(2,559)
Net fee and commission income	45,580	40,692	41,520	37,644

5.3 Net trading income

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
Derivative financial instruments	(4,053)	262	(4,053)	262
Financial assets designated at fair value through profit or loss	6,163	1,479	6,531	1,712
Trading securities	1,110	509	1,013	446
Fair value changes of hedged bonds	46	(201)	46	(201)
Precious metals	942	1,797	942	1,797
Fund investments	4,537	353	4,128	353
Others	319	-	-	-
Total	9,064	4,199	8,607	4,369

5.4 Net gains arising from financial investments

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
Available-for-sale financial assets	337	3,117	281	2,967
Investment securities loans and receivables	51	1,217	51	1,217
Total	388	4,334	332	4,184

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.5 Employee benefit expenses

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
Wages and salaries, bonuses, allowances and subsidies	18,238	16,851	17,035	16,018
Welfare fund	647	560	610	531
Social insurance	2,967	2,623	2,871	2,553
Housing fund	1,056	970	1,027	948
Labor union fund and staff education fund	388	406	362	391
Total	23,296	21,410	21,905	20,441

5.6 Operating expenses

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
Advertising expenses	4,616	3,102	4,589	3,080
Rental expenses	2,957	2,780	2,798	2,672
Electronic equipment operating and maintenance expenses	927	782	880	768
General and administrative expenses	503	456	493	445
Cash carrier expenses	377	352	368	344
Property management expenses	321	303	321	303
Transportation expenses	68	348	63	73
Others	6,524	5,544	5,689	4,966
Total	16,293	13,667	15,201	12,651

5.7 Business tax and surcharges

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
Business tax	-	2,917	-	2,876
Urban maintenance and construction tax	782	762	753	735
Education fee and levy	353	360	334	347
Others	475	405	453	390
Total	1,610	4,444	1,540	4,348

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.8 Impairment losses on assets

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
Loans and advances to customers	52,799	46,845	51,821	46,581
Investments classified as loans and receivables	1,537	1,209	2,132	1,209
Other receivables	575	264	554	260
Interest receivable	340	384	340	384
Available-for-sale financial assets	144	-	144	-
Investment securities - held-to-maturity	25	48	25	48
Foreclosed assets	14	18	14	18
Financial assets purchased under resale agreements	7	-	7	-
Finance lease receivables	(156)	336	-	-
Total	55,285	49,104	55,037	48,500

5.9 Income tax expense

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
Current income tax expense	20,233	21,876	18,816	20,998
Deferred income tax expense	(5,407)	(5,579)	(5,088)	(5,423)
Total	14,826	16,297	13,728	15,575

Reconciliations between the Group’s theoretical income tax expense using the statutory tax rate and actual amount are as follows:

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
Profit before income tax	69,828	69,975	65,458	67,272
Tax calculated at applicable tax rate	17,411	17,483	16,365	16,818
Tax effect of expenses that are not deductible for tax purpose	533	513	422	398
Tax effect arising from income not subject to tax	(3,158)	(1,713)	(3,093)	(1,650)
Adjustments on income tax for prior years which affect current profit or loss	40	14	34	9
Income tax expense	14,826	16,297	13,728	15,575

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.10 Other comprehensive income

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
Items that may be subsequently reclassified to profit or loss				
1. Changes in fair value of available-for-sale financial assets				
Transfer to other comprehensive income in current year, after tax	(2,427)	(3,117)	(2,419)	(3,206)
Transfer to profit or loss in current year, after tax	(3,013)	(2,507)	(2,954)	(2,394)
Sub-total	(5,440)	(5,624)	(5,373)	(5,600)
2. Share of other comprehensive income of associates and joint ventures, after tax				
Changes in other comprehensive income in associates and joint ventures	-	18	-	18
3. Exchange differences from the translation of foreign operations	(132)	127	(104)	69
Total	(5,572)	(5,479)	(5,477)	(5,513)

5.11 Earnings per share

Basic earnings per share (EPS) is calculated by dividing consolidated net profit for the year attributable to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the period. The conversion feature of preference shares is considered to fall within the category of contingently issuable ordinary shares. The triggering events of share conversion did not occur during the year of 2017. Therefore, the conversion feature of preference shares has no effect on the calculation of basic and diluted earnings per share.

	Year ended 31 December	
	2017	2016
Profit for the year attributable to equity holders of the Bank	54,258	53,099
Less: declared dividends attributable to preference shareholders of the Bank	(1,725)	(1,725)
Profit for the year attributable to the holders of the Bank's ordinary shares	52,533	51,374
Weighted average number of outstanding ordinary shares (million)	28,520	27,779
Basic and diluted EPS (RMB)	1.84	1.85

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.11 Earnings per share (Continued)

On 28 November 2014 and 6 March 2015, the Bank issued non-cumulative preference shares with aggregated par value of RMB 30 billion. The bank declared cash dividends of RMB 1,725 million for preference share in this year. For the purpose of calculating EPS, dividends on non-cumulative preference shares declared in respect of the period have been deducted from the profit attributable to ordinary shareholders of the Bank.

Pursuant to the resolution of 2016 Annual General Meeting on 25 April 2017, the Bank converted the capital surplus into ordinary shares in the proportion of 3 share for every 10 shares held. The total number of shares increased due to conversion is 6,485,483,977. And the number of shares after conversion is 28,103,763,899 shares. The EPS of comparison period has been restated according to adjusted shares. The Bank issued 1,248,316,498 domestic RMB ordinary shares and completed share registration in September 2017. Upon the issuance, ordinary shares of the Bank was increased from 28,103,763,899 shares to 29,352,080,397 shares

5.12 Cash and balances with central bank

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Cash	7,284	7,221	7,121	7,101
Mandatory reserves with central bank	438,133	440,445	435,460	438,097
Excess reserves with central bank	38,905	68,950	37,354	67,845
Fiscal deposits with central bank	2,209	614	2,183	580
Total	486,531	517,230	482,118	513,623

The Group is required to place mandatory reserves with the PBOC, which are not allowed to be used in the Group's daily operations. The reserve rate for deposits denominated in RMB is 15% on 31 December 2017 (31 December 2016: 15%). The reserve rate for deposits denominated in foreign currencies is 5% on 31 December 2017 (31 December 2016: 5%).The foreign exchange risk reserve is maintained with the PBOC in accordance with relevant notice issued by the PBOC on 31 August 2015. It is placed on a monthly basis calculating by multiplying the total contract amount of customers driven forward sale of foreign exchange transactions in the preceding month and the risk reserve rate. According to the "Notice on Adjustment of Foreign Exchange Risk Reserve Rate Policy", starting from 11 September 2017, the foreign exchange risk reserve rate was adjusted to zero.(31 December 2016: 20%)

5.13 Due from and placements with banks and other financial institutions

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Due from domestic banks	54,630	180,656	48,113	173,210
Due from overseas banks	41,718	53,567	41,583	53,511
Placements with domestic banks	8,504	5,172	7,954	5,172
Placements with overseas banks	10,057	9,947	10,057	9,947
Placements with domestic other financial institutions	62,278	103,773	64,874	106,819
Total	177,187	353,115	172,581	348,659

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.14 Financial assets at fair value through profit or loss

	Group	
	31 December 2017	31 December 2016
Trading financial assets:		
Government bonds	3,106	530
Bonds issued by policy banks	12,947	3,275
Bonds issued by financial institutions	78	-
Deposit certificates issued by other financial institutions	21,197	31,506
Corporate bonds	11,101	6,905
Fund investments	12,088	6,777
Sub-total	60,517	48,993
Financial assets designated at fair value through profit or loss:		
Borrowings from non-bank financial institutions (Note 1)	996	8,019
Trust and asset management plans	3,032	4,408
Other debt instruments (Note 1, Note2)	93,233	111,382
Other investments (Note 3)	5,088	4,401
Sub-total	102,349	128,210
Total	162,866	177,203

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.14 Financial assets at fair value through profit or loss (Continued)

	Bank	
	31 December 2017	31 December 2016
Trading financial assets:		
Government bonds	3,106	530
Bonds issued by policy banks	12,947	3,275
Bonds issued by financial institutions	78	-
Deposit certificates issued by other financial institutions	21,197	31,506
Corporate bonds	10,248	6,472
Fund investments	10,700	6,000
Sub-total	58,276	47,783
Financial assets designated at fair value through profit or loss		
Borrowings from non-bank financial institutions (Note 1)	996	8,019
Trust and asset management plans	332	-
Other debt instruments (Note 1, Note 2)	93,233	111,382
Other investments (Note 3)	4,431	4,237
Sub-total	98,992	123,638
Total	157,268	171,421

Note 1: The amount of changes in fair value arising from the changes in the credit risk of debt instruments is insignificant.

Note 2: Other debt instruments are financing products issued to corporates by the Bank.

Note 3: Other investments mainly include the long-term employee benefits payable to Changjiang Pension Insurance Co., Ltd. for investment entrusted by the Group. As at 31 December 2017, the fair value of the investment amounts to RMB 4,633 million (31 December 2016: RMB 4,373 million).

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.15 Derivative financial instruments

	Group and Bank		
	31 December 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Interest rate swap contracts	2,174,427	4,521	(4,322)
Currency swap contracts	1,877,844	19,561	(22,850)
Option contracts	297,449	1,713	(1,154)
Precious metal derivative financial instruments	106,916	1,009	(869)
Foreign exchange forward contracts	75,092	824	(755)
Commodity contracts	9,732	512	(5)
Derivative financial instruments held as hedging instruments at fair value:			
Interest rate swap	2,711	124	(15)
Cross-currency interest rate swap	740	-	(64)
Total		28,264	(30,034)

	Group and Bank		
	31 December 2016		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Interest rate swap contracts	783,631	581	(875)
Currency swap contracts	952,453	13,130	(10,499)
Option contracts	108,015	618	(871)
Precious metal derivative financial instruments	57,127	1,005	(336)
Foreign exchange forward contracts	46,729	423	(472)
Commodity contracts	6,109	275	-
Derivative financial instruments held as hedging instruments at fair value:			
Interest rate swap	15,082	164	(38)
Cross-currency interest rate swap	790	37	-
Total		16,233	(13,091)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.16 Financial assets purchased under resale agreements

	Group and Bank	
	31 December 2017	31 December 2016
Bonds	12,625	2,864
Deposit certificates issued by other financial institutions	756	137
Bills	600	-
Less: impairment allowance	(7)	-
Total	13,974	3,001

5.17 Loans and advances to customers

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Corporates loans				
Commercial Loans	1,772,962	1,707,344	1,762,221	1,696,336
Trade finance	44,898	23,970	44,898	23,970
Discounted bills	134,609	61,293	134,357	60,977
Retail loans				
Mortgage loans	505,135	458,215	502,836	457,317
Loans to finance family business	187,209	157,538	180,483	151,252
Credit card and overdraft	418,347	267,119	418,347	267,119
Others	131,440	87,327	129,774	86,281
Gross loans and advances to customers	3,194,600	2,762,806	3,172,916	2,743,252
Individual impairment allowances	(22,155)	(15,475)	(22,155)	(15,475)
Collective impairment allowances	(68,592)	(72,774)	(67,033)	(71,882)
Total impairment allowances	(90,747)	(88,249)	(89,188)	(87,357)
Loans and advances to customers, net	3,103,853	2,674,557	3,083,728	2,655,895

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.17 Loans and advances to customers (Continued)

5.17.1 Loans and advances to customers analysed by approach of impairment assessment

Group	Non-impaired loans subject to collective assessment	Impaired loans			Total
		Collective assessment	Individual assessment	Sub-total	
As at 31 December 2017					
Corporates loans	1,898,329	8,735	45,405	54,140	1,952,469
Retail loans	1,227,752	14,379	-	14,379	1,242,131
	3,126,081	23,114	45,405	68,519	3,194,600
Allowance for impairment	(53,449)	(15,143)	(22,155)	(37,298)	(90,747)
Loans and advances to customers, net	3,072,632	7,971	23,250	31,221	3,103,853
As at 31 December 2016					
Corporates loans	1,751,198	12,544	28,865	41,409	1,792,607
Retail loans	959,430	10,769	-	10,769	970,199
	2,710,628	23,313	28,865	52,178	2,762,806
Allowance for impairment	(57,764)	(15,010)	(15,475)	(30,485)	(88,249)
Loans and advances to customers, net	2,652,864	8,303	13,390	21,693	2,674,557

Bank	Non-impaired loans subject to collective assessment	Impairment loans			Total
		Collective assessment	Individual assessment	Sub-total	
As at 31 December 2017					
Corporates loans	1,888,777	7,294	45,405	52,699	1,941,476
Retail loans	1,217,276	14,164	-	14,164	1,231,440
	3,106,053	21,458	45,405	66,863	3,172,916
Allowance for impairment	(52,459)	(14,574)	(22,155)	(36,729)	(89,188)
Loans and advances to customers, net	3,053,594	6,884	23,250	30,134	3,083,728
As at 31 December 2016					
Corporates loans	1,740,121	12,297	28,865	41,162	1,781,283
Retail loans	951,324	10,645	-	10,645	961,969
	2,691,445	22,942	28,865	51,807	2,743,252
Allowance for impairment	(57,078)	(14,804)	(15,475)	(30,279)	(87,357)
Loans and advances to customers, net	2,634,367	8,138	13,390	21,528	2,655,895

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.17 Loans and advances to customers (Continued)

5.17.2 Loans and advances to customers analysed by industry

Group

	31 December 2017		31 December 2016	
	Amount	(%)	Amount	(%)
Corporate loans				
Lease and commercial service	312,879	9.79	244,088	8.83
Manufacturing	303,242	9.49	337,188	12.21
Real estate	277,054	8.67	244,285	8.84
Wholesale and retail	262,569	8.22	303,465	10.98
Construction	126,382	3.96	125,173	4.53
Transportation, warehouse and postal services	120,846	3.78	111,969	4.05
Water, environment and public facilities management	119,900	3.75	101,138	3.66
Mining	76,505	2.39	65,748	2.38
Energy and utilities	61,298	1.92	58,505	2.12
Information transmission, software and IT services	32,447	1.02	16,340	0.59
Agriculture, forestry, farming and fishery	29,765	0.93	21,590	0.78
Research and technology services	18,980	0.59	18,254	0.66
Financial services	14,778	0.46	8,747	0.32
Resident services, repairing and other services	12,256	0.38	9,882	0.36
Healthcare and social welfare	10,823	0.34	13,591	0.49
Culture, sports and entertainment	10,444	0.33	10,024	0.36
Education	10,395	0.33	10,191	0.37
Hotel and catering	8,550	0.27	9,999	0.36
Public management, social security and social organization	7,306	0.23	15,421	0.56
Others	1,441	0.05	5,716	0.21
	1,817,860	56.90	1,731,314	62.66
Discounted bank acceptances	98,611	3.09	33,514	1.21
Re-discount	34,420	1.08	20,543	0.75
Discounted commercial acceptances	1,578	0.05	7,236	0.26
	134,609	4.22	61,293	2.22
Retail loans	1,242,131	38.88	970,199	35.12
Total	3,194,600	100.00	2,762,806	100.00

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.17 Loans and advances to customers (Continued)

5.17.2 Loans and advances to customers analysed by industry (Continued)

Bank

	31 December 2017		31 December 2016	
	Amount	(%)	Amount	(%)
Corporate loans				
Lease and commercial service	313,601	9.88	244,949	8.93
Manufacturing	297,361	9.37	331,040	12.07
Real estate	277,039	8.73	244,264	8.90
Wholesale and retail	260,540	8.21	301,329	10.98
Construction	125,705	3.96	124,449	4.54
Transportation, warehouse and postal services	120,746	3.81	111,854	4.08
Water, environment and public facilities management	119,807	3.78	101,011	3.68
Mining	76,340	2.41	65,582	2.39
Energy and utilities	60,858	1.92	58,046	2.12
Information transmission, software and IT services	32,358	1.02	16,284	0.59
Agriculture, forestry, farming and fishery	28,217	0.89	20,076	0.73
Research and technology services	18,964	0.60	18,238	0.67
Financial services	14,778	0.47	8,747	0.32
Resident services, repairing and other services	12,182	0.38	9,797	0.36
Healthcare and social welfare	10,751	0.34	13,535	0.49
Culture, sports and entertainment	10,392	0.33	9,975	0.36
Education	10,348	0.33	10,150	0.37
Hotel and catering	8,385	0.26	9,844	0.36
Public management, social security and social organization	7,306	0.23	15,421	0.56
Others	1,441	0.04	5,715	0.21
	1,807,119	56.96	1,720,306	62.71
Discounted bank acceptances	98,359	3.10	33,226	1.21
Re-discount	34,420	1.08	20,543	0.75
Discounted commercial acceptances	1,578	0.05	7,208	0.26
	134,357	4.23	60,977	2.22
Retail loans	1,231,440	38.81	961,969	35.07
Total	3,172,916	100.00	2,743,252	100.00

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.17 Loans and advances to customers (Continued)

5.17.3 Loans and advances to customers analyzed by geography

Group

	31 December 2017		31 December 2016	
	Amount	(%)	Amount	(%)
Headquarter	535,413	16.76	331,611	12.00
Yangtze River Delta	855,652	26.79	764,740	27.69
Pearl River Delta and West Side of Taiwan Strait	304,451	9.53	255,951	9.26
Bohai Rim	404,193	12.65	374,460	13.55
Central China	407,555	12.76	384,345	13.91
Western China	451,520	14.13	413,968	14.98
North-east China	160,985	5.04	165,938	6.01
Overseas and subsidiaries	74,831	2.34	71,793	2.60
Total	3,194,600	100.00	2,762,806	100.00

Bank

	31 December 2017		31 December 2016	
	Amount	(%)	Amount	(%)
Headquarter	535,413	16.87	331,611	12.09
Yangtze River Delta	855,652	26.97	764,740	27.87
Pearl River Delta and West Side of Taiwan Strait	304,451	9.60	255,951	9.33
Bohai Rim	404,818	12.76	375,165	13.68
Central China	407,555	12.84	384,345	14.01
Western China	451,520	14.23	413,968	15.09
North-east China	160,985	5.07	165,938	6.05
Overseas and subsidiaries	52,522	1.66	51,534	1.88
Total	3,172,916	100.00	2,743,252	100.00

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.17 Loans and advances to customers (Continued)

5.17.4 Loans and advances to customers analysed by collateral type

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Collateralized loans	1,180,094	1,157,707	1,171,050	1,150,482
Guaranteed loans	723,672	682,061	713,351	671,370
Unsecured loans	1,090,899	744,151	1,090,121	744,229
Pledged loans	199,935	178,887	198,394	177,171
Gross loans and advances to customers	3,194,600	2,762,806	3,172,916	2,743,252

5.17.5 Overdue loans and advances to customers

Group

	31 December 2017				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	17,426	16,391	11,523	624	45,964
Collateralized loans	7,657	10,209	9,573	817	28,256
Unsecured loans	4,251	4,592	3,044	433	12,320
Pledged loans	949	986	855	202	2,992
Total	30,283	32,178	24,995	2,076	89,532

	31 December 2016				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	11,398	18,927	9,429	506	40,260
Collateralized loans	5,648	14,974	7,806	1,325	29,753
Unsecured loans	1,951	4,253	3,034	156	9,394
Pledged loans	301	1,538	930	18	2,787
Total	19,298	39,692	21,199	2,005	82,194

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.17 Loans and advances to customers (Continued)

5.17.5 Overdue loans and advances to customers (Continued)

Bank

	31 December 2017				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	17,153	16,099	11,236	622	45,110
Collateralized loans	7,533	10,103	9,452	816	27,904
Unsecured loans	4,249	4,585	3,044	433	12,311
Pledged loans	948	983	840	202	2,973
Total	29,883	31,770	24,572	2,073	88,298

	31 December 2016				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	11,196	18,645	9,282	504	39,627
Collateralized loans	5,566	14,862	7,657	1,323	29,408
Unsecured loans	1,951	4,243	3,034	156	9,384
Pledged loans	301	1,538	921	18	2,778
Total	19,014	39,288	20,894	2,001	81,197

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.17 Loans and advances to customers (Continued)

5.17.6 Allowance for impairment of loans and advances to customers

Group	Year ended 31 December 2017			Year ended 31 December 2016		
	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
Balance at beginning of the year	15,475	72,774	88,249	9,963	64,142	74,105
Charge for the year	19,680	33,119	52,799	16,170	30,675	46,845
Write-off	(17,435)	(33,819)	(51,254)	(17,201)	(16,038)	(33,239)
Recovery of loans and advances written off in previous years	768	1,992	2,760	703	947	1,650
Unwind of discount on impairment allowance	(977)	(461)	(1,438)	(818)	(348)	(1,166)
Other transfer in/ (transfer out)	4,644	(4,644)	-	6,658	(6,658)	-
Exchange difference	-	(369)	(369)	-	54	54
Balance at end of the year	22,155	68,592	90,747	15,475	72,774	88,249

Bank	Year ended 31 December 2017			Year ended 31 December 2016		
	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
Balance at beginning of the year	15,475	71,882	87,357	9,963	63,369	73,332
Charge for the year	19,680	32,141	51,821	16,170	30,411	46,581
Write-off	(17,435)	(33,508)	(50,943)	(17,201)	(15,893)	(33,094)
Recovery of loans and advances written off in previous years	768	1,992	2,760	703	947	1,650
Unwind of discount on impairment allowance	(977)	(461)	(1,438)	(818)	(348)	(1,166)
Other transfer in/ (transfer out)	4,644	(4,644)	-	6,658	(6,658)	-
Exchange difference	-	(369)	(369)	-	54	54
Balance at end of the year	22,155	67,033	89,188	15,475	71,882	87,357

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.18 Available-for-sale financial assets

	Group	
	31 December 2017	31 December 2016
At fair value		
Government bonds	64,429	37,182
Bonds issued by policy banks	29,770	29,675
Bonds issued by financial institutions	63,089	61,018
Deposit certificates issued by other financial institutions	24,872	76,940
Corporate bonds	41,251	47,956
Assets backed securities (“ABS”)	169,276	73,507
Trust and asset management plans	52,951	23,492
Equity investments	2,237	2,896
Wealth management products managed by other banks	354	160,526
Fund investments	215,396	102,990
Others	883	4,281
Total	664,508	620,463

	Bank	
	31 December 2017	31 December 2016
At fair value		
Government bonds	64,429	37,182
Bonds issued by policy banks	29,770	29,675
Bonds issued by financial institutions	63,089	61,018
Deposit certificates issued by other financial institutions	24,872	76,940
Corporate bonds	37,682	45,555
ABS	169,276	73,507
Trust and asset management plans	48,809	21,116
Equity investments	1,468	2,118
Wealth management products managed by other banks	-	160,526
Fund investments	215,124	102,062
Others	318	2,902
Total	654,837	612,601

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.19 Investment securities - held-to-maturity

	Group and Bank	
	31 December 2017	31 December 2016
Government bonds	269,515	162,156
Bonds issued by policy banks	166,016	153,469
Bonds issued by financial institutions	3,744	5,194
Corporate bonds	5,524	6,179
Less：impairment allowance	(73)	(48)
Total	444,726	326,950

5.20 Investment securities - loans and receivables

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Bonds				
Government bonds	135,733	41,828	135,733	41,828
Bonds issued by financial institutions	97,509	14,219	97,509	14,219
Corporate bonds	20,762	22,039	20,762	22,039
ABS	3,411	4,798	3,411	4,798
	257,415	82,884	257,415	82,884
Trust and asset management plans (Note 1)	581,690	859,268	567,626	854,078
Wealth management products managed by other banks	520	74,129	520	74,129
	582,210	933,397	568,146	928,207
Individual assessed impairment allowances	(2,856)	(1,476)	(3,451)	(1,476)
Collectively assessed impairment allowances	(4,171)	(4,333)	(4,171)	(4,333)
Sub-total	(7,027)	(5,809)	(7,622)	(5,809)
Loans and receivables, net	832,598	1,010,472	817,939	1,005,282

Note 1: Certain trust companies and security companies make investment decisions for trust and asset management plans and also take responsibilities for the management of these products. These products are ultimately invested in trust loans, bill assets, bonds and senior tranche of structured entities.

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.21 Investments in associate and joint ventures

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Investment in associate	202	218	-	-
Investment in joint ventures	804	731	804	731
Total	1,006	949	804	731

Amounts recorded in the statement of comprehensive income are analysed as follows:

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
Investments in associates				
—Share of profits	(3)	87	-	70
—Share of other comprehensive income	-	18	-	18
Sub-total	(3)	105	-	88
Investments in joint ventures				
—Share of profits	100	93	100	93
—Exchange differences	(12)	13	(12)	13
Sub-total	88	106	88	106
Total	85	211	88	194

Major associates and joint ventures

Name of the investees	Places of incorporation	Shareholding percentage	Nature of business	Accounting Method
Joint venture-AXA SPDB Investment Managers Co., td.	Shanghai, China	51%	Financial industry	Equity method

According to the Articles of Association of AXA SPDB Investment Managers Co., Ltd., resolutions on certain significant operate and finance decisions shall be approved by shareholders representing more than two thirds voting shares. These resolutions include the company's strategic plan, investment plan, annual financial budget and financial statements and profit appropriations etc. Although the Group owns 51% voting shares of AXA SPDB Investment Management Co., Ltd., it has to exercise influences over the company jointly with another major shareholder.

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.21 Investments in associates and joint ventures (Continued)

Major associates and joint ventures (Continued)

Name of the investees	Places of incorporation	Shareholding percentage	Nature of business	Accounting Method
Joint venture-SPD Silicon Valley Bank Co., Ltd.	Shanghai, China	50%	Financial industry	Equity method

The Group's associates and joint ventures are all unlisted companies.

As at 31 December 2017, there is no restriction for capital transfer from the Group's subsidiaries and joint ventures to the Bank.

There are no contingent liabilities of the Group in these associates and joint ventures.

The Bank is of the view that the above associates and joint ventures are not material to the Group in terms of their net profit and net assets and therefore no additional information disclosure is required.

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.22 Property and equipment

Group	31 December 2016	Additions	Disposals	31 December 2017
Cost	35,711	3,997	(509)	39,199
Land and buildings	12,451	260	(54)	12,657
Motor vehicles	464	27	(27)	464
Software	1,768	173	-	1,941
Electronic computers and other equipment	7,440	670	(409)	7,701
Aircraft equipment	7,742	2,553	-	10,295
Leasehold improvement	5,846	314	(19)	6,141
Accumulated depreciation	15,119	2,577	(374)	17,322
Land and buildings	3,378	424	(9)	3,793
Motor vehicles	339	41	(25)	355
Software	1,393	245	-	1,638
Electronic computers and other equipment	4,992	938	(334)	5,596
Aircraft equipment	532	375	-	907
Leasehold improvement	4,485	554	(6)	5,033
Net book value	20,592			21,877
Land and buildings	9,073			8,864
Motor vehicles	125			109
Software	375			303
Electronic computers and other equipment	2,448			2,105
Aircraft equipment	7,210			9,388
Leasehold improvement	1,361			1,108

The depreciation expense recognized in profit or loss for the year ended 31 December 2017 is RMB 2,577 million (31 December 2016: RMB 2,651 million).

As at 31 December 2017, the net book value of 9,388million (31 December 2016: net book value of 7,210 million) of Flight equipment of Group's subsidiary SPDB Financial Leasing Co., Ltd has been leased.

As at 31 December 2017, the Group's land and buildings with cost of 873million and net book value of 764 million (31 December 2016: the cost of 942 million, the net book value of 811 million) are already in use but the property registration are in progress.

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.22 Property and equipment (Continued)

Bank	31 December 2016	Additions	Disposals	31 December 2017
Cost	27,066	1,350	(470)	27,946
Land and buildings	11,932	257	(49)	12,140
Motor vehicles	437	22	(24)	435
Software	1,734	168	-	1,902
Electronic computers and other equipment	7,279	642	(385)	7,536
Leasehold improvement	5,684	261	(12)	5,933
Accumulated depreciation	14,362	2,087	(356)	16,093
Land and buildings	3,356	396	(7)	3,745
Motor vehicles	321	38	(23)	336
Software	1,383	233	-	1,616
Electronic computers and other equipment	4,927	907	(320)	5,514
Leasehold improvement	4,375	513	(6)	4,882
Net book value	12,704			11,853
Land and buildings	8,576			8,395
Motor vehicles	116			99
Software	351			286
Electronic computers and other equipment	2,352			2,022
Leasehold improvement	1,309			1,051

The depreciation expense recognized in profit or loss for the year ended 31 December 2017 is RMB 2,087million (31 December 2016: RMB 2,197 million).

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.23 Construction in progress

Group	31 December 2016	Additions	Transfer out	31 December 2017
Buildings	697	1,371	(223)	1,845
Others	2,052	801	(24)	2,829
Total	2,749	2,172	(247)	4,674

Bank	31 December 2016	Additions	Transfer out	31 December 2017
Buildings	697	1,371	(223)	1,845
Others	2,043	795	(9)	2,829
Total	2,740	2,166	(232)	4,674

5.24 Intangible assets

Group	31 December 2016	Additions	Disposals	31 December 2017
Cost	9,905	-	-	9,905
Goodwill(Note 1)	6,981	-	-	6,981
Contractual customer relationships	688	-	-	688
Brand and franchise right	2,236	-	-	2,236
Accumulated Amortization	401	158	-	559
Goodwill	-	-	-	-
Contractual customer relationships	401	158	-	559
Brand and franchise right	-	-	-	-
Net book value	9,504			9,346
Goodwill	6,981			6,981
Contractual customer relationships	287			129
Brand and franchise right	2,236			2,236

The amortization expense recognized in profit or loss for the year ended 31 December 2017 is RMB 158 million (31 December 2016: RMB 401million).

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.24 Intangible assets (Continued)

Note1: On March 2016, the Bank issued ordinary shares of RMB 17,011 million to acquire 97.33% equity of Shanghai International Trust Co., Ltd. The difference between fair value of the Bank's issued shares and net assets of Shanghai International Trust Co., Ltd. attributable to parent company, RMB 10,030 million on acquisition date, amounting to RMB 6,981 million, is recognised as goodwill.

According to the Group's impairment test result, the brand and franchise right are not impaired in 31 December, 2017 (31 December 2016：are not impaired).

According to the Group's impairment test result, the goodwill is not impaired in 31 December, 2017 (31 December 2016：is not impaired).

The goodwill allocated to the asset groups and groups of asset groups are summarised by operating segments as follows:

	31 December 2017	31 December 2016
Shanghai International Trust Co., Ltd.	4,739	4,739
Subsidiaries of Shanghai International Trust Co., Ltd.	2,242	2,242
	6,981	6,981

The Group calculated the recoverable amount of CGU using cash flow projections based on the management's five -year financial forecasts. The cash flows beyond the five-year period are calculated based on the following estimated growth rates.

The main assumptions applied in calculating discounted future cash flows are as follows:

	Shanghai International Trust Co., Ltd		Subsidiaries of Shanghai International Trust Co., Ltd.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Growth rate	3%	3%	3%	3%
Discount rate	14.30%	14.30%	14.40%—16.40%	14.40%—16.40%

The above-mentioned growth rates are the average growth rates used by the Group when estimating relevant CGU and CGUs' cash flow five years later. They are consistent with the forecasts included in industry reports and do not exceed the long-term average growth rates of each product. The management used pre-tax interest rates that are able to reflect specific risks relating to the relevant CGU and CGUs. The above assumptions are used to analyse the recovery amounts of the CGU and CGUs within the business segment.

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.25 Deferred income tax

5.25.1 The table below includes the deferred income tax assets and liabilities of the Group and the Bank after offsetting qualifying amounts:

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deferred income tax assets	29,022	21,838	28,381	21,502
Deferred income tax liabilities	(680)	(717)	-	-

5.25.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

Group

	31 December 2017		31 December 2016	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (Liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (Liabilities)
Impairment allowances for loans and other assets	110,820	27,705	92,618	23,155
Amortization for long-term assets	28	7	32	8
Employee benefits payable	260	65	148	37
Fair value changes of available-for-sale financial assets recognized in other comprehensive income	7,165	1,792	142	36
Fair value changes of hedged available-for-sale financial assets recognized in profit or loss	167	42	213	53
Fair value changes of financial assets and liabilities at fair value through profit or loss	36	9	233	58
Fair value changes of derivative financial instruments	1,770	443	-	-
Deferred income tax assets before offsetting	120,246	30,063	93,386	23,347

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.25 Deferred income tax (Continued)

5.25.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:(continued)

Group

	31 December 2017		31 December 2016	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (Liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (Liabilities)
Fair value changes of financial assets and liabilities at fair value through profit or loss	(3,949)	(987)	(1,843)	(461)
Fair value changes of precious metals	(216)	(54)	(782)	(196)
Fair value changes of available-for-sale financial assets recognized in other comprehensive income	-	-	(231)	(58)
Fair value changes of derivative financial instruments	-	-	(3,142)	(786)
Depreciation	(32)	(8)	(33)	(8)
Differences between fair value and carrying amount of identifiable net assets arising from business combinations of entities not under common control	(2,676)	(669)	(2,852)	(713)
Others	(12)	(3)	(16)	(4)
Deferred tax liabilities before offsetting	(6,885)	(1,721)	(8,899)	(2,226)

As at 31 December 2017, the Group offset deferred income tax assets and liabilities of RMB 1,041 million (31 December 2016: RMB 1,509 million).

Bank

	31 December 2017		31 December 2016	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)
Impairment allowances for loans and other assets	108,604	27,151	91,678	22,920
Amortization for long-term assets	28	7	32	8
Fair value changes of available-for-sale financial assets recognized in other comprehensive income	7,043	1,761	-	-
Fair value changes of hedged available-for-sale financial assets recognized in profit or loss	167	42	213	53
Fair value changes of derivative financial instruments	1,770	443	-	-
Deferred income tax assets before offsetting	117,612	29,404	91,923	22,981

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.25 Deferred income tax (Continued)

5.25.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items (continued):

Bank	31 December 2017		31 December 2016	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)
Fair value changes of financial assets and liabilities at fair value through profit or loss	(3,847)	(962)	(1,843)	(461)
Fair value changes of precious metals	(216)	(54)	(782)	(196)
Fair value changes of available-for-sale financial assets recognized in other comprehensive income	-	-	(121)	(30)
Fair value changes of derivative financial instruments	-	-	(3,142)	(786)
Depreciation	(27)	(7)	(25)	(6)
Deferred tax liabilities before offsetting	(4,090)	(1,023)	(5,913)	(1,479)

As at 31 December 2017, the Bank offset deferred income tax assets and liabilities of RMB 1,023 million (31 December 2016: RMB 1,479 million).

5.25.3 The movement of the deferred income tax account is as follows:

Group	Year ended 31 December 2017
Balance at beginning of the year	21,121
Credited to profit or loss (Note 5.9)	5,407
Credited to other comprehensive income	1,814
Balance at end of the year	28,342

Bank	Year ended 31 December 2017
Balance at beginning of the year	21,502
Credited to profit or loss (Note 5.9)	5,088
Credited to other comprehensive income	1,791
Balance at end of the year	28,381

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.26 Other assets

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Finance lease receivable (Note 1)	41,017	40,988	-	-
Other receivables (Note 2)	35,657	5,297	34,790	4,267
Interest receivable	31,094	22,911	30,294	22,299
Settlement and clearing accounts	17,466	8,781	17,465	8,781
Margin deposits for precious metal trading	9,318	5,908	9,318	5,908
Prepayment for land use rights and constructions	7,077	5,003	7,077	5,003
Payments to Trust Protection Fund on behalf of investors	3,264	2,300	-	-
Foreclosed assets	768	924	765	921
Other long-term assets	545	396	522	349
Land use rights	341	351	338	348
Total	146,547	92,859	100,569	47,876

Note 1: Finance lease receivable

Group

	31 December 2017	31 December 2016
Gross finance lease receivable analysed by maturity:		
Within 1 year (including 1 year)	13,524	13,551
1 to 2 years (including 2 years)	11,051	10,194
2 to 3 years (including 3 years)	8,967	9,056
3 to 5 years (including 5 years)	9,184	10,438
Over 5 years	4,965	4,906
Gross amount of finance lease receivable	47,691	48,145
Unearned income	(5,493)	(5,820)
Net amount of finance lease receivable	42,198	42,325
Net amount of finance lease receivable analyzed by maturity:		
Within 1 year (including 1 year)	11,738	11,375
1 to 5 years (including 5 years)	26,160	26,442
Over 5 years	4,300	4,508
	42,198	42,325
Impairment allowance	(1,181)	(1,337)
Net finance lease receivable	41,017	40,988

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.26 Other assets (Continued)

Note 2: Other receivables are analyzed by aging as follows:

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Within 1 year (Note 3)	36,493	5,133	35,781	4,126
1 to 2 years	263	344	109	335
2 to 3 years	68	635	59	623
Over 3 years	1,011	1,072	997	1,066
	37,835	7,184	36,946	6,150
Less: Impairment allowance	(2,178)	(1,887)	(2,156)	(1,883)
Net other receivables	35,657	5,297	34,790	4,267

Note3: Other receivables within one year mainly include receivables from the Banks's transfer of trust beneficial rights.

5.27 Impairment allowances for assets

Group	31December 2016	Charge	Write-off	Others	31 December 2017
Loans and advances to customers	88,249	52,799	(51,254)	953	90,747
Investments classified as loans and receivables	5,809	1,537	(319)	-	7,027
Other receivables	1,887	575	(284)	-	2,178
Interest receivable	907	340	-	-	1,247
Finance lease receivable	1,337	(156)	-	-	1,181
Available-for-sale financial assets	87	144	-	(6)	225
Foreclosed assets	613	14	-	(449)	178
Investment securities- held –to -maturity	48	25	-	-	73
Financial assets purchased under resale agreements	-	7	-	-	7
Total	98,937	55,285	(51,857)	498	102,863

Group	31December 2015	Charge	Write-off	Others	31 December 2016
Loans and advances to customers	74,105	46,845	(33,239)	538	88,249
Investments classified as loans and receivables	4,610	1,209	-	(10)	5,809
Other receivables	1,693	264	(70)	-	1,887
Interest receivable	523	384	-	-	907
Finance lease receivable	1,001	336	-	-	1,337
Available-for-sale financial assets	81	-	-	6	87
Foreclosed assets	595	18	-	-	613
Investment securities- held –to -maturity	-	48	-	-	48
Total	82,608	49,104	(33,309)	534	98,937

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.27 Impairment allowances for assets (Continued)

Bank	31 December 2016	Charge	Write-off	Others	31 December 2017
Loans and advances to customers	87,357	51,821	(50,943)	953	89,188
Investments classified as loans and receivables	5,809	2,132	(319)	-	7,622
Other receivables	1,883	554	(281)	-	2,156
Interest receivable	907	340	-	-	1,247
Available-for-sale financial assets	87	144	-	(6)	225
Foreclosed assets	613	14	-	(449)	178
Investment securities - held-to-maturity	48	25	-	-	73
Financial assets purchased under resale agreements	-	7	-	-	7
Total	96,704	55,037	(51,543)	498	100,696

Bank	31 December 2015	Charge	Write-off	Others	31 December 2016
Loans and advances to customers	73,332	46,581	(33,094)	538	87,357
Investments classified as loans and receivables	4,610	1,209	-	(10)	5,809
Other receivables	1,693	260	(70)	-	1,883
Interest receivable	523	384	-	-	907
Available-for-sale financial assets	81	-	-	6	87
Foreclosed assets	595	18	-	-	613
Investment securities - held-to-maturity	-	48	-	-	48
Total	80,834	48,500	(33,164)	534	96,704

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.28 Due to and placements from banks and other financial institutions

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Due to domestic banks	340,355	477,276	347,707	481,622
Due to other domestic financial institutions	937,994	808,390	938,945	809,220
Due to overseas banks	11,953	17,335	11,953	17,335
Due to other overseas financial institutions	24,016	38,962	24,016	38,962
Placements from domestic banks	81,919	59,952	46,514	22,750
Placements from overseas banks	52,400	35,680	51,396	35,680
Placements from other domestic financial institutions	4,463	1,500	2,963	1,500
Total	1,453,100	1,439,095	1,423,494	1,407,069

5.29 Financial liabilities at fair value through profit or loss

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Financial liabilities related to precious metals	15,121	24,301	15,121	24,301
Interest of other unitholders in consolidated structured entities (Note 1)	13,212	5,004	-	-
others	-	221	-	221
Total	28,333	29,526	15,121	24,522

Note 1: The Group designated interests attributable to other unitholders in consolidated structured entities as financial liabilities at fair value through profit or loss. As at 31 December 2017, no significant fair value changes have occurred due to changes in the Group's own credit risk. (As at 31 December 2016: no significant fair value changes have occurred).

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.30 Financial assets sold under repurchase agreements

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Bonds	156,778	72,606	156,778	72,606
Bills	21,488	20,344	21,488	20,322
Certificates of deposit issued	6,198	-	6,198	-
Other financial assets sold under repurchase agreements	-	250	-	-
Total	184,464	93,200	184,464	92,928

5.31 Deposits from customers

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Current deposits				
-Corporate	1,287,069	1,213,075	1,276,750	1,204,059
-Retail	183,571	163,074	180,529	160,670
Time deposits				
-Corporate	1,017,498	1,042,125	1,012,403	1,036,914
-Retail	303,251	310,746	291,958	302,017
Pledged deposits	202,531	235,879	201,178	233,825
Fiscal deposits	39,644	33,904	39,594	33,874
Other deposits	4,372	3,212	4,192	3,090
Total	3,037,936	3,002,015	3,006,604	2,974,449

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.32 Bonds issued

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Bonds issued				
Subordinated bond issued in 2011 (Note1)	18,400	18,400	18,400	18,400
Subordinated bond issued in 2012 (Note 2)	12,000	12,000	12,000	12,000
Other bond issued in 2012 (Note 3)	-	30,000	-	30,000
RMB bond issued in Hong Kong (Note 4)	-	1,000	-	1,000
Tier II capital bond issued in 2015 (Note5)	30,000	30,000	30,000	30,000
USD medium-term note (Note 6)	11,396	3,474	11,396	3,474
Green Financial Bond 01 (Note 7)	20,000	20,000	20,000	20,000
Green Financial Bond 02 (Note 8)	15,000	15,000	15,000	15,000
Green Financial Bond 03 (Note 9)	15,000	15,000	15,000	15,000
2017 First Financial Bond (Note 10)	15,000	-	15,000	-
2017 Second Financial Bond (Note11)	22,000	-	22,000	-
2017 Third Financial Bond (Note 12)	13,000	-	13,000	-
2017 SPDB Financial Leasing Financial Bond (Note 13)	3,000	-	-	-
Sub-total	174,796	144,874	171,796	144,874
Puxin 2017 First Leasing ABS (Note 14)	1,198	-	-	-
Less: Unamortized issue cost	(139)	(79)	(128)	(79)
Net book value of bonds issued	175,855	144,795	171,668	144,795
Deposit certificates issued	510,441	519,888	510,441	519,888
Total	686,296	664,683	682,109	664,683

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.32 Bonds issued (Continued)

Note 1：The Bank issued subordinated bond in the amount of RMB 18.4 billion in the domestic inter-bank market on 11 October 2011 which have a term of 15 years through maturity, with a fixed annual coupon rate of 6.15%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

Note 2：The Bank issued subordinated bond in the amount of RMB 12.0 billion in the domestic inter-bank market on 28 December 2012 which have a term of 15 years through maturity, with a fixed annual coupon rate of 5.20%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

Note 3：The Bank issued financial bond in the amount of RMB 30 billion in the domestic inter-bank market on 28 February 2012 which have a term of 5 years, with a fixed annual coupon rate of 4.20%. The bond has expired on 28 February, 2017.

Note 4：The Bank issued RMB bond in Hong Kong Exchanges and Clearing Limited in the amount of RMB 1 billion on 22 May 2014 which have a term of 3 years, with a fixed annual coupon rate of 4.08%. The bond has expired on 22 May, 2017.

Note 5：The Bank issued Tier II capital instruments in the amount of RMB 30 billion in the domestic inter-bank market on 10 September 2015 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.5%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain circumstances.

Note 6：The Bank issued USD 500 million medium-term note in Hong Kong Exchange and Clearing Limited on 18 September 2015 which has a term of 3 years through maturity, with a fixed annual coupon rate of 2.50%. The Bank issued USD 500 million Medium-term note in Hong Kong Exchange and Clearing Limited on 13 February 2017 which have a term of 3 years through maturity, with a fixed annual coupon rate of 2.375%. The Bank issued USD 400 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July, 2017 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+85BPS. The Bank issued USD 350 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July, 2017 which has a term of 5 years through maturity, with a flexible annual coupon rate of 3ML+95BPS.

Note 7：The Bank issued “2016 First Green Financial Bond” in the amount of RMB 20 billion in the domestic inter-bank market on 27 January 2016 which has a term of 3 years through maturity, with a fixed annual coupon rate of 2.95%.

Note 8：The Bank issued “2016 Second Green Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 25 March 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.20%.

Note 9：The Bank issued “2016 Third Green Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 14 July 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.40%.

Note 10：The Bank issued “2017 First Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 24 February 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.00%.

Note 11：The Bank issued “2017 Second Financial Bond” in the amount of RMB 22 billion in the domestic inter-bank market on 28 April 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.32 Bonds issued (Continued)

Note 12：The Bank issued "2017 Third Financial Bond" in the amount of RMB 13 billion in the domestic inter-bank market on 10 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

Note 13：SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank , issued "2017 Financial Bond" in the amount of RMB 3 billion in the domestic inter-bank market on 24 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.96%.

Note 14: On 18 August 2017, SPDB financial leasing Co., Ltd, the subsidiary of the Bank, transferred its finance lease receivables with a par value of RMB 2,286 million to a trust company to issue the "Puxin 2017 First Leasing Asset-Backed Securities". This ABS is divided into primary and secondary tranche with a par value of totalling RMB 2,286 million. The primary tranche has a par value of RMB 1,966 million with a floating annual coupon rate, which is the benchmark interest rate plus the corresponding interest rate margin. The benchmark interest rate is the one-to-five-year benchmark lending rate announced by the PBOC. The secondary tranche has a par value of RMB 320 million with no annual coupon rate. SPDB Financial Leasing Co., Ltd. holds all the secondary tranche. As of 31 December 2017, the remaining balance of the primary tranche is RMB 1,198 million. Since the above-mentioned structure is not satisfied with the requirement for derecognition of the asset, the finance lease receivables transferred that have not expired are still recognised for in the balance sheet.

5.33 Other liabilities

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Interest payable	35,064	34,082	34,422	33,667
Settlement and clearing accounts	22,362	19,712	22,362	19,712
Employee benefits payable	7,911	6,428	6,880	5,501
Advances from and deposits under lease agreements	3,965	4,572	-	-
Business tax and surcharge, value added tax and other tax payables	3,599	3,809	3,397	3,634
Deferred revenue	3,778	3,741	2,423	2,381
Due to Trust Protection Fund	3,400	2,300	-	-
Accrued expenses	1,973	1,560	1,972	1,538
Relending	793	717	793	717
Proceeds from customers for subscribing mutual funds	549	279	549	279
Fiscal deposits in transition	376	166	374	165
Long term undrawn deposits	117	114	117	114
Others	2,703	3,089	2,337	1,798
Total	86,590	80,569	75,626	69,506

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.34 Ordinary shares

	31 December 2016	Newly issued	Ordinary shares converted from capital surplus	31 December 2017
RMB ordinary shares	21,618	1,248	6,486	29,352

Pursuant to the resolution of 2016 Annual General Meeting on 25 April 2017, the Bank converted the capital surplus into ordinary shares in the proportion of 3 share for every 10 shares held, which increased the total number of capital shares by 6,485,483,977 shares. And the number of shares after conversion was 28,103,763,899 shares.

In September 2017, the Bank completed private placement of domestic RMB ordinary shares (A shares) to Shanghai International Group Co.,Ltd. and Shanghai Guoxin Investment Development Co., Ltd. A total of 1,248,316,498 ordinary shares were issued with a par value of RMB 1 Yuan per share and the premium was included in the capital reserve with a totalling of RMB 13,568 million. The Bank has finished the registration of the private placement at the Shanghai Branch of China Securities Depository and Clearing Corporation Ltd. The shares are restricted for trading of 36 months. After this private placement, the number of ordinary shares of the Bank has increased from 28,103,763,899 to 29,352,080,397.

5.35 Preference shares

(a) Information of other equity instruments

Name of other equity instrument	Dividend rate	Par value	Number	2016-12-31 Carrying value	Increase in this Year	2017-12-31 Carrying value	Maturity Date	Converted (Yes/No)
Pufayou 1	6% for the first five years	100	150 million	14,960	-	14,960	No Maturity Date	No
Pufayou 2	5.5% for the first five years	100	150 million	14,960	-	14,960	No Maturity Date	No
				29,920	-	29,920		

On 28 November 2014 and 6 March 2015, the Bank issued non-cumulative preference shares with the total par value of RMB 30 billion. The proceeds after deducting transaction costs amounted to RMB 29.92 billion and were recorded as Preference shares. The Bank has the option to redeem part or all outstanding preference shares on any dividend payment date after five years from the issuance if certain conditions are met, under the approval obtained from the CBRC. Holders of the preference shares have no right to require the Bank to redeem the outstanding preference shares. Dividends of the preference shares are payable in cash on annual basis at a fixed dividend rate which is adjusted every five years. The Bank at its discretion has the right not to declare and distribute the dividends of the preference shares in part or full.

Upon occurrence of any of the following triggering events and subject to the approval from the CBRC, the Bank’s outstanding preference shares shall be mandatorily converted in part or full to the Bank’s ordinary shares:

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.35 Preference shares (Continued)

(a) Information of other equity instruments(Continued)

- When the core tier 1 capital adequacy ratio of the Bank decreases to 5.125% or below, upon the approval from the Board of Directors, the outstanding preference share shall be converted into the Bank's ordinary shares in part or full at a pre-determined mandatory conversion price so as to bring the Bank's core tier 1 capital adequacy ratio back to above 5.125%;

- When any triggering event of the Bank's tier 2 capital instruments occurs, the outstanding preference shares shall be converted to the Bank's ordinary A shares at the pre-determined mandatory conversion price.

Under the approval from regulatory authority, the outstanding preference shares will be fully or partially converted to ordinary A shares at the price of RMB 10.96 per share when meeting the mandatory conversion triggering conditions. If the Bank subsequently appropriates bonus shares, transfers retained earnings to ordinary shares, issues new ordinary shares (excluding any increase of ordinary shares due to conversion of convertible financial instruments issued by the Bank, such as preference shares and convertible bonds, etc) or issue rights, the conversion price shall be adjusted subject to the terms and formula provided by the offering documents to adjust for the dilutive effects of these specified increases in ordinary shares.

Pursuant to the relevant laws and regulations, and the Approval from CBRC on the Bank's Non-Public Offering of Preference Shares and Corresponding Revisions to the Article of Association (YJF[2014]No.564), the proceeds from the issuance of preference shares shall be used to supplement the other tier 1 capital of the Bank.

Upon liquidation, the holders of the Bank's preference shares are entitled to the repayment at the par value of the outstanding preference shares prior to any distribution to the holders of the Bank's ordinary shares. If the remaining assets of the Bank are not sufficient to cover the par value, they are allocated to the holders of preference shares on proportionate basis.

(b) Equity attributable to the holders of other equity instruments

	Group	
	31 December 2017	31 December 2016
Equity attributable to the Bank's shareholders		
Equity attributable to the Bank's ordinary shareholders	395,484	338,027
Equity attributable to the Bank's other equity shareholders (Note1)	29,920	29,920
Non-controlling interests	5,581	4,987

Note 1：For cash dividends paid to preference shareholders in 2017, please refer to Note 5.40.

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.36 Capital surplus

Group

	31 December 2016	Addition	Deduction	31 December 2017
Share premium	74,607	13,568	(6,486)	81,689
Other capital surplus				
Capital increase of subsidiaries	50	-	-	50
Others	21	-	-	21
Total	74,678	13,568	(6,486)	81,760

	31 December 2015	Addition	Deduction	31 December 2016
Share premium	60,568	16,004	(1,965)	74,607
Other capital surplus				
Capital increase of subsidiaries	50	-	-	50
Others	21	-	-	21
Total	60,639	16,004	(1,965)	74,678

Bank

	31 December 2016	Addition	Deduction	31 December 2017
Share premium	74,607	13,568	(6,486)	81,689
Other capital surplus				
Others	21	-	-	21
Total	74,628	13,568	(6,486)	81,710

	31 December 2015	Addition	Deduction	31 December 2016
Share premium	60,568	16,004	(1,965)	74,607
Other capital surplus				
Others	21	-	-	21
Total	60,589	16,004	(1,965)	74,628

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.37 Surplus reserves

Group and Bank

	31 December 2016	Addition	31 December 2017
Statutory reserve	22,206	-	22,206
Discretionary reserve	56,483	15,509	71,992
Total	78,689	15,509	94,198

	31 December 2015	Addition	31 December 2016
Statutory reserve	22,206	-	22,206
Discretionary reserve	41,445	15,038	56,483
Total	63,651	15,038	78,689

Pursuant to related PRC regulations, the Bank is required to appropriate 10% of its annual net profit to a non-distributable statutory reserve until such reserve has reached 50% of ordinary shares. After the appropriation of statutory reserve, the Bank may further appropriate discretionary reserve.

5.38 General risk reserve

Group

	31 December 2016	Addition	31 December 2017
General risk reserve	65,493	10,209	75,702

	31 December 2015	Addition	31 December 2016
General risk reserve	45,924	19,569	65,493

Bank

	31 December 2016	Addition	31 December 2017
General risk reserve	65,045	9,855	74,900

	31 December 2015	Addition	31 December 2016
General risk reserve	45,600	19,445	65,045

Pursuant to Caijin [2012] No. 20 “Administration Rules on Appropriation to General Risk Reser ve for Financial Institutions” issued by the Ministry of Finance (“MOF”), the Bank and its dome stic subsidiaries are required to make appropriation to a general risk reserve effective from 1 J uly 2012 and the balance of such reserve shall not be less than 1.5% of the entity’s risk asse ts in five-year time.

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.39 Other reserves

Group	Changes in fair value of available-for-sale financial assets	Changes of other equity items of associates and joint ventures	Exchange differences from the translation of foreign operations	Total
31 December 2016	69	-	164	233
Changes in fair value of available-for-sale financial assets transfer to other comprehensive income in current year, after tax	(2,426)	-	-	(2,426)
Transfer to profit or loss in current year, after tax	(3,013)	-	-	(3,013)
Exchange differences from the translation of foreign operations	-	-	(129)	(129)
31 December 2017	(5,370)	-	35	(5,335)

Group	Changes in fair value of available-for-sale financial assets	Changes of other equity items of associates and joint ventures	Exchange differences from the translation of foreign operations	Total
31 December 2015	5,692	(18)	39	5,713
Changes in fair value of available-for-sale financial assets transfer to other comprehensive income in current year, after tax	(3,116)	-	-	(3,116)
Transfer to profit or loss in current year, after tax	(2,507)	-	-	(2,507)
Share of other comprehensive income in associates and joint ventures	-	18	-	18
Exchange differences from the translation of foreign operations	-	-	125	125
31 December 2016	69	-	164	233

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.39 Other reserves (Continued)

Bank	Changes in fair value of available-for-sale financial assets	Changes of other equity items of associates and joint ventures	Exchange differences from the translation of foreign operations	Total
31 December 2016	92	-	96	188
Changes in fair value of available-for-sale financial assets transfer to other comprehensive income in current year, after tax	(2,419)	-	-	(2,419)
Transfer to profit or loss in current year, after tax	(2,954)	-	-	(2,954)
Exchange differences from the translation of foreign operations	-	-	(104)	(104)
31 December 2017	(5,281)	-	(8)	(5,289)

Bank	Changes in fair value of available-for-sale financial assets	Changes of other equity items of associates and joint ventures	Exchange differences from the translation of foreign operations	Total
31 December 2015	5,692	(18)	27	5,701
Changes in fair value of available-for-sale financial assets transfer to other comprehensive income in current year, after tax	(3,206)	-	-	(3,206)
Transfer to profit or loss in current year, after tax	(2,394)	-	-	(2,394)
Share of other comprehensive income in associates and joint ventures	-	18	-	18
Exchange differences from the translation of foreign operations	-	-	69	69
31 December 2016	92	-	96	188

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.40 Retained earnings

Group

	Year ended 31 December	
	2017	2016
Opening balance of retained earnings	97,316	90,670
Plus: Net profit attributable to the Bank's Shareholders for the year	54,258	53,099
Less: Appropriation to discretionary reserve	(15,509)	(15,038)
Appropriation to general risk reserve	(10,209)	(19,569)
Cash dividends paid to preference shareholders	(1,725)	(1,725)
Cash dividends paid to ordinary shareholders	(4,324)	(10,121)
Ending balance of retained earnings	119,807	97,316

Bank

	Year ended 31 December	
	2017	2016
Opening balance of retained earnings	95,016	89,648
Plus: Net profit attributable to the Bank's Shareholders for the year	51,730	51,697
Less: Appropriation to discretionary reserve	(15,509)	(15,038)
Appropriation to general risk reserve	(9,855)	(19,445)
Cash dividends paid to preference shareholders	(1,725)	(1,725)
Cash dividends paid to ordinary shareholders	(4,324)	(10,121)
Ending balance of retained earnings	115,333	95,016

Pursuant to the resolution of 2016 Annual General Meeting on 25 April 2017, the Bank appropriated 30% of its net profit for the year ended 31 December 2016 to the discretionary reserve in the amount of RMB 15,509 million. The Bank further appropriated RMB 9,855 million to general risk reserve. Upon the issuance on 31 December 2016, ordinary shares were increased to 21,618,279,922 shares, cash dividends of RMB 4.324 billion (RMB 2 before tax per 10 ordinary shares) were approved by shareholders. And the Bank converted the capital surplus into ordinary shares in the proportion of 3 share for every 10 shares held, the total amount converted is RMB 6.486 billion.

In accordance with a resolution of the board meeting on 28 February 2017, the Bank declared cash dividends on Pufayou 2. The dividend is calculated at a rate of 5.50% of the Par value of Pufayou 2. The dividend was paid at a rate of RMB 5.50 per share (before tax), totaling RMB 825 million (before tax).

In accordance with a resolution of the board meeting on 20 November 2017, the Bank declared cash dividends on Pufayou 1. The dividend is calculated at a rate of 6.00% of the Par value of Pufayou 1. The dividend was paid at a rate of RMB 6.00 per share (before tax), totaling RMB 900 million (before tax).

In accordance with a resolution of the board meeting on 26 April 2018, the Board of Directors proposed to appropriate 30% of the Bank's net profit for the year ended 31 December 2017 to the discretionary reserve in the amount of RMB 15.519 billion. Cash dividends of RMB 2.935 billion (RMB 1.0 before tax per 10 ordinary shares) based on the total number of ordinary shares of 29,352,080,397 at the end of 2017. These appropriations are subject to final approval by shareholders.

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.41 Non-controlling interests

Non-controlling interests of the Group are as follows:

	31 December 2017	31 December 2016
SPD Financial Leasing Co., Ltd.	2,117	1,855
Shanghai International Trust Co., Ltd.	1,332	1,201
Mianzhu SPD Rural Bank Co., Ltd.	58	54
Liyang SPD Rural Bank Co., Ltd.	171	158
Gongyi SPD Rural Bank Co., Ltd.	156	149
Fengxian SPD Rural Bank Co., Ltd.	145	145
Zixing SPD Rural Bank Co., Ltd.	108	104
Chongqing Banan SPD Rural Bank Co., Ltd.	65	74
Zouping SPD Rural Bank Co., Ltd.	128	127
Zezhou SPD Rural Bank Co., Ltd.	168	160
Dalian Ganjingzi SPD Rural Bank Co., Ltd.	34	41
Hancheng SPD Rural Bank Co., Ltd.	52	46
Jiangyin SPD Rural Bank Co., Ltd.	103	92
Pingyang SPD Rural Bank Co., Ltd.	71	69
Xinchang SPD Rural Bank Co., Ltd.	117	108
Yuanjiang SPD Rural Bank Co., Ltd.	43	40
Chaling SPD Rural Bank Co., Ltd.	58	47
Linchuan SPD Rural Bank Co., Ltd.	112	90
Linwu SPD Rural Bank Co., Ltd.	53	42
Hengnan SPD Rural Bank Co., Ltd.	44	37
Haerbing hulan SPD Rural Bank Co., Ltd.	56	56
Gongzhulin SPD Rural Bank Co., Ltd.	21	22
Yuzhong SPD Rural Bank Co., Ltd.	52	44
Yunnan Fumin Rural Bank Co., Ltd.	37	36
Ningbo Haishu Rural Bank Co., Ltd.	60	58
Urumchi Midong SPD Rural Bank Co., Ltd.	70	64
Tianjin Baodi SPD Rural Bank Co., Ltd.	75	68
Qianxinan Yilong SPD Rural Bank Co., Ltd.	30	-
Chongqing Tongliang SPD Rural Bank Co., Ltd.	22	-
Fufeng SPD Rural Bank Co., Ltd.	23	-
Total	5,581	4,987

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.42 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

The note of financial assets sold under repurchase agreements refers to Note 5.30. For the year ended 31 December 2017, the Group transferred financial assets amounted to 157,600 million through asset securitization transactions and external transfer of financial assets.

Assets backed securitization transaction

For the year ended 31 December 2017, the Group transferred financial assets amounted to RMB 19,669 million through assets backed securitization transactions, all have met the requirement of derecognition except for Puxin 2017 First Leasing ABS (Note 5.32) issued by the Bank's subsidiary SPD Financial Leasing Co., Ltd.. (For the year ended 31 December 2016, the Group transferred financial assets amounted to RMB 54, 554 million through assets backed securitization transactions and all have met the requirement of derecognition).

Transfer of loans assets

For the year ended 31 December 2017, the Group directly transferred total amount of RMB 98,388 million loan assets to third parties. Among them, the Group transferred total amount of RMB 56,185 million loan assets to structured entities and all have met the requirement of derecognition (For the year ended 31 December 2016, the Group transferred total amount of RMB3,829 million loan assets to structured entities and continuing involvement total amount of RMB 1,719 million assets, and recognized the total amount of RMB 1,719 million impairment allowance. The amounts of continuing involvement asset and impairment allowance in 2017 are the same as those in 2016). The Group transferred total amount of RMB 42,203 million impaired loans to assets management companies and all have met the requirement of derecognition (2016: RMB 43,976 million, all have met the requirement of derecognition).

Transfer of trust beneficial rights

For the year ended 31 December 2017, the Group transferred total amount of RMB 39,543 million trust beneficial rights to assets management companies and all have met the requirement of derecognition (2016: None) .

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.43 Structured entities

(1) Structured entities that are not consolidated

i) Unconsolidated structured entities managed by the Group

As at 31 Dec 2017, unconsolidated structured entities established and managed by the Group amounted to RMB 2,940,116 million, as an agent are wealth management product vehicles, securitization vehicles and trust plans.

(a) Wealth management products

These wealth management products are designed and issued to specific customers based on analysis of potential target customers, and the proceeds from these products are invested in certain financial market or investment products in accordance with guidelines determined in the contracts. The returns on investment are distributed to investors pursuant to contract terms. As the asset manager, the Group is entitled to sales commission, a fixed management fee and a floating management fee based on performance of the product. The Group has performed analysis and concluded that its variable return related to these structured entities is not material.

As at 31 Dec 2017, unconsolidated wealth management products established and managed by the Group amounted to RMB 1,535.34 billion (2016: RMB 1,541.20 billion).

As the asset manager, the Group actively manages the maturities of assets and liabilities, the position and proportion of current assets of these wealth management products vehicles to maximize the return for the investors. The Group makes the placements with the wealth management products, the transaction is not a contractual obligation to the Group. The price of the temporary funding is based on market price. As at 31 December 2017, the placement balance of unconsolidated wealth management products with specific purpose is RMB 16,000 million, and the maximum risk exposure of unconsolidated wealth management products is loans, interest receivables and commission fee. For the year ended 31 December 2017, the average daily exposure of placement for unconsolidated wealth management products with specific purpose amounts to RMB 2,721 million (2016: 14,060 million), with interest income of RMB 89 million (2016: 473 million).

(b) The special purpose vehicles established by trust company for the asset securitization

In the Group's asset securitization business, another type of unconsolidated structured entities originated by the Group is the special purpose vehicles ("SPV") established by trust company for the asset securitization of part of the Group's credit assets. The Group acts as a service provider and manages loan assets transferred to SPVs and is entitled to the commission fee. The Group also holds part of the issued asset backed securities. The Group concluded that its variable returns from these SPVs are not material. As at 31 December 2017, the Group's maximum risk exposure in these unconsolidated SPVs amounted to RMB 15,253 million (31 December 2016: RMB 10,460 million), being the aggregated carrying value of asset backed securities classified as "investments", and loan service agency commission fee which is not material.

As at 31 December 2017, total assets of these unconsolidated SPVs amounted to RMB 43,557 million (31 December 2016: RMB 56,151 million). The Group has not provide financing support to these unconsolidated SPVs (2016: Nil).

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.43 Structured entities (Continued)

(1) Structured entities that are not consolidated (Continued)

i) Unconsolidated structured entities managed by the Group (Continued)

(c) Trust plans managed by the Group

In accordance with the ‘Trust Law of the People's Republic of China’, “Trust property should be separated from properties owned by trustee (“inherent property”), and cannot be included or become part of the inherent property”. Inherent property and trust property are managed and accounted for separately by the Group. Trust plans managed by the Group refer to a basic unit of trust property under the Group’s separately or collectively management, utilization and disposal as per agreement. Each trust plan is an independent accounting subject which is accounted for independently as regards to the trust property’s management, utilization and disposal.

As at 31 Dec 2017, total assets of these unconsolidated trust plans amounted to RMB 888,091 million (31 December 2016: RMB 811,297 million). The Bank did not provide financing support to these unconsolidated trust plans for 2017 (2016: Nil).

(d) Asset management plans managed by the Group

Entrusted assets management refers to business that the Group, as the manager, signed entrusted assets management contracts with clients and invests and manages the assets as various financial portfolios in financial market to maximize profit. The Group provides professional services and charges management fee, trustee fee, etc. The clients bear risks and gain profits per contracts.

As at 31 Dec 2017, total assets of these unconsolidated asset management plans amounted to RMB 3,482 million (31 December 2016: RMB 17,520 million). The Group did not provide financing support to these unconsolidated asset management plans for 2017 (2016: Nil).

(e) Securities investment funds

In accordance with the ‘Securities Investment Fund Law of the People’s Republic of China’, “Fund assets shall be independent from a fund management institution's or a fund custodian's own assets. The fund management institution or fund custodian shall not incorporate any fund assets into its own assets”. The Group charges management fee by managing the fund property for investors. Investors take the relative risks and profits according to the contractual agreements.

As at 31 Dec 2017, total assets of these unconsolidated securities investment funds amounted to RMB 469,642 million (31 December 2016: RMB 152,863 million). The Group did not provide financing support to these securities investment funds for 2017 (2016: Nil).

ii) Unconsolidated structured entities invested by the Group

As at 31 Dec 2017 unconsolidated structured entities that are invested by the Group amounted to RMB 1,039,778 million (31 December 2016: RMB 1,313,603 million), mainly included wealth management products, asset backed securities, and trust and assets management plans. The Group did not provide financing support to these structured entities in 2017 (2016: Nil).

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.43 Structured entities (Continued)

(1) Structured entities that are not consolidated (Continued)

ii) Unconsolidated structured entities invested by the Group (Continued)

The carrying value of assets of these unconsolidated structured entities and the Group's maximum risk exposure on loss are listed as follows:

As at 31 December 2017	Carrying Value	Maximum risk exposure on loss	Total volume of structured entities
Financial assets at fair value through profit or loss			
Trust and asset management plans	3,032	3,032	42,363
Fund investments	12,088	12,088	Note 1
Other investments	4,633	4,633	4,633
Available-for-sale financial assets			
Trust and asset management plans	52,951	52,951	168,281
Fund investments	215,396	215,396	Note 1
Wealth management products managed by other banks	354	354	Note 1
ABS	170,492	170,492	Note 1
Others	888	888	Note 1
Investment securities - loans and receivables			
Wealth management products managed by other banks	520	520	Note 1
ABS	3,481	3,481	Note 1
Trust and asset management plans	575,943	575,943	583,204

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.43 Structured entities (Continued)

(1) Structured entities that are not consolidated (Continued)

ii) Unconsolidated structured entities invested by the Group (Continued)

As at 31 December 2016	Carrying Value	Maximum risk exposure on loss	Total volume of structured entities
Financial assets at fair value through profit or loss			
Trust and asset management plans	4,408	4,408	290,433
Fund investments	6,777	6,777	Note 1
Other investments	4,373	4,373	4,373
Available-for-sale financial assets			
Trust and asset management plans	23,492	23,492	206,966
Fund investments	102,990	102,990	Note 1
Wealth management products managed by other banks	160,526	160,526	Note 1
ABS	73,507	73,507	Note 1
Others	4,281	4,281	Note 1
Investment securities - loans and receivables			
Wealth management products managed by other banks	74,157	74,157	Note 1
ABS	4,803	4,803	Note 1
Trust and asset management plans	854,289	854,289	864,004

Note 1: Total volume of these unconsolidated structured entities is not available in the public information.

The Group earns interest income, commission income and investment income as return on holding these investments or providing services to these structured entities.

(2) Consolidated structured entities

Consolidated structured entities include wealth management product vehicles established and managed by the Group with the total amount of RMB 84,226 million at 31 December 2017 (RMB 59,132 million at 31 December 2016). The Group did not provide financial support to these consolidated structured entities in 2017 (2016: Nil).

6 SEGMENT REPORTING

Top management of the Group reviews the performance of the Bank's branches and subsidiaries in different economic regions from geographic perspective. The branches and subsidiaries of the Bank mainly provide services to local customers domiciled in respective geographic areas, therefore operating segments are analysed principally based on the location of the assets.

The operating segments' principal income are mainly from various commercial and investment banking services, including deposits and loans, discounted bills, trade finance, inter-bank money market and investments etc.

The Group's operating segments of different regions are set out as follows:

Headquarter：	Headquarters (including the direct institutions under headquarters and the branches)
Yangtze River Delta：	Shanghai, Jiangsu, Zhejiang
Pearl River Delta and West Side of Taiwan Strait：	Guangdong, Fujian
Bohai Rim：	Beijing, Tianjin, Hebei, Shandong
Central China：	Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi, Hainan
Western China：	Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongoli, Tibet
North-east China：	Liaoning, Jilin, Heilongjiang
Overseas and subsidiaries：	Overseas branches and domestic and overseas Subsidiaries

6 SEGMENT REPORTING (Continued)

	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
Year ended 31 December 2017										
Interest income	231,598	120,669	51,767	71,870	50,657	46,964	19,917	7,960	(355,584)	245,818
Including: External interest income	*76,832*	*44,051*	*21,079*	*33,460*	*26,645*	*24,913*	*11,384*	*7,454*	-	*245,818*
Internal interest income	*154,766*	*76,618*	*30,688*	*38,410*	*24,012*	*22,051*	*8,533*	*506*	*(355,584)*	-
Interest expense	(211,526)	(93,446)	(42,336)	(57,031)	(35,817)	(34,031)	(15,084)	(5,219)	355,584	(138,906)
Including: External interest expense	*(37,904)*	*(31,837)*	*(18,384)*	*(21,041)*	*(11,044)*	*(8,171)*	*(5,669)*	*(4,856)*	-	*(138,906)*
Internal interest expense	*(173,622)*	*(61,609)*	*(23,952)*	*(35,990)*	*(24,773)*	*(25,860)*	*(9,415)*	*(363)*	*355,584*	-
Net interest income	20,072	27,223	9,431	14,839	14,840	12,933	4,833	2,741	-	106,912
Net fee and commission income	30,965	3,393	1,418	1,768	1,731	1,289	572	4,444	-	45,580
Dividend income	37	-	-	-	-	-	-	202	-	239
Net trading income	8,079	435	56	79	-	-	-	415	-	9,064
Net gains arising from financial investment	338	74	-	(78)	5	-	-	49	-	388
Other operating income	2,340	1,434	386	652	232	207	109	1,249	-	6,609

6 SEGMENT REPORTING (Continued)

	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
Year ended 31 December 2017										
Employee expenses, depreciation and other general and administrative expenses	(12,248)	(8,674)	(3,040)	(4,908)	(4,002)	(4,088)	(1,903)	(3,303)	-	(42,166)
Business tax and surcharges	(538)	(331)	(109)	(158)	(153)	(177)	(73)	(71)	-	(1,610)
Impairment charges	(2,663)	(10,291)	(568)	(7,022)	(7,891)	(22,388)	(4,036)	(426)	-	(55,285)
Net investment income of associates and joint ventures	97	-	-	-	-	-	-	-	-	97
Total profit	46,479	13,263	7,574	5,172	4,762	(12,224)	(498)	5,300	-	69,828
31 December 2017										
Loans and advances to customers	523,689	839,777	299,361	396,191	398,757	418,553	154,807	72,718	-	3,103,853
Total assets	2,653,169	1,519,227	630,510	881,331	626,629	546,323	244,906	245,486	(1,210,341)	6,137,240
Deposits from customers	156,037	1,089,455	318,430	486,605	449,948	332,733	134,121	70,607	-	3,037,936
Total liabilities	2,252,916	1,505,964	622,936	876,159	621,867	558,547	245,404	232,803	(1,210,341)	5,706,255
Net position of assets and liabilities	400,253	13,263	7,574	5,172	4,762	(12,224)	(498)	12,683	-	430,985

6 SEGMENT REPORTING (Continued)

	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
Year ended 31 December 2016										
Interest income	181,981	108,360	43,457	64,501	44,749	47,389	19,940	6,765	(302,328)	214,814
Including: External interest income	*44,095*	*43,124*	*21,206*	*32,784*	*25,398*	*28,148*	*13,603*	*6,456*	-	*214,814*
Internal interest income	*137,886*	*65,236*	*22,251*	*31,717*	*19,351*	*19,241*	*6,337*	*309*	*(302,328)*	-
Interest expense	(169,048)	(80,919)	(33,651)	(47,783)	(28,639)	(31,742)	(13,750)	(3,490)	302,328	(106,694)
Including: External interest expense	*(34,977)*	*(23,910)*	*(11,615)*	*(15,413)*	*(7,417)*	*(6,804)*	*(3,269)*	*(3,289)*	-	*(106,694)*
Internal interest expense	*(134,071)*	*(57,009)*	*(22,036)*	*(32,370)*	*(21,222)*	*(24,938)*	*(10,481)*	*(201)*	*302,328*	-
Net interest income	12,933	27,441	9,806	16,718	16,110	15,647	6,190	3,275	-	108,120
Net fee and commission income	26,565	3,526	1,090	1,759	1,937	1,559	981	3,275	-	40,692
Dividend income	64	-	-	-	-	-	-	-	-	64
Net trading income	4,060	111	49	63	-	1	-	(85)	-	4,199
Net gains arising from financial investment	3,252	149	112	151	175	221	100	174	-	4,334
Net gains on disposal of associate	1,068	-	-	-	-	-	-	-	-	1,068
Other operating income	(417)	1,183	298	778	261	125	134	232	-	2,594

6 SEGMENT REPORTING (Continued)

	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
Year ended 31 December 2016										
Employee expenses, depreciation and other general and administrative expenses	(9,756)	(8,068)	(2,899)	(4,802)	(3,777)	(3,705)	(2,060)	(2,661)	-	(37,728)
Business tax and surcharges	(1,184)	(1,015)	(320)	(500)	(529)	(553)	(247)	(96)	-	(4,444)
Impairment charges	(10,731)	(9,054)	(4,876)	(4,643)	(8,075)	(9,167)	(1,891)	(667)	-	(49,104)
Net investment income of associates and joint ventures	180	-	-	-	-	-	-	-	-	180
Total profit	26,034	14,273	3,260	9,524	6,102	4,128	3,207	3,447	-	69,975
31 December 2016										
Loans and advances to customers	308,171	746,396	248,735	367,211	372,800	398,819	161,251	71,174	-	2,674,557
Total assets	1,824,891	1,571,114	568,252	984,134	596,621	602,906	291,528	215,867	(798,050)	5,857,263
Deposits from customers	127,209	1,059,035	286,675	477,272	453,020	388,673	150,062	60,069	-	3,002,015
Total liabilities	1,501,552	1,556,806	565,006	974,585	590,488	598,741	288,314	206,887	(798,050)	5,484,329
Net position of assets and liabilities	323,339	14,308	3,246	9,549	6,133	4,165	3,214	8,980	-	372,934

7 CONTINGENCIES AND COMMITMENTS

7.1 Credit commitment

The Group's credit commitment is listed as follows:

Item	31 December 2017	31 December 2016
Bank acceptances	396,414	510,767
Bills acceptance under letters of credit	144,602	125,121
Letters of guarantee issued	121,346	124,507
Letters of credit issued	14,143	12,975
Credit card and other commitments	269,748	188,722
Total	946,253	962,092

As at 31 December 2017, there is no outstanding commitment on security underwriting (31 December 2016: Nil).

7.2 Commitment on early redemption of certificate treasury bonds

The Group is entrusted by the MOF to underwrite certificate treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest at the redemption date.

As at 31 December 2017, the outstanding principal value of the treasury bonds sold by the Group amounted to RMB 4,221 million (31 December 2016: RMB 3,940 million).

The MOF will not provide funding for the early redemption of these treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The management expects the amount of the bonds of which redemption is through the Group before the maturity dates will not be material.

7.3 Operating lease commitment

According to the lease contract terms, the minimum lease payment commitment of the Group is as follows:

	31 December 2017	31 December 2016
Within 1 year	2,363	2,148
1 to 5 years	5,853	5,889
Over 5 years	1,884	1,830
Total	10,100	9,867

7.4 Capital commitment

As at 31 December 2017, the major capital commitment the Group had signed but not paid amounted to RMB 5,293 million (31 December 2016: RMB 1,496 million).

As at 31 December 2017, the major capital commitment the Group had approved but not signed amounted to RMB 1,135 million (31 December 2016: RMB 5,138 million).

7 CONTINGENCIES AND COMMITMENTS (Continued)

7.5 Legal proceedings

As at 31 December 2017, the number of outstanding legal proceedings where the Group acts as the defendant was 175(including being third party defendant), and the amount involved was about RMB 2,195 million. The possibility of loss is not large, no provision was required (At 31 December 2016: the number of outstanding legal proceedings where the Group acts as the defendant was 185(including being third party defendant), and the amount involved was about RMB 1,735 million. The possibility of loss is not large, no provision was required).

8 FIDUCIARY BUSINESSES

The Group provides safe-keeping and entrusted loan businesses to independent third party customers. The assets arising from these businesses are not recorded on the Group's statement of financial position. As at 31 December 2017, the balance of entrusted loan business was RMB 178.1 billion (As at 31 December 2016: RMB 203 billion).

9 RELATED PARTIES

9.1 Major related parties

The related parties of the Bank mainly include its subsidiaries, associates, joint ventures, the major shareholders who hold 5% or more ordinary shares of the Bank and their Group companies (including parent and all subsidiaries), key management personnel of the Bank (including directors, supervisors and senior management personnel) and their close family members, and the companies that are controlled, or under common control of, or significant influence by these key management personnel and their close family members.

9.2 Major shareholders holding more than 5% shares of the Bank

As at 31 December 2017, major shareholders holding more than 5% ordinary shares of the Bank are as follows:

	Percentage	Major business
Shanghai International Group Co., Ltd.	21.57%	Financial Services
China Mobile Group Guangdong Company Limited	18.18%	Mobile and Communication
Funde Sino Life Insurance Co., Ltd. – Traditional	9.47%	Insurance Business
Funde Sino Life Insurance Co., Ltd. – Capital	6.01%	Insurance Business

9.3 Subsidiaries

For general information of the Group's subsidiaries, please refer to Note 4 "Scope of consolidated financial statements."

9.4 Associates and joint ventures

For general information of associates and joint ventures, please refer to Note 5.21 "Investments in associates and joint ventures."

9.5 Other major related parties

Other related parties mainly include respective Group companies of shareholders who hold 5% or more ordinary shares of the Bank, key management personnel of the Bank (including the directors, supervisors and senior management) and their close family members, and the companies that are controlled, or under common control of, or significant influence by these key management personnel and their close family members.

9 RELATED PARTIES (Continued)

9.6 Transactions and balances with related parties

The major transactions between the Group and its related parties are loans and deposits. These transactions are conducted and priced under the normal commercial terms and business procedures as if they were conducted with independent third parties. The amount of transactions with related parties is not significant to the total volume of each type of the Group's business.

(1) Loans and advances to customers

	31 December 2017	31 December 2016
Associates and joint ventures	61	44
Group companies of major shareholders	500	324
Total	561	368

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income	7	16

(2) Deposits from customers

	31 December 2017	31 December 2016
Major shareholders	6,330	5,317
Companies with significant influence by key management personnel	7,494	8,058
Group companies of major shareholders	47,678	35,414
Total	61,502	48,789

	Year ended 31 December 2017	Year ended 31 December 2016
Interest expense	1,374	1,445

(3) Due to and placements from banks and other financial institutions

	31 December 2017	31 December 2016
Associates and joint ventures	2,430	4,566
Group companies of major shareholders	14,798	3,103
Total	17,228	7,669

	Year ended 31 December 2017	Year ended 31 December 2016
Interest expense	223	113

9 RELATED PARTIES (Continued)

9.6 Transactions and balances with related parties (Continued)

(4) Commission income

	Year ended 31 December 2017	Year ended 31 December 2016
Associates and joint ventures	32	66
Group companies of major shareholders	7	-
Total	39	66

(5) Commission expense

	Year ended 31 December 2017	Year ended 31 December 2016
Group companies of major shareholders	40	-
Total	40	-

(6) Operating expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Major shareholders	7	5
Group companies of major shareholders	350	200
Total	357	205

The Group makes payments to one major shareholder and its Group companies for purchase of mobile communication services.

(7) Letters of guarantee issued

	31 December 2017	31 December 2016
Associates and joint ventures	21	-
Group companies of major shareholders	5,442	5,950
Total	5,463	5,950

As at 31 December 2017, the outstanding letters of guarantee will expire in 2018.

9 RELATED PARTIES (Continued)

9.6 Transactions and balances with related parties (Continued)

(8) Related parties that are controlled by the Bank

Related parties that are controlled by the Bank are the subsidiaries of the Bank (refer to Note 4 for details). Major transactions with these subsidiaries are eliminated in the consolidated financial statements, and are summarized as follows:

Balances at year end	31 December 2017	31 December 2016
Due from and placements with banks and other financial institutions	2,904	4,363
Loans and advances to customers	1,096	1,250
Due to and placements from banks and other financial institutions	8,382	6,246
Deposits from customers	454	138
Other assets	93	73
Other liabilities	24	24

Transactions for the year:	Year ended 31 December 2017	Year ended 31 December 2016
Loans transferred from subsidiaries	1,189	-
Interest income from Due from banks and other financial institutions	28	15
Interest income from placements with other banks and financial institutions	83	18
Interest income from loans and advances to customers	45	25
Interest expense from due to and placements from banks and other financial institutions	193	120
Fee and commission income	25	30
Fee and commission expense	40	43
Operating expense	-	7

(9) Compensation of key management personnel

Transactions between the Group and its key management personnel are conducted under normal commercial terms. During 2017, individual amounts of transactions with key management personnel are not significant.

According to the relevant regulations, the 2017 annual compensation of Bank's directors, supervisors and senior management personnel is yet to be approved by relevant authorities. The compensation of key management personnel does not have significant impact on the Group and the Bank's financial statements of 2017 (The aggregated compensation of Bank's directors, supervisors and senior management personnel for 2016 was RMB 12.92 million).

10 FINANCIAL RISK MANAGEMENT

The Group exposes to a variety of financial risks. The Group analyses, evaluates, accepts and manages some degree of risks or risk portfolios. Managing financial risk is core to the financial industry, and the inherent risks are an inevitable consequence of business operation. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse impact on the Group's financial performance.

The Group designs a series of risk management policies to identify and analyses these risks, and has set appropriate risk limits and control procedures to monitor the risks and limits through reliable information systems.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk mainly consists of currency risk, interest rate risk and commodity risk.

The Board of Directors of the Bank is responsible for determining the Group's overall risk appetite. Within this framework, the senior management of the Bank designs risk management policies and procedures for credit risk, market risk and liquidity risk accordingly. After the policies and procedures are approved by the Board of Directors, related departments of the headquarter are responsible for their implementation.

10.1 Credit risk

Credit risk is the risk that a customer or counterparty may be failing or unwilling to discharge an obligation or commitment to the Group resulting in a financial loss to the Group. Credit risk is greater when counterparties are concentrated in one industry or geographic region, because a Group of otherwise unrelated counterparties could be adversely affected in their ability to fulfill their obligations due to same economic factors affecting their common industry or region.

The Group has established relevant mechanism, and set limit for individual borrower's tolerable credit risk. The Group regularly monitors and reviews this credit risk limit.

The Group conducts credit evaluation before granting facilities to specific customer, and regularly examines the credit limit granted. The approaches of credit risk management include obtaining collateral and guarantee. For off-balance sheet credit commitments, the Group generally obtains guarantee deposits to mitigate the credit risk.

The credit risks of trust plan are mainly arising from the possibility of counter parties' non-performance of their obligations; mainly in the process of loan, asset repurchase, subsequent financial arrangement, guarantee, performance commitment, fund transfer flow and security investment, etc.; counter parties including the borrower, the guarantor or the depository (the trustee), securities investment accounts dealer and the Bank, are failing to or unable or unwilling to perform the contract commitments, thus resulting in the possibility of potential loss of trust property or inherent property.

10.1.1 Credit risk measurement

(i) Loans

The Group has established a five-grade classification system to measure and manage the credit quality of its loans and advances to corporate and retail customers. Such classification system is based on "Guideline for Credit Risk Classification" (the "Guideline") issued by the CBRC on 3 July 2007. The Group's own system and the Guideline require the Group to classify its credit assets and off-balance sheet credit exposures into five categories, which are namely pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.1 Credit risk measurement (Continued)

(i) Loans (Continued)

The core definition of the credit asset classification is as follows:

Pass: loans for which borrowers can fulfill the terms of the contracts, and there is no reason to believe their ability to repay principal or interest of loans on a timely basis is in doubt.

Special Mention: loans for which borrowers are able to service the loans currently, although there exist some negative factors which may affect the borrower to repay the loans on time.

Substandard: loans for which borrowers' ability to service loans is apparently in doubt and borrowers cannot rely on their proceeds from normal operations to repay the principal and interest of loans. Certain losses may be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot repay the principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and proceeding necessary legal procedures.

(ii) Bonds and other bills

The Group manages the credit risk exposure of bonds and other bills through controlling the investment scale and issuer's credit rating and establishing post lending management standards. Generally, for foreign currency securities, only those with credit ratings (by Standard & Poor or equivalent agencies) equivalent to or higher than BBB can be invested. Investments in RMB debt securities are limited to those bonds with credit rating equivalent to or above BBB+ assigned by rating agencies recognized by the PBOC. For middle or long term RMB debt securities, their credit ratings granted by PBOC recognized agencies cannot be lower than A-. For short term RMB debt securities, their credit ratings granted by the PBOC recognized agencies cannot be lower than A-1.

(iii) Other financial assets classified as loans and receivables

Other financial assets classified as loans and receivables, include wealth management products issued and managed by other banks, trust plans and asset management plans. The Group established a risk evaluation system on the trust companies, security companies and fund management companies, set up credit limit for parties repurchasing trust beneficial rights, issuers of wealth management products, ultimate borrowers of asset management schemes, and performs ongoing post-lending monitoring on timely basis.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.1 Credit risk measurement (Continued)

(iv) Inter-bank transactions

The Group reviews and monitors the credit risk of individual financial institutions on regularly basis. Limits are set for each individual bank or non-banking financial institution which has business relationship with the Group.

(v) Derivative financial instruments

The Group strictly controls the volume of derivative transactions. For corporate customers, the Group mitigates credit risk associated with derivative financial instruments by acquiring margin deposits from counterparties.

(vi) Credit commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Letters to guarantee issued, acceptances, bill acceptance and letters of credit, which represent irrevocable commitment that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. When the amount of credit commitment exceeds the original credit limit, margin deposits are required to mitigate the credit risk. The Group's exposure of credit risk is equivalent to the total amount of credit commitments.

(vii) Trust plan

The Group strictly enforces the policy “pre-loan investigation, in-process review, post-loan inspection” over trust plan. In the design of the product trade structure, it introduces guarantee mechanism including financial institution credit, property mortgage, and rights pledge in terms of product transaction structure design. And the Group comprehensively applies the methods of avoidance, prevention, dispersion, transfer, compensation to manage risks, disperses and transfers credit risks of financing entities,so as to reduce risk exposure.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.2 Credit risk limit management and mitigation procedures

The Group manages and limits the concentrations of credit risk, including concentration to individual counterparty, group, industry and region.

The Group continuously optimizes the credit risk structure by setting limits on the borrower, group of borrowers, geographical and industry segments. Concentration risks are monitored on ongoing basis and subject to an annual or more frequent review where necessary.

The Group manages the exposure to credit risk through regular analyses of borrowers and potential borrowers' abilities to fulfill interest and principal repayment obligations and amends the lending limits where appropriate.

The Group has established relevant policies to mitigate credit risk. One of the most important measures is to obtain collateral, pledged assets, guarantee deposits or guarantees from corporates or individuals. The Group provides guidelines on the acceptance of specific classes of collateral. The principal types of collateral for loans and advances are:

- Residential property and land use right;
- Commercial assets, such as commercial property, inventory and accounts receivables;
- Financial instruments, such as debt securities and equity shares.

Fair value of collateral is usually required to be assessed by professional valuer designated by the Group. When there is objective evidence of impairment, the value of collateral will be reviewed by the Group to assess whether it could sufficiently cover the credit exposure of relevant loans. To mitigate the credit risk, the Group has implemented loan-to-value ratio requirement based on type of collateral as follows:

Collateral	Maximum loan-to-value ratio
Time deposit	95%-100%
PRC treasury bonds	90%-100%
PRC financial institution bonds	90%
Right to collect fees	70%
Right to operate a business	60%
Commercial property and plant	60%
Residential property	70%
Land use right	60%

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience adjustments for current market conditions and estimated expenses to be incurred in the disposal process.

For loans guaranteed by third parties, the Group will review the financial condition and credit history of guarantors and evaluate the ability of the guarantors to meet obligations on regular basis.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.3 Maximum exposure to credit risk without considering collateral or other credit enhancements

	31 December 2017	31 December 2016
Credit risk exposure relating to balance sheet items:		
Balances with central bank	479,247	510,009
Due from and placements with banks and other financial institutions	177,187	353,115
Financial assets at fair value through profit or loss	142,658	161,617
Derivative financial assets	28,264	16,233
Financial assets purchased under resale agreements	13,974	3,001
Loans and advances to customers	3,103,853	2,674,557
Available-for-sale financial assets	399,528	349,770
Investment securities - held-to-maturity	444,726	326,950
Investment securities - loans and receivables	832,598	1,010,472
Other financial assets	128,498	80,277
Sub-total	5,750,533	5,486,001
Credit risk exposure relating to off-balance sheet items:		
Bank acceptance	396,414	510,767
Bills acceptance under letter of credit	144,602	125,121
Letters of guarantee issued	121,346	124,507
Letters of credit issued	14,143	12,975
Unused credit card and other commitments	269,748	188,722
Sub-total	946,253	962,092
Total	6,696,786	6,448,093

The table above represents the worst case scenario of credit risk exposure to the Group, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.4 Due from and placements with banks and other financial institutions and financial assets purchased under resale agreements

All those assets are neither past due nor impaired. Credit risk of those assets can be analyzed by type of counterparty as follows:

	31 December 2017	31 December 2016
Domestic commercial banks	63,134	185,828
Overseas commercial banks	51,775	63,514
Domestic non-bank financial institutions	62,278	103,773
	177,187	353,115

Financial assets purchased under resale agreements, which are fully pledged by bank accepted bills and bonds or deposit certificates issued by other banks, amounted to RMB 14 billion as at 31 December 2017 (31 December 2016: RMB 3 billion). The Group does not expect significant credit risk from them.

10.1.5 Loans and advances to customers

Group	31 December 2017	31 December 2016
Neither past due nor impaired	3,099,590	2,679,309
Past due but not impaired	26,491	31,319
Impaired	68,519	52,178
Total	3,194,600	2,762,806
Less: Impairment allowance	(90,747)	(88,249)
Net	3,103,853	2,674,557

(i) Neither past due nor impaired

The Group classifies loan assets according to related regulations issued by the CBRC, which are provided in Note 10.1.1. Loans and advances neither past due nor impaired are further analyzed as follows:

	Corporate loans	Retail loans	Total
31 December 2017			
Pass	1,803,645	1,216,764	3,020,409
Special mention	72,901	6,280	79,181
	1,876,546	1,223,044	3,099,590
31 December 2016			
Pass	1,651,543	953,499	2,605,042
Special mention	70,686	3,581	74,267
	1,722,229	957,080	2,679,309

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.5 Loans and advances to customers (Continued)

(ii) Past due but not impaired

The Group's loans that are past due but not impaired are analyzed below:

	31 December 2017				
	Past due up to 30 days (including 30 days)	Past due 30 to 60 days (including 60 days)	Past due 60 to 90 days (including 90 days)	Past due over 90 days	Total
Corporate loans	11,524	5,656	3,868	735	21,783
Retail loans	1,695	1,077	1,866	70	4,708
	13,219	6,733	5,734	805	26,491

	31 December 2016				
	Past due up to 30 days (including 30 days)	Past due 30 to 60 days (including 60 days)	Past due 60 to 90 days (including 90 days)	Past due over 90 days	Total
Corporate loans	6,570	5,371	4,146	12,882	28,969
Retail loans	810	661	776	103	2,350
	7,380	6,032	4,922	12,985	31,319

The Group is of the view that these past due loans can be recovered from the operation income of borrowers, the payment from guarantors or disposal of collateral, are therefore not impaired.

As at 31 December 2017, the fair value of collateral for corporate loans that were past due but not impaired amounted to RMB 24.6 billion (31 December 2016: RMB 31.9 billion). The fair value of collateral for retail loans that were past due but not impaired amounted to RMB 3.3 billion (31 December 2016: RMB 3.4 billion).

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.5 Loans and advances to customers (Continued)

(iii) Impaired loans

Group	31 December 2017	31 December 2016
Corporate loans	54,140	41,409
Retail loans	14,379	10,769
	68,519	52,178

(iv) As at 31 December 2017, carrying value of loans originally impaired but the original contract terms have been modified amounted to RMB 754 million (31 December 2016: RMB 110 million).

10.1.6 Bonds and other investments

The table below analyses the Group's investment securities by external rating agencies, including S&P or equivalent agencies recognized by the PBOC.

Investment denominated in foreign currencies

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment securities - loans and receivables	Investment securities - held-to-maturity	Total
Bonds and other investments					
31 December 2017					
AAA	-	851	-	30	881
AA	-	4,221	926	161	5,308
A and below A	201	3,103	-	932	4,236
Unrated- Bonds	856	31,863	-	-	32,719
	1,057	40,038	926	1,123	43,144
31 December 2016					
AAA	-	7,727	-	-	7,727
AA	-	7,218	877	-	8,095
Unrated- Bonds	413	14,695	-	-	15,108
	413	29,640	877	-	30,930

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.6 Bonds and other investments (Continued)

Investments denominated in RMB

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment securities - held-to-maturity	Investment securities - loans and receivables	Total
31 December 2017					
Medium or long term:					
AAA	248	159,486	8,210	120,487	288,431
AA+ to AA-	61	86,909	52	7,602	94,624
A to A-	-	-	-	286	286
Below A-	-	289	-	448	737
Short term:					
A-1	9,812	1,255	-	-	11,067
Unrated bonds and other investments:					
Government bonds(Note 1)	3,107	56,928	269,325	31,985	361,345
Bonds issued by policy banks	12,947	29,643	166,016	-	208,606
Financial bonds (Note 1)	-	4,067	-	95,320	99,387
Deposit certificates issued by other banks	21,197	13,671	-	-	34,868
Corporate bonds	-	401	-	-	401
Beneficial rights of trust and asset management plans (Note 3)	-	6,841	-	575,024	581,865
Wealth management products purchased from other banks (Note 2)	-	-	-	520	520
Loans to non-bank financial institutions	996	-	-	-	996
Other investments in debt instruments (Note 4)	93,233	-	-	-	93,233
	141,601	359,490	443,603	831,672	1,776,366

Note 1: Included in unrated financial bonds held by the Group are mainly the subordinated bonds issued by listed insurance companies and securities companies. Local municipal government bonds are mainly issued under the name of local municipal government or Ministry of Finance.

Note 2: Wealth management products are principal guaranteed products issued by commercial banks in China.

Note 3: As at 31 December 2017, the national amount of overdue fund trust plan and wealth management plan is RMB 5,004 million, and the provision for impairment recognized is RMB 2,641 million.(31 December 2016: national amount of overdue fund trust plan and wealth management plan is RMB 4,052 million, and the provision for impairment recognized is RMB 1,614 million).

Note 4: Other equity instruments are financing products issued by the Bank to enterprises, as at 31 December 2017, such instruments are not overdue.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.6 Bonds and other investments (Continued)

Investments denominated in RMB

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment securities - held-to-maturity	Investment securities - loans and receivables	Total
31 December 2016					
Medium or long term:					
AAA	406	95,384	11,715	21,205	128,710
AA+ to AA-	755	36,284	-	8,112	45,151
A to A-	-	-	-	108	108
Below A-	-	357	-	300	657
Short term:					
A-1	5,822	22,643	-	127	28,592
Unrated bonds and other investments:					
Government bonds(Note 1)	530	33,561	162,156	41,827	238,074
Bonds issued by policy banks	3,275	29,645	153,079	-	185,999
Financial bonds (Note 1)	-	-	-	10,328	10,328
Deposit certificates issued by other banks	31,015	76,169	-	-	107,184
Corporate bonds	-	351	-	-	351
Beneficial rights of trust and asset management plans (Note 3)	-	24,606	-	816,311	840,917
Wealth management products purchased from other banks (Note 2)	-	-	-	74,129	74,129
Loans to non-bank financial institutions	8,019	-	-	-	8,019
Other investments in debt instruments (Note 4)	111,382	860	-	-	112,242
Other investments	-	270	-	37,148	37,418
	161,204	320,130	326,950	1,009,595	1,817,879

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk

Market risk is the risk of loss arising from on and off-balance sheet businesses from adverse movements in market prices, such as interest rates, exchange rates, equity and commodities. Both the Group's trading book and banking book face market risk, which mainly consists of interest rate risk, currency risk and commodity risk. The Group considers the exposure to the commodity risk to be insignificant.

The Board of Directors of the Bank is ultimately responsible for monitoring the market risk management activities and ensuring the Group can effectively identify, measure, monitor and control the market risk associated with the Group's business activities. Under the authorisation of the Board of Directors, the senior management of the Group is responsible for establishing the Group-wide market risk management system, organisational structure with well-defined roles and responsibilities, limit structures and accountability mechanism. Relevant departments of headquarter are responsible for carrying out detailed market risk management activities including policies and procedures, measurement approaches and models, analyses and reporting and monitoring of various limits etc in order to timely and accurately identify, measure, monitor and control the market risk exposures in respective business areas and reporting to the senior management and Board of Directors on timely basis. Meanwhile, Group-wide market risk management system incorporates the established internal controls and independent inspections. Relevant business units are responsible for executing the daily control activities. A three-line defence system includes business units as the fine line defence, market risk management and compliance departments as the second line defence and internal audit department as the third line defence.

The Group measures market risk based on predetermined benchmarks. The major measurement approaches include stress testing, analysis on value at risk, back testing, gap analysis and sensitivity analysis etc. The market risk of new products and businesses should be identified before these new products and businesses are launched according to relevant policies.

10.2.1 Currency risk

The Group mainly operates in the PRC and its main business activities are conducted in the PRC. Majority of its foreign currency business are conducted in USD.

The table below summarizes the Group's exposure to currency risk. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorized by original currency:

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.1 Currency risk (Continued)

Item	31 December 2017 RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and balances with central bank	476,379	9,711	210	231	486,531
Due from and placements with banks and other financial institutions	100,814	49,634	18,965	7,774	177,187
Financial assets at fair value through profit or loss	160,844	2,022	-	-	162,866
Derivative financial assets	24,911	3,139	46	168	28,264
Financial assets purchased under resale agreements	13,974	-	-	-	13,974
Loans and advances to customers	2,965,236	110,231	16,786	11,600	3,103,853
Available-for-sale financial assets	624,470	32,412	6,530	1,096	664,508
Investment securities - held-to-maturity	443,603	1,093	-	30	444,726
Investment securities - loans and receivables	831,672	-	-	926	832,598
Other financial assets	95,240	32,409	339	510	128,498
Total financial assets	5,737,143	240,651	42,876	22,335	6,043,005
Due to central bank	182,387	-	-	-	182,387
Due to and placements from banks and financial institutions	1,307,450	116,895	25,774	2,981	1,453,100
Financial liabilities at fair value through profit or loss	21,139	7,194	-	-	28,333
Derivative financial liabilities	27,820	2,081	12	121	30,034
Financial assets sold under repurchase agreements	180,639	3,825	-	-	184,464
Deposits from customers	2,845,508	161,173	20,747	10,508	3,037,936
Bonds issued	658,791	20,771	6,207	527	686,296
Other financial liabilities	59,278	2,104	148	582	62,112
Total financial Liabilities	5,283,012	314,043	52,888	14,719	5,664,662
Net position of financial instruments	454,131	(73,392)	(10,012)	7,616	378,343

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.1 Currency risk (Continued)

Item	31 December 2016 RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and balances with central bank	511,215	5,562	219	234	517,230
Due from and placements with banks and other financial institutions	266,644	58,846	18,016	9,609	353,115
Financial assets at fair value through profit or loss	176,790	413	-	-	177,203
Derivative financial assets	1,097	14,727	6	403	16,233
Financial assets purchased under resale agreements	3,001	-	-	-	3,001
Loans and advances to customers	2,539,492	108,138	20,585	6,342	2,674,557
Available-for-sale financial assets	590,823	24,236	4,646	758	620,463
Investment securities - held-to-maturity	326,950	-	-	-	326,950
Investment securities - loans and receivables	1,009,595	-	-	877	1,010,472
Other financial assets	72,481	7,550	207	39	80,277
Total financial assets	5,498,088	219,472	43,679	18,262	5,779,501
Due to central bank	147,622	-	-	-	147,622
Due to and placements from banks and financial institutions	1,308,076	98,841	28,079	4,099	1,439,095
Financial liabilities at fair value through profit or loss	29,438	88	-	-	29,526
Derivative financial liabilities	10,689	2,056	-	346	13,091
Financial assets sold under repurchase agreements	91,238	1,962	-	-	93,200
Deposits from customers	2,805,248	161,583	21,090	14,094	3,002,015
Bonds issued	642,407	12,114	10,162	-	664,683
Other financial liabilities	55,303	1,174	105	509	57,091
Total financial Liabilities	5,090,021	277,818	59,436	19,048	5,446,323
Net position of financial instruments	408,067	(58,346)	(15,757)	(786)	333,178

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.1 Currency risk (Continued)

The Group measures the possible effect on net profit arising from foreign exchange rate fluctuation using sensitivity analysis. The table below shows the result of sensitivity analysis on the financial reporting date.

(Decrease)/increase of	31 December 2017		31 December 2016	
Net profit for the year	Exchange rate fluctuation %		Exchange rate fluctuation %	
	-1%	1%	-1%	1%
USD against RMB	(60)	60	(336)	336
Other currencies against RMB	(33)	33	196	(196)

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by repricing of the Group's assets and liabilities within the one-year period. The assumptions are shown as below:

- Exchange rate sensitivity represents the exchange gain or loss resulting from the 1% change in daily closing exchange rates (middle) on the financial reporting date;
- Exchange rates for all currencies are fluctuating simultaneously and in the same direction;
- Foreign currency position contains spot exchange position and forward exchange position.

The actual exchange gain or loss may differ from the sensitivity analysis result due to these assumptions.

10.2.2 Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in factors such as interest rates, term structure, etc., including interest rate risk from bank book and trading book respectively.

On 26 August 2015, PBOC removed the upper limit of interest rate of time deposit with term longer than a year (excluding one year), and set the upper limit of interest rate of other kinds of deposit as 1.5 times of the benchmark interest rate. On 24 October 2015, PBOC removed the upper limit of deposit interest rate of commercial banks and rural cooperative financial institutions. On 20 July 2013 PBOC also removed the bottom limit (i.e. 70% of benchmark) for loans (excluding retail mortgage loans). The Group determines the loan interest rate independently.

The Group's interest rate risk mainly results from re-pricing risk of bank book. The Group considers its exposure to the interest rate risk of trading book to be insignificant. The Group has established an internal transfer pricing system, which enables the Group to manage the interest rate risk of bank book centrally. The Group measures and monitors interest rate risk in trading accounts using value-at-risk and sensitivity analysis etc.

The table below summarizes the Group's exposures to interest rate risk. The table presents the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.2 Interest rate risk (Continued)

	31 December 2017						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central banks	468,527	-	-	-	-	18,004	486,531
Due from and placements with banks and other financial institutions	99,693	22,667	47,793	7,034	-	-	177,187
Financial assets at fair value through profit or loss	31,811	66,738	24,125	19,662	322	-	142,658
Derivative financial assets	-	-	-	-	-	28,264	28,264
Financial assets purchased under resale agreements	13,974	-	-	-	-	-	13,974
Loans and advances to customers	1,814,563	331,891	776,013	140,111	41,275	-	3,103,853
Available-for-sale financial assets	28,154	18,797	77,105	235,613	39,859	-	399,528
Investment securities - held-to-maturity	12,776	4,095	42,689	246,938	138,228	-	444,726
Investment securities - loans and receivables	38,967	57,553	330,084	280,876	125,118	-	832,598
Other financial assets	39,734	216	1,067	-	-	87,481	128,498
Total financial assets	2,548,199	501,957	1,298,876	930,234	344,802	133,749	5,757,817

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.2 Interest rate risk (Continued)

	31 December 2017						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to central bank	13	17,143	165,231	-	-	-	182,387
Due to and placements from banks and other financial institutions	633,383	501,378	312,438	3,070	2,333	498	1,453,100
Financial liabilities at fair value through profit or loss	-	-	2,051	10,695	466	15,121	28,333
Derivative financial liabilities	-	-	-	-	-	30,034	30,034
Financial assets sold under repurchase agreements	166,431	10,427	7,606	-	-	-	184,464
Deposits from customers	2,103,261	313,668	459,616	161,391	-	-	3,037,936
Debts securities issued	58,100	226,982	213,321	127,538	60,355	-	686,296
Other financial liabilities	493	-	1,393	2,800	-	57,426	62,112
Total financial liabilities	2,961,681	1,069,598	1,161,656	305,494	63,154	103,079	5,664,662
Total interest repricing gap	(413,482)	(567,641)	137,220	624,740	281,648	30,670	93,155

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.2 Interest rate risk (Continued)

	31 December 2016						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central banks	503,863	-	-	-	-	13,367	517,230
Due from and placements with banks and other financial institutions	111,578	94,634	130,925	15,978	-	-	353,115
Financial assets at fair value through profit or loss	4,748	47,185	93,137	16,237	310	-	161,617
Derivative financial assets	-	-	-	-	-	16,233	16,233
Financial assets purchased under resale agreements	1,001	2,000	-	-	-	-	3,001
Loans and advances to customers	1,495,317	274,195	748,855	137,958	18,232	-	2,674,557
Available-for-sale financial assets	9,342	13,694	137,440	154,327	34,189	778	349,770
Investment securities - held-to-maturity	3,222	12,686	26,902	202,074	82,066	-	326,950
Investment securities - loans and receivables	168,032	169,980	364,352	266,401	41,707	-	1,010,472
Other financial assets	4,103	1,212	772	34,900	-	39,290	80,277
Total financial assets	2,301,206	615,586	1,502,383	827,875	176,504	69,668	5,493,222

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.2 Interest rate risk (Continued)

	31 December 2016						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to central bank	17,005	10,143	120,474	-	-	-	147,622
Due to and placements from banks and other financial institutions	752,340	394,790	276,724	496	14,340	405	1,439,095
Financial liabilities at fair value through profit or loss	1,151	-	1,243	2,127	466	24,539	29,526
Derivative financial liabilities	-	-	-	-	-	13,091	13,091
Financial assets sold under repurchase agreements	84,594	4,452	4,154	-	-	-	93,200
Deposits from customers	1,967,746	243,407	604,903	185,959	-	-	3,002,015
Debts securities issued	84,367	120,008	346,389	53,519	60,400	-	664,683
Other financial liabilities	1,779	1,517	-	-	-	53,795	57,091
Total financial liabilities	2,908,982	774,317	1,353,887	242,101	75,206	91,830	5,446,323
Total interest repricing gap	(607,776)	(158,731)	148,496	585,774	101,298	(22,162)	46,899

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.2 Interest rate risk (Continued)

The Group performs sensitivity analysis by measuring the potential impact of a change in interest rate on net profit and equity. The table below shows the results of the sensitivity analysis on the financial reporting date.

	31 December 2017		31 December 2016	
	Interest rate fluctuation (Basis points)		Interest rate fluctuation (Basis points)	
	-100	+100	-100	+100
(Decreases)/Increases in net profit	(1,069)	1,069	(1,327)	1,327
Increase/(Decrease) in other reserves	5,620	(5,318)	4,463	(4,106)

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by repricing of the Group's assets and liabilities within the one-year period.

- Except for current deposits, assets and liabilities, which the maturity date is within three months or more than three months but will be repricing within one year, are re-priced in the middle of each specified period;
- The interest rates of current deposits and statutory deposit reserves with central bank remain unchanged;
- The yield curve moves in parallel with interest rate;
- There are no changes of assets and liabilities at year end.

Due to the assumptions, the actual change in net profit may be different from the sensitivity analysis results.

Based on the assumption of the parallel movement of the yield curve along with interest rate change, the sensitivity analysis of the equity is derived by remeasuring the fair value of the available-for-sale financial assets as a result of changes in interest rate.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk

The Group's liquidity risk management is intended to meet the obligations to customers for withdrawal and payment, to achieve the balance between the maturities of assets and liabilities, to reduce the liquidity cost, avoid liquidity crisis of the Group, and to effectively respond to systematic liquidity risk.

The Group's liquidity risk management system comprises mainly regular and contingent management system which includes 10 components, such as policies and strategies, management framework, regulations, management tool, daily operation, stress test, system construction, risk monitoring, risk report, and emergency management and drilling.

In addition, the Group carries out various liquidity risk management activities such as liquidity forecast, real-time monitoring of liquidity position by each currency, analysis of liquidity gap for on and off-balance sheet position, and early reporting of large disbursement requests etc. The Group also assesses the liquidity risk arising from on and off-balance sheet exposures, actively obtains the external fundings and manages the maturities of its assets and liabilities in accordance with the Group's liquidity risk management policy and limit requirement. The objective of these activities is to maintain the appropriate level of liquidity to support the Group's business development.

The table below presents the cash flows payable by the Group under non-derivative financial assets and liabilities by remaining contractual maturities at the financial reporting date.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.1 Cash flows of non-derivative financial assets and liabilities

	31 December 2017						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with central bank	-	486,750	-	-	-	-	486,750
Due from and placements with banks and other financial institutions	-	61,395	61,724	51,787	7,951	-	182,857
Financial assets at fair value through profit or loss	-	-	97,133	26,384	22,059	398	145,974
Financial assets purchased under resale agreements	-	-	13,998	-	-	-	13,998
Loans and advances to customers	78,608	-	750,499	919,638	980,569	1,208,804	3,938,118
Available-for-sale financial assets	628	-	48,961	86,362	269,895	48,567	454,413
Investment securities - held-to-maturity	-	-	12,997	55,715	295,881	160,573	525,166
Investment securities - loans and receivables	3,760	-	95,022	359,884	342,503	142,333	943,502
Other financial assets	261	26,292	2,798	40,840	29,202	4,965	104,358
Total financial assets	83,257	574,437	1,083,132	1,540,610	1,948,060	1,565,640	6,795,136

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.1 Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2017						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities							
Due to central bank	-	-	17,701	170,607	-	-	188,308
Due to and placements from banks and other financial institutions	-	240,097	904,390	321,507	3,295	3,258	1,472,547
Financial liabilities at fair value through profit or loss	234	15,121	-	2,159	10,676	490	28,680
Financial assets sold under repurchase agreements	-	-	177,161	7,670	-	-	184,831
Deposits from customers	-	1,547,147	926,228	480,484	177,435	-	3,131,294
Bonds issued	-	-	288,883	223,146	148,638	72,096	732,763
Other financial liabilities	-	22,479	985	2,879	801	-	27,144
Total financial liabilities	234	1,824,844	2,315,348	1,208,452	340,845	75,844	5,765,567
Net liquidity	83,023	(1,250,407)	(1,232,216)	332,158	1,607,215	1,489,796	1,029,569

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.1 Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2016						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with central bank	-	517,230	-	-	-	-	517,230
Due from and placements with banks and other financial institutions	-	71,921	137,134	135,224	20,581	-	364,860
Financial assets at fair value through profit or loss	-	21	51,251	94,354	17,588	342	163,556
Financial assets purchased under resale agreements	-	-	3,026	-	-	-	3,026
Loans and advances to customers	69,035	-	539,403	920,378	835,374	770,461	3,134,651
Available-for-sale financial assets	110	-	32,127	152,430	243,721	91,235	519,623
Investment securities - held-to-maturity	-	-	10,816	34,909	240,441	94,373	380,539
Investment securities - loans and receivables	1,598	-	335,458	379,288	312,360	43,840	1,072,544
Other financial assets	123	16,379	3,370	8,453	29,685	4,908	62,918
Total financial assets	70,866	605,551	1,112,585	1,725,036	1,699,750	1,005,159	6,218,947

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.1 Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2016						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities							
Due to central bank	-	-	27,846	122,903	-	-	150,749
Due to and placements from banks and other financial institutions	-	365,207	847,388	290,223	540	15,773	1,519,131
Financial liabilities at fair value through profit or loss	1,151	24,622	-	1,243	2,142	468	29,626
Financial assets sold under repurchase agreements	-	-	89,112	4,194	-	-	93,306
Deposits from customers	-	1,448,375	766,434	623,770	206,117	-	3,044,696
Bonds issued	-	-	207,297	357,042	70,935	75,202	710,476
Other financial liabilities	-	19,827	1,673	848	725	-	23,073
Total financial liabilities	1,151	1,858,031	1,939,750	1,400,223	280,459	91,443	5,571,057
Net liquidity	69,715	(1,252,480)	(827,165)	324,813	1,419,291	913,716	647,890

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.2 Cash flow of derivative financial instruments

a. Derivative financial instruments settled on a net basis

Derivative financial instruments held by the Group that will be settled on a net basis comprise interest rate swaps, foreign exchange options and precious metals derivatives and foreign exchange derivatives handled at Shanghai Clearing House. The table analyses the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2017	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Foreign exchange derivatives	(945)	(1,743)	(3,336)	(17)	-	(6,041)
Interest rate swap	23	(36)	(23)	340	(1)	303
Foreign exchange options	358	82	109	5	-	554
Precious metals derivatives	179	218	(206)	-	-	191
Commodity swap contracts	-	2	111	432	-	545
Total	(385)	(1,477)	(3,345)	760	(1)	(4,448)

31 December 2016	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Foreign exchange derivatives	484	650	1,615	(16)	-	2,733
Interest rate swap	5	6	(364)	130	5	(218)
Foreign exchange options	(57)	(8)	(189)	-	-	(254)
Precious metals derivatives	(48)	311	426	-	-	689
Commodity swap contracts	37	21	-	242	-	300
Total	421	980	1,488	356	5	3,250

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.2 Cash flow of derivative financial instruments (Continued)

b. Derivative financial instruments settled on a gross basis

Derivative financial instruments held by the Group that will be settled on a gross basis are foreign exchange derivatives, including currency forward and currency swaps. The table below shows the distribution of contractual maturity for derivative financial instruments held by the Group that will be settled on a gross basis. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 month	1-3 months	3-12 months	1-5 years	Total
31 December 2017					
Foreign exchange derivatives					
-Outflow	(160,745)	(97,608)	(228,632)	(25,944)	(512,929)
-Inflow	160,599	97,182	230,056	26,353	514,190

	Within 1 month	1-3 months	3-12 months	1-5 years	Total
31 December 2016					
Foreign exchange derivatives					
-Outflow	(115,382)	(62,153)	(167,854)	(29,467)	(374,856)
-Inflow	115,008	61,832	167,461	29,687	373,988

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.3 Off-balance sheet items

Group	Within 1 year	1 to 5 years	Over 5 years	Total
31 December 2017				
Bank bill acceptance	396,414	-	-	396,414
Acceptance bills of exchange under letter of credit	144,602	-	-	144,602
Letters to guarantee issued	70,679	45,051	5,616	121,346
Letters of credit issued	13,381	762	-	14,143
Credit cards and other commitments	269,748	-	-	269,748
Total	894,824	45,813	5,616	946,253

Group	Within 1 year	1 to 5 years	Over 5 years	Total
31 December 2016				
Bank bill acceptance	510,767	-	-	510,767
Acceptance bills of exchange under letter of credit	125,121	-	-	125,121
Letters to guarantee issued	73,414	45,824	5,269	124,507
Letters of credit issued	12,629	346	-	12,975
Credit cards and other commitments	188,722	-	-	188,722
Total	910,653	46,170	5,269	962,092

10.4 Fair value of financial instruments

10.4.1 Fair value hierarchy

According to the significance of the lowest inputs used in making the measurements, the fair value hierarchy shall have the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange or debt instruments.

- Level 2 - Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts and debt securities for which quotations like yield curve or counterparty credit risk are available from Thomson Reuters, Bloomberg and China Bond.

- Level 3 - Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.4 Fair value of financial instruments (Continued)

10.4.2 Financial instruments not measured at fair value

The financial assets and financial liabilities not measured at fair value in the financial statements include balances with central banks, due from and placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and advances to customers, investment securities classified as held-to-maturity, investment securities-classified as loans and receivables, due to and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and bonds issued.

The table below summarizes the carrying amount and relevant fair value of the Group's investment securities classified as held-to-maturity and loans and receivable, bonds issued as at financial reporting date.

	31 December 2017				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Investment securities					
- held-to-maturity	444,726	-	432,780	-	432,780
Investment securities					
- loans and receivables	832,598	-	251,739	570,282	822,021
Financial liabilities:					
Bonds issued	686,296	-	684,611	-	684,611

	31 December 2016				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Investment securities					
- held-to-maturity	326,950	-	329,957	-	329,957
Investment securities					
- loans and receivables	1,010,472	-	80,752	934,651	1,015,403
Financial liabilities:					
Bonds issued	664,683	-	666,328	-	666,328

10.4.2.1 Investment securities classified as held to maturity and loans and receivables

Held-to-maturity securities are classified into level 1 when its fair value is based on quoted market price. Loans and receivables are classified into level 3 if its market information is not available and fair values of are calculated using discounted cash flow model. Held-to-maturity securities and loans and receivables are classified into level 2, if fair value can be estimated using quoted market prices for securities with similar credit risk, maturity and yield rate.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.4 Fair value of financial instruments (Continued)

10.4.2 Financial instruments not measured at fair value (Continued)

10.4.2.2 Bonds issued

The fair value of bonds issued is based on quoted market price. For those bonds whose quoted market price is not available, their fair value is calculated using discounted cash flow and the effective interest rate of bonds with similar maturity.

Except for the financial assets and liabilities listed above, fair values of financial assets and financial liabilities not measured at fair value are calculated using discounted future cash flow model. Since these financial instruments are in short-term or under floating interest rate linked to market interest rate, their carrying value is approximated to the fair value.

10.4.3 Financial instruments measured at fair value

Fair value hierarchy of financial instruments measured at fair value is listed as below:

	Level 1	Level 2	Level 3	Total
31 December 2017				
Financial assets at fair value through profit or loss				
-Trading securities	-	49,425	-	49,425
-Trust and asset management plans	-	3,032	-	3,032
-Fund investments	11,004	-	1,084	12,088
-Other debt instruments	-	88,224	5,009	93,233
-Other investments	455	-	4,633	5,088
Available-for-sale financial assets				
-Available-for-sale bonds and other debt instruments	111	392,576	-	392,687
-Fund investments	143,039	72,357	-	215,396
-Available-for-sale equity investment	406	-	1,831	2,237
-Trust and asset management plans	-	45,317	7,634	52,951
-Wealth management products of other banks	-	-	354	354
-Others	-	565	318	883
Derivative financial assets	-	28,264	-	28,264
Total financial assets	155,015	679,760	20,863	855,638

10 FINANCIAL RISK MANAGEMENT (Continued)

10.4 Fair value of financial instruments (Continued)

10.4.3 Financial instruments measured at fair value (Continued)

Fair value hierarchy of financial instruments measured at fair value is listed as below (Continued):

	Level 1	Level 2	Level 3	Total
31 December 2017				
Derivative financial liabilities	-	30,034	-	30,034
Financial liabilities at fair value through profit or loss				
-Financial liabilities related to precious metals	-	15,121	-	15,121
-Interest of other unitholders in consolidated structured entities	-	18	13,194	13,212
Total financial liabilities	-	45,173	13,194	58,367

	Level 1	Level 2	Level 3	Total
31 December 2016				
Financial assets at fair value through profit or loss				
-Trading securities	-	50,235	-	50,235
-Trust and asset management plans	-	4,408	-	4,408
-Fund investments	6,429	-	348	6,777
-Other debt instruments	-	87,985	23,397	111,382
-Other investments	28	-	4,373	4,401
Available-for-sale financial assets				
-Available-for-sale bonds and other debt instruments	214	326,064	-	326,278
-Fund investments	99,343	3,115	532	102,990
-Available-for-sale equity investment	650	-	2,246	2,896
-Trust and asset management plans	-	21,116	2,376	23,492
-Wealth management products of other banks	-	149,519	11,007	160,526
-Others	-	1,379	2,902	4,281
Derivative financial assets	-	16,233	-	16,233
Total financial assets	106,664	660,054	47,181	813,899

10 FINANCIAL RISK MANAGEMENT (Continued)

10. Fair value of financial instruments (Continued)

10.4.3 Financial instruments measured at fair value (Continued)

Fair value hierarchy of financial instruments measured at fair value is listed as below (Continued):

	Level 1	Level 2	Level 3	Total
31 December 2016				
Derivative financial liabilities	-	13,091	-	13,091
Financial liabilities at fair value through profit or loss				
-Financial liabilities related to precious metals	-	24,301	-	24,301
-Interest of other unitholders in consolidated structured entities	-	2	5,002	5,004
-Others	-	-	221	221
Total financial liabilities	-	37,394	5,223	42,617

The Group reclassifies the financial instruments when the specific event happens which leads to conversion among different level of fair value hierarchy. In 2017, there is no financial instrument reclassification between level 1 and level 2.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.4 Fair value of financial instruments (Continued)

10.4.3 Financial instruments measured at fair value (Continued)

(i) Financial instruments in level 2

Valuation technique is used to calculate the fair value of financial instruments not actively traded in the markets (i.e., over-the-counter derivatives). The valuation techniques make use of observable market data as much as possible, and avoid relying on the specific estimations of the subjects. When all required significant inputs are observable in calculation of one financial instruction's fair value, the related financial instrument is classified into level 2. When one or more required significant inputs are unobservable, the related financial instrument is classified into level 3.

Financial assets classified into level 2 includes bonds investment, currency swap contracts, foreign exchange forward contracts, interest rate swap contracts, option contracts, precious metal forward contracts, etc. The fair values of RMB bonds are determined based on the yield curve provided by China Central Depository and Clearing Co., Ltd. The fair values of foreign currency bonds are determined based on the valuation of Bloomberg. The fair values of currency swap contracts, foreign exchange forward contracts, interest rate swap contracts are calculated by discounted cash flow and Black-Scholes Model, etc. All significant valuation inputs are observable market data.

(ii) Financial instruments in level 3

Movements of the Group's financial assets classified as level 3 are listed below

	Financial assets at fair value through profit or loss	Available for sale financial assets	Financial liabilities at fair value through profit or loss	Total
At 1 January 2017	28,118	19,063	5,223	41,958
Purchase structured entities	5,010	5,755	8,734	2,031
Sales	(22,662)	(14,770)	(1,220)	(36,212)
Changes in fair value recognized in profit or loss	260	258	457	61
Changes in fair value recognized in other comprehensive income	-	(169)	-	(169)
At 31 December 2017	10,726	10,137	13,194	7,669
Unrealized gain or loss recognized in profit or loss for the positions held at 31 December 2017	260	(169)	(457)	(366)

10 FINANCIAL RISK MANAGEMENT (Continued)

10.4 Fair value of financial instruments (Continued)

10.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3 (Continued)

	Financial assets at fair value through profit or loss	Available for sale financial assets	Financial liabilities at fair value through profit or loss	Total
At 1 January 2016	4,258	7,608	-	11,866
Purchase/consolidate structured entities	24,258	14,240	5,033	33,465
Sales	(418)	(2,813)	-	(3,231)
Changes in fair value recognized in profit or loss	20	-	190	(170)
Changes in fair value recognized in other comprehensive income	-	28	-	28
At 31 December 2016	28,118	19,063	5,223	41,958
Unrealized gain or loss recognized in profit or loss for the positions held at 31 December 2016	20	-	(190)	(170)

10 FINANCIAL RISK MANAGEMENT (Continued)

10.4 Fair value of financial instruments (Continued)

10.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows:

	Fair value as at 31 December 2017	Valuation techniques	Unobservable Inputs Note	Range/ weighted average	Correlation with fair value
Financial assets at fair value through profit or loss					
-Fund investments	1,084	Refer to current deal	Not applicable	Not applicable	Not applicable
-Other debt instruments	5,009	Income Approach	Discount Rate	1.65%-7.78%	Negative
-Other investments	4,633	Note 1	Note 1	Note 1	Note 1
	10,726				
Available-for-sale financial assets					
-Available-for-sale equity investment	620	Market Approach	Discount For Liquidity	20%	Negative
				0.99	Positive
	104	Refer to current deal	Not applicable	Not applicable	Not applicable
	691	Income Approach	Discount Rate	6.53%-6.93%	Negative
	416	Refer to current deal	Not Applicable	Not applicable	Not applicable
-Trust and asset management plans	4,142	Income Approach	Discount Rate	5.25%-8.8%	Negative
	3,492	Income Approach	Discount Rate	5.45%-5.90%	Negative
-Wealth management products managed by other banks	354	Income Approach	Discount Rate	4.98%	Negative
-Others	318	Income Approach	Discount Rate	8.30%	Negative
	10,137				

	Fair value as at 31 December 2017	Valuation techniques	Unobservable Inputs Note	Range/ weighted average	Correlation with fair value
Financial liabilities at fair value through profit or loss					
- Interest of other unitholders in consolidated structured entities	13,194	Note 2	Note 2	Note 2	Note 2
	13,194				

10 FINANCIAL RISK MANAGEMENT (Continued)

10.4 Fair value of financial instruments (Continued)

10.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows(Continued):

	Fair value as at 31 December 2016	Valuation techniques	Unobservable Inputs		
			Note	Range/ weighted average	Correlation with fair value
Financial assets at fair value through profit or loss					
-Fund investments	348	Based on the most recent transaction	Not applicable	Not applicable	Not applicable
-Other debt instruments	23,397	Income approach	Discount rate	1.26%-12.00%	Negative
-Other investments	4,373	Note 1	Note 1	Note 1	Note 1
	28,118				
Available-for-sale financial assets					
-Fund investments	532	Based on the most recent transaction	Not applicable	Not applicable	Not applicable
-Available-for-sale equity investment	1,458	Market approach	Discount for liquidity	20%-22%	Negative
			Price to book ratio	0.90-1.19	Positive
	173	Based on the most recent transaction	Not applicable	Not applicable	Not applicable
	615	Income approach	Discount rate	6.53%-6.93%	Negative
-Trust and asset management plans	2,376	Income approach	Discount rate	5.60%-8.40%	Negative
-Wealth management products managed by other banks	11,007	Income approach	Discount rate	3.26%-3.93%	Negative
-Others	2,902	Income approach	Discount rate	8.45%-9.55%	Negative
	19,063				

10 FINANCIAL RISK MANAGEMENT (Continued)

10.4 Fair value of financial instruments (Continued)

10.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3 (Continued)

	Fair value as at 31 December 2016	Valuation techniques	Unobservable Inputs		
			Note	Range/ weighted average	Correlation with fair value
Financial liabilities at fair value through profit or loss					
- Interest of other unitholders in consolidated structured entities	5,002	Note 2	Note 2	Note 2	Note 2
- Others	221	Income approach	Discount rate	1.00%-3.85%	Negative
	5,223				

Note 1：This refers to the fair value of the assets managed by Chang Jiang Pension Insurance Co., Ltd. in relation to the Bank's long term employee benefit plan. All of the underlying assets are financial assets and the methods to calculate the fair value of the financial assets are as follows:

- The fair value of investments in the Money market fund is based on market price;
- The fair value of bonds is calculated using discounted cash flow and the yield rate of bonds with similar maturity;
- The fair value of other debt instrument is calculated using discounted cash flow model and unobservable discount rates, ranging from 4.75% to 7.25%, which is in a reverse relationship with fair value(31 December 2016: 4.15% to 7.25%).

Note 2：The fair value of interest of other unitholders in consolidated structured entities is calculated based on the net asset value of the structured entities

10 FINANCIAL RISK MANAGEMENT (Continued)

10.5 Offsetting of financial assets and financial liabilities

Some financial assets and financial liabilities in the Group follow executable net amount settlement arrangements or similar agreements. Such arrangements with the Group and counterparties normally allow the net amount settlement under agreements of both parties. If no agreement is reached, it would be settled in full amount. But one party could choose to settle in net amount under the condition that the other party violates the agreement. According to the requirement of IFRS, the Group did not offset these financial assets and financial liabilities.

As at 31 December 2017, the amount of the Group's financial assets and financial liabilities following executable net amount settlement arrangements or similar agreements is not significant.

10.6 Capital management

The Group adopts the capital management approaches that can adequately respond to the interest risks associated with the Group's business and manages capital adequacy strictly in accordance with regulatory requirements. The primary objectives of the Group's capital management are to maintain capital adequacy ratio to support its businesses and to maximize shareholders' value. The Group actively adjusts the capital structure in response to the changing economic environment and risk characteristics. Generally, the mechanism of adjusting the capital structure comprises dividend policy and issuance of additional capital instruments such as preference shares and tier-two capital instruments etc.

From 1 January 2013, the Group calculates the capital adequacy ratios in accordance with Provisional Administrative Rule on Capital Management of Commercial Banks (CBRC: No.1 2012) issued by the CBRC on 7 June 2012.

	Group		Bank	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Core tier 1 capital – net	388,200	330,696	366,921	311,432
Tier 1 capital - net	418,425	360,799	396,841	341,352
Capital - net	490,884	451,681	468,467	430,062
Total risk weighted assets	4,084,499	3,878,740	3,982,115	3,782,418
Core tier 1 capital adequacy ratio	9.50%	8.53%	9.21%	8.23%
Tier 1 capital adequacy ratio	10.24%	9.30%	9.97%	9.02%
Capital adequacy ratio	12.02%	11.65%	11.76%	11.37%

i. The scope of consolidation for the purpose of calculating the Group's Capital Adequacy Ratios includes domestic and overseas operating units and other financial subsidiaries specified in the capital rules.

ii. The Group's Core Tier-one Capital includes ordinary shares, the capital reserve (subject to regulatory limitations), surplus reserve, general risk reserve, retained earnings, minority interests (to the extent permitted in the Core Tier-one Capital under the Regulation).

iii. The Group's Deductible Items from Core Tier-one Capital include the net amounts of other intangible assets (excluding land use rights) after deducting relevant deferred tax liabilities.

iv. The Group's other Tier 1 Capital includes preference shares and minority interests to the extent permitted by the capital rules.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.6 Capital management (Continued)

v. The Group's Tier 2 Capital includes: Tier 2 capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests to the extent permitted by the capital rules.

vi. Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets. The Group adopts risk weighting approach, standardized approach and basic indicator approach to measure Credit Risk-weighted Assets, Market Risk weighted Assets and Operational Risk-weighted Assets respectively.

11 ASSETS PLEDGED

Following assets of the Group are pledged as collateral under repurchase agreements and for fiscal deposits.

	31 December 2017	31 December 2016
Loans and receivables	27,327	-
Discounted bills and Re-discount bills	21,592	20,345
Available-for-sale financial assets	163,526	11,905
Investment securities - held-to-maturity	20,035	76,967
Total	232,480	109,217

12 EVENTS AFTER THE REPORTING DATE

As at 26 April 2018, there was no significant subsequent events that requires additional disclosure in the consolidated financial statements for the year ended 2017.

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