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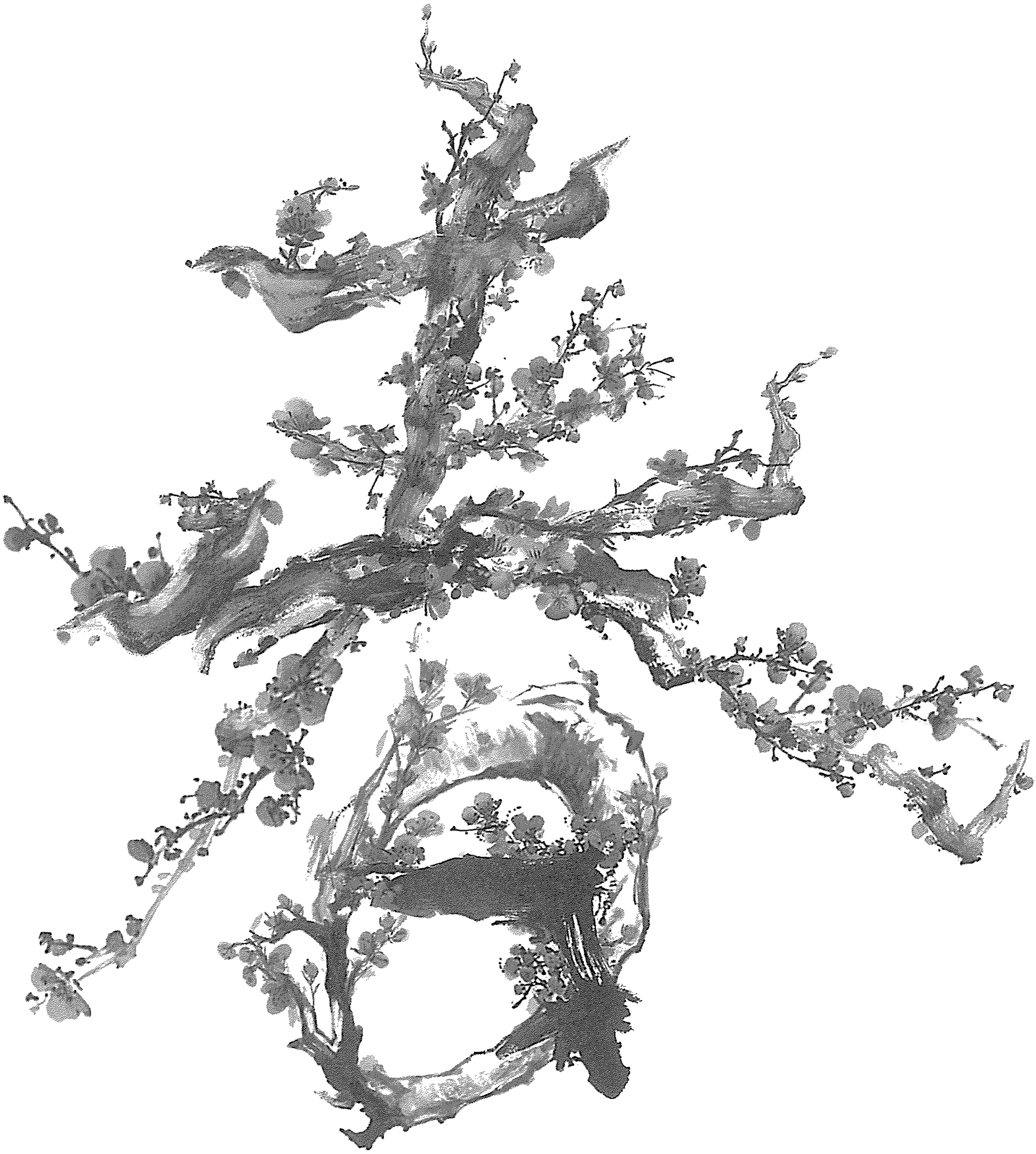
PING AN BANK



Annual Report 2018

Contents

Important Notes and Interpretations

1.1.The board of directors (hereinafter referred to as the "Board"), the supervisory committee, the directors, the supervisors and senior management of the Bank guarantee the authenticity, accuracy and completeness of the contents of the Annual Report, in which there are no false representations, misleading statements or material omissions, and are severally and jointly liable for its contents.

1.2.The 23rd meeting of the 10th session of the Board of the Bank deliberated the 2018 Annual Report together with its summary. The meeting required 14 directors to attend, and 13 directors attended the meeting. Director Ip So Lan did not attend the meeting for business affairs and entrusted Director Yao Jason Bo to exercise voting rights on behalf of her. This Annual Report was approved unanimously at the meeting.

1.3.The 2018 financial report prepared by the Bank was audited by PricewaterhouseCoopers Zhong Tian LLP (hereinafter referred to as "PwC") according to the China standards on Auditing and PwC issued a standard unqualified auditors' report.

1.4.Xie Yonglin (the Bank's Chairman), Hu Yuefei (the President), and Xiang Youzhi (the CFO/the head of the Accounting Department) guarantee the authenticity, accuracy and completeness of the financial report contained in the 2018 Annual Report.

1.5.The forward-looking statements such as plans for the future involved in the Report do not constitute a substantial commitment for investors. Investors and stakeholders shall be aware of risks therein and understand the differences among plans, forecasts and commitments.

1.6.The Bank advises investors to read the full text of this Annual Report with particular attention to the following risk factors: the Bank is faced with all kinds of risks during operation, mainly including credit risks, market risks, liquidity risks, operational risks, country risks, bank account interest rate risks, reputation risks, strategic risks, information technology risks and legal and compliance risks, and has taken various measures to effectively manage and control all kinds of the business risks. See Discussion and Analysis on Operation in Section V for details.

1.7.The Bank's proposal for profit distribution of ordinary shares deliberated by the Board: cash dividend distribution of RMB1.45 per 10 shares (tax inclusive) to all shareholders based on the total share capital of the Bank of 17,170,411,366 shares as at 31 December 2018. There was no proposal to issue bonus shares or to convert public reserve to share capital.

Interpretations

Item	refer(s) to	Contents
Ping An Bank, the Bank and the Company	refer to	Shenzhen Development Bank Co., Ltd. ("Shenzhen Development Bank" or "Shenzhen Development"), which is a renamed Bank completing the integration by absorption and merger of the former Ping An Bank Co., Ltd. ("former Ping An Bank") in 2012
Shenzhen Development Bank or Shenzhen Development	refers to	a national joint-stock commercial bank established on 22 December 1987, with its name changed to Ping An Bank after absorption and merger of the former Ping An Bank
Former Ping An Bank	refers to	a joint-stock commercial bank established in June 1995 and registered on 12 June 2012
China Ping An, Ping An Group and the Group	refer to	Ping An Insurance (Group) Company of China, Ltd.
Ping An Life Insurance	refers to	Ping An Life Insurance Company of China, Ltd.
PBoC	refers to	The People's Bank of China
CSRC and Securities Regulatory Commission	refer to	China Securities Regulatory Commission
CBIRC and Banking and Insurance Regulatory Commission	refer to	China Banking and Insurance Regulatory Commission

Chairman's Statement

The year 2018 marks the 40th anniversary of the reform and opening up, a magnificent historical period that witnessed the ongoing transformation and development of Ping An Bank. Now in its thirties, the Bank has grown into a commercial bank with distinctive features in retail banking and leading advantages in technology.

Last year, our performance excited us in reward of our hard work. In 2018, the business performance of Ping An Bank kept a good momentum as the operating income amounted to RMB116,716 million, up 10.3% year on year and the net profit was RMB24,818 million, up 7.0% year on year. The efficient and successful issuance of financial bonds of RMB35 billion and convertible corporate bonds of RMB26 billion not only represented an endorsement of the capital market, but also laid a solid foundation for the long-term steady development of the Bank.

Last year, our steady innovation helped lay a foundation for our development. With keen judgments on market trends and foresighted response to risks, we've made remarkable improvements in asset quality. As a result, the deviation of non-performing loans reduced to below 1, loans overdue for more than 90 days down 0.73 percentage point and the provision coverage ratio of loans overdue for more than 90 days up 54 percentage points over the end of previous year. In this way, the risk compensation capabilities of the Bank were significantly enhanced. Taking full advantage of new technology and new instruments, we launched smart finance and smart risk control platforms to achieve constant progress in the smart operation capacity of the Bank.

Last year, our faith and responsibility enriched the transformation of the Bank. Upholding the principle of "correcting conducts, strengthening management, and promoting development through party construction", we've kept the transformation of the Bank stay in the right track. In issuing breeding loans, planting loans and hydro power loans, as well as varied poverty alleviation bonds and green financial bonds to support the State's initiatives in poverty alleviation and building a Beautiful China, we've linked the Bank's transformation and development up closely with national economy and people's livelihood.

Looking back, we've been moving forward firmly towards the clear goal of "domestic best performer and global leader in intelligent retail banking"; our courageous teams never shrunk in the face of challenges and difficulties; and our continuous innovation rejuvenated traditional banking businesses with the power of technology.

Technology-empowered finance to double the might of transformation

Science and technology constitute the primary productive force while innovation is the primary driving force for development. In the past decade, Ping An Group has invested over RMB50 billion in scientific research, created more than 10 new technology companies, 25 scientific research labs and 6 technical innovation institutions, and applied for over 12,000 technology patents.

Since banks always develop the most diversified scenarios, we've been making constant efforts to leverage the Group's advantages of technology to empower products, services and management in all aspects so as to improve efficiency, optimize customer experience, drive innovation and enhance risk control.

Credit cards, once require 2 weeks to get approval, now could be dealt with in only 8 seconds and delivered to customers within 48 hours. Intelligent customer service, available 7X24 hours, is more user-friendly and intelligent to address issues regarding customer needs and questions.

By means of KYB (Know Your Business), the small enterprise digital finance platform, we established a service model under which unsecured and unguaranteed loans could be applied and reviewed online in a second, which significantly lowered the financing cost and threshold and served as a beneficial attempt to solve SMEs' financing difficulties. By the end of 2018, through the platform, we have offered services to 14,000 enterprises, granted loans of RMB10.7 billion in total, and controlled the NPL ratio under 1%.

After setting up an intelligent risk control platform, we achieved digitalization, labelling and modulization of business processes, which not only reduced the risk from manual operation, but also enabled intelligent early warning against risks with the help of big data and artificial intelligence.

Benefits brought by technology to our transformation are beyond count. We've been making great efforts in introducing


Xie Yonglin
PING AN BANK Chairman

and nurturing technology talents and pushing forward the co-working of technology talents and financial talents. "Technology" is now a distinctive label of Ping An Bank in the market. Technology is navigating us to the fast track of transformation with constant breakthroughs and innovations.

Continuous structure optimization to lay a solid foundation for transformation

Against the general trend of consumption upgrading, Ping An Bank stays committed to the strategic goal of transforming its retail banking. With uninterrupted optimization of business structure and effective collaboration of different lines of business, the Bank is making more secured and sustainable progress in its transformation and development.

After two years' transformation and development, the retail banking business is now a major driving force for revenue growth of the Bank. Both revenue and loans from retail banking account for more than 50% of the Bank's revenue, in this sense, initial success has been achieved in the transformation of retail banking. The number of active customers using Ping An Pocket Bank APP exceeds 25 million each month, and the number of credit cards in circulation hits 50 million with transaction greater than RMB2,700 billion.

Backed by technology, the OMO (Online Merge Offline) service system is serving more people with extensive coverage, optimized customer experience and low threshold in a way that makes financial services more accessible to have the benefits of economic growth shared and the development of inclusive finance further advanced.

As we proceed with the transformation and development, we become aware of the fact that the development of retail banking requires support from the more sophisticated and dedicated corporate banking businesses. Real economy is the core of economic development. Only by adding momentum to the real economy and private enterprises can the corporate business bring vitality and prosperity to the overall economy and eventually drive individual consumption.

Therefore, we've been seeking to make corporate banking distinctive and superior under the premise of effective risk prevention, so as to support the development of real economy more effectively.

On the one hand, we are focusing on key industries and customers and investing resources to national strategic emerging industries and private enterprises. At the end of 2018, loans issued to private enterprises accounted for nearly 60% of the Bank's balance of corporate loans.

On the other hand, we keep innovating business models. Breaking away from the conventional means of loan issuance, we are helping corporate customers integrate upstream and downstream resources more effectively through the product portfolio of "Commercial banking + Investment banking" as well as the Group's five ecosystems. We help customers boost their main businesses and gain internal development force more with the combined use of various financial instruments than just with financing services. It is believed that only with the healthy development and steady growth of the real economy, can the risk prevention foundation of the entire financial system be more solid.

More than that, as we promote the connection between corporate and individual businesses, asset advantage of corporate businesses could be leveraged to provide more diversified products to retail customers and continuely improve customer experience.

Looking back on the two years of transformation, we have been promoting structural optimization and mode innovation, which not only enhances the ability to resist risks, but also helps to explore more fresh business models, laying a solid foundation for the overall success of the transformation.

Focusing on social responsibility to achieve meaningful transformation

We always believe that commercial success is merely a temporary victory. Only when we benefit people's livelihood and the society by making more meaningful contribution to environment and society through our own efforts and influence, can we achieve a bigger victory.

Centering on the three critical battles against potential risk, poverty, and pollution, we constantly innovated our approaches, enriched our breakthrough points, made use of our expertise and integrated the operational transformation and social responsibilities in an organic way to explore more models and create higher value.

We remained committed to our original aspiration as a financial institution and took risk control and prevention as the primary lifeline. We adopted the risk management model of "risk management through dispatch and matrix double-line reporting" to establish a comprehensive risk management framework and a sound market risk management system. Meanwhile, we made the most of the cutting-edge technologies such as big data, AI, and blockchain in the business scenarios to create an intelligent risk control platform, constantly promoted intelligent warning, intelligent decision-making, intelligent control and management, and continuously improved the efficiency and effectiveness of risk management.

We made full use of our financial advantages to made progress in targeted poverty alleviation with our own characteristics. We creatively built a "Finance + Technology + Sales" closed loop for the poverty-stricken areas to develop industries and increase sustainable sources of income, and enforced "alleviation of real poverty and real alleviation of poverty" by means of "teaching people how to fish".

In less than one year, Ping An Bank granted nearly RMB 4.5 billion poverty alleviation funds to effectively promote stable development of local advantageous industries and core enterprises. Over 1,917 poor people were directly assisted in building archives and more than 330,000 households were benefited.

We further promoted green economy and contributed our own share in building a "Beautiful China". We actively responded to the national energy strategy, strongly supported the development of green industries in the field of new energy and clean energy, and strengthened the credit support to the green real economy. By the end of 2018, Ping An Bank has granted credit facilities of RMB62,693 million to green industries.

2019 is not only the third year since the beginning of Ping An Bank's transformation, but also a crucial year for securing a decisive victory in comprehensive transformation. We will walk steadily on the path of retail transformation and deepen the connotation of "being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking" to adapt to the transformation requirements in the new stage.

Looking ahead, we will double our efforts to position Ping An as a technology-driven bank. We will continue to devote capital and employee talents to widely apply the Group's advanced technologies to various banking scenarios, empower businesses in an all-around way, and unveil more innovation-driven programs to bring about greater changes.

Looking ahead, we will launch more differentiated services in retail banking. With the help of brand new operational system, greater breakthroughs and more balanced and qualified development will be achieved in retail banking. Efforts will be made to promote model innovation and product refinement in corporate banking to better serve the real economy and private enterprises. In this way, progress could be achieved in both business segments with advantages given full play.

Looking ahead, we will make our social responsibilities better fulfilled. It is our perpetual mission and responsibility as a listed company to keep strengthening the leadership of the communist party, perfecting the management mechanism of the Bank, and fulfilling our social responsibilities, with stronger support to ensure success in the three critical battles against potential risk, poverty, and pollution, and create higher value for shareholders, society and staffs.

In the coming year, we will embrace opportunities and challenges with positive attitude, achieve greater breakthroughs by thinking quickly and creatively, and give back to the society with excellent operational results.

We are fully prepared to unleash our potential and realize the dream!

Company Profile and Major Financial Indicators

I. Company profile

(I) Company information

Stock Abbreviation	Ping An Bank	Stock Code	000001
Traded on	Shenzhen Stock Exchange		
Chinese name of the Company	平安银行股份有限公司		
Short Chinese name of the Company	平安银行		
Name of the Company	Ping An Bank Co., Ltd.		
Short Name of the Company	PAB		
Legal Representative of the Company	Xie Yonglin		
Registered Capital	RMB17,170,411,366		
Registered address	5047 East Shennan Road, Luohu District, Shenzhen, Guangdong, the PRC		
Postal Code of the Registered Address	518001		
Office Address	5047 East Shennan Road, Shenzhen, Guangdong, the PRC		
Postal Code of Office Address	518001		
Company Website	http://www.bank.pingan.com		
E-mail	pabdsh@pingan.com.cn		
Service Hotline	95511 ext. 3		

(II) Contact information

	Secretary of the Board	Representative of Securities Affairs
Name	Zhou Qiang	Lv Xuguang
Contact Address	Board Office of Ping An Bank 5047 East Shennan Road, Shenzhen, Guangdong, the PRC	Board Office of Ping An Bank 5047 East Shennan Road, Shenzhen, Guangdong, the PRC
Telephone	(0755) 82080387	(0755) 82080387
Facsimile	(0755) 82080386	(0755) 82080386
E-mail	pabdsh@pingan.com.cn	pabdsh@pingan.com.cn

(III) Information disclosure and filing location

Newspapers designated by the Company for information disclosure	China Securities Journal, Securities Times Shanghai Securities News and Securities Times
Website assigned by CSRC to carry the Annual Report	CNINFO http://www.cninfo.com.cn
Filing location of the Annual Report	Shenzhen Stock Exchange and Board Office of Ping An Bank

(IV) Change of registered information

Organization Code	91440300192185379H (Unified social credit code)
Change of main business after listing (if any)	None
Changes of all previous controlling shareholders (if any)	China Ping An is the controlling shareholder of the Bank. In May 2010, Newbridge Asia AIV III, L.P. ("Newbridge"), the then largest shareholder of the Bank, transferred all of its 520,414,439 shares of the Bank to China Ping An. In June 2010, the Bank issued 379,580,000 shares in a non-public manner to Ping An Life Insurance, a holding subsidiary of China Ping An. After the issuance, China Ping An and its holding subsidiary Ping An Life Insurance held a total of 1,045,322,687 shares of the Bank, approximately accounting for 29.99% of the issued total share capital of the Bank. In July 2011, the Bank completed the issuance of 1,638,336,654 shares to China Ping An to purchase 7,825,181,106 shares of former Ping An Bank formerly held by it and raise RMB2,690,052,300 for its material assets reorganization. After the completion of the material assets reorganization, the total share capital of the Bank increased to 5,123,350,416 shares. China Ping An and its holding subsidiary Ping An Life Insurance held a total of 52.38% of the shares of the Bank and became the controlling shareholders of the Bank. In December 2013, the Bank issued 1,323,384,991 shares to China Ping An in a non-public manner. After the issuance, the total share capital of the Bank increased to 9,520,745,656 shares. China Ping An and its holding subsidiary Ping An Life Insurance, holding a total of 59% of the shares of the Bank, were the controlling shareholders of the Bank. In May 2015, the Bank issued 598,802,395 shares of the ordinary shares to eligible domestic investors in a non-public manner, and China Ping An subscribed 210,206,652 shares. After the issuance, the total share capital of the Bank increased to 14,308,676,139 shares. China Ping An and its holding subsidiary Ping An Life Insurance, holding a total of 58% of the shares of the Bank, were the controlling shareholders of the Bank. As at the end of the reporting period, the total share capital of the Bank was 17,170,411,366 shares. China Ping An and its holding subsidiary Ping An Life Insurance, holding a total of 9,958,838,592 shares of the Bank, accounting for 58% of the total share capital of the Bank, are the controlling shareholders of the Bank.

Company Profile and Major Financial Indicators

I. Company profile(Continued)

(V) Other relevant information

1. Accounting firm employed by the Company

Name of Accounting Firm	PricewaterhouseCoopers Zhong Tian LLP
Address of Accounting Firm	11/F, PwC Center, Building 2, Link Square, 202 Hubin Road, Huangpu District, Shanghai
Name of Signing Accountant	Chen Anqiang and Gan Lili

2. The sponsor institution appointed by the Company to perform the duty of continuous supervision during the reporting period

□ Applicable √ Not applicable

3. The financial advisor appointed by the Company to perform the duty of continuous supervision during the reporting period

□ Applicable √ Not applicable

II. Major financial indicators

(I) Major accounting data and financial indicators

Whether the Company needs to adjust or restate retrospectively the accounting data for previous years.
☐ Yes √ No

The Bank started to adopt new accounting standards for financial instruments from 1 January 2018. Under the transitional provisions of new standards, the Bank is not required to restate comparatives and the adjustment of differences between original standards and first-day adoption of new standards is recorded into retained earnings at the beginning of the period or other comprehensive income.

Pursuant to the *Circular on Amendment to Formats of Financial Statements of Financial Enterprises for 2018* (Cai Kuai (2018) No. 36) issued by the Ministry of Finance, the Bank shall prepare the financial statements in accordance with the revised formats of financial enterprises as of the accounting year beginning on 1 January 2018, and the Bank is not required to restate comparatives.

(1) According to the Circular, the interest provided based on effective interest rate will be included in the carrying amount of the financial instrument and interest outstanding at the balance sheet date will be presented in "Other assets" or "Other liabilities". Unless otherwise stated, "Loans and advances to customers", "Due to customers" and the specific items mentioned in "Section V. Discussion and Analysis of Operations" of the report are amounts excluding interest.

(2) The items of "Fair value through profit or loss financial assets", "Financial investment measured at amortized cost", "Fair value through profit or loss financial liabilities" are updated to "Financial assets held for trading", "Investment on debts" and "Financial liabilities held for trading". Debt instruments and equity instruments in "Fair value through other comprehensive income financial assets" are listed as "Other investment on debts" and "Other equity investment" respectively.

See "II. Summary of significant accounting policies and accounting estimates 36. Effect of significant changes in accounting policies" in "Section XIII Financial Report" for relevant impact.

(In RMB million)

Item	31 December 2018	31 December 2017	31 December 2016	Year-on-year change
Total assets	3,418,592	3,248,474	2,953,434	5.2%
Shareholders' equity	240,042	222,054	202,171	8.1%
Shareholders' equity attributable to ordinary shareholders	220,089	202,101	182,218	8.9%
Share capital	17,170	17,170	17,170	-
Net asset per share attributable to ordinary shareholders (RMB/share)	12.82	11.77	10.61	8.9%

Company Profile and Major Financial Indicators

II. Major financial indicators(Continued)

(I) Major accounting data and financial indicators(Continued)

(In RMB million)

Item	2018	2017	2016	Year-on-year change
Operating income	116,716	105,786	107,715	10.3%
Operating profit before impairment losses on credit and assets	80,176	73,148	76,297	9.6%
Impairment losses on credit and assets	47,871	42,925	46,518	11.5%
Operating profit	32,305	30,223	29,779	6.9%
Profit before tax	32,231	30,157	29,935	6.9%
Net profit attributable to shareholders of the Company	24,818	23,189	22,599	7.0%
Net profit attributable to shareholders of the Company after non-recurring gains/losses	24,700	23,162	22,606	6.6%
Net cash flows from operating activities	(57,323)	(118,780)	10,989	Negative in the previous year
Ratio per share (RMB/share):				
Basic/diluted earnings per share (EPS)	1.39	1.30	1.32	6.9%
Basic EPS after non-recurring gains/losses	1.39	1.30	1.32	6.9%
Net cash flows from operating activities per share	(3.34)	(6.92)	0.64	Negative in the previous year
Financial ratios (%):				
Return on total assets	0.73	0.71	0.77	+0.02 percentage point
Average return on total assets	0.74	0.75	0.83	-0.01 percentage point
Weighted average return on net assets	11.49	11.62	13.18	-0.13 percentage point
Weighted average return on net assets (net of non-recurring gains/losses)	11.44	11.61	13.18	-0.17 percentage point

Note: On 7 March 2016, the Bank issued non-cumulative preference shares of RMB20 billion in a non-public way. In calculating the "EPS" and "weighted average return on net assets", numerators were net of the dividends on preference shares paid.

Total share capital of the Company as at the trading day prior to disclosure

Total share capital of the Company as at the trading day prior to disclosure (in shares)	17,170,411,366
Fully diluted EPS calculated based on the latest share capital (RMB/share)	1.39

Whether there are corporate bonds

√ Yes □ No

See "Section XII Corporate Bonds" for details

Whether the Company suffered sustained losses in recent two years

□ Yes √ No

Quarterly financial indicators

(In RMB million)

Item	First Quarter of 2018	Second Quarter of 2018	Third Quarter of 2018	Fourth Quarter of 2018
Operating income	28,026	29,215	29,423	30,052
Net profit attributable to shareholders of the Company	6,595	6,777	7,084	4,362
Net profit attributable to shareholders of the Company after non-recurring gains/losses	6,555	6,771	7,021	4,353
Net cash flows from operating activities	41,442	(33,987)	(18,765)	(46,013)

Have the above financial indicators or their totals differed significantly from the relevant financial indicators in the quarterly report and half-year report disclosed by the Company?

□ Yes √ No

Information of loans and deposits

(In RMB million)

Item	31 December 2018	31 December 2017	31 December 2016	Year-on-year change
I. Deposit principals due to customers	**2,128,557**	**2,000,420**	**1,921,835**	6.4%
Including: Corporate deposits	1,666,966	1,659,421	1,652,813	0.5%
Personal deposits	461,591	340,999	269,022	35.4%
II. Total principal of loans and advances to customers	**1,997,529**	**1,704,230**	**1,475,801**	17.2%
Including: Corporate loans	843,516	855,195	934,857	(1.4%)
General corporate loans	801,814	840,439	920,011	(4.6%)
Discounted bills	41,702	14,756	14,846	182.6%
Personal loans	1,154,013	849,035	540,944	35.9%
General personal loans	680,718	545,407	359,859	24.8%
Credit card receivables	473,295	303,628	181,085	55.9%

Pursuant to the Notice on the Statistical Standards for Adjusting the Deposits and Loans of the Financial Institutions by the People's Bank of China (Yin Fa [2015] No. 14), starting from 2015, the deposits placed by non-deposit financial institutions at deposit financial institutions are accounted for as "Total Deposits", whereas the loans extended by deposit financial institutions to non-deposit financial institutions are accounted for as "Total Loans". Based on the aforementioned statistical standards, as at 31 December 2018, the total deposits and the total loans amounted to RMB2,505.1 billion and RMB2,037.6 billion, respectively.

II. Major financial indicators(Continued)

(I) Major accounting data and financial indicators(Continued)

Non-recurring gains/losses

During the reporting period, no items of non-recurring gains/losses as defined/stated pursuant to the *Explanatory Announcement on Information Disclosure by Companies Publicly Offering Securities No. 1 - Non-recurring Gains/Losses* were defined as recurring gains/losses.

(In RMB million)

Item	2018	2017	2016	Year-on-year change
Net gains or losses on disposal of non-current assets	98	101	(178)	(3.0%)
Gains/losses on contingency	1	(1)	1	Negative in the previous year
Others	54	(65)	168	Negative in the previous year
Income tax effect	(35)	(8)	2	337.5%
Total	118	27	(7)	337.0%

Note: The non-recurring gains/losses shall refer to the meaning as defined in the *Explanatory Announcement on Information Disclosure by Companies Publicly Offering Securities No. 1 - Non-recurring Gains/Losses.*

(II) Supplementary financial ratios

(Unit: %)

Item	2018	2017	2016	Year-on-year change
Cost/income ratio	30.32	29.89	25.97	+0.43 percentage point
Credit costs	2.35	2.55	3.37	-0.20 percentage point
Deposit-loan spread	4.03	3.99	4.49	+0.04 percentage point
Net interest spread (NIS)	2.26	2.20	2.60	+0.06 percentage point
Net interest margin (NIM)	2.35	2.37	2.75	-0.02 percentage point

Notes: Credit costs = credit provisions for the period / average loan balance (including discounted bills) for the period. In 2018, average loan balance (including discounted bills) of the Bank was RMB1,858,353 million (2017: RMB1,602,503 million). Net interest spread = average yield of interest-earning assets - average cost rate of interest-bearing liabilities; Net interest margin = net interest income / average balance of interest-earning assets.

(III) Supplementary regulatory indicators

(Unit: %)

Item		Standard level of indicator	31 December 2018	31 December 2017	31 December 2016
Liquidity ratio	RMB and foreign currency	≥25	60.86	52.23	49.48
	RMB	≥25	59.23	52.57	47.62
	foreign currency	≥25	96.40	55.41	99.04
Loan/deposit ratio including discounted bills (RMB and foreign currency)		N/A	92.38	83.58	75.21
Liquidity coverage ratio		≥100 (at the end of the year)	139.17	98.35	95.76
Capital adequacy ratio		≥10.5	11.50	11.20	11.53
Tier 1 capital adequacy ratio		≥8.5	9.39	9.18	9.34
Core tier 1 capital adequacy ratio		≥7.5	8.54	8.28	8.36
Ratio of loans to the single largest customer to net capital		≤10	5.13	5.20	5.19
Ratio of loans to top 10 customers to net capital		N/A	21.45	22.79	25.78
Ratio of accumulated foreign exchange exposure position to net capital		≤20	1.55	1.22	4.11
Pass loans flow rate		N/A	3.73	5.20	7.14
Special mentioned loans flow rate		N/A	37.91	30.41	37.56
Substandard loans flow rate		N/A	66.56	73.69	43.83
Doubtful loans flow rate		N/A	99.44	64.37	71.14
Non-performing loan (NPL) ratio		≤5	1.75	1.70	1.74
Provision coverage ratio		≥150	155.24	151.08	155.37
Provision to loan ratio		≥2.5	2.71	2.57	2.71

Note: Regulatory indicators are shown in accordance with the regulatory standards. Pursuant to the requirements of the *Administrative Measures for Liquidity Risks of Commercial Banks* issued by CBIRC, the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018; during the transitional period, the liquidity coverage ratio shall be no less than 90%.

Company Business Overview

I. Main businesses of the Company during the reporting period

Main businesses of the Bank

Ping An Bank is a national joint-stock commercial bank. As approved by relevant regulators, the Bank engages in the following commercial banking activities: (I) absorption of public deposits; (II) advances of short, medium and long-term loans; (III) domestic and overseas settlement; (IV) bill acceptance and discounting; (V) issuance of financial bonds; (VI) agent of issuing, cashing and underwriting government bonds; (VII) trading of government bonds and financial bonds; (VIII) interbank lending and borrowing; (IX) trade foreign exchange on its behalf and as an agent; (X) bank cards; (XI) provision of letter of credit service and guarantee; (XII) agency for collection and payment and insurance agency; (XIII) safe deposit box service; (XIV) foreign exchange settlement and sale; (XV) off-shore banking; (XVI) asset custody; (XVII) gold service; (XVIII) financial advisor and credit investigation, consultation and witness services; and (XIX) other businesses approved by relevant regulators.

Development status of the banking industry

The top priorities of China's financial industry in the next few years are to prevent financial risks, serve the real economy and enhance the support to private enterprises and small and micro businesses. The banking industry must implement guiding principles from the 19th CPC National Congress and embed them in their daily activities, fully return to their primary mission to serve the real economy and endeavor to maintain high-quality development, and make solid contributions to overcoming the three major challenges, i.e., prevention and mitigation of major risks, precise poverty alleviation, and pollution prevention and remediation. On the strength of exhaustive and robust researches and enlightened judgments on macro and industrial changes, the Bank adheres to the strategy to be technology-driven, pursue breakthroughs in retail banking, and reinvent its corporate banking, and endeavors to become a "domestic best performer and global leader in intelligent retail banking".

II. Development strategy of the Bank

Ping An Bank closely follows the national strategies, continues to uphold the principle of "being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking", and, in a sustained manner, strengthens the support to private enterprises and small and micro businesses, enhances the capability of serving real economy, and improves the level of preventing and controlling financial risks, aiming to build "domestic best performer and global leader in intelligent retail banking".

(I) Being technology-driven

Ping An Bank regards technology as the primary productive force of strategic transformation and is committed to applying cutting-edge technology to all areas of product innovation, customer marketing, business operations and risk control. It builds a "3+2" technology platform, which consists of "three major portals" (Pocket Bank, Pocket Finance and Hang-E-Tong), and "two hubs" (Intelligent Finance and Intelligent Risk Control). It continues to upgrade traditional business, continuously innovates business models, improves operational efficiency, enhances service experience, and builds a financial technology "moat".

1. Technology-driven. Ping An Bank builds a leading technology architecture, promotes the transformation of the application architecture from the traditional highly-shared, closed, tightly coupled hierarchical design to the functionally integrated architecture based on different business lines, and promotes the transformation of the technical architecture from the traditional IOE-based and centrally deployed design to a distributed framework with cloud services. It strengthens the application of leading technologies. Relying on the Group's core technologies and resources in artificial intelligence, blockchain, cloud computing, big data and information safety, it deeply implants new technologies into the entire process of financial services, and achieves digitalized and intelligent business operations and management.

2. Model-driven. In terms of governance model, based on the remarkable achievements accomplished by technological teams engaging in retail business, the Bank propels further involvement of the teams and wider application of agile management in corporate business, improves mechanism and processes related to structure management, safety control and horizontal collaboration, and promotes transformation of such teams from "technical service provider" to "business partner" and "technology leader". In terms of business model, the Bank continues to promote the optimization and improvement of the "SAT (social contact + mobile application + remote service)" business model, to improve OMO (Online Merge Offline), a comprehensive financial service model that has realized on-line and off-line integration, and to strengthen the AI service model represented by "AI + Customer Service", "AI + Advisor" and "AI + Risk Control" to improve management efficiency and risk control capabilities internally and enhance customer service capability and customer experience.

3. Platform-driven. For retail, corporate and inter-bank customers, the Bank develops "three major portals" comprising Pocket Bank, Pocket Finance and Hang-E-Tong to comprehensively enhance customer service capability and customer experience; for internal management and risk control, it focuses on developing "two hubs" comprising Intelligent Finance and Intelligent Risk Control to comprehensively improve the quality of internal management and risk control; for employees and customers, it builds a unified system-based knowledge pool that encompasses the banking business ecosystem to effectively improve management efficiency and marketing success; for the ecosystem, it develops an open communication platform that effectively supports the implementation of the Group's ecosystem strategy and the output of financial services.

4. Talent-driven. The Bank continues to bring in global top technology elites and establishes a leading talent team in financial technology as a way to keep financial technology talents. The Bank introduces a large number of technical experts in key fields such as AI, blockchain, big data and cloud computing from leading Internet technology companies to comprehensively consolidate the engineer team and build a core fortress of financial technology team. It fully promotes the technological transformation of traditional banking team, continues to deepen the integration of technology and finance, and accelerates the construction of "Finance + Technology" compound talent team. The Bank comprehensively enhances its team's rejuvenation, learning ability and innovation level so as to maintain the leading edge of financial technologies.

II. Development strategy of the Bank(Continued)

(II) Pursuing breakthroughs in retail banking

The Bank mobilizes all of its resources and utilizes technology wisdom to promote breakthroughs in businesses, model, channel and organization in retail business. In building a "3+2" operation system for retail business, making great efforts in basic retail, consumer finance and private wealth, and improving the capabilities of cost control and risk control, the Bank spares no efforts to build a "domestic best performer and global leader in intelligent retail banking ".

1. Breakthroughs in businesses. The Bank starts to implement AI in all business scenarios, upgrades basic retail, reinforces master accounts, designs more scenarios, strengthens scenario embedding, and comprehensively enhances the ability to attract new customers. It upgrades consumer finance, strengthens the leading role of credit card, New Generation Loan and auto financing business, and focuses on breakthrough in model innovation. It upgrades private banking and wealth management, and takes comprehensive finance and technology innovation as powerful tools to create open product platforms, strengthen product marketing and asset allocation abilities, and improve the level of refined management. The Bank improves its capabilities of risk control, puts risk control in the first place of asset business development, facilitates the iteration of risk control model, and improve the intelligent level of asset collection and resolution. It also improves its capabilities of cost control, promotes technology application, and reduces operating costs, comprehensive financial expansion costs and marketing costs in all dimensions and ways.

2. Breakthroughs in model. The Bank integrates the Group's comprehensive financial product lines, strengthens the cooperation with the Group's external product suppliers, fosters strong marketing strategy capabilities and post-investment management capabilities, and builds a one-stop integrated financial product platform. The Bank drills down into the Group's five major ecosystems of financial service, health care, automobile service, real estate service and smart city. Combined with customers' life scenarios, it provides scenario and emotional services to customers and users through intelligent master accounts. The APP Pocket Bank embedded with a variety of technologies and services is upgraded on-line, becoming a platform of the Group's integrated financial product sales and life services; new off-line retail outlets under "light, community-based, intelligent, diversified" concept are replicated and promoted, becoming a comprehensive financial traffic portal for group customers; on-line and off-line interaction and integration are promoted to develop an intelligent OMO service system.

3. Breakthroughs in channel. The comprehensive financial MGM (Member Get Member) model is upgraded; Ping An Life Insurance Agent is further channeled; intelligent services are improved. Precise capture, precise service and precise marketing are achieved, and the number of retail customers rapidly grew. Moreover, the Bank strengthens the connection between corporate banking and retail banking, improves the assessment and incentive mechanism, enhances resource support for products, rights, training, etc., and fully mobilizes the enthusiasm of the corporate banking team. The Bank strengthens cooperation with third-party traffic platforms and institutions and comprehensively outputs the ability of integrated financial accounts, to create new drives for retail business development through an open banking system and enlarge the basic customer scale rapidly.

4. Breakthroughs in organization. The Bank insists on vertical management, keeps high decision-making efficiency and resource allocation efficiency through a vertical management and control system for retail business across the "head office-branches-sub-branches-front line" and effectively prevents operational risk and management risk. It implements standardized management, establishes a unified standard system of operation, management, product and services, improves management efficiency and customer experience, and supports the efficient development of business. It strengthens the construction of agile organizations, effectively integrates traditional financial talents and Internet introducing talents, consolidates the foundation of intelligent retail banking, and comprehensively enhance business capacity and operational quality and efficiency.

(III) Reinventing its corporate banking

The Bank adheres to the development path of "industrialization, specialization, investment banking, light assets and light capital", and establishes four centers of customer, product, resource support and risk control. In the spirit of "careful selection of industries", "careful cultivation of the customer base", "carefully-tailored product offerings" and "precise and effective risk controls", it builds "intelligent exquisite corporate banking" with distinctive characteristics and outstanding professionalism under the two core methods of technology empowerment and ecological management.

1. Careful selection of industries. It vigorously promotes ecological operation, and actively integrates into the Group's five major ecosystems of financial service, health care, automobile service, real estate service and smart city, strives to incorporate the banking products into the Group's overall plan, completes the scenario embedding, and realizes the symbiotic development of sub-ecosystems in the industry. Relying on the Group's "group comprehensive finance" platform, it attaches great importance to government organizations to fully expand "smart city" services, focusing on improving the service abilities of government departments such as finance, social security, land, real estate and politics, as well as institutions such as public institutions, exchanges and local financing platforms, to strengthen the liability base and create new profit growth points.

2. Carefully cultivating the customer base. The Bank focuses on the leading customers of sub-sectors, and provides integrated financial solutions based on customer needs. It focuses on serving private enterprises and small and micro enterprises, strengthens industrialized operations, innovates business models of supply chain receivables service platform (SAS platfom) and small enterprise digital finance platform (KYB), builds an intelligent credit service platform, and continues to strengthen the support to private enterprises to effectively solve the problems of difficulty and high cost in financing for small and micro enterprises. The Bank also strives to cultivate government customers, takes advantage of technologies to facilitate platform accessibility, and works with government to create a "smart city" to enhance social values and economic benefits with a multi-win. It makes great efforts to carry out "financial poverty alleviation" in response to the call of the state, promotes the economic development of poverty areas and helps the poverty colonies to overcome poverty and achieve prosperity by such means as poverty alleviation bonds, poverty alleviation loans and poverty alleviation malls.

3. Carefully tailored product offerings. The Bank strives to build a "transaction banking" product system, comprehensively strengthens technology leadership, builds an intelligent supply chain financial system, develops an open SAS platform, innovates KYB business model, builds the first brand of offshore finance, continues to develop e-governance and government finance, reinforces payment settlement business, and constantly upgrades cash management and the bank-corporate direct linkage. It also strives to build an "investment bank" product system, integrates the resources of the Group's investment banking, banking peers and investment businesses, and links-projects, products and sales, promotes the cooperation of the Group's investment and financing businesses, meets the investing and financing needs of corporate customers, and offers retail customers all levels of quality assets. It focuses on improving the trading ability of financial markets, strengthens the cooperation with sister companies within the Group, establishes the most complete FICC (fixed income, currency and commodities) business system, enhances the synergy effect of the front, middle and back offices, establishes a sound system support platform, achieves a substantial increase in profit margin, in absolute returns and in transaction dimensions and depth, and wins a reputation of "best trading institution".

4. Precise and effective risk controls. The Bank establishes "bank-wide risk control concept, duty fulfilling awareness, and compliance baseline awareness", and creates a risk culture that advocates "asset quality is the lifeline". In addition to the risk appetite system which has complete mechanism, clear logic and effective transmission, it establishes a comprehensive risk management governance structure with sound organization and clear responsibilities that is relatively independent and strategy-supportive. It also improves risk policies and systems, and optimizes tool models of risk measurement and application systems. Meanwhile, the Bank focuses on key industries, key customers and key products, and continues to promote the adjustment of asset structure. It encourages to put policies, credit review and legal compliance review in front of any businesses, strengthens overall management of market risk and optimizes risk management process. In addition, the Bank optimizes mechanism, continues to promote the management mechanism for special asset business unit, and strengthens the recovery and dissolving of existing problematic assets. It strengthens technology leadership, makes full use of leading technologies such as big data and AI, and builds an "Intelligent Risk Control" platform to comprehensively improve risk management efficiency and level.

Company Business Overview

III.Core competitiveness analysis

In response to the national strategy and conforming to the macro situation, Ping An Bank made unwavering efforts to enhance its comprehensive operation and management, with a focus on building up distinctive core competitiveness in development strategy, comprehensive finance, innovative culture, executive capability, financial technology, retail banking and corporate banking by giving full play to various internal and external resources and advantages.

Clearly oriented development strategy. Facing complicated and ever-changing economic and financial situation at home and abroad, the Bank has a clear idea of its unique advantages and resources so as to, in the spirit of "doing things selectively", choose the strategic path of retail transformation, develops a strategic target of "domestic best performer and global leader in intelligent retail banking", and upholds the principle of "being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking". Guided by the clear strategy, the Bank takes a multi-pronged approach from the aspects of business orientation, model innovation, organizational reform, risk prevention and control, talent introduction and training, steadily promotes the implementation of the strategy and has achieved good results.

Advantageous comprehensive finance. The comprehensive finance is the characteristic advantage of the Bank. Based on the huge individual customer base, strong brand influence, extensive distribution network and full financial license of its holding parent company Ping An Group, the Bank establishes an integrated on-line and off-line comprehensive financial product system and service platform, and forms a competitive comprehensive financial cooperation mechanism and internal management and organization model, opening up a new path for the transformation of retail and corporate businesses.

Inherent innovation culture. Rooted in Shenzhen, the reform frontier of China, the Bank has "innovation" in its DNA as it endeavors to be a market leader through innovation. In respect of top-level design, the Bank sets up an "Innovation Committee" across the Bank for retail and corporate banking, arranges cross-line and cross-functional resources, and proactively encourages and promotes innovation. With regard to the implementation of innovation, it advances the ideas of "agile organization" and "innovation garage" to facilitate iteration, keep up with market hot spots and give a quick response to customer demands.

Strong and powerful execution capability. Strong and powerful execution is a prominent feature of the Bank's corporate culture, and effective performance management is an important guarantee for the Bank's execution. The Bank establishes a fair and transparent performance assessment system, effectively promotes the value-oriented performance assessment, and closely connects assessment target setting, work tracking and the whole assessment process. It adheres to the concept that "different people have different features", forms a panoramic view of talents, and strengthens the use of performance assessment results. It creates an excellent execution culture based on performance management to ensure the advancement and implementation of retail strategic transformation.

Predominant financial technology. The Bank drives strategic transformation by technology, and applies technical methods to transform the status quo of the team, innovate business model, upgrade traditional business and promote intelligent management. The Bank accelerates the integration of application scenarios and cutting-edge technologies such as big data, blockchain, artificial intelligence (AI), cloud computing and biometrics to realize "being technology-driven", continuously optimizes and upgrades service models and platforms including Pocket Bank, Pocket Finance, SAS, KYB, Cross-border E-commerce and "AI+" to realize "model and platform-leading". Motivated by "Finance + Technology", the Bank cultivates a team of about 6,000 compound financial technology talents and attracts a large number of compound high-end technical talents from Silicon Valley and domestic and foreign leading Internet companies to realize "technology talents-driven".

Intelligent and convenient retail banking. The Bank utilizes technology to promote retail banking transformation, and provides more convenient, intelligent and comprehensive financial services. It establishes new off-line retail outlets under the "light, community-based, intelligent, and diversified" concept, continuously and iteratively optimizes the on-line Pocket Bank APP, and uses intelligent OMO service system integrating on-line APP and off-line outlets to achieve seamless connection between Pocket Bank APP and new retail outlets. As a result, multiple on-line and off-line service scenarios are integrated. In addition, it launches "AI + Customer", "AI + Advisor" and "AI + Risk Control" service marketing and management system to provide integrated, seamless and convenient services for customers.

Intensive corporate banking. The Bank adheres to the philosophy of "industrialization, specialization, investment banking, light assets and light capital" to optimize resource allocation to the maximum extent and take the road of exquisite corporate banking. The Bank focuses on the top 10 industries and 5 major ecosystems related to national economy and people's livelihood as reflected by its "careful selection of industries", "careful cultivation of the customer base", "carefully-tailored product offerings" and "precise and effective risk controls". It also attaches great importance to "customer management" to provide all-round investment banking and trading banking products. It creates a "Product + Platform + Service" model, and constantly optimizes the SAS platform for the upstream of supply chain, enhances KYB and Pocket Finance APP for trade financing and small and medium-sized enterprises ("SMEs"), and upgrades Cross-border E-Commerce products tailored for offshore and international customers, so as to provide intensive services to customers and support the upgrading and transformation of real economy.

IV. Operations of segments

(I) Profit and scale

(In RMB million)

Item		Retail banking business		Wholesale banking business		Others		Total	
		2018	2017	2018	2017	2018	2017	2018	2017
Operating income	Amount	61,883	46,692	47,120	54,091	7,713	5,003	116,716	105,786
	%	53.0	44.1	40.4	51.1	6.6	4.8	100.0	100.0
Operating expenses	Amount	23,020	18,871	13,269	13,386	251	381	36,540	32,638
	%	63.0	57.8	36.3	41.0	0.7	1.2	100.0	100.0
Impairment losses on credit and assets	Amount	16,604	7,438	32,484	32,156	(1,217)	3,331	47,871	42,925
	%	34.7	17.3	67.9	74.9	(2.6)	7.8	100.0	100.0
Profit before tax	Amount	22,245	20,392	1,366	8,553	8,620	1,212	32,231	30,157
	%	69.0	67.6	4.2	28.4	26.8	4.0	100.0	100.0
Net profit	Amount	17,129	15,679	1,052	6,576	6,637	934	24,818	23,189
	%	69.0	67.6	4.2	28.4	26.8	4.0	100.0	100.0

Item	31 December 2018		31 December 2017		Year-on-year change
	Balance	%	Balance	%	
Total assets	3,418,592	100.0	3,248,474	100.0	5.2%
Including: Retail banking business	1,098,626	32.1	791,578	24.4	38.8%
Wholesale banking business	1,492,753	43.7	1,680,901	51.7	(11.2%)
Others	827,213	24.2	775,995	23.9	6.6%

Note The retail banking business segment covers the provision of financial products and services to individual customers, including personal loans, deposit business, bank card business, personal wealth management service and various individual intermediary businesses.

The wholesale banking business segment mainly comprises services to corporates, banks and other financial institutions and small enterprises (including individuals and legal entities), covering the provision of financial products and services to corporate customers, government organizations and banks and other financial institutions. These products and services include corporate loans, deposit business, trading financing, wealth management service for corporates and banks and other financial institutions, and various corporate intermediary businesses and inter-bank businesses.

Other business segments refer to the bond investment and some monetary market businesses carried out by the head office of the Bank for the need of liquidity management, as well as non-performing assets and equity investments under central management of the Bank and the assets, liabilities, income and expenses not directly attributable to a certain segment.

IV. Operations of segments(Continued)

(I) Profit and scale(Continued)

(In RMB million)

Item	31 December 2018		31 December 2017		Year-on-year change
	Balance	%	Balance	%	
Deposit principals due to customers	2,128,557	100.0	2,000,420	100.0	6.4%
Including: Corporate deposits	1,666,966	78.3	1,659,421	83.0	0.5%
Personal deposits	461,591	21.7	340,999	17.0	35.4%
Total principal of loans and advances to customers	1,997,529	100.0	1,704,230	100.0	17.2%
Including: Corporate loans (including discounted bills)	843,516	42.2	855,195	50.2	(1.4%)
Personal loans (including credit cards)	1,154,013	57.8	849,035	49.8	35.9%

Note: Items in the above table are classified as per customer nature. The legal entity business for small enterprises is attributable to corporate deposit and corporate loan business, while the individual business for small enterprises is attributable to personal deposit and personal loan business, the same below.

(II) Quality and efficiency

Item	31 December 2018	31 December 2017	Year-on-year change
Non-performing loan (NPL) ratio	1.75%	1.70%	+0.05 percentage point
Including: Corporate loans (including discounted bills)	2.68%	2.22%	+0.46 percentage point
Personal loans (including credit cards)	1.07%	1.18%	-0.11 percentage point

(In RMB million)

Item	Jan. - Dec. 2018			Jan. - Dec. 2017		
	Average daily balance	Interest income and expense	Average interest rate	Average daily balance	Interest income and expense	Average interest rate
Due to customers	2,052,267	49,638	2.42%	1,909,856	37,875	1.98%
Including: Corporate deposits	1,657,435	39,314	2.37%	1,610,802	31,649	1.96%
Personal deposits	394,832	10,324	2.61%	299,054	6,226	2.08%
Loans and advances to customers (excluding discounted bills)	1,829,123	117,947	6.45%	1,586,578	94,775	5.97%
Including: Corporate loans (excluding discounted bills)	824,418	39,021	4.73%	916,816	41,497	4.53%
Personal loans (including credit cards)	1,004,705	78,926	7.86%	669,762	53,278	7.95%

V. Change of core technical team or key technicians during the reporting period (exclusive of directors, supervisors and the senior management)

□ Applicable √ Not applicable

VI. Significant changes in major assets

(I) Significant changes in major assets

Major Assets	Explanations on Significant Changes
Equity assets	There were no significant changes during the reporting period
Property and equipment	There were no significant changes during the reporting period
Intangible assets	There were no significant changes during the reporting period
Construction in progress	There were no significant changes during the reporting period

(II) Status of major overseas assets

□ Applicable √ Not applicable

Discussion and Analysis of Operations

I. Overview

In 2018, the Bank responded positively to the national strategies and continued to intensify the principle of "being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking" to conform to the macro-economic and financial situation. It further strengthened the support to private enterprises and small and micro businesses, further enhanced the capability of serving real economy and prevented and controlled financial risks in a comprehensive manner.

With regard to being technology-driven, the Bank attached great importance to technology innovation and application, adhered to technology leadership, model leadership, platform leadership and talent leadership, utilized technology to fully reshape its banking system, lead business development and build a financial technology "moat". With regard to pursuing breakthroughs in retail banking, the Bank applied technological intelligence to its businesses and fully advanced the transformation of intelligent retail banking with breakthroughs in businesses, models, channels and organizations, and strove to make retail banking more excellent. With regard to reinventing its corporate banking, the Bank interpreted excellence and meticulousness into "careful selection of industries", "careful cultivation of the customer base", "carefully-tailored product offerings" and "precise and effective risk controls", and strove to build exquisite corporate banking with distinctive characteristics, optimum profit and high quality.

In competing for the "2018 Gold Medal List for Chinese Financial Institutions·Golden Dragon Prize" sponsored by Financial Times, the Bank was awarded the "Best Listed Bank of the Year". At the China AI Financial Pathfinder Summit and the awarding ceremony of "2nd China Financial Technology Pioneer List" hosted by Securities Times, the Bank won the prize of "2018 China AI Financial Pioneer List (comprehensive award)" with its deep integration of financial technology and strategic business. In addition, the Bank carried off "the Best Progressive Retail Bank in Asia Pacific, Middle East and Africa", "China's Best Progressive Retail Bank", and "the Best Auto Finance Product of the Year" awarded by Asian Banker, thanks to its outstanding achievements in the retail sector in the past year. In 2018, the Bank also won awards such as "Pioneer of Targeted Poverty Alleviation", "Outstanding Joint-stock Commercial Bank Brand", "Outstanding Mobile Banking APP" and "the Most Distinctive Credit Card". In 2018, the Bank's operations have the following characteristics:

(I) Robust business development

In 2018, the Bank recorded operating income of RMB116,716 million, representing a year-on-year increase of 10.3%, which included net interest income of RMB74,745 million, representing a year-on-year increase of 1.0%, mainly due to the recognition of income/expenses arising from "the financial instruments designated at fair value and changes included into the profits and losses for the period" in the investment income in accordance with the new accounting standards for financial instruments (net interest under the old accounting standards for financial instruments increased by 9.7% year on year); the net non-interest income was RMB41,971 million, with a year-on-year increase of 32.1%. The operating profit before the provision was RMB80,176 million, increasing by 9.6% year on year; the net profit was RMB24,818 million, increasing by 7.0% year on year; the net interest margin and the net interest spread from January to December 2018 were 2.35% and 2.26% respectively, and the net interest margin and the net interest spread for the fourth quarter were 2.50% and 2.41% respectively, increasing steadily month on month; the net non-interest income accounted for 36.0%, with a year-on-year increase of 6 percentage points. The profitability remained stable.

At the end of 2018, the Bank's total assets amounted to RMB3,418,592 million, up 5.2% over the end of last year; the balance of deposits due to customers was RMB2,128,557 million, up 6.4% over the end of last year. The total loans and advances to customers (including discounted bills) amounted to RMB1,997,529 million, representing an increase of 17.2% as compared with the end of last year.

(II) Further advance of retail transformation

At the end of 2018, the balance of assets under management (AUM) of retail customers of the Bank amounted to RMB1,416,796 million, representing an increase of 30.4% over the end of the previous year, and the number of retail customers reached 83,900,000, an increase of 20.0% over the end of the previous year, among which wealth customers and qualified customers of private banks reached 591,600 and 30,000 respectively, representing an increase of 29.6% and 27.7% over the end of the previous year. The current credit card accounts reached 51,520,000, an increase of 34.4% over the end of the previous year. The balance of personal deposits amounted to RMB461,591 million, up 35.4% over the end of the previous year, while the balance of personal loans amounted to RMB1,154,013 million, up 35.9% over the end of the previous year, which accounted for 57.8%, an increase of 8.0 percentage; in 2018, the total transaction volume of credit cards amounted to RMB2,724,807 million, rising by 76.1% year on year. In December 2018, the number of monthly active customers of Ping An Pocket Bank APP reached 25,880,000, increasing by 74.6% year on year. The Bank initiated the program of "Follow the Liuhua Branch Model" and successfully upgraded the standard operation model of 136 branches after the opening of Guangzhou Liuhua Branch in 2017, which was its first intelligent retail store. In 2018, the operating income of retail business reached RMB61,883 million, a year-on-year increase of 32.5%, accounting for 53.0% of the Bank's total operating income; the net profit of retail business reached RMB17,129 million, a year-on-year increase of 9.2%, accounting for 69.0% of the Bank's total net profit.

(III) Reinvention-focused corporate business

In 2018, the Bank's corporate business focused on superior business, superior channel and quality projects and built up bigger and stronger ecosystems based on an ecological operation idea. In the process of building a superior bank, the Bank substantially used cloud technology, blockchain, IoT, big data and other technical methods in corporate business to empower the management, drive business innovation, and form an intelligent superior corporate banking business system. At the end of 2018, the number of registered customers of Pocket Finance reached 280,000, and the annual transaction amount exceeded RMB830 billion; in 2018, the cumulative transaction volume of SAS, a service platform for supply chain accounts receivables, exceeded RMB10 billion. Financial service support has been provided for 111 core enterprises and their upstream small, micro and medium-sized enterprises. At the end of 2018, there were 14,103 customers of "small enterprise digital finance platform (KYB)", and KYB loans in 2018 totaled RMB10.7 billion. In addition, the Bank positively develops exquisite investment banking and inter-bank business. Firstly, it fully implements the light-weight financing strategy. The cumulative issuance scale of inter-bank bond underwriting business in 2018 was RMB161.9 billion, with a year-on-year increase of 54.0%. Secondly, it rebuilt the position of its banking peers. Through the connection of assets management, transactions and sales, the channel value of inter-bank institutions was increased. At the end of 2018, the cumulative number of cooperative customers of Hang-E-Tong reached 2,079, with an increase of 150 over the end of the previous year.

(IV) Preliminary results in technology-driven practice

The Bank regarded "being technology-driven" as its primary development strategy. With respect to investment in technology, the Bank's investment in technology saw a significant increase in 2018. IT capital expenditure amounted to RMB2,575 million, increasing by 82% year on year. At the end of 2018, the number of technology staff increased by over 44% over the end of last year. With respect to technology governance, the Bank developed a three-year (2019-2021) IT development plan, defining the key points and strategy of IT work in the next three years. Additionally, the Bank took the initiative to implement agile transformation and changed the role of information technology from traditional support to business development drive. With respect to technological innovation, the Bank relied on the core technologies and resources of Ping An Group in the fields of AI, blockchain, cloud computing, etc., and applied new technologies to its business, so as to continuously enhance customer experience, enrich financial products, innovate business models, improve risk control system, optimize operational efficiency and promote intelligent management. The Bank's "being technology-driven" strategic transformation has shown preliminary results.

I. Overview(Continued)

(V) Substantial improvement in asset quality

The Bank proactively responded to external risks, adjusted business structure, and continuously improved asset quality indicators. Firstly, the Bank conformed to the strategy of "pursuing breakthroughs in retail banking", emphatically invested new resources in retail loans with better asset quality and strengthened access standard and management requirement for retail customers to ensure higher retail asset quality; secondly, corporate banking continued to be reinvented, and new businesses were concentrated in industries with sound growth, which were in compliant with national strategic development direction. The Bank gathered its superior resources and invested them into high-quality and high-potential customers, drove upstream and downstream supply chain, industrial chain or ecosystem customers, and continued to maintain the good risk performance of new customers. Meanwhile, it continued to adjust the structure of existing assets and strengthened the recovery and disposal of problematic assets. As a result, substantial improvement in the asset quality had been achieved.

At the end of 2018, the balance and the proportion of overdue loans and loans overdue for more than 90 days of the Bank both declined. The balance of overdue loans amounted to RMB49,480 million, with a decrease of RMB9,264 million, accounting for 2.48% of total loans, decreasing by 0.96 percentage point over the end of last year; the balance of loans overdue for more than 90 days reached RMB33,984 million, with a decrease of RMB7,476 million, accounting for 1.70% of total loans, decreasing by 0.73 percentage point over the end of last year. The balance of special-mentioned loans was RMB54,552 million, a decrease of RMB8,432 million over the end of last year; special-mentioned rate was 2.73%, decreasing by 0.97 percentage point over the end of last year. NPL deviation rate was 97%, down 46 percentage points from the end of last year. The NPL ratio was 1.75%, slightly up 0.05 percentage point over the end of last year, basically remained stable.

In 2018, the provision for impairment losses on credit and asset amounted to RMB47,871 million, with a year-on-year increase of 11.5%, including RMB43,657 million of provision for credit impairment losses on loans and advances to customers; at the end of 2018, the balance of provision for impairment on loans reached RMB54,187 million, with an increase of 23.7% over the end of last year; the provision to loan ratio was 2.71%, up 0.14 percentage point over the end of last year; the provision coverage ratio was 155.24%, up 4.16 percentage points over the end of last year; the provision coverage ratio of loans overdue for more than 90 days was 159.45%, up 53.78 percentage points over the end of last year. The risk compensation capability of the Bank was further enhanced.

In 2018, the Bank recovered a total of RMB18,744 million of non-performing assets, up 96.7% year on year, including credit assets of RMB17,520 million (loan principal); recovered principals of loans included written-off loans of RMB9,356 million and unwritten-off NPL of RMB8,164 million; 96.8% of recovered amount for non-performing assets was recovered in cash and the rest was recovered in repayment by objects.

(VI) Support to serving real economy

The Bank actively implemented the central government's strategic arrangement on the application of technology innovation and serving real economy, utilized technology to drive strategic transformation, and made full use of up-to-date technologies such as artificial intelligence, biometrics, big data, blockchain and cloud computing, and enhanced the capability of serving real economy. At the end of 2018, the Bank's total on-balance sheet and off-balance sheet credit facilities amounted to RMB2,838.7 billion, an increase of RMB653.1 billion or 29.9% over the end of last year, and the details are as follows:

Firstly, the Bank kept up with the national strategic deployment, focused on key industries, and promoted the optimization and upgrading of the national industrial structure through model innovation and the product portfolio of "Commercial banking + Investment banking + Investment". At the end of 2018, credit facilities to key industries accounted for 48%, up 7 percentage points over the end of the previous year.

Secondly, in response to the call of the state, the Bank adopted the strategy of "Differentiated bailout + Precise services" and practically supported the development of private enterprises and small, micro and medium-sized enterprises through Ping An Group's bailout fund and the group cooperation model to solve the problem of difficulty and high cost in financing, and realize the target of "two growths and two controls" (两增两控) for small and micro-sized enterprises loans. In 2018, the loans newly issued to private enterprises accounted for 60.2% of incremental loans to corporates, and at the end of 2018, the balance of loans to private enterprises accounted for 59.3% of the balance of loans to corporates; regarding the Bank's loans to small and micro-sized enterprises, the credit of RMB10 million or less granted to single customers was up 61% over the end of last year, higher than the average growth rate of all loans in the Bank, the number of customers with loan balances was 214,000 more than the same period of last year and loan interest rate for these small and micro-sized enterprises declined by 1.43 percentage points over the first quarter with the NPL ratio within reasonable range.

Thirdly, the Bank launched the "Village Officer Project" by developing a variety of financial poverty alleviation products such as breeding loans, planting loans and hydro power loans, building an online agricultural mall for poverty alleviation, and establishing a closed loop of poverty alleviation consisting of "Finance + Technology + Production and sales" through "Finance + Industry" poverty alleviation. In 2018, the Bank invested RMB4,458 million in Guangxi, Yunnan, Guizhou, Jiangxi, Sichuan and other places successively for poverty alleviation, which directly helped over 1,917 registered poor people, covered and benefited more than 330,000 impoverished people with the card established for archives.

Fourthly, by utilizing technologies, the Bank developed six exquisite businesses including intelligent supply chain finance, government finance, small enterprise digital finance, Internet payment settlement, pocket finance and offshore interbank finance, promoted comprehensive intelligence in areas such as management, marketing, risk control, wealth management, payment, operation and financing to improve the efficiency of serving real economy.

Fifthly, the Bank promoted the construction for ecosystems of financial service, health care, automobile service, real estate service, smart cityand other ecosystems by leveraging the Group's advantages of technology and integrated financial services, contributed to consumption upgrades, and supported and served the real economy by improving the demand side. At the same time, the Bank built star products such as "New Generation Loan", licensed mortgage loans and auto financial loan to serve private merchants and small and micro business owners, deal with the financing difficulties in the operation of such customers, and facilitate the allocation of more financial resources to real economy.

(VII) Base consolidation and capital enhancement

The Bank advocated refined capital management, fully implemented economic capital management and established a comprehensive performance evaluation mechanism with economic value added (EVA) and risk adjusted return on capital (RAROC) as the core, and enhanced the capital level by shifting its focus to low-risk businesses, increasing the amount written off in tax, intensifying the disposal of debt-offsetting assets, and reducing the occupancy of invalid capital. At the end of 2018, the Bank's core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 8.54%, 9.39% and 11.50%, all satisfying the regulatory requirements, and up 0.26 percentage point, 0.21 percentage point and 0.30 percentage point respectively over the end of last year. The Bank completed the issuance of A-share convertible corporate bonds of RMB26 billion on 25 January 2019, of which the equity of RMB3.7 billion was directly included in the core tier 1 capital and the rest would be used to supplement the core tier 1 capital of the Bank bit by bit after the conversion to improve the capital adequacy.

Discussion and Analysis of Operations

II. Analysis of principal business

(I) Overview

Whether it is the same as the disclosure in the discussion and analysis of operations

√ Yes ☐ No

See "I. Overview" in "Section V Discussion and Analysis of Operations".

(II) Analysis of income statement items

1. Composition of and changes in operating income

(In RMB million)

Item	2018		2017		Year-on-year change
	Amount	%	Amount	%	
Net interest income	**74,745**	**64.0%**	**74,009**	**70.0%**	**1.0%**
Interest income from balances with central banks	4,002	2.5%	4,232	2.9%	(5.4%)
Interest income from transactions with financial institutions	10,933	6.7%	10,726	7.2%	1.9%
Including: Interest income from deposits with banks and other financial institutions	4,893	3.0%	7,476	5.1%	(34.6%)
Interest income from placements with banks and other financial institutions	1,759	1.1%	1,585	1.1%	11.0%
Interest income from loans and advances to customers	118,184	72.6%	94,976	64.1%	24.4%
Interest income from financial investments	28,363	17.4%	34,078	23.0%	(16.8%)
Other interest income	1,406	0.8%	4,056	2.8%	(65.3%)
Subtotal of interest income	**162,888**	**100.0%**	**148,068**	**100.0%**	**10.0%**
Interest expense on borrowings from central bank	4,299	4.9%	2,671	3.6%	61.0%
Interest expense for transaction between financial enterprises	18,686	21.2%	19,155	25.9%	(2.4%)
Interest expense on deposits due to customers	49,638	56.3%	37,875	51.1%	31.1%
Interest expense on debt securities issued	15,520	17.6%	14,358	19.4%	8.1%
Subtotal of interest expense	**88,143**	**100.0%**	**74,059**	**100.0%**	**19.0%**
Net fee and commission income	**31,297**	**26.8%**	**30,674**	**29.0%**	**2.0%**
Other net non-interest income	**10,674**	**9.2%**	**1,103**	**1.0%**	**867.7%**
Total operating income	**116,716**	**100.0%**	**105,786**	**100.0%**	**10.3%**

2. Net interest income

In 2018, the Bank recorded net interest income of RMB74,745 million, representing a year-on-year increase of 1.0% and accounting for 64.0% of operating income.

Average daily balance and average yield/cost rate of the major asset and liability items

(In RMB million)

Item	Jan. - Dec. 2018			Jan. - Dec. 2017		
	Average daily balance	Interest income/ expense	Average yield/ cost rate	Average daily balance	Interest income/ expense	Average yield/ cost rate
Assets						
Loans and advances to customers (excluding discounted bills)	1,829,123	117,947	6.45%	1,586,578	94,775	5.97%
Bond investment	499,716	17,170	3.44%	430,947	15,269	3.54%
Balances with central banks	259,779	4,002	1.54%	278,648	4,232	1.52%
Bills discounting and inter-bank business	561,984	22,362	3.98%	726,338	29,736	4.09%
Others	35,549	1,407	3.96%	97,527	4,056	4.16%
Total interest-earning assets	3,186,151	162,888	5.11%	3,120,038	148,068	4.75%
Liabilities						
Due to customers	2,052,267	49,638	2.42%	1,909,856	37,875	1.98%
Debt securities issued	352,701	15,520	4.40%	335,626	14,358	4.28%
Including: Inter-bank deposits	306,243	13,095	4.28%	299,059	12,328	4.12%
Inter-bank business and others	691,892	22,985	3.32%	653,461	21,826	3.34%
Total interest-bearing liabilities	3,096,860	88,143	2.85%	2,898,943	74,059	2.55%
Net interest income		74,745			74,009	
Deposit-loan spread			4.03%			3.99%
NIS			2.26%			2.20%
NIM			2.35%			2.37%

The Bank continued to optimize business structure to increase the scale and proportion of individual loans, resulting in a slight rise in yield rate of interest-earning assets over the last year. From January to December 2018, the deposit-loan spread was 4.03% and the net interest spread was 2.26%, up 4 basis points and 6 basis points year on year respectively; the net interest margin was 2.35%, down 2 basis points year on year with the overall situation basically stable.

Since the second quarter of 2018, the Bank has continuously optimized its business structure. In the fourth quarter of 2018, the net interest margin was 2.50% and the net interest spread was 2.41%, improving steadily month on month, and the downward trend was reversed.

II. Analysis of principal business(Continued)

(II) Analysis of income statement items(Continued)

2. Net interest income(Continued)

Average daily balance and yield of loans and advances to customers

(In RMB million)

Item	Jan. - Dec. 2018			Jan. - Dec. 2017		
	Average daily balance	Interest income	Average yield	Average daily balance	Interest income	Average yield
Corporate loans (excluding discounted bills)	824,418	39,021	4.73%	916,816	41,497	4.53%
Personal loans (including credit cards)	1,004,705	78,926	7.86%	669,762	53,278	7.95%
Loans and advances to customers (excluding discounted bills)	1,829,123	117,947	6.45%	1,586,578	94,775	5.97%

Average daily balance and cost rate of deposits due to customers

(In RMB million)

Item	Jan. - Dec. 2018			Jan. - Dec. 2017		
	Average daily balance	Interest expense	Average cost rate	Average daily balance	Interest expense	Average cost rate
Corporate deposits	1,657,435	39,314	2.37%	1,610,802	31,649	1.96%
Including: Demand deposits	489,045	3,071	0.63%	510,752	3,146	0.62%
Time deposits	938,787	30,509	3.25%	860,248	24,491	2.85%
Including: Treasury deposits and agreement deposits	108,062	4,925	4.56%	101,907	4,655	4.57%
Margin deposits	229,603	5,734	2.50%	239,802	4,012	1.67%
Personal deposits	394,832	10,324	2.61%	299,054	6,226	2.08%
Including: Demand deposits	145,330	437	0.30%	132,388	413	0.31%
Time deposits	224,448	8,709	3.88%	137,975	4,472	3.24%
Margin deposits	25,054	1,178	4.70%	28,691	1,341	4.67%
Due to customers	2,052,267	49,638	2.42%	1,909,856	37,875	1.98%

3. Net non-interest income

(1) Net fee and commission income

In 2018, the net fee and commission income of the Bank was RMB31,297 million, representing an increase of 2.0% year on year, mainly due to the increase in fee income from bank cards. The details were as follows:

(In RMB million)

Item	2018	2017	Year-on-year change
Settlement fee income	2,477	2,392	3.6%
Wealth management products related fee income	1,365	3,411	(60.0%)
Agency and trusteeship business fee income	4,123	3,350	23.1%
Bank card business fee income	25,266	18,511	36.5%
Consulting and advisory fee income	1,463	2,659	(45.0%)
Asset trusteeship fee income	2,856	3,046	(6.2%)
Account management fee income	149	156	(4.5%)
Others	1,663	2,200	(24.4%)
Subtotal of fee and commission income	**39,362**	**35,725**	**10.2%**
Agency business fee expense	1,210	493	145.4%
Bank card business fee expense	6,426	4,213	52.5%
Others	429	345	24.3%
Subtotal of fee and commission expense	**8,065**	**5,051**	**59.7%**
Net fee and commission income	**31,297**	**30,674**	**2.0%**

(2) Other net non-interest income

Other net non-interest income included investment income, gains/losses on fair value changes, net gains from foreign exchange and foreign exchange products, other business income, gains/losses on disposal of assets and other gains. In 2018, the Bank recorded other net non-interest income of RMB10,674 million, representing a year-on-year increase of 867.7%, mainly due to the recognition of income/expenses arising from "the financial instruments designated at fair value and changes included into the profits and losses for the period" in the investment income in accordance with the new accounting standards for financial instruments.

4. Operating and administrative expense

The Bank continued to increase investment in strategic transformation. In 2018, operating and administrative expense of the Bank was RMB35,391 million, an increase of 11.9% year on year and the cost/income ratio was 30.32%, up 0.43 percentage point year on year. Included in the operating and administrative expense were staff expense of RMB17,719 million with a year-on-year increase of 12.4%, general business administrative expense of RMB12,463 million with a year-on-year increase of 11.9%, and depreciation, amortization and rental expenses of RMB5,209 million with a year-on-year increase of 10.6%.

II. Analysis of principal business(Continued)

(II) Analysis of income statement items(Continued)

5. Impairment losses on credit and assets

(In RMB million)

Item	Provision in 2018	Provision in 2017	Year-on-year change
Deposits with banks and other financial institutions	(94)	-	Nil for last year
Placements with and loans to banks and other financial institutions	85	-	Nil for last year
Financial assets held under resale agreements	1	-	Nil for last year
Loans and advances to customers	43,657	40,803	7.0%
Investment on debts (Note)	3,318	-	Nil for last year
Other investment on debts	265	-	Nil for last year
Available-for-sale financial assets	-	236	(100.0%)
Held to maturity investment	-	33	(100.0%)
Debt instruments classified as receivables	-	1,550	(100.0%)
Foreclosed assets	57	24	137.5%
Others	582	279	108.6%
Total	47,871	42,925	11.5%

Note: Credit impairment provision was mainly made for financial investments carried at amortized cost, including asset management plan/right to yields of asset management plan, and trust plan/right to yields of trust plan.

6. Income tax expense

(In RMB million)

Item	2018	2017	Year-on-year change
Profit before tax	32,231	30,157	6.9%
Income tax expense	7,413	6,968	6.4%
Effective income tax rate	23.00%	23.11%	-0.11 percentage point

7. Regional segment of operating income and expense

See "IV Information on operating segment" in "Section XIII Financial Report" for details about regional segment of operating income and expense of the Bank in 2018.

(III) Analysis of balance sheet items

1. Asset composition and changes

(In RMB million)

Item	31 December 2018		31 December 2017		Year-on-year change
	Balance	%	Balance	%	
Total loans and advances to customers	2,003,790	58.6%	1,704,230	52.5%	17.6%
Including: Principal of loans and advances to customers	1,997,529	58.4%	1,704,230	52.5%	17.2%
Accrued interest on loans and advances to customers	6,261	0.2%	-	-	Nil at the end of last year
Provision for impairment of loans and advances to customers	(54,033)	(1.6%)	(43,810)	(1.4%)	23.3%
Net loans and advances to customers	1,949,757	57.0%	1,660,420	51.1%	17.4%
Financial assets classified as investments (Note)	871,777	25.5%	823,082	25.3%	5.9%
Cash and balances with central banks	278,528	8.1%	310,212	9.6%	(10.2%)
Deposits with banks and other financial institutions	85,098	2.5%	130,208	4.0%	(34.6%)
Precious metals	56,835	1.7%	87,501	2.7%	(35.0%)
Placements with and loans to banks and other financial institutions and financial assets held under resale agreements	109,919	3.2%	100,949	3.1%	8.9%
Accounts receivables	-	-	52,886	1.6%	(100.0%)
Interest receivables	-	-	20,354	0.6%	(100.0%)
Investment properties	194	0.0%	209	0.0%	(7.2%)
Property and equipment	10,899	0.3%	8,036	0.4%	35.6%
Intangible assets	4,771	0.1%	4,701	0.1%	1.5%
Goodwill	7,568	0.2%	7,568	0.2%	-
Deferred income tax assets	29,468	0.9%	24,989	0.8%	17.9%
Other assets	13,778	0.5%	17,359	0.5%	(20.6%)
Total assets	3,418,592	100.0%	3,248,474	100.0%	5.2%

Note: "Financial assets classified as investments" include the "derivative financial assets, financial assets held for trading, investment on debts, other investment on debts, other equity investment, available-for-sale financial assets, held to maturity investment, and debt instruments classified as receivables" under the item of the balance sheet. See "(IV) 1. investment portfolio and overall situation" in this section for details.

II. Analysis of principal business(Continued)

(III) Analysis of balance sheet items(Continued)

1. Asset composition and changes(Continued)

(1) Loans and advances to customers

At the end of 2018, the Bank's total loans and advances to customers amounted to RMB1,997,529 million, an increase of 17.2% over the end of previous year. See "(VIII) Analysis on asset quality of loans" in this section for details about the Bank's loans and advances to customers.

(2) Goodwill

The Bank obtained goodwill when acquiring the former Ping An Bank in July 2011. The goodwill balance was RMB7,568 million as at 31 December 2018.

(In RMB million)

Item	Balance	Impairment provision
Goodwill	7,568	-

(3) Other assets - foreclosed assets

(In RMB million)

Item	Balance
Land, premises and buildings	4,574
Others	49
Subtotal	4,623
Impairment provision of foreclosed assets	(256)
Net amount of foreclosed assets	4,367

2. Liability structure and changes

(In RMB million)

Item	31 December 2018		December 31, 2017		Year-on-year change
	Balance	%	Balance	%	
Due to customers	2,149,142	67.6%	2,000,420	66.1%	7.4%
Including: Deposit principals due to customers	2,128,557	67.0%	2,000,420	66.1%	6.4%
Accrued interest on deposit due to customers	20,585	0.6%	-	-	Nil at the end of last year
Borrowings from central bank	149,756	4.7%	130,652	4.3%	14.6%
Deposits from banks and other financial institutions	392,738	12.4%	430,904	14.2%	(8.9%)
Placements from banks and other financial institutions	24,606	0.8%	28,024	0.9%	(12.2%)
Financial liabilities held for trading	8,575	0.3%	9,047	0.3%	(5.2%)
Derivative financial liabilities	21,605	0.7%	17,712	0.6%	22.0%
Financial assets sold under repurchase agreements	7,988	0.3%	6,359	0.2%	25.6%
Salaries and welfare payable	12,238	0.4%	10,713	0.4%	14.2%
Taxes payable	9,366	0.3%	11,891	0.4%	(21.2%)
Interest payable	-	-	26,063	0.9%	(100.0%)
Debt securities issued	381,884	12.0%	342,492	11.3%	11.5%
Others (Note)	20,652	0.5%	12,143	0.4%	70.1%
Total liabilities	3,178,550	100.0%	3,026,420	100.0%	5.0%

Note: "Others" included items such as "provisions and other liabilities" in the statement.

Distribution of deposits due to customers as per customer type

(In RMB million)

Item	31 December 2018	31 December 2017	Year-on-year change
Corporate deposits	1,666,966	1,659,421	0.5%
Personal deposits	461,591	340,999	35.4%
Total deposit principals due to customers	2,128,557	2,000,420	6.4%

II. Analysis of principal business(Continued)

(III) Analysis of balance sheet items(Continued)

2. Liability structure and changes(Continued)

Distribution of deposits due to customers as per regions

(In RMB million)

Item	31 December 2018		31 December 2017		Year-on-year change
	Balance	%	Balance	%	
East region	489,064	23.0%	457,446	22.9%	6.9%
South region	656,717	30.9%	609,522	30.5%	7.7%
West region	140,656	6.6%	155,786	7.8%	(9.7%)
North region	354,516	16.7%	375,764	18.7%	(5.7%)
Head office	487,604	22.8%	401,902	20.1%	21.3%
Total deposit principals due to customers	2,128,557	100.0%	2,000,420	100.0%	6.4%

3. Changes in shareholders' equity

(In RMB million)

Item	Balance at the beginning of the year	Changes from the initial implementation of new accounting standards for financial instruments	Increase in this year	Decrease in this year	Balance at the end of year
Share capital	17,170	-	-	-	17,170
Other equityinvestment	19,953	-	-	-	19,953
Including: Preference shares	19,953	-	-	-	19,953
Capital reserve	56,465	-	-	-	56,465
Other comprehensive income	(528)	402	912	-	786
Surplus reserve	10,781	-	-	-	10,781
General reserve	38,552	-	1,298	-	39,850
Retained earnings	79,661	(4,935)	24,818	(4,507)	95,037
Including: Dividend for ordinary shares proposed for distribution	2,335	-	2,490	(2,335)	2,490
Total shareholders' equity	222,054	(4,533)	27,028	(4,507)	240,042

4. Fair value measurement

See "VII Risk disclosure 4. Fair value of financial instruments" and "XI Other significant matters - Assets and liabilities designated at fair value" in the "Section XIII Financial Report" for the Bank's fair value measurement and items designated at fair value at the end of 2018.

5. Restrictions on major asset rights by the end of the reporting period

☐ Applicable √ Not applicable

(IV) Investment situation

1. Investment portfolio and overall situation

√ Applicable ☐ Not applicable

(In RMB million)

Item	31 December 2018		31 December 2017		Year-on-year change
	Balance	%	Balance	%	
Derivative financial assets	21,460	2.5%	16,080	2.0%	33.5%
Financial assets held for trading	148,768	17.1%	39,575	4.8%	275.9%
Investment on debts	629,366	72.1%	-	-	Nil at the end of last year
Other investment on debts	70,664	8.1%	-	-	Nil at the end of last year
Other equity investment	1,519	0.2%	-	-	Nil at the end of last year
Available-for-sale financial assets	-	-	36,744	4.5%	(100.0%)
Held to maturity investment	-	-	358,360	43.5%	(100.0%)
Investment in receivables	-	-	372,323	45.2%	(100.0%)
Total financial assets classified as investments	871,777	100.0%	823,082	100.0%	5.9%

Discussion and Analysis of Operations

II. Analysis of principal business(Continued)

(IV) Investment situation(Continued)

2. Significant equity investment acquired in the reporting period

☐ Applicable √ Not applicable

3. Significant non-equity investment ongoing in the reporting period

☐ Applicable √ Not applicable

4. Financial bonds held

At the end of 2018, the book value of financial bonds (including policy bank bonds, various ordinary financial bonds and subordinated financial bonds, excluding corporate bonds) held by the Bank was RMB135,164 million, among which ten financial bonds with the highest book value are detailed as follows:

(In RMB million)

Name of bonds	Par value	Annual coupon rate (%)	Maturity date	Impairment provision
2018 Policy Bank Bonds	5,670	4.88	9 February 2028	-
2017 Policy Bank Bonds	4,290	4.24	24 August 2027	-
2016 Policy Bank Bonds	4,070	2.96	18 February 2021	-
2010 Policy Bank Bonds	3,860	2.84	25 February 2020	-
2018 Policy Bank Bonds	3,510	4.04	6 July 2028	-
2011 Policy Bank Bonds	3,030	3.85	17 February 2021	-
2016 Commercial Bank Bonds	3,000	3.25	7 March 2021	1.40
2016 Commercial Bank Bonds	3,000	3.20	29 March 2021	1.40
2017 Policy Bank Bonds	2,880	4.44	9 November 2022	-
2017 Commercial Bank Bonds	2,500	4.30	5 September 2020	1.17

5. Derivative financial instruments held

Derivative investment

Risk analysis and control measures for derivative positions in the reporting period (including but not limited to market risk, liquidity risk, operational risk, legal risk, etc.)	The Bank carried out capital transactions and investment covering derivatives within the overall limit framework of risk preference and market risk established by the Board. The Bank built a targeted system for risk management and internal control to effectively identify, measure, monitor, report and control the risks associated with derivative investment.
For changes in market price or fair value of products during the reporting period of invested derivatives, analysis of the fair value of derivatives shall disclose the specific measures used and related hypotheses and parameter setting.	In the reporting period, changes in the fair value of the derivatives invested by the Bank were within reasonable and controllable range. The Bank adopted valuation methods generally recognized by market players and verified to be reliable by the previous actual market transaction price, and market observable parameters to determine the fair value of the derivatives.
Description of whether the specific principles of the accounting policies and accounting for the Company's derivatives during the reporting period changed significantly compared with those in the previous reporting period	The Bank developed the accounting policies and accounting measures for derivatives according to the *Accounting Standards for Business Enterprises* and relevant policies in the reporting period did not change significantly.
Special opinions of independent directors on the derivative investment and risk control of the Company	The Bank's derivative trading is a commercial bank business approved by regulatory authorities. The Bank has set up a special risk management organization and established a targeted risk management system to effectively manage the risk of derivative investment business.

Positions of derivative investment

(In RMB million)

Contract type	Beginning contract amount(Nominal amount)	Ending contract amount (Nominal amount)	Changes in fair value during the reporting period
Foreign exchange derivatives	1,006,715	874,747	2,022
Interest rate derivatives	1,730,368	3,168,549	(270)
Precious metal derivatives	112,451	84,071	(1,639)
Total	2,849,534	4,127,367	113

Note: The Bank carried out capital transactions and investment covering derivatives within the overall limit framework of risk preference and market risk established by the Board of Directors. The nominal amount of derivative financial instruments only demonstrated the trading volume, but did not reflect the actual risk exposure. The Bank basically adopted hedging strategy to the foreign exchange and interest rate derivative business, so there was little actual risk exposure of foreign exchange rate and interest rate.

6. Usage of raised funds

There were no raised funds used during the reporting period.

7. The Bank sold no significant assets and equities during the reporting period and since previous period lasting to the reporting period.

II. Analysis of principal business(Continued)

(IV) Investment situation(Continued)

8. Analysis on main holding companies and joint stock companies

Analysis on operating conditions and performance of main subsidiaries

□ Applicable √ Not applicable

Shares held in other listed companies

(In RMB million)

Stock code	Stock abbreviation	Initial investment amount	Shareholding proportion in the company as at the end of the period	Ending book value	Gains/ losses in the reporting period	Changes in owners' equity in the reporting period	Accounting items	Source of shares
400061	NJTC	314	2.72%	589	-	-	Financial assets held for trading	Foreclosed equity
600725	YWGF	158	0.85%	25	(8)	-		Foreclosed equity
400053	Jiamusijindi Paper Co., Ltd.	11	1.76%	11	-	-		Foreclosed equity
-	Visa Inc.	-	0.01%	8	-	1	Other equity investment	Historical investment
Total		483		633	(8)	1		

Shares held in unlisted financial companies and Pre-IPOs

(In RMB million)

Invested entities	Investment amount	Changes in fair value	Ending net value
China UnionPay Co., Ltd.	74	-	74
Shares of SWIFT member	1	-	1
Clearing Center for City Commercial Banks	1	-	1
China Zheshang Bank Co., Ltd.(Note)	59	(26)	33
Total	135	(26)	109

Note: In 2014, the Bank acquired 10 million shares of domestic equity in China Zheshang Bank Co., Ltd in a way of paying in kind.

9. Structured entities controlled by the Company

At the end of 2018, the Bank's balance of principal-guaranteed wealth management products (WMPs) amounted to RMB82,665 million, an increase of 36.1% over the end of last year, the balance of structured deposits was RMB433,562 million, up 99.2% compared with the end of last year and the balance of non-principal-guaranteed WMPs was RMB537,781 million, increasing by 7.3% compared with the end of last year. See "III. Notes to key items in the financial statements - Note 56. Structured entities" in "Section XIII Financial Report" for specific information about the Bank's structured entities.

(V) Balance of off-balance sheet items that may have significant influences on business performance at the end of the reporting period

See "V. Commitments and contingent liabilities" in "Section XIII Financial Report" for the Bank's items, such as "credit commitments, operating lease commitments, capital expenditure commitments".

II. Analysis of principal business(Continued)

(VI) Analysis on items with changes over 30% in comparative accounting statement

(In RMB million)

Item	Amount for the period	Amount of change	Rate of change	Analysis on reasons of change
Deposits with banks and other financial institutions	85,098	(45,110)	(34.6%)	Decrease in deposits with domestic banks and other financial institutions
Precious metals	56,835	(30,666)	(35.0%)	Decrease in trade receivables from gold lease
Derivative financial assets	21,460	5,380	33.5%	Interest rate derivative transaction scale and changes in fair value
Accounts receivables	-	(52,886)	(100.0%)	In accordance with the calculation standard issued by regulatory authorities, factoring receivable without recourse shall be included in "loans and advances to customers" this year
Interest receivables	-	(20,354)	(100.0%)	The item was canceled for the year according to the revised formats of financial statements required for financial enterprises as issued by the Ministry of Finance. The interest provided based on the effective interest rate was included in the carrying amount of the financial instrument and interest outstanding at the balance sheet date was presented in "other assets"
Financial assets held for trading	148,768	109,193	275.9%	Impact from the implementation of new accounting standards for financial instruments
Investment on debts	629,366	629,366	Nil at the end of last year	Impact from the implementation of new accounting standards for financial instruments
Other investment on debts	70,664	70,664	Nil at the end of last year	Impact from the implementation of new accounting standards for financial instruments
Other equity investment	1,519	1,519	Nil at the end of last year	Impact from the implementation of new accounting standards for financial instruments
Available-for-sale financial assets	-	(36,744)	(100.0%)	Impact from the implementation of new accounting standards for financial instruments
Held to maturity investment	-	(358,360)	(100.0%)	Impact from the implementation of new accounting standards for financial instruments
Investment in receivables	-	(372,323)	(100.0%)	Impact from the implementation of new accounting standards for financial instruments
Fixed assets	10,899	2,863	35.6%	Increase in net value of buildings, office and electronic equipment
Interest payable	-	(26,063)	(100.0%)	The item is canceled for the year according to the revised formats of financial statements required for financial enterprises as issued by the Ministry of Finance, interest provided based on the effective interest rate was included in the carrying amount of the financial instrument and interest outstanding at the balance sheet date was presented in "other liabilities"
Provisions	860	835	3,340.0%	Losses provided for financial guarantee contract and other items are presented in "provisions" for the year due to the implementation of new accounting standards for financial instruments

Other liabilities	19,792	7,674	63.3%	Increase in transitional settlement funds and custody payable
Other comprehensive income	786	1,314	Negative at the end of the previous year	Changes in fair value included in other comprehensive income due to the implementation of new accounting standards for financial instruments
Fee and commission expense	8,065	3,014	59.7%	Increase in commission expense arising from increase in the number of credit cards issued and in the transaction volume
Investment income	9,186	8,554	1,353.5%	Impact from the implementation of new accounting standards for financial instruments
Gains/losses on fair value changes	892	953	Negative in the previous year	Increase in gains/losses from fair value changes of Financial assets held for trading
Gains on disposal of assets	88	78	780.0%	Increase in proceeds from the disposal of foreclosed assets (small in previous year)
Impairment losses on credit	47,814	47,814	Nil in the previous year	Impact from the implementation of new accounting standards for financial instruments
Impairment losses on other assets	57	57	Nil in the previous year	Impact from the implementation of new accounting standards for financial instruments
Impairment losses on assets	-	(42,925)	(100.0%)	Impact from the implementation of new accounting standards for financial instruments

(VII) Cash flows

In 2018, the Bank's net cash flows generated from operating activities amounted to RMB-57,323 million, representing a year-on-year increase of RMB61,457 million, primarily due to the year-on-year increase in cash inflow of deposits as a result of decreased deposits due from the Central Bank and with banks and other financial institutions; net cash flows generated from investing activities amounted to RMB61,382 million, a year-on-year increase of RMB97,513 million, due to the year-on-year decrease in net cash outflow from investing activities; net cash flows generated from financing activities amounted to RMB19,021 million, representing a year-on-year decrease of RMB42,418 million, primarily due to the decrease in net cash inflow arising from issuance of debt securities.

II. Analysis of principal business(Continued)

(VIII) Analysis on asset quality of loans

In 2018, the Bank actively coped with the external macroeconomic changes, continued to optimize credit structure and strictly managed and controlled incremental business risks to prevent and dissolve various possible risks in existing loans. By taking a series of actions, the Bank strengthened the efforts to recover and dispose of non-performing assets and the efforts of provisions and write-offs and notably improved the asset quality. Both the balance and the proportion of overdue loans and loans overdue for more than 90 days declined and NPL deviation ratio decreased significantly from the highest level of 278% at the beginning of 2015 to 97% at the end of 2018; the provision coverage ratio of loans overdue for more than 90 days increased to 159.45% at the end of 2018, up 53.78 percentage points over the end of last year.

1. Five-tier classification of loans and advances to customers

(In RMB million)

Item	31 December 2018		31 December 2017		Year-on-year change
	Balance	%	Balance	%	
Normal loans	1,908,072	95.52%	1,612,249	94.60%	18.3%
Special-mentioned loans	54,552	2.73%	62,984	3.70%	(13.4%)
Non-performing loans	34,905	1.75%	28,997	1.70%	20.4%
Including: Subprime	17,955	0.90%	12,510	0.73%	43.5%
Doubtful	4,509	0.23%	3,343	0.20%	34.9%
Loss	12,441	0.62%	13,144	0.77%	(5.3%)
Total principal of loans and advances to customers	1,997,529	100.00%	1,704,230	100.00%	17.2%
Provision for impairment of loans and advances to customers	(54,187)		(43,810)		23.7%
Including: Provision for impairment of loans and advances to customers at amortized cost	(54,033)		(43,810)		23.3%
Provision for impairment of loans and advances to customers designated at fair value and changes included into other comprehensive income	(154)		-		Nil at the end of last year
NPL ratio	1.75%		1.70%		+0.05percentagepoint
Provision coverage ratio	155.24%		151.08%		+4.16percentagepoints
Provision coverage ratio for loans overdue for more than 90 days	159.45%		105.67%		+53.78percentagepoints
Provision to loan ratio	2.71%		2.57%		+0.14percentagepoint

2. Structural distribution and quality of loans and advances to customers as per products

(In RMB million)

Item	31 December 2018 Balance	%	NPL ratio	31 December 2017 Balance	%	NPL ratio	Changes in NPL ratio
Corporate loans	**843,516**	**42.2%**	**2.68%**	**855,195**	**50.2%**	**2.22%**	**+0.46 percentage point**
Including: General corporate loans	801,814	40.1%	2.82%	840,439	49.3%	2.25%	+0.57 percentage point
Discounted bills	41,702	2.1%	-	14,756	0.9%	-	-
Personal loans	**1,154,013**	**57.8%**	**1.07%**	**849,035**	**49.8%**	**1.18%**	**-0.11 percentage point**
Including: Housing mortgage loans	182,363	9.1%	0.09%	152,865	9.0%	0.08%	+0.01 percentage point
New Generation Loans	153,745	7.7%	1.00%	129,844	7.6%	0.65%	+0.35 percentage points
Auto financial loans	172,029	8.6%	0.54%	140,929	8.3%	0.59%	-0.05 percentage point
Credit card receivables	473,295	23.7%	1.32%	303,628	17.8%	1.18%	+0.14 percentage point
Others (Note)	172,581	8.7%	1.97%	121,769	7.1%	3.83%	-1.86 percentage point
Total principal of loans and advances to customers	**1,997,529**	**100.0%**	**1.75%**	**1,704,230**	**100.0%**	**1.70%**	**+0.05 percentage point**

Note: "Others" included licensed mortgage loans, small consumer loans and other guaranteed or pledged loans.

Corporate NPL ratio was increased over the end of last year, and the main reasons are as follows:

(1) From an external view, it was mainly affected by the external financial and economic trends. Some private small and medium-sized enterprises and low-end manufacturing enterprises were facing problems such as difficulties in management and declining financing capability, which led to distressed and broken fund chains, inability to repay loans and so on.

(2) From an internal view, on the one hand, the Bank continued to optimize the structure of loans to corporates, enhanced its ability to exit from customers in high-risk industries and scaled down corporate loans over the beginning of the year; on the other hand, the Bank further reinforced the risk classification management requirements of problematic assets, strengthened the term management, and timely lowered the risk classifications of existing problematic credits that were overdue for a long time, resulting in an increase in the corporate NPL ratio and a year-on-year increase in the migration rate of special mentioned loans. From this year, the Bank has continued to strengthen the collection and disposal on NPL and the migration rate of substandard loans declined over the same period last year with asset quality remaining stable. At the same time, the Bank also further increased the amount for provision and that written off, timely lowered doubtful loans that conformed to the write-off conditions to loss loans and provisions were made in full. Thus, the migration rate of the Bank's doubtful loans increased year on year.

II. Analysis of principal business(Continued)

(VIII) Analysis on asset quality of loans(Continued)

2. Structural distribution and quality of loans and advances to customers as per products(Continued)

The NPL ratio of individuals declined over the end of last year, and the main reasons are as follows:

(1) The Bank further adjusted the customer structure of property mortgages, strengthened efforts for high-quality customers and effectively improved the quality of new loans. As a result, the NPL ratio of mortgage loans was maintained at a low level.

(2) Regarding the New Generation Loan, the Bank checked at all levels with consideration to their inherent relationship in terms of sales, on-site negotiation and contract conclusion, loan approval, and post-loan management through the establishment of "3+1 lines of defense" for risk management, and dynamically adjusted risk policies with the advanced scoring card technology and multi-dimensional risk monitoring system, so as to stabilize the asset quality at a reasonable level.

(3) In auto financing business, the Bank realized the precise customization of vehicle models and the establishment of an automated back-end valuation system for quick recognition of customer, vehicle and price with the sophisticated application of vehicle recognition technology and VIN code recognition technology, effectively reducing labor costs, improving business effectiveness and preventing fraud risk. For collection, AI collection robot and free-collection strategy for high-quality customers were introduced to promote customer satisfaction, and comprehensive on-line collection procedures were launched to meet compliance requirements. The integrated lines of defense for risk control were enhanced by technological and innovative means to maintain the overall asset quality within a controllable range and improve the product quality and efficiency.

(4) The Bank had implemented whole-process risk management concept for credit card business, made full use of quantitative tools and effectively managed and controlled risks. On the one hand, the risk management strategy was fully optimized through big data platform and advanced quantitative analysis techniques, combined with technological means such as risk control model and AI intelligent identification, so as to effectively improve the structure and quality of the new customers and optimize the stock structure to ensure sustainable development of the asset portfolios. On the other hand, differentiated collection was further advanced in respect of collection and recovery as supported by the science and technology-leading concept. AI intelligent collection was introduced to reduce the roll rate and was continuously optimized for extensive application, the scoring model was optimized to promote differentiated collection strategy and non-performing loans were teased out with more resources invested in collection and recovery to ensure that the risk was within the controllable range.

3. Structural distribution and quality of loans and advances to customers as per industries

(In RMB million)

Industry	31 December 2018			31 December 2017			Changes in NPL ratio
	Balance	%	NPL ratio	Balance	%	NPL ratio	
Husbandry and fishery	5,837	0.3%	4.90%	9,291	0.6%	2.96%	+1.94 percentage points
Mining (heavy industry)	41,140	2.1%	2.19%	58,048	3.4%	3.78%	-1.59 percentage points
Manufacturing (light industry)	119,845	6.0%	6.75%	141,976	8.3%	3.81%	+2.94 percentage points
Energy	21,745	1.1%	0.62%	25,261	1.5%	1.17%	-0.55 percentage point
Transportation and post and telecommunications	39,131	2.0%	2.16%	47,794	2.8%	0.06%	+2.10 percentage points
Commerce	101,104	5.1%	7.94%	116,394	6.8%	5.68%	+2.26 percentage points
Real estate	176,016	8.8%	1.56%	152,919	9.0%	0.77%	+0.79 percentage point
Social service, science and technology, culture and sanitary	144,186	7.2%	0.31%	134,339	7.9%	0.03%	+0.28 percentage point
Construction	45,403	2.3%	2.24%	48,107	2.8%	2.33%	-0.09 percentage point
Discounted bills	41,702	2.1%	-	14,756	0.9%	-	-
Personal loans (including credit cards)	1,154,013	57.8%	1.07%	849,035	49.8%	1.18%	-0.11 percentage point
Others	107,407	5.4%	0.09%	106,310	6.2%	1.68%	-1.59 percentage points
Total principal of loans and advances to customers	1,997,529	100.0%	1.75%	1,704,230	100.0%	1.70%	+0.05 percentage point

During the reporting period, the Bank adhered to reinventing its corporate banking, focused on advantageous industries and important customers, kept up with the major national strategic planning, actively supported the development of real economy and continued to optimize assets portfolio allocation. Moreover, the Bank implemented differentiated industrial policies and continued to push away high-risk customers to further intensify the disposal of non-performing assets and increase the amount for provision and that amount written off, with asset quality remaining stable as a whole.

At the end of 2018, the Bank's non-performing loans were mainly concentrated in commerce and manufacturing, accounting for 46% of the total non-performing loans. The increase of NPL ratio in manufacturing and commerce was mainly due to economic slowdown, risk contagion in the guarantee circle and other factors, and some enterprises especially private small and medium-sized enterprises and low-end manufacturing enterprises were suffering problems like poor management, profit decline, financing difficulty and other problems; the increase of NPL ratio in husbandry and fishery was mainly caused by scaled-down loans; and the increase of NPL ratio in real estate, transportation and post and telecommunications was mainly affected by risk outburst of certain cases, however, overall risks were controllable.

II. Analysis of principal business(Continued)

(VIII) Analysis on asset quality of loans(Continued)

4. Quality of loans and advances to customers as per regions

(In RMB million)

Item	31 December 2018			31 December 2017			Changes in NPL ratio
	Balance	%	NPL ratio	Balance	%	NPL ratio	
East region	588,078	29.4%	1.62%	539,248	31.6%	1.39%	+0.23 percentage point
South region	349,964	17.6%	1.48%	323,692	19.0%	1.29%	+0.19 percentage point
West region	184,593	9.2%	2.22%	185,825	10.9%	2.80%	-0.58 percentage point
North region	298,178	14.9%	3.28%	279,698	16.4%	1.94%	+1.34 percentage points
Head office	576,716	28.9%	1.10%	375,767	22.1%	1.79%	-0.69 percentage point
Total principal of loans and advances to customers	1,997,529	100.0%	1.75%	1,704,230	100.0%	1.70%	+0.05 percentage point

5. Restructured and overdue loans

(In RMB million)

Item	31 December 2018		31 December 2017	
	Balance	Proportion to total loans	Balance	Proportion to total loans
Restructured loans	23,039	1.15%	26,672	1.57%
Loans with principal and interest overdue for no more than 90 days	15,496	0.78%	17,284	1.01%
Loans with principal or interest overdue for more than 90 days	33,984	1.70%	41,460	2.43%

(1) At the end of 2018, the Bank's restructured loans balance amounted to RMB23,039 million, representing an decrease of 13.6% over the end of last year. The Bank intensified the dissolving for collection and restructure on problematic credit corporates, optimized business structure step by step to mitigate and dissolve credit risks.

(2) At the end of 2018, the Bank's balance of loans overdue for less than 90 days (including loans with principal paid and interest overdue for less than 90 days) amounted to RMB15,496 million, a decrease of 10.3% as compared with the end of the previous year; the balance of loans overdue for more than 90 days (including loans with principal paid and interest overdue for more than 90 days) amounted to RMB33,984 million, a decrease of 18.0% as compared with the end of the previous year. The Bank took multiple actions and developed recovery and restructuring conversion plans by types. It had actively communicated with each related party to manage and dissolve risks together. Currently, overall risks were controllable.

6. Changes in provision for impairment of loans

The Bank started to implement new accounting standards for financial instruments from 1 January 2018 and set up an expected credit loss rate model to accurately measure expected credit losses. In 2018, the Bank's accumulated provision for impairment on loans was RMB43,657 million, an increase of RMB2,854 million or 7.0% year on year.

(In RMB million)

Item	Amount
Balance at the beginning of the year	43,810
Changes from the initial implementation of new accounting standards for financial instruments	3,953
Add: Provision/reversal for the year	43,657
Less: Write-offs for the year	(45,804)
Add: Written-off loans recovered for the year	9,356
Less: Transfer upon asset disposal for the year	(605)
Less: Decrease in loans due to increase in discounted value	(675)
Add: Other changes	495
Balance at the end of the year	54,187

Non-performing loans fully provided will be written off to the extent that they conform to the write-off conditions and complete relevant write-off procedures; written-off loans will be managed in accordance with the principle of "filing after witting-off and continuous recovery" where the operating unit is responsible for the ongoing dissolve and disposal of written-off loans. For recovery of written-off loans, litigation fees due from borrower advanced from the Bank will be withheld first. For the remaining amount, principal amount of the loans was deducted before the debit interest was deducted. The principals of loans would be used to increase the provision for loss of loans of the Bank, and the recovered interest and expenses would be used to increase interest income in the current period and bad-debt provision.

II. Analysis of principal business(Continued)

(VIII) Analysis on asset quality of loans(Continued)

7. Loan balance of top ten loan customers and its proportion to total loans

At the end of 2018, the Bank's loan balance of the top ten loan customers amounted to RMB57,722 million, accounting for 2.9% of the ending loan balance, including the Bank's loan balance of the top five loan customers of RMB39,682 million, accounting for 2.0% of the ending loan balance. Among the Bank's top five loan customers, the loan balance of related parties in which China Ping An and its holding subsidiaries had equity amounted to RMB13,797 million, accounting for 0.7% of the ending loan balance. The rest loan customers of the Bank's top five loan customers had no association relationship with the Bank.

8. Loans on the governmental financing platform

At the end of 2018, the Bank's loan balance of governmental financing platform (including loans rectified to general corporate loans and loans still managed by platform) was RMB31,394 million, a decrease of RMB8,261 million or 20.8% as compared with the end of the previous year, accounting for 1.6% of the balance of all loans, down 0.7 percentage point over the end of previous year.

Among that, from the view of classification, the Bank's balance of the loans that were rectified to general corporate loans was RMB29,083 million, accounting for 1.5% of the total loan balance. The balance of the loans still managed by platform was RMB2,311 million, accounting for 0.1% of the total loan balance. The quality of loans on the Bank's platform was good and there were no non-performing loans currently.

9. Distribution of loans by type of collateral

For information of "distribution of loans by type of collateral", please refer to "III. Notes to key items in the financial statements 8.3 Loans and advances to customers--Analysis of distribution of loans by type of collateral" in "Section XIII Financial Report".

10. Green credit

Following the principles of Guidance *on Green Credit* formulated by China Banking and Insurance Regulatory Commission and adhering to the concept of sustainable development, the Bank implemented green credit policies each year and green credit development strategy in the whole bank to enhance support in this regard and take the lead in green financial products creation by integrating green low-carbon concept into the entire process of financial services. The Bank has developed the *Green Credit Guidelines of Ping An Bank*. According to the common practice of international leading banks' implementation of the "Equator Principles", the Bank has effectively allocated credit resources, enhanced support to the low-carbon economy, circular economy, energy-saving and emission reduction and other green economy, restricted involvement in the industries that did not meet the national policies for environmental protection and industries.

The Bank formulated *Risk Policy Guidance of Ping An Bank in 2018* and implemented quota management on credit facilities granted to "Non-green Industries" and backward production capacity on the grouping basis to reasonably control the scale of credit, and continued to strictly control credit availability to "Non-green Industries", resulting in a gradual decline in proportion. It took strict control over risks from high pollution and high energy consumption business. Moreover, the Bank strictly prevented risks from industries with excess capacity while taking initiatives to resolve excess capacity, encouraged the expansion of effective demand and "going global" of enterprises, promoted M&A and reorganization of enterprises, and strengthened efforts to reduce credit for outdated capacity and protect creditors' rights, such that it achieved to "absorb, transfer, integrate and eliminate" excess capacity and optimize the credit structure. The Bank strictly abided by the national industry policy compliance bottom line and implemented strict credit list management policy. For projects eliminated by the *Guiding Catalog for Adjustment in the Structure of Industries,* environmentally illegal projects and other projects not compliant with national policy of energy-saving and emission reduction and backward production projects expressly required to be eliminated by the State, the Bank shall not provide any form of new credit and has to take appropriate measures to ensure the safe recovery of credit granted. It will take a strict list management of high pollution and high-energy consumption industries, and gradually reduce and adjust the credit balance granted to "Non-green Industries" and "excess capacity" to steadily enhance the granting of green credit.

In line with the requirements of the "13th Five-Year Plan", the CBIRC's *Green Credit Guidelines* and the Bank's key strategy, the Bank had focused on the green credit business boundary, including energy saving and environmental protection manufacturing and service industries, clean energy industry, new energy automobile industry and green building industry and put forward the target customers and credit program guidelines. Additionally, it established an energy finance business unit to promote the new energy field customer strategy and the overall product design based on franchise innovation, to provide professional comprehensive finance services to the customers; increased support for advanced manufacturing industry in line with industry upgrading and emerging industries with clear growth prospects, and actively supported the energy-saving and emission reduction technology innovation, technological transformation, technical services and product promotion, so as to promote orderly progress of green credit.

The Bank continued to enhance compliance review and post-credit management of customers exposed to environmental risk, and included the green credit implementation in the scope of internal control and compliance review as well as the scope of internal audit. At the same time, it paid close attention to the effect of national policies on customers' operating condition and strengthened related dynamic analysis, surveillance and adjustment. The Bank continued to improve the special statistics system for green credit, further clarified the green credit statistics of the Bank, carried out dynamic monitoring and regular special statistics on the Bank's support for energy-saving and emission reduction and elimination of credit to backward production capacity, and included the verification of environmental information into the credit flow management.

The Bank regularly organized self-assessment of green credit implementation, and carried out self-assessment of green credit from the aspects of green credit organization management, policy system and capacity building, process management, internal control management, information disclosure, supervision and inspection to accelerate the establishment of a green credit assessment accountability system and a reward and punishment mechanism and carry out stimulus and restraint measures. Besides, it combined with off-site supervision and on-site inspection to conduct comprehensive assessment of the effectiveness of green credit. In accordance with relevant laws and regulations, it regarded the assessment results as important basis of credit rating, business access and personnel performance evaluation to ensure the ongoing and effective rollout of green credit.

The Bank improved the communication and disclosure mechanism of green credit (environmental) information, organized and studied the outstanding green credit cases of the Bank, strengthened the propaganda work on green credit value orientation, and ensured ongoing and effective rollout of green credit.

Discussion and Analysis of Operations

III. Effect and analysis of changes in operational environment

2018 marks the 40th anniversary of China's reform and opening up. It is also a start for the Bank to implement the guiding principles from the 19th CPC National Congress into action, and a crucial year for securing a decisive victory in building a moderately prosperous society in all aspects and for continuing to implement the 13th Five-Year Plan. In the economic sector, good results have been achieved from the perspective of macro-economic control with a good start in three critical battles; supply-side structural reform has been deepened and the reform and opening up has been stepped up to appropriately address the Sino-US economic and trade frictions and improve people's livelihood; as a result, sustainable and sound economic growth and overall social stability were maintained. In the financial sector, structural de-leverage was steadily advanced, exposed risks were orderly handled and macro leverage ratio was basically kept stable with generally reduced financial risks; financial reforms were steadily advanced with continued progress made in financial regulation; market chaos were further rectified and financial reforms were deepened; as a result, the capacity of the financial sector to serve the real economy was strengthened and the operation of the financial sector as a whole was sound and steady.

IV. Key issues of concern in operations

1. NIM

In 2018, NIM of the Bank was 2.35%, a year-on-year decrease of 2 basis points. The cost rate of the Bank's interest-bearing liabilities throughout the year was growing faster than the yield rate of interest-earning assets, primarily due to comprehensive balance of funds and high market interest rate in the first half year.

From the perspective of quarterly trend, the Bank's NIM has been continuously improved, gradually becoming stable with growth momentum quarter by quarter. Overall, the Bank took the initiative to optimize asset structure, adhered to the retail transformation development strategy, increased the granting of retail loans, and improved the overall asset yield; adhered to reinventing its corporate banking, established dynamic pricing authorization management system, strengthened pricing principle based on customers' comprehensive income and set up an agile response mechanism of one suggestion for one account to enhance asset pricing level; strengthened research and judgment on market, adopted dynamic asset/liability portfolio management strategy, reasonably seized market opportunities, took initiative to adjust liability structure for the replacement of high-cost liability and improve liability interest rate sensitivity; guided the distribution of asset/liability in advance, encouraged core deposit absorption and investment in high-quality assets and optimized asset/liability structure adjustment by actively using internal and external pricing management tools; actively responded to market changes and explored more capital sources. On 14 December 2018, financial bonds successfully issued in the interbank bond market totaled RMB35 billion, at an annual interest rate of 3.79%. Thereby, the medium and long term capital sources were reinforced at a lower cost.

In the future, with the continuous deepening of strategic transformation, the effect of retail LUM (asset businesses) to drive retail AUM and credit card to drive debit card has been gradually achieved at the retail end. In addition, the Bank deeply cultivated the customer base, promoted the agency business to attract new customers in bulk and spur the growth of settlement deposits. It continued to reinforce the evaluation on core deposit absorption for corporate, strengthened the marketing guidance role of active liabilities, expanded the sources of low-cost capital in multi channels such as government, administrative institutions, and platforms. Meanwhile, it is expected that market funds will maintain a reasonable and sufficient trend in the future. With the downward trend of interest rate, the effect of interbank liability repricing will be gradually released, which will benefit the overall liability cost downward. For assets, the Bank conformed to the strategy of "pursuing breakthroughs in retail banking and reinventing its corporate banking", continued to optimize asset structure, put more resources into higher-yielding assets and increased assets allocation efficiency in the context of keeping risks under control, to improve the comprehensive income of assets. In conclusion, with transformation effect gradually showing, the asset structure was continuously optimized, liability costs were improved, thus, the future NIM management pressure would be relieved.

2. Cost/income ratio

In 2018, the cost/income ratio of the Bank was 30.32%, up 0.43 percentage point from last year. The year-on-year increase could be attributed to two factors. First, increase in strategic investment. Since the second half of 2017, with progressed transformation, the Bank gradually increased strategic investment and strategic technology investment in retail platform, resulting in a rise in expenses. Second, increase in labor costs. The Bank strengthened the introduction of retail Internet talents, and the labor costs for introduction of new talents were increased.

In the future, the Bank will continue to proactively enhance cost control, promote meticulous finance management, and continue to increase strategic investment in accordance with the Bank's strategy. As the Bank is still in transformation stage of retail strategy currently, more investments are required in personnel, equipment and technology. With the gradually shown results in retail transformation, future cost/income ratio will remain comparable in the industry.

3. Deposit business

At the end of 2018, the Bank's deposits due to customers amounted to RMB2,128,557 million, representing an increase of RMB128,137 million or 6.4% over the end of last year. Overall growth of deposits maintained steady.

The balance of personal deposits reached RMB461,591 million, rising by 35.4% compared with the end of the previous year. Personal demand, fixed time and financing deposits enjoyed growth at various rates that mainly depended on three major measures: first, the Bank launched good "on-line and off-line" services and products to attract customers to place more AUM in natural derivatives, and boosted the appreciation of customer assets by providing customers with diversified product configuration strategies based on the configuration strategy of AUM, so as to attract more deposits. Second, the Bank promoted its deposit retention through strategic development of agency business and increased the merchant settlement fund deposits through the layout of acquiring business and strengthened basic payment and settlement services. At the end of 2018, the balance of agency business customer deposits amounted to RMB69,511 million, an increase of 34.2% over the end of the previous year. At the end of 2018, the number of merchants in acquiring business increased by 377.6% compared with the end of the previous year. Third, the Bank strengthened its advantageous liability management products such as large deposit certificates, structured deposits and intelligent Ritianli. In the future, the Bank will continue to provide diversified deposit products, increase the proportion of demand deposits, and maintain a steady growth in deposits.

The balance of corporate deposits reached RMB1,666,966 million, rising by 0.5% compared with the end of the previous year. The Bank changed its traditional development model of attracting deposits via loans in corporate banking, and implemented exquisite banking strategy to achieve continuous growth in corporate deposit and optimization in corporate assets. (1) In respect of intelligent supply chain finance, the Bank fully exploited its advantages in supply chain and connected the upstream and downstream of supply chain with the help of three technological means including blockchain, Internet of Things and cloud technology. The whole chain was an integration of multi products under digital control, which constructed an intelligent supply chain financial system and provide customers with full supply chain services for the access to sedimentary deposits. (2) With regard to government finance, the Bank went deep into government financial ecology, embedded scenario, gave entry to the platform, proactively carried out marketing activities to attract deposits from government, including three main categories such as finance, housing and social security, won the local government to open various settlement accounts at the Bank by the way of bidding, including accounts for taxation, non-tax agency, court deposit, real estate transaction margin, land auction deposit, utility fee, sedimentary deposits, etc. (3) Concerning Internet finance, the Bank utilized technical methods to strengthen the connection of platforms including E-commence, asset exchange and industrial supply chain services to attract fund collection deposits from platform customers. (4) For offshore interbank finance, The Bank provided offshore customers with financing and intelligence-integrated services to promote deposits with the advantage of the Bank's offshore license. (5) In the case of real investment banking, the Bank was committed to becoming the "host bank" of customers. It provided comprehensive financial services via "Commercial Banking + Investment Banking + Investment" model, focused on strengthening cooperation with Ping An Securities, Ping An Leasing and Ping An Annuity Insurance, achieved collaborative complementarity in contracting, undertaking and underwriting, placed investment banking project funds at Ping An Bank, became the host bank of core industrial customers, and increased corporate deposits. (6) Regarding liability management, the Bank enhanced service and price advantages, accelerated the marketing of liability management products such as large deposit certificates and structured deposits to ensure the steady growth of corporate deposits. In the future, the Bank will continue to practice strategic businesses of intelligent exquisite corporate banking, striving for the growth of deposits in the corporate.

IV. Key issues of concern in operations(Continued)

4. Asset quality and NPL deviation

The Bank highly valued asset quality and reduction of NPL deviation, proactively took various measures to manage asset quality and spared no effort to reduce the deviation while ensuring the stable asset quality of the Bank. First, it strengthened the guarantee for organizational mechanism. Firstly, by strengthening indicators assessment, asset quality control indicators were assigned at different levels to clarify responsibilities of each department and by intensifying regular review, a supervision mechanism was set up to guarantee the reduction of NPL deviation. Secondly, it strictly controlled the incremental business, set strict access standards for corporate banking, focused on supporting advantageous industries, important customers and products to control asset quality from the source. Thirdly, it managed existing businesses, implemented the post-loan management actions, intensified the pre-control on the recovery of loan principal and interest, strengthened the early warning management and took reduction measures on risk assets; intensified efforts to screen out risks in key risk areas, timely identified potential problematic assets and got involved in such issues in advance to accelerate the risk management. Fourthly, it strengthened the recovery and disposal of problematic assets, and established the special asset management business unit to fully leverage the advantage of centralized and specialized collection. It also strengthened assessment supervision supported by incentive policies to promote the effects of collection and disposal.

At the end of 2018, the Bank's quality indicators for major assets achieved substantial improvement. The balance of overdue loans accounted for 2.48% of total loans, respectively decreasing by 0.96 percentage point and 1.53 percentage points compared with the end of 2017 and the end of 2016, of which the balance of loans overdue for more than 90 days accounted for 1.70% of total loans, respectively decreasing by 0.73 percentage point and 1.05 percentage points compared with the end of 2017 and the end of 2016. The ratio of special-mention loans was 2.73%, respectively down 0.97 percentage point and 1.03 percentage points over the end of 2017 and the end of 2016; the provision coverage ratio of the Bank was 155.24%, up 4.16 percentage points over the end of 2017 while slightly down 0.13 percentage point over the end of 2016; the provision to loan ratio was 2.71%, increasing by 0.14 percentage point compared with the end of 2017 and same as the end of 2016; the provision coverage ratio of loans overdue for more than 90 days was 159.45%, respectively increasing by 53.78 percentage points and 60.94 percentage points over the end of 2017 and the end of 2016. The risk compensation capability of the Bank was further enhanced.

At the end of 2018, the Bank's NPL deviation ratio was 97%, an decrease of 181 percentage points compared with the highest ratio of 278% and declining significantly by 46 percentage points and 61 percentage points over the end of 2017 and the end of 2016, respectively.

Based on the improvement of the Bank's risk management indicators, the Bank will further take strict control over the incremental business risk, prevent and mitigate a variety of possible risks arising from existing loans, and strengthen the digestion and disposal of non-performing loans through recovery, write-off, packaging and other compliant methods, to ensure the remained stable quality of the assets.

5. Provision for loans

On the basis of strengthened recovery and disposal of problematic assets, the Bank continued to increase the amount for provision and the amount written off. From 2016 to 2018, the accumulated provision for impairment losses on credit and assets reached RMB137.3 billion, including RMB47.9 billion newly provided in 2018, an increase of RMB4.9 billion year on year; the accumulated assets written off amounted to RMB115 billion, including RMB45.8 billion written off in 2018, increasing by RMB6.6 billion year on year. Meanwhile, the Bank fully took advantage of professional collection in special assets management business unit and intensified the efforts for collection of written-off assets to reduce the consumption of profits caused by subsequent provisions and further promote the provision coverage ratio, provision to loan ratio, provision coverage ratio of loans overdue for more than 90 days and other risk compensation indicators. In 2018, the Bank's written-off assets amounted to RMB9.4 billion, increasing by RMB5.9 billion year on year or an increase rate of 169% with notable results in collection.

6. Capital management and planning

In order to deepen the retail banking transformation strategy, the Bank continued to advance capital management reform. On the one hand, the Bank promoted meticulous capital management, carried out active dynamic capital allocation, optimized asset business structure under the strategy of "light assets and light capital", and implemented various capital conservation and capital release measures to continuously improve the return on capital of the Bank. On the other hand, the Bank enhanced the constraint of economic capital management on the risk-weighted assets of the Bank, incorporated economic capital management into performance assessment, guided all levels of institutions to cultivate a sense of capital constraint, to ensure that the concepts of capital cost and capital management were integrated into all aspects of business management.

In addition, in order to further meet the increasingly stringent regulatory requirements and actively respond to the increasingly fierce market competition environment, the Bank will actively improve the internal and external capital replenishment mechanism, optimize risk-weighted asset management, strive to improve its overall capital strength, enhance its capital adequacy, gradually boost the capital buffers during the planning period, and steadily raise the capital adequacy level.

At the end of 2018, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 8.54%, 9.39% and 11.50% respectively, all satisfying the regulatory requirements, and up 0.26 percentage point, 0.21 percentage point and 0.30 percentage point respectively over the end of last year.

On the basis of internal capital replenishment such as stable profit retention, the Bank actively promoted the work of external capital replenishment and continuously consolidated the capital strength of the Bank. According to the Bank's capital planning objectives, the Bank planned to construct a capital replenishment portfolio through the issuance of RMB26 billion convertible corporate bonds of A shares and RMB30 billion qualified tier 2 capital bonds. The Bank has completed the issuance of RMB26 billion convertible corporate bonds of A shares on 25 January 2019, of which RMB3.7 billion equities are directly included in core tier 1 capital while the rest will be added to the Bank's core tier 1 capital in succession after the share conversion to further enhance the level of capital adequacy. See "Section IX Convertible Corporate Bonds" for details. In the meantime, the Bank actively promotes the issuance of RMB30 billion of qualified secondary capital bonds. Upon completion of the above-mentioned capital replenishment plan, the capital structure of the Bank can be further optimized to improve the capital adequacy level of the Bank.

V. Discussion and analysis of the main businesses

(I) Breakthroughs in retail banking

In 2018, the Bank continuously promoted the intelligence level and enhanced the customer service experience, consolidated fundamental business, expanded application scenarios, improved product management ability, properly controlled risks and steadily maintained asset quality with technology-enabled online and offline channels based on the principle of "being technology-driven". The transformation of retail banking was fruitful and continuously going deep.

At the end of 2018, the balance of assets under management (AUM) of retail customers of the Bank amounted to RMB1,416,796 million, representing an increase of 30.4% over the end of the previous year, and the number of retail customers reached 83,900,000, an increase of 20.0% over the end of the previous year, among which wealth customers and qualified customers of private banks reached 591,600 and 30,000 respectively, representing an increase of 29.6% and 27.7% over the end of the previous year. The current credit card accounts reached 51,520,000, an increase of 34.4% over the end of the previous year. The balance of personal deposits amounted to RMB461,591 million, up 35.4% over the end of the previous year, while the balance of personal loans amounted to RMB1,154,013 million, up 35.9% over the end of the previous year, which accounted for 57.8%, an increase of 8.0 percentage points; the transaction volume of credit cards amounted to RMB2,724,807 million, rising by 76.1% year on year in 2018. At the end of 2018, the number of registered customers of Ping An Pocket Bank APP reached 62,250,000 and the number of monthly active customers of Ping An Pocket Bank APP in December 2018 amounted to 25,880,000, increasing by 74.6% year on year.

As at the end of 2018, the NPL ratio of the Bank's retail business maintained stable with a slight decline, and the NPL ratio of personal loans was 1.07%, down 0.11 percentage point from the end of last year. The risk from the whole consumer finance sector was rising due to the external impact from the downturn of macro-economy and the burst of joint-debt risks. The NPL ratios of credit cards and "New Generation Loan" were rising as well, among which, the NPL ratio of credit cards was 1.32%, up 0.14 percentage point over the end of the previous year; and the NPL ratio of "New Generation Loan" was 1.00%, up 0.35 percentage point over the end of the previous year; furthermore, the risk level of the Bank's auto finance continued to remain stable. The NPL ratio was 0.54% at the end of 2018, a decrease of 0.05 percentage point from the end of the previous year. Since the end of 2017, the Bank had adjusted risk policy on a forward-looking basis, focused on the prevention of joint-debt risks, and effectively curbed and reduced the proportion of high-risk customers; therefore, the asset quality of newly issued products remained stable and was improving. According to the results of ageing analysis, 6 months after the issuance, the customers' accounts that were past due over 30 days and above accounted for 0.29% of the new credit card accounts opened in 2018, a decrease of 0.06 percentage point from 2017; the newly-issued "New Generation Loan" loans that were past due over 30 days and above accounted for 0.18% of the loans issued, a decrease of 0.02 percentage point from 2017; the newly-issued auto finance loans that were past due over 30 days and above accounted for 0.16% of the loans issued, a decrease of 0.02 percentage point from 2017. More historical figures are set out in the following chart.

The proportion of the balance of loans past due over 30 days at the ageing of 6 months	Accounts receivables for credit cards	"New Generation Loan"	Auto finance loans
2015	0.48%	0.27%	0.12%
2016	0.45%	0.16%	0.12%
2017	0.35%	0.20%	0.18%
2018	0.29%	0.18%	0.16%

Note: "Ageing analysis", also known as vintage analysis or analysis on accumulated default rate via static sample pool, is to track the credit assets of accounts opened in different periods, and simultaneously compare them based on the length of the ageing to learn about the asset quality of owners who opened accounts in different periods. The proportion of loan balances over 30 days due at the age of 6 months is equal to the balance of new loans or credit cards over 30 days due at the end of the sixth month divided by the amount of new loans issued at the aging of 6 months or the new credit cards overdraft balance at the aging of 6 months.in the same year.

1.Continued stable and rapid growth in core business

In 2018, centering on customer needs in credit cards, consumer finance, auto finance and other asset businesses, the Bank managed to satisfy customers' consumer financing demands in each stage during the life cycle through model upgrades and product innovations under the premise of compliance operation to control risks, maintain steady growth and effectively facilitate the transformation of retail business.

In 2018, the credit card business of the Bank grew on a constant and stable basis. The number of new credit cards issued by the Bank reached 17,370,000, up 15.1% year on year. At the end of 2018, the balance of credit card loans amounted to RMB473,295 million, up 55.9% over the end of the previous year. The number of users of credit card APP exceeded 34 million, with a year-on-year increase of 231.2% in the annual transaction volume in credit card mall. In 2018, the Bank expanded the credit card product series and boosted the marketing capability of brand by jointly issuing co-branded cards with the Manchester United Football Club, Tencent Video, Autohome and RoyalFlush, which comprehensively considered the interest of both parties; the Bank created a brand new card-interest separated platform to meet customers' needs for personalization, customization and differentiation; it vigorously deployed Internet channels to win customers and strengthened integration of online and offline channels to effectively improve its efficiency in the aspect of winning customer; centering on a service positioning of "high frequency, honor and sharing", it reconstructed the credit card mall service platform to enhance users' sense of value by creating specific zones for different customer groups; it also continuously developed intelligent technology and promoted the construction of intelligent technology matrix that incorporated intelligent customer service, intelligent robot, one-button service, etc., to bring the ultimate "fast, easy and good" experience to users with the power of technology.

In 2018, "New Generation Loan" newly issued by the Bank totaled RMB112,287 million and the balance at the end of 2018 reached RMB153, 745 million with a NPL ratio of 1.00%. The Bank actively explored financial services associated with the "New Generation Loan" for mass customers, strove to satisfy the financing needs of small and micro business owners and individual industrial and commercial customers, and supported the development of the real economy. In 2018, the Bank launched the "New Generation Loan" corporate tax plan specifically for the capital demand of small and micro business owners, which effectively streamlined application process by connecting to third-party data and accessing data via online channel. Meanwhile, the Bank also implemented risk-differentiated pricing to support loans for small and micro enterprises. At the same time, based on the Internet and big data, the Bank actively expanded Internet channels and traffic portals, strengthened the connection of payment data, transaction data and scenario platforms, enriched loan scenarios, extended customer coverage, achieved online and offline cooperation, and continuously improved the accuracy for winning customers to benefit more customers with the banking service. In addition, the Bank made full use of Internet technology to enhance product competitiveness, launched and applied cutting-edge technologies such as facial recognition, micro-expression technology and intelligent voice successively, and improved customer experience and service efficiency by accelerating the integration of external third-party data platforms to achieve centralized, automated, and intelligent online business application processing.

In 2018, the Bank's new auto finance loan amounted to RMB147,668 million, an increase of 24.7% year on year. The number of new customers amounted to 920,000, up 29% year on year; at the end of 2018, the Bank's auto finance loan balance was RMB172,029 million, an increase of 22.1% from the end of the previous year, and its market share continued to maintain a leading position in the industry. By means of optimization and streamlining of the process and risk control in combination of big data model, the Bank got 75% of credit approval automatically done by its auto finance business system, increasing by 10 percentage points over the end of last year, and 57.8% of credit approval for second-hand cars automatically done by the system, up 2.8 percentage points from the end of last year. In consequence, the Bank further improved the customer experience and gained leading strengths in the industry. The Bank continued to strengthen channel innovation and service innovation, promoted the customer experience through the full use of financial technology, and quickly realized the retail transformation strategy with strong comprehensive financial channel capabilities to achieve rapid growth in the aspects of retail customer number and business model under the circumstance of increasingly fierce market competition.

At the end of 2018, the Bank's property mortgage balance amounted to RMB182,363 million, representing an increase of 19.3% over the end of last year. The Bank strictly conformed to the regulations of national policies and regulatory requirements to support the need of resident families for purchasing their first set of self-occupied houses. It will continue to steadily carry out housing credit business under the premise of compliance with regulatory requirements, enhance housing credit management, optimize credit structure, further serve customers and support the real economy.

V. Discussion and analysis of the main businesses(Continued)

(I) Breakthroughs in retail banking(Continued)

1.Continued stable and rapid growth in core business(Continued)

In 2018, the Bank focused on attracting and managing customers of basic retail business. By creating a scene-based and personalized business tool, the Bank approached customers in on-line and off-line closed-loops, adhered to technology empowerment, big data-driven customer analysis and business strategy development, to promote the efficiency and productivity in attracting and managing customers. With respect to attracting customers, the Bank relied on the Group's ecosystem to deeply explore high-quality customer resources and connected on-line platforms across the Bank, such as the official account, mobile terminals and applets, to build an on-line banking ecosystem and transform users into customers. With respect to operation, through the big data-driven customer integration operation across product lines, the Bank continuously upgraded its business strategy by means of combined product design, differentiated pricing, and individualized customer interests to enhance customer management capabilities.

In 2018, the Bank proactively promoted the private banking strategy. The Bank recruited capable personnel for the private banking team, significantly enhanced the product supply and management capabilities, improved the product marketing and asset allocation capabilities, and laid a solid foundation for the rapid improvement of the scale of customer assets under management. At the same time, the Bank fully leveraged the strength of science and technology in private banking business to empower professional investment advisory and remote support capabilities, providing customers with the best asset allocation portfolio plans in the most convenient way at the most appropriate time and via the best channel; For products, the Bank fully integrated resources from Ping An Group and resources within and outside the Bank in private banking business to constantly provide quality products for wealth management and create an open product platform.

2. Technology-driven retail business development

The Bank adhered to the development strategy of "Being technology-driven". In 2018, it increased investment in technology, integrated and established a retail-exclusive IT team of over 3,200 people under the drive of cutting-edge technologies such as artificial intelligence, biometrics, big data, blockchain, cloud computing, etc. For online business, the Bank upgraded the on-line Pocket Bank APP embedded with various financial technologies and services and launched a Pocket Banker APP supporting mobile process and interactive communication for the staff in the Bank; for offline business, the Bank opened new offline retail outlets under "light, community-based, intelligent, diversified" concept, and integrated and built an intelligent OMO (Online Merge Offline, realizing online and offline integration) service system to bring better financial life experience for customers through an intelligent bank featured with integration, scenarization and personalization.

In 2018, the Bank focused on both the standardized operation and intelligent platform of new outlets under the background of the formally opening-up of Guangzhou Liuhua Branch in 2017, which was its first intelligent retail store, commenced the program of "Follow the Liuhua Branch model" and successfully upgraded the standard operation model of 136 branches. The Bank built up a mature standardized system in operation and management for branch operation, promptly iterated and upgraded supports for platforms, tools and processes, and fully improved the management capability and professional skills of managerial staff and business teams.

In addition, the Bank fully leveraged the Group's scientific and technological strength, developed and launched a wealth of advanced financial technology applications. With respect to scenario operation, the Bank, on the one hand, connected with external scenarios to build B2B2C model, and linked to scenarios and traffic of third-party platforms via technical methods such as APP interface and H5 plug-in, to provide customers with more convenient products and services; on the other hand, the Bank explored its own scenarios, created new channels, both on-line and off-line, and deepen the refined operation that targeted different user bases to attract customers effectively and enhance users' sense of value.

The Bank made full use of AI technology in 2018. It carried out machine learning of customer service Q&A data accumulated for many years, cooperated with Ping An Technology to build the AnBot (a self-owned intellectual property) for customer service, and established a 7 x 24-hour "AI Customer Service" system based on the comprehensively collected user data and omni-channel tool deployment. Additionally, the Bank launched "AI + Advisor" series - wealth diagnosis and Ping An intelligent investment function, which could provide customers with personalized product investment portfolio plan based on their transaction records and risk preference. In terms of strengthening risk control, the Bank deployed about over 40 sets of big data risk models at each customer-related process to monitor and assess risks in an all-round way, and launched the "AI + Risk Control" project. A unified intelligent credit line management and control system and an automatic approval flow for retail customers were established after one year construction, which were applied to product lines such as personal loan, auto finance and credit card. Meanwhile, the Bank managed anti-fraud of debit and credit cards on a unified basis, built an anti-fraud defense line at large retail enterprise level, supported the daily tens of millions of financial transactions; thereby changing the current status that the improvement of overall operation capacity of traditional anti-fraud platform relied on the increase of work force. The Bank already has the ability to provide review service for various credit products.

In 2018, the Bank continued to implement agile practices and recruit over a hundred of professional talents in Internet technology, products and marketing, and accelerated the realization of Internet thinking and technology-driving in each line of service, to achieve mutual integration and transformation of traditional finance talents and the newly-introduced Internet talents. The Bank holistically promoted on-line and mobile daily work and operation management, established a vertical mechanism for management and control coordination across the "head office - branches - sub-branches - front line", rapidly increased the operating efficiency of the organization and continuously strengthened the mechanism and ability for sustainable development of retail business.

3. Continuously enhancing contribution in comprehensive finance

In 2018, the Bank continued to dig deeply into the Group's high-quality personal customer resources, created a specific B2B2C model to integrate the Bank's account capacity and the Group's on-line platforms (such as Ping An Good Doctor, Autohome) through plug-in, interface and other technical means, which enabled the customers to access to high quality products and services of the Bank in a more convenient manner.

In 2018, the number of new migration customers on the cross-selling channels (excluding credit cards) was 2,958,700, accounting for 29.8% of the overall new retail customers (excluding credit cards), of which, the number of private financial customers had a net increase of 54,200, accounting for 40.1% of the overall new private financial customers, and the balance of assets under management of retail customers (AUM) had a net increase by RMB140,359 million, accounting for 42.5% of the overall asset balance of the new customers; the total net non-interest income from group insurance sold by all retail channels on a commission basis was RMB2,463 million, a year-on-year increase of 32.6%. "New Generation Loans" granted by cross-selling channels amounted to RMB48,708 million, accounting for 43.4% of overall issuance of New Generation Loans through cross-selling channels; licensed mortgage loans amounted to RMB42,968 million, accounting for 45.5% of overall issuance of licensed mortgage loans; auto finance loans amounted to RMB34,167 million, accounting for 23.1% of overall issuance of auto finance loans; credit cards issued by cross-selling channels accounted for 39.0% of the total number of newly granted cards. The asset quality of the customers recommended through cross-selling channels was better than those from other channels, as the NPL ratio of "New Generation Loans" from cross-selling channels was 0.45%, 0.55 percentage point lower than the overall NPL ratio; the NPL ratio of licensed mortgage loans from cross-selling channels was 0.05%, 0.09 percentage point lower than the overall NPL ratio; the NPL ratio of auto finance loans from cross-selling channels was 0.41%, 0.13 percentage point lower than the overall NPL ratio; the NPL ratio of credit cards from cross-selling channels was 1.10%, 0.22 percentage point lower than the overall NPL ratio.

V. Discussion and analysis of the main businesses(Continued)

(I) Breakthroughs in retail banking(Continued)

4. Breakthrough in key projects

In 2018, the Bank created the "Benefits Manager" 2.0 brand through sticking to the agile and efficient cross-department coordination mechanism and deeply understanding corporates and customers' needs to continuously upgrade products and interests; enhanced customer experience and efficiency by the embedded smart applet, on-line salary card application, and off-line verification; and promoted the effectiveness for salary payment by improving the payment process and achieving direct connection between banks and enterprises and combination of one-click payment and real-time charging across banks; in addition, the Bank also actively researched a new model of connected corporate banking and retail banking to attract new customers in bulk for agency business. At the end of 2018, the number of agency corporate customers amounted to 26,829, an increase of 50.5% over the end of the previous year; the effective customers in 2018 increased by 630,000 on a net basis, a year-on-year increase of 32.9%; at the end of 2018, the AUM balance of agency customers amounted to RMB202,135 million, up 41.8% over the end of the previous year; the balance of agency customer deposits amounted to RMB69,511 million, increasing by 34.2% over the end of the previous year.

In 2018, the Bank established a functionally complete bank card acceptance platform and a product system, launched a comprehensive solution based on industry features and regulatory requirements targeting traditional circulation, professional market, Internet new retail industry status, vertical e-commerce, platform e-commerce, etc., and initially built up differentiated competitiveness. For business expansion, the Bank created an entirely new channel cooperation system to work with partners from all industries to seek a win-win situation; for management, the Bank fully investigated customers' background and their specific business models, and improved the efficiency to approve customer applications; for products, the Bank issued "one-time code token" based on transaction orders to enhance customer experience; and for technology, the Bank provided on-line and off-line channels to attract customers for special customers via big data and AI. In one word, the Bank took multiple measures to lay a solid foundation for the rapid future development of card acceptance business in an all-round way. At the end of 2018, the Bank's customers of bank card acceptance business increased by 377.6% over the end of the previous year.

(II) Reinventing its corporate banking

In 2018, the Bank's corporate business focused on superior business, superior channel and quality projects and built up bigger and stronger ecosystems based on an ecological operation idea. In the process of building a superior bank, the Bank substantially used cloud technology, blockchain, IoT, big data and other technical methods in corporate business to empower the management, drive business innovation and form an intelligent superior corporate banking business system. Meanwhile, in the process of developing corporate business, the Bank relied on the Group's comprehensive financial advantages, integrated financial and technology service functions and continuously enriched the service scenarios for corporate customers to upgraded products and customer experience. In the future, in the corporate business sector, the Bank will actively export platforms and products to other financial institutions, attract customers in agency mode, implement "light assets and light capital" strategy, and accelerate the strategic process.

1. Establishment of quality corporate business

(1) Intelligent supply chain finance

The Bank upgraded its supply chain financial services to build a new development model of "technology + service + scenario". Based on specific transaction scenarios, it provided diversified and embedded intelligent supply chain financial services centering on the industry chain. Intelligent supply chain finance reflects the upgrading of service targets, service models, service methods and operational concepts. First and foremost, as for upgrading of the service targets, the Bank extended them from core enterprises to the long-tail small and micro customers in the upstream and downstream of the industrial chain; secondly, for upgrading of the service model, the Bank integrated the transactional banking product system to provide integrated financial solution incorporating financing, settlement, and financial and asset management; thirdly, for upgrading of service methods, the Bank promoted the intelligent and digital transformation of supply chain finance by technology empowerment such as blockchain, big data, artificial intelligence, etc. Fourthly, for upgrading of operational concept, the Bank joined hands with partners in sectors such as science and technology, scenarios and channels to build a favorable supply chain financial services ecosystem based on the operational concepts that encouraged open-up and sharing.

For the core enterprises in the industrial chain and their upstream customers, the Bank launched the "Supply Chain Receivables Service" (SAS platform) platform in 2018 to provide integrated financial services such as transfer, financing, management and settlement of online accounts receivable. The SAS platform applied the four core technologies of "Ping An blockchain" in full, established a multilateral mutual trust mechanism, managed the underlying assets on an in-depth basis, and applied "AI + big data" to implement intelligent verification and continuous monitoring over the authenticity of the transaction background. At the end of 2018, the accumulated transaction volume of SAS platform exceeded RMB10 billion. It had provided financial service support to 111 core enterprises and their upstream small, medium and micro enterprises, which effectively solved the problems of difficulty and high cost in financing to support the healthy development of the real economy.

(2) Government finance

With respect to government finance, Ping An Bank was driven by the concept of "Smart City Financial Engine" and cooperated with various professional companies in the "Smart City" ecological circle of Ping An Group to create a differentiated capability of government finance in the three types of ecological circles, finance, housing and justice, and enhance the effectiveness of administrative services of the government.

The Bank had created two open "clouds" in e-governance. "Housing Cloud" is a smart and open platform for housing ecology, which focuses on "land, building, housing, home and people" and aims at solving key issues such as capital supervision for housing administrative authorities. "Fiscal Cloud" creates a unified fiscal service interface by leveraging innovative technologies such as blockchain, AI, and big data, and solves capital and information management problems for fiscal clients in various stages such as budget preparation and review, implementation and accounting. At present, the Bank deeply cooperates with Ping An Urban-Tech and Chongqing Financial Asset Exchange to provide customers with innovative financial services by thoroughly analyzing customer business flow and capital flow based on the focuses of customers with advantages of financial + technology services. In 2018, 106 new e-governance platform projects were launched, with the accumulated total number of 462.

V. Discussion and analysis of the main businesses(Continued)

(II) Reinventing its corporate banking(Continued)

1. Establishment of quality corporate business(Continued)

(3) Small enterprise digital finance (KYB)

Based on probability theory, the Bank's small enterprise digital finance (KYB) reveals and judges the credit information of small and medium-sized enterprises via quantitative models. It also relies on digital financial operation platform to use modern technological methods such as mobile Internet, big data, AI, cloud computing, and IoT to provide integrated financial services for small and medium-sized enterprises.

On the one hand, KYB realizes online real-time application, automatic approval in system and real-time monitoring after loan granting by applying big data technology to attract customers before lending, applying AI technology to automatic approval and refinement loan granting, and applying IoT technology to accurate monitoring of post-lending risks to effectively solve the financing problems of small and medium-sized enterprises, especially private small and medium-sized enterprises, under the premise of ensuring the Bank's own risk control and profitability requirements. On the other hand, closely bonded with the "Five ecological circles" and "Top ten industries" of Ping An Bank, KYB attracts customers horizontally in batches with standard products as the media, explores scenarios with customized products in depth, implements comprehensive financial marketing through the "integrated" industry service plan, deeply embeds customer base business scenarios, broadens and deepens financial services, and takes the leading bank position step by step to promote the comprehensive income for banks. At the end of 2018, KYB customers amounted to 14,103 and the accumulated volume of loans issued amounted to RMB10.7 billion.

(4) Internet payment and settlement

Internet payment and settlement is an effective way for the Bank to expand the base of basic corporate customers, obtain low-cost liabilities, increase the income from non-interest intermediate businesses and reflect the strength of comprehensive financial services. Through diversified payment instruments and settlement methods such as electronic accounts, code-scanning payment, and non-perceptible payment, the Bank improved transaction efficiency and reduced transaction costs.

In the process of promoting the "payment + accounts + scenario" strategy, the first matter of the Bank was to careful select industries. The Bank focused on strategic industries and Internet emerging industries related to national economy and people's well-being; at the same time, with the advantage of the Group, it integrated into the Group's ecosystems of financial service, health care, automobile service, real estate service and smart city, to provide one-stop, closed-loop financial services with more comprehensive coverage of customer life scenarios through the "Finance + Ecology". The second was to carefully cultivate the customer base. The Bank combined segmented scenarios with industry needs and provided customized financial services such as payment settlement, identity authentication and transaction witness for Internet leading customers. The third was to carefully tailor product offerings. With the account system and capital management capabilities as the core, the Bank integrated front-end collection and back-end payment and superimposed diversified products and services such as capital appreciation, data financing, integrated finance and enterprise services to form an integrated transaction banking service capability. At the end of the reporting period, the Bank launched 300 new Internet payment settlement platforms in 2018, a year-on-year increase of 70%.

(5) Pocket Finance

Pocket Finance APP is an integrated one-stop mobile financial service platform launched by the Bank for B-end customers, which adopts "platform + product + service" as its core business model, provides enterprises with more efficient and secure corporate financial services at lower cost through unified portal, brand, platform, interface and underlying supports, and connects to a wide range of heavyweight scenario partners on business management. Corporate customers can enjoy basic financial services such as payment settlement, payroll, account management, etc., as well as comprehensive financial services such as financing, wealth management, insurance, mobile office, financial management, etc. The Bank had provided customers with mobile-based enterprise lifetime integrated services.

As one of the benchmark products in the Bank's practice of finance + technology in corporate banking, Pocket Finance employs a wide range of mature technology innovation applications to embed latest financial technology achievements in Internet finance applications, such as biometrics, OCR (image recognition capabilities), cloud signing and big data in customers' high-frequency business scenarios, to create ultimate user experience for corporate customers and improve business processing efficiency. For example, by introducing a number of patent technologies in biometrics from Ping An Technology, Pocket Finance APP can be instantly logged in without inputting complex user names and passwords; with mobile phone certificate technology, corporate customers can enjoy ultimate non-perceptible payment like individual customers on the APP, which allows finance staff and managers of enterprises to easily complete large amount transfers without compromising security. The biggest beneficiaries of these services are private enterprises and small and medium-sized enterprises that crave for professional treasury services but are unable to afford expensive administrative costs. At the end of 2018, the number of registered customers of Pocket Finance reached 280,000, the cumulative number of transactions reached 1.5 million, and the transaction amount exceeded RMB830 billion.

(6) Offshore interbank finance

As more high quality Chinese-funded enterprises join in the "going out" trend, the offshore cross-border finance of Chinese-funded banks grows fast with business scenarios expanded. The Bank gave full play to its advantages of offshore banking licenses and market-leading position, promoted offshore interbank financial products timely, and provided offshore financial products and services (including offshore interbank payroll, offshore cross-border finance, overseas loans under domestic guarantees and offshore trading finance) for other Chinese-funded banks. At the same time, the Bank also actively cooperated with domestic and foreign non-banking financial institutions engaged in security, insurance and financial leasing sectors for overseas fund management, investment and financing. In 2018, the offshore interbank financial investment and the ending financial balance of the Bank both exceeded USD10 billion. The bank cooperated with nearly 200 branches of over 50 Chinese-funded banks and more than 20 non-banking financial institutions in offshore financing to satisfy the service demands of Chinese-funded banks and non-banking financial institutions, realize the Bank's "dual-light transformation" development in offshore financing and maintain a leading position among Chinese-funded off-shore banks in main operation indicators.

V. Discussion and analysis of the main businesses(Continued)

(II) Reinventing its corporate banking(Continued)

2. Breakthroughs and innovations in comprehensive finance

The Bank kept seeking two-way breakthroughs in products and channels. On the one hand, the Bank strengthened the banking channels, used the Group's various products to increase customer stickiness and to contribute value, and achieved scale-based revenue breakthroughs in the way of "product portfolio + scene integration". On the other hand, the Bank leveraged the advantages of the Group, built a banking business portal in the "Finance + Technology" scenario, closely followed the "finance+ ecology" strategy in innovating the cooperation model of comprehensive finance, and fully mobilized the sales force of the Group's comprehensive financial channels to effectively enhance the main businesses of the Bank. At the end of 2018, the number of comprehensive finance customers 34,200, up 17.1% over the end of the previous year. The volume of new bank-investment bank cooperation projects reached RMB234,730 million, up 125.9% over the end of the previous year.

3. Selected investment bank and interbank business

Aiming at becoming a connector of financial institutions, the Bank actively strengthened collaboration with the Group's professional subsidiaries in developing selected investments bank and interbank business, integrating customer resources, product resources and service resources, bridging contracting, undertaking and underwriting businesses, and building an ecosystem of financial services.

First, the Bank fully implemented the light financing strategy and actively served the real economy. It positively responded to the nation's call for poverty alleviation and initiated poverty alleviation fund and bond businesses. At the same time, the Bank constantly optimized the structure of investment banking products, enriched their categories, and explored ways to promote the development of light financing. It vigorously engaged in bond underwriting, created an ecosystem for mergers, acquisitions and bank consortium, and kept expanding the scale of financing arrangements to meet the diversified financing needs of customers and develop a leading brand in the market of investment banks. In 2018, the Bank issued bonds of RMB161.9 billion in its interbank bond underwriting business, a year-on-year increase of 54.0% over the previous year.

Second, the Bank repositioned itself in the industry, bridged asset management, trade and sales, and enhanced the value of customer channels of banks and other financial institutions. The Bank had made great effort to push forward the sales transformation and build professional institutional sales teams specialized in product sales and asset promotion, aiming at achieving accelerated growth in institutional sales; it promoted the iterative upgrading of "Hang-E-Tong" platform by adding the "financial product agency platform" service function, and matching product supply with investment demands in the asset management market; it enhanced its businesses in the financial market, perfectly grasped market opportunities, elevated the trading strategy developing to a higher level, and made breakthroughs in new trading varieties such as bilateral deposits, over-the-counter bonds, and NDF optional forward transactions of USD and KRW; it comprehensively reshaped the business system with science and technology, initiated the establishment of customer portrait system of banks and other financial institutions, and improved the level of refined and intelligent customer management to provide better services for customers. At the end of 2018, the total number of customers received service from the "Hang-E-Tong" platform reached 2,079, an increase of 150 over the end of previous year. Interbank sales, underwriting and promotion products amounting to 574 were newly introduced and available for sale, achieving a sales volume of RMB225.2 billion; the trading volume of interest rate swap totaled RMB2,076.55 billion, an increase of 24.9% over the previous year; the trading volume of derivative agent businesses reached USD13.5 billion, an increase of 25.0% over the previous year; 110 enterprises and financial institutions became the Bank's new customers. The trading volume of self-operated precious metals was RMB820 billion, an increase of 24.3% over the previous year; the trading volume of agent precious metals was RMB520 billion, an increase of 254.0% over the previous year.

(III) Scientific and technology-driven

1. Increasing investment in science and technology

The Bank strived to attract science and technology talents, including recruiting a large number of compound high-end technology talents from the Silicon Valley as well as overseas and domestic leading Internet enterprises to continuously optimize and improve science and technology talent teams and advocate the leading ability in science innovation. At the end of 2018, the technical staff of the Bank reached 6,000 (including outsourcing talents), representing a year-on-year increase of over 44% over the end of the previous year.

2. Developing a new three-year IT plan

In order to implement the Bank's strategy of "being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking" and support an agile transformation in the technology line, the Bank developed a Three Year (2019-2021) IT Development Plan in September 2018. After analyzing the status quo and future development requirements, and comprehensively considering the best practices of the industry and characteristics of the Bank, the Bank determined the overall goal of "the overall technological capabilities being among the first echelon of the joint-stock banks and some capabilities being on top in the next three years", and clarifying the specific action plans, work focuses and corresponding implementing strategies for the next three years. The plan serves as the overall guidance for all the information and technology works in the next three years.

3. Implementing agile transformation

In order to rapidly respond to business needs and strategically shift the information technology from its traditional role of supporter and guarantee to its new role of business driver, the Bank established a lean and agile dual-mode R&D system to promote agile transformation, strengthen the deep integration of technology and business, and develop and improve dual-mode R&D management methods, lean R&D implementation rules, and agile R&D implementation rules. In 2018, the technical staff dispatch model was implemented in the corporate business line after its implementation in the retail line. The agile development model was piloted in projects such as "Pocket Finance" APP, "FB Remote Counter" and "Smart Management" to greatly hasten product iteration, improve delivery quality and enhance customer experience. In 2018, the deliveries associated with business need development of the Bank increased 100% on year-on-year basis.

4. Improving the level of refined management

In order to further improve the level of refined management over science and technology, in 2018, the Bank established the PMO system for IT line, followed up all the key projects and work matters, proactively identified problems and assisted in management duties, enhanced collaboration and information sharing among IT teams, and improved organizing and executing ability. It also introduced the function point evaluation method to perfect the development measurement mechanisms, promoted the use of various automated tools to enhance automation in the development process, and further improved the refined level of development management.

5. Creating leading technology platforms

The Bank was committed to creating a flexible, secure and open technology system to support the rapid business growth, Internet transformation and product and service innovation. At the end of the reporting period, the Bank established a complete science and technology disaster recovery system and big data platform technology system, accomplished the cloud deployment of the whole development and test environment and part of the production environment (IaaS), started the construction of basic PaaS platform featuring open platform technology, billion-byte processing ability, comprehensive support for agile development, flexible expansion, secure operation and maintenance, better support for business continuity, and technical automation and controllability. At present, the planning and model selection works related to distributed PaaS platform have been completed and ready for pilot projects. In the current year, the Tenglong core system won the "2018 IDC Asia-Pacific Core Innovation Leader Prize", making the Bank the only core system winner of this prize in the Asia-Pacific region. The "Pocket Bank Security Project" won the 2018 Asian Bankers' "Best Mobile Phone Security Project", and the "Indexing Assessment System of Data Centre Based on Big Data and Best Practice" won the 2017 Financial Science and Technology Outstanding Contribution Award of the *Financial Computerization Magazine*.

V. Discussion and analysis of the main businesses(Continued)

(III) Scientific and technology-driven(Continued)

6. Deepening scientific innovation

The Bank set up innovation garage, established innovation committee, promoted professional technology sequence to stimulate science and technology innovation by means of good mechanism, and fully facilitated the application of cutting-edge science and technology in the operation and management of the Bank. The Bank rapidly pushed forward the combination of cutting-edge technology and financial application scenarios based on the core technology and resources of Ping An Group in sectors such as artificial intelligence, blockchain, cloud computing, big data, information security, etc.

Under the help of mobile internet, biometric identification, big data, cloud computing and artificial intelligence, the Bank created brand-new business processes and risk control models in three dimensions: first, the Bank performed remote identification by checking customers' identities online through face recognition, voiceprint recognition, public security network verification, UnionPay authentication and other means; second, based on the credit data from PBoC, the bank cooperated with UnionPay, provident fund centers, industrial and commercial bureaus, tax bureaus, mobile operators and third-party platforms, used the artificial intelligence technology to comprehensively analyze the data and portray customer images in 360 degrees, and cultivated credit evaluation ability, anti-fraud ability and risk warning ability based on multi-dimensional real-time data; third, the Bank combined mobile applications with centralized remote operations to greatly improve business operation efficiency and effectively control risks. For example, the small enterprise digital finance KYB (Know Your Business) was developed by the Bank using this innovative technology against the background of response to China's call of "supporting inclusive finance, removing financing barriers and lowering financing costs for SMEs". At the end of 2018, KYB issued by the Bank amounted to over RMB10 billion. A single loan was approved within 60 seconds, and granted within 10 seconds. This product won the "2018 China Financial Technology Innovation List - Excellent Case Award for Banking Science and Technology Innovation". In terms of blockchain, the Bank kept exploring in-depth application and innovation in supply chain finance and other areas. For example, the application of blockchain technology in the Supply Chain Accounts Receivables Service platform (SAS platform) made the assets traceable and unable to be tampered with. Meanwhile, the use of robotic process automation (RPA) technology helped to achieve business automation processing, greatly improving the efficiency and quality of the traditional manual operation process of the Bank. This technology, applied to multiple business scenarios such as open account verification and open account PBoC data entry, increased the business efficiency by over 60% comparing to that of manual processing.

VI. Business innovation

The Bank continued to promote innovation for various businesses. The above discussion and analysis has covered the relevant contents.

VII. Risk management

(I) Credit risk

Credit risk refers to the risk that borrowers or counter parties of the Bank cannot fulfil obligations according to the agreement reached in advance.

The Bank has established a centralized, vertical and independent overall risk management framework and a risk management model with "dispatch-based risk management and matrix report through two channels". The risk management committee of the head office is in charge of overall plan on risk management at all levels. The professional departments of the head office including the risk management department, company credit approval department and retail risk management department are responsible for the Bank's credit risk management. Based on the transformation guideline of "being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking", the Bank stuck to the principle of risk management of "coordination between risk and development, balance between risk and profit, adaptation between risk and capital", continued to improve the full-process management of credit risk, and effectively enhanced the level of credit risk management.

1. Further optimizing the Bank's asset structure. In accordance with the Bank's risk preference and asset portfolio allocation, credit resources were mainly invested in high-quality retail assets to maintain good asset quality along with a steady growth in the scale of personal loans. At the end of 2018, the Bank's personal loans accounted for 57.8% of total loans, an increase of 8.0 percentage points over the end of previous year. The NPL ratio of personal loans was 1.07%, down 0.11 percentage point from the end of previous year. For corporate assets, the Bank focused on key industries, integrated superior resources to invest in high-quality and high-potential customers, helped customers in upstream and downstream supply chain, industry chain or ecological circles, and continuously advocated the optimization of the portfolio structure of credit risk assets.

2. Improving centralized risk management. The Bank continued to optimize the authorization management system, enhanced the differentiated authorization management of operation units and the centralized post-supervision management of the head office, and moderately improved the centralized approval management of the Bank; The Bank also steadily pushed forwarded the centralized management mechanism in its head office for loans, intensified the centralized and unified management and control over the confirmation of granting conditions when loans were provided, and effectively improved the risk control level for loan issuance.

3. Enhancing the asset quality management and control mechanism. Early warning management was strengthened, various risk information inside and outside the Bank was summarized, and an automatic pre-warning system based on big data was establish and continuously improved to ensure early detection and early resolution of risks. The Bank strictly followed the post-loan requirements by implementing the concerted management mechanism in branches by the chief leader of the branch making an overall plan and the leader in charge of risk management carrying out the plan, and regularly check the major non-performing asset accounts and the overall quality of assets in the charge of the branch; the head office guided, supervised and urged the branches to effectively implement post-loan management through crucial links such as daily monitoring and early warning management, guidance for and supervision on customers with large amount loans and early-warnings, management and control over key institutions, and management of group customer with large amount loans.

4. Intensifying the disposal of non-performing assets. The Bank exploited its advantage in professional disposal of non-performing assets by setting up the special asset management department, established refined clearing and recovery management with plan before the process, control during the process and review after the process through pre-judgement of clearing and recovery, guidance and supervision during the process of projects and review of operation results, and intensified the overall disposal of non-performing assets to effectively increase the speed for the disposal of stock non-performing assets. In 2018, the Bank recovered non-performing assets of RMB18,744 million in total, a year-on-year increase of 96.7%; of which RMB14,565 million was recovered by the special asset management department, a year-on-year increase of 126%, representing 77.7% of the total non-performing assets recovered.

During the reporting period, by means of the key measures mentioned above, the Bank's overall quality of credit risk assets was effectively managed and controlled and key indicators for asset quality was continuously improved. At the end of 2018, the overdue loans of the Bank accounted for 2.48% of total loans, down 0.96 percentage point over the end of previous year; loans past due over 90 days accounted for 1.70%, down 0.73 percentage point over the end of previous year; special mentioned loans accounted for 2.73% of total loans, down 0.97 percentage point over the end of previous year; NPL ratio was 1.75% and remained stable, slightly up 0.05 percentage point over the end of previous year.

VII. Risk management(Continued)

(II) Market risk

Market risk refers to the risk of losses arising from unfavorable changes in market prices (including interest rates, exchange rates, stock prices, commodity prices, etc.). The market risk of the Bank mainly arises from trading accounts and bank accounts. Main market risk represents interest rate risk and exchange rate risk. The Bank uses indicators such as market risk value indicators, pressure test, interest rate sensitivity, foreign exchange exposure, etc. to measure and monitor interest rate risk of major trading accounts and exchange rate risk of the Bank.

The Bank has established an effective market risk governance structure and division of management responsibilities. The Board is the ultimate decision-making body of market risk management and assumes the ultimate responsibility of market risk management. The senior management and its committees are responsible for approving the major issues of market risk management to the extent of the scope of authority and regularly listening to the report on the implementation of market risk management. The risk management department leads the management and specific implementation of the Bank's market risk, and is independent of the front desk business department. The Bank has set up a market risk management system including the basic system of market risk, general management measures and operational processes, and covering the whole process of market risk identification, measurement, monitoring, reporting and control. The Bank regularly examines various systems and management measures for assessing market risks and continuously perfects, improves and optimizes the process according to the business and development status. The Bank has established a relatively complete market risk management process, from the beforehand business authorization management and account division, to the risk identification, measurement monitoring and control in the process, and to the afterwards back-testing and stress test, fully covering the entire process of risk management.

During the reporting period, in order to address the increasing challenges in market risk management, the Bank took the following measures: first, the Bank further optimized the market risk management limit system on the basis of business reorganization, ensuring that risks remain controllable; second, the Bank enhanced market risk process management, went through all the risk processes before, during and after the trading, and strengthened risk measures for key risk points, established effective risk monitoring plans and improved the risk control and risk response ability; third, the Bank intensified the market risk system construction, with control before the process, monitoring during the process and assessment, analysis, and reporting after the process as the objectives for risk management, and the preliminary results were achieved; fourth, the Bank established a market risk management policy system in line with the nature, scale, complexity and risk characteristics of the Bank's business, fully reviewed the market risk system, and further optimized the market risk system to support market risk management in an all-around way.

In the future, in addition to further improvement of the policy system and process, the Bank will optimize the market risk measurement model, upgrade the market risk management system, and strengthen daily risk monitoring, to effectively manage the market risk and control the market risk within the bearable range.

(III) Liquidity risk

Liquidity risk refers to the risk that a commercial bank cannot obtain sufficient funds at a reasonable cost for timely repayment of debts, performance of other payment obligations and satisfaction of other financial needs for normal business. The Bank adheres to a cautious liquidity risk management principle and a prudent management strategy, timely establishes a reasonable and effective liquidity risk management mechanism to identify, measure, monitor and control liquidity risk, and ensures sufficient fund to handle the growth in assets and the payment for due debts, whether the Bank is in normal condition or under pressure.

1. The Board of the Bank assumes the ultimate responsibility of liquidity risk management. The Asset and Liability Management Committee is the top management body of liquidity risk management. The Asset and Liability Management Department is responsible for the daily liquidity risk management of the Bank under the guidance of the Asset and Liability Management Committee. The Supervisory Committee regularly supervises and evaluates the performance of the Board and senior management in liquidity risk management. The Audit and Supervision Department performs internal audit over liquidity risk management.

2. The Bank attaches great importance to liquidity risk management, continuously optimizes the liquidity risk management framework and management strategies, and has established a sound liquidity risk management system. The Bank monitors and optimizes the asset and liability structure in time, enhances the management over active liability, promotes steady growth in core liability, strengthens liquidity risk index limit management, and manages the mismatched liquidity risk reasonably; moreover, it regularly conducts liquidity risk pressure test, assesses future liquidity demand on a prudent basis, maintains sufficient high-quality liquidity assets, and continuously optimizes the liquidity emergency management system to effectively guard against emergency liquidity risk; It also strengthens the analysis of macroeconomic situation and market liquidity and improves the forward-looking and initiative liquidity emergency management, to cope with market liquidity risk in time. As at the end of the reporting period, each of the Bank's businesses grew at a stable pace, with abundant high-quality liquidity asset reserve, safe and prudent liquidity condition, and liquidity risk regulatory indicators meeting the requirements of CBIRC. At the end of the reporting period, the liquidity ratio of the Bank was 60.86%. Liquidity coverage ratio (LCR) was 139.17%.

3. The Bank conducts full identification, accurate measurement, continuous monitoring and effective control of liquidity risk and applies a number of measures for continuous monitoring of the Bank's liquidity risk, including cash flow measurement and analysis, liquidity risk limit management, fund source management and high-quality liquidity assets management.

4. The liquidity risk indices of the Bank are divided into management indices and monitoring indices. The Bank sets the liquidity risk index limit based on liquidity risk preference, liquidity risk management strategy, asset and liability structure, financing ability and other factors.

5. The liquidity risk stress test is an important tool for analysis and assessment for quantitative management of liquidity risk and provides basis for decision making on the Bank's formulation and revision of liquidity risk preference, liquidity risk management strategy and liquidity risk limits. Based on the regulatory requirements, the Bank conducts liquidity risk stress tests on a regular basis based on the asset and liability structure, product type and data status of the Bank and reports to the Asset and Liability Management Committee, senior management and the Board level by level.

In May 2018, CBIRC issued the *Administrative Measures* for *Liquidity Risks of Commercial Banks*, effective from 1 July 2018. The bank has performed gap analysis item by item in accordance with the Measures to ensure that the governance infrastructure, management strategy, measurement and monitoring, information system meet the regulatory requirements. Subsequently, the Bank will kept optimizing and improving the liquidity risk management based on the Measures.

VII. Risk management(Continued)

(IV) Operational risk

Operational risk refers to the risk of losses caused by imperfect or problematic internal procedures, employee and information technology systems as well as external events. During the reporting period, the Bank proactively promoted the implementation and improvement of its operational risk management system, continuously optimized and upgraded the operational risk management structure, regime and system to promote the operational risk management mechanism to be standardized, normalized and scientific. The Bank continued to lay solid foundation for operational risk management, strengthened the identification, assessment, monitoring, report and rectification of operational risks, monitored operational risk and reported in a normalized way, and actively prevented and resolved all kinds of operational risks, to achieve effective control of operational risk loss rate and support the healthy development of business.

1. The Bank deepened and enhanced the depth of application, breadth of coverage and implementation effects of three operational risk management tools, i.e. "operational risk and control self-assessment (RCSA), key risk indicators (KRI) and losses data collection (LDC)" to enhance the effectiveness and "risk sensitivity" of the professional tools for operational risk management.

2. Relying on science and technology, the Bank introduced big data analysis method, continuously innovated and integrated internal control and operational risk monitoring tools, initiated internal control and operational risk management transformation and upgrading projects, and promoted the introduction of PRA in seven business scenarios for internal control intelligent assessment and operational risk database construction; the Bank also launched economic capital projects to design and explore quantitative measurement methods for the institutional operational risk and the internal control management ability.

3. The Bank intensified the integration, optimization and promotion of operational risk management tools and systems, optimized the risk heat map rating system and integrated risk heat maps with KRI, revealing problems in hot areas and high-risk businesses and institutions with risk heat map rating reports, and following up the problem rectification; the Bank also improved the Department Control Function Checklist (DCFC) system, highlighted the effectiveness of operational risk management, and continuously enhanced the risk management and control ability of business departments and front-line managers.

4. The Bank strengthened business continuity management, conducted 2018 business influence analysis, improving the business continuity management system and corresponding system management, further regulating the planning, implementation, post-implementation assessment, summary and reporting works of business continuity. In this way, the Bank kept elevating its overall level of business continuity management.

5. The Bank strengthened the operational risk training and publicity, continued to give business guidance, support and evaluation to institutions at all levels to improve the operational risk management capabilities across the Bank.

During the reporting period, the operational risk identification, assessment, monitoring, early warning and rectification capacity were steadily improved.

(V) Country risk

Country risk refers to the risk that the borrower or debtor of a foreign country or region has no capacity or refuses to repay the debts to banking financial institutions, or the banking financial institution in the country or region suffers from business losses or other losses, due to the economic, political, social changes and events of the country or region.

The Bank has prepared the *Measures for Management of Country Risk of Ping An Bank* in accordance with the regulatory requirements to clearly stipulate the country risk management responsibilities, management means and work procedures, and established a standardized country risk management system. The Bank divides country risks into five classes: low country risk, relatively low country risk, medium country risk, relatively high country risk, and high country risk, based on risk severity, and manages risks by their classes accordingly. The Bank regularly checks and grants country risk limit based on internal rating and the situation of economic development in countries or regions. Operational activities that expose the Bank to overseas entity country risk are managed on a unified basis under the country risk limit. The Bank continues to monitor changes in country risk regularly to adjust country risk limit dynamically. During the reporting period, the Bank's country risk exposure was strictly limited. The country risk exposure was relatively small, and the country risk level was relatively low, and sufficient country risk reserve had been provided for in accordance with regulations. The overall country risk was controllable.

(VI) Bank account interest rate risk

Bank account interest rate risk refers to the risk of losses of the overall income and economic value of bank accounts as a result of adverse changes in interest rate level, maturity structure and other factors. Based on the latest requirements of the *New Basel Capital Accord and Guidelines for the Management of Interest Rate Risk in the Banking Book of Commercial Banks*, the Bank continued to improve risk government structure and interest risk limit management system, optimized the interest rate risk management related systems, and refined the interest rate risk management to ensure that the Bank can effectively identify, measure, monitor and control interest rate risk arising from various business.

Following the principle of reasonableness and prudence, the Bank effectively measured bank account interest rate risk by means such as re-pricing gap analysis, duration analysis, scenario simulation and pressure test, etc. Based on the above measurement methods, the Bank continued to improve the interest rate risk limit indicator system of bank accounts, regularly monitored changes of limit indicators, reported to the Asset and Liability Management Committee, strictly controlled relevant indicators of interest rate risk, conducted prudent risk management, adjusted asset and liability structure in a timely and actively manner, and optimized interest rate risk exposure.

In recent years, fluctuation in market interest rate risk was increasing. The Bank continuously paid attention to changes in external interest rate environment, enhanced macro analysis, research and judgement on interest rate trend, implemented active interest rate risk management strategy, designed the asset and liability structure in a reasonable way, and constantly guided the improvement of business portfolio re-pricing term to maintain a comparably low overall bank account interest rate risk.

In May 2018, CBIRC issued *Guidelines for the Management of Interest Rate Risk in the Banking Book of Commercial Banks (Revised)*, which would come to effect on 1 January 2019. The Bank has studied the revised contents item by item and analyzed the gaps to meet the regulatory requirements in the structure, measurement, and system of interest rate risk governance, ensure the implementation of interest rate risk standard measurement framework, and optimize interest rate risk management based on the Guidelines subsequently.

VII. Risk management(Continued)

(VII) Reputation risk

Reputation risk management is an important component of corporate governance and comprehensive risk management system and covers the Bank's business management, business activities, employee behavior and other fields.

In 2018, the Bank's reputation risk management concentrated on four links - "investigation and early warning, comprehensive monitoring, strengthened response, examination and feedback". The highlights were in six aspects: I. The Bank further improved relevant systems, including updating mechanisms such as *Measures for Management of Reputation Risk of Ping An Bank, Management Measures for Response to Sensitive and Negative Incidents Revealed by the Press of Ping An Bank,* etc., regulating process, and intensifying reputation risk management and examination. Currently, reputation risk is one of the important indicators of the Bank's risk assessment and has been included in the KPI assessment of each unit. II. The Bank further standardized the daily operation and management and strengthened the reputation risk management in advance. III. The Bank carried out pre-investigation of reputation risk, and conducted targeted rectification and formulated effective preventive and response measures for the potential risks identified in investigation. IV. The Bank continued to optimize the public opinion monitoring mechanism and strengthen monitoring frequency for Weibo, WeChat and other new media platforms, and expanded the scope of monitoring to enhance initiative in reputation risk management. V. The Bank continuously intensified the crisis response system and comprehensively used a variety of means to enhance the efficiency of sensitive public opinion efficiency and effects. VI. The Bank strengthened the management over compliant letters and visits, and formulated and issued relevant rules such *Ping An Bank's Emergency Plan for Complaint Letters and Visits, Ping An Bank's Prevention and Emergency Response Plan for Mass Petition Incidents and Ping An Bank's Prevention and Emergency Response Manual for Mass Petition Incidents* to ensure the major petition incidents can be resolved timely, efficiently and orderly. At the same time, the Bank further strengthened the petition reception, the petition result feedback and other works to better resolve reputation risk of the Bank.

(VIII) Strategic risk

Upon the call of serving the real economy and defending and controlling financial risks from the Party Central Committee, in 2018, the Bank proactively responded to national strategies, formulated the *Three-year Development Strategic Plan of Ping An Bank (2019-2021)*, which clarified the Bank's strategic vision of "domestic best performer and global leader in retail banking" and developedthe strategic principle of "being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking". The plan acted as a guidance for the transformation and development of the Bank, and pushed forward the implementation of strategic transformation. "Being technology-driven" supported accelerated innovation in every financial service with an advanced technical platform; "pursuing breakthrough in retain banking" promoted the rapid spread of inclusive finance to meet people's increasing demands for finance; "reinventing its corporate banking" continuously served key industries that were fundamental to the national economy and people's livelihood and strategic emerging industries to support the blossom of real economy. Meanwhile, the Bank continued to enrich and deepen strategic contents based on specific stage of development to ensure that the Bank's development stayed on the right track.

Unswervingly adhering to the core leadership of the Party, the Bank rearranged the structure, specified the mechanism, unified the ideology and improved the decision-making process to fully take the Party's advantage in politics, thoughts, and organization and secure the core leadership of the Party in operation, management and supervision, etc. The Bank adhered to promote development through construction of the Party to unify thoughts and actions of the Bank, enhance cohesion within the Bank, and seek development.

The Bank's strategy is in line with the national strategy, the macroeconomic situation and changes in customer demands and the Bank's strategic execution is improving and strategic risk is generally controllable.

(IX) Information technology risk

In 2018, the Bank incorporated information technology risks into the overall risk management system and proactively implemented the development strategy in information technology by focusing on the transformation of Big Retail and the development of innovative corporate products. In aspect of product development and system operation, the Bank attached great importance to management for information technology risks and operational quality safety to provide scientific support for the business flow and rapid development.

1. The Bank continued to improve the organizational structure and mechanism of information technology risk management, advocates rapid transformation and enhanced the three lines of defense against information technology risks involved in Information Technology Department, Risk Management Department and Audit and Supervision Department, and promoted implementation of information technology risk management, to strengthen control of information technology risks before, in the process of and after relevant events.

2. The Bank conducted assessment, analysis, monitoring, reporting and audit on information technology risks on a regular basis and implemented the early warning and disposal mechanism for such risks in a timely manner, bringing about remarkable achievements on basic management for the risks.

3. By perfecting the management flow of information technology risks and reinforcing control over information security, the Bank enhanced the capability for scientific operation, facilitated technical development and innovation and raised staff's awareness of information technology risks, so that technology serviceability and efficiency had been upgraded in an effective manner, with impressive achievements in information technology.

During the reporting period, the Bank's information system was in good working conditions and information technology risks were overall under control.

(X) Other risk

Other risks exposed to the Bank include legal risks and compliance risks.

1. Legal risk

The Bank continued to enhance legal risk control. The Bank improved the management mechanism and system of legal documents, revised the management measures of legal documents, and promoted the standardization of legal documents; further improvement was made in terms of legal format text and legal review and management system, prompt revision and improvement had been made to the Bank's texts of various formats; the daily legal review and consulting were carried out in an orderly manner to provide prompt, professional and efficient legal support for the Bank's new product research and development, new business development and major projects, etc.; for key businesses, legal research and legal risk warning and prompting were conducted to strengthen legal training and support healthy development of business; the Bank proactively and properly handled litigation and non-litigation risk events to guard against litigation risks and reputation risks.

During the reporting period, the legal risk management of the Bank focused on three levels, beforehand risk prevention, in-process risk control and post-risk mitigation, and an institutionalized, standardized and systematic management mechanism was established for the main fields of legal risk management, to continuously enhance the effectiveness of the Bank's legal risk management for businesses.

VII. Risk management(Continued)

(X) Other risk(Continued)

2. Compliance risk

(1) The Bank attached great importance to compliance management, internal control and case prevention and control. The Board is ultimately responsible for compliance risks, and the Audit Committee operated under it is responsible for implementation of compliance policy with authorization. The head office's and branches' Compliance, Internal Control and Case Prevention and Control Committee was under orderly and effective operation, responsible for reviewing risk level of each line of services and branches as well as risk control over major fields on a regular basis. The Bank specified compliance responsibilities of the Board, the Supervisory Committee, senior management, head office departments, branches, business divisions and staff to further improve the compliance management and internal control system and enhance the Bank's capabilities for risk prevention and control and for supporting transformational development with such measures as upgrading the legal compliance office in certain branches to an individual department, setting up supervising offices under legal compliance departments in five large-scaled branches, optimizing the responsible team for legal compliance of branches and recruiting legal compliance staff for the Bank. It also enhanced coordination of the three lines of defense within the compliance management system, unceasingly conducted "work in one office" in internal departments as well as identified, monitored and assessed problems encountered in conducting business or found in internal and external checks and strengthened supervision interaction to improve the level of internal compliance management. Meanwhile, self-assessment and inspection were organized to rectify market chaos in banking sector. The Bank promoted operation with compliance and ensured the solid fulfilment for transformation requirements that required defense and neutralization of financial risks, return to the nature and main operation of financial institutions and achievement of high-quality development through strengthening problem rectification and accountability against regulate violation. The Bank launched case prevention compliance supervision and guidance for branches and business departments with a high-pressure attitude towards the case prevention works of front line staff and grass-roots facilities, to advocate implement the case prevention compliance requirements of the regulatory authorities and the head office, and included the situation of case prevention compliance work into the performance assessment of each facility and its responsible leadership to assure the case prevention compliance responsibility level by level. The Bank advocated its development strategy on a solid base along with the changes in supervision guidance to better serve the real economy.

(2) The Bank continued to strengthen the professionalism of legal compliance review and management to advance the quality and effectiveness of the support to business. It actively advocated such measures as optimizing review process, fulfilling review preposition and implementing "one-to-one" support for legal compliance. Meanwhile, the key regulatory policies were interpreted and analyzed by various methods and transmitted promptly to identify compliance risk and promote operating agencies to improve their resistance against compliance risk and boost the healthy development of business.

(3) The Bank strengthened its system management to further improve the compliance risk management system. Additionally, the Bank organized the preparation of annual system plan, performed systematic examination over key business sectors, enhanced system management quality, and further consolidated the management base for business development throughout the Bank and internal control.

(4) The Bank actively engaged in the construction of compliance culture, arranged special publicity campaigns on compliance within the Bank and organized the Banks' cultural system related to compliance so as to strengthen the compliance awareness of the Bank's staff and create a favorable culture of compliance. It also provided professional training on legal compliance for the heads of legal compliance departments and key business personnel of branches and business divisions. Staff of business department, compliance staff and new recruits accepted training in the forms of on-site training, "Zhiniao" course, etc., to strengthen the concept that "everyone is responsible for compliance".

(5) The Bank deeply carried out the risk-based management method and conducted sustainable identification, prudent appraisal, rational control and comprehensive management in terms of money laundering risks in order to seriously fulfil anti-money laundering obligations. Based on the requirements of relevant regulatory and needs of internal control management, the Bank continued to perfect the internal control system and mechanism relevant to anti-money laundering and upgrade the anti-money laundering system and blacklist monitoring system, intensified investigation and risk control regarding international sanction and arranged anti-money laundering publicity and staff trainings, as well as energetically explored application of AI+ anti-money laundering technologies to clients' identification and suspicious transaction monitoring, so that risks related to money laundering, terrorism financing and international sanction were under effective prevention and control.

VIII. Capital adequacy ratio, leverage ratio and liquidity coverage ratio

(I) Capital adequacy ratio

(In RMB million)

Item	31 December 2018	31 December 2017	31 December 2016
Net core tier 1 capital	199,782	184,340	170,088
Other tier 1 capital	19,953	19,953	19,953
Net tier 1 capital	219,735	204,293	190,041
Tier 2 capital	49,380	44,934	44,346
Net capital	269,115	249,227	234,387
Total risk-weighted assets	2,340,236	2,226,112	2,033,715
Credit risk-weighted assets	2,090,152	2,000,758	1,828,931
On-balance-sheet risk-weighted assets	1,892,934	1,820,051	1,607,471
Off-balance-sheet risk-weighted assets	194,921	176,352	217,364
Risk-weighted assets of counterparty credit risk exposure	2,297	4,355	4,096
Market risk-weighted assets	43,264	31,645	30,984
Operational risk-weighted assets	206,820	193,709	173,800
Core tier 1 capital adequacy ratio	8.54%	8.28%	8.36%
Tier 1 capital adequacy ratio	9.39%	9.18%	9.34%
Capital adequacy ratio	11.50%	11.20%	11.53%
Balance of mitigated risk exposures of credit risk asset portfolio:			
Balance of mitigated risk exposures of on-balance sheet credit risk asset portfolio	3,051,056	2,858,326	2,529,904
Balance of off-balance sheet assets after conversion	401,108	348,412	496,557
Counterparty credit exposures	3,684,396	2,812,303	1,661,453

Note: The Bank adopted the weighted approach, standardized approach and basic indicator approach to measure capital requirements for its credit risk, market risk and operational risk, respectively; during the reporting period, there were no material changes in the measurement approaches, risk measurement systems and corresponding capital requirements for credit risk, market risk and operational risk. For more details of capital management, please refer to the Bank's website (bank.pingan.com).

VIII. Capital adequacy ratio, leverage ratio and liquidity coverage ratio(Continued)

(II) Leverage ratio

(In RMB million)

Item	31 December 2018	30 September 2018	30 June 2018	31 March 2018
Leverage ratio	5.75%	5.76%	5.63%	5.56%
Net tier 1 capital	219,735	214,375	208,444	203,233
Balance of on-and off-balance sheet assets after adjustment	3,818,886	3,722,035	3,704,345	3,655,792

Note: For more details of leverage ratio, please refer to the Bank's website (bank.pingan.com).

(III) Liquidity coverage ratio

(In RMB million)

Item	31 December 2018	31 December 2017
Liquidity coverage ratio	139.17%	98.35%
Qualified current assets	406,359	317,833
Net cash outflow	291,995	323,154

IX. Prospects of the Bank

Forecast of operational performance from January to March 2019

Warnings on any potential loss in accumulated net profit from the beginning of the year to the end of the next reporting period or any material change as compared with that in the same period of last year and the reasons

☐ Applicable √ Not applicable

(I) Prospects of macro environment

The year 2019 witnesses the 70th anniversary of the founding of the People's Republic of China and is a crucial year for building a moderately well-off society in an all-round way. Despite sustainable and healthy development, China's economy has seen new and worrisome changes amid overall stability. The external environment is complicated and severe, and the economy faces increased downward pressure. China will uphold the general principle to stabilize employment, finance, foreign trade, foreign capital, investment, expectations. With a commitment to treating supply-side structural reform as the main task, efforts will be made to deepen the market-oriented reform and expand high-standard opening up; to fight the three critical battles against potential risk, poverty, and pollution; to unlock microeconomic entities' creativity; to develop new and better approaches to improve macro regulation; and to coordinate all work to maintain stable growth, promote reform, make structural adjustments, improve living standards, and guard against risk. Commercial banks should vigorously develop inclusive finance, provide strong support for vulnerable fields in socio-economic development such as small and micro businesses, agriculture, rural areas, and rural residents, and targeted poverty alleviation, focus on solving the problem of them finding it tough and expensive to access financing and slash financing costs for the real economy in a practical way, to better serve the real economy.

(II) Competition situation and development trend of the Industry

Looking forward into 2019, the emerging changing situation sets new demands for the banking industry.

1. Risk prevention and control is still placed on the top of the Bank's agenda. Even though the overall economy of China is sound and stable, it is still burdened by great downward pressure and such pressure will be spread to the real economy and the financial industry. For the purposes of achieving sustainable and healthy development, working together to maintain the overall steady financial environment and forestalling systematic financial risks, banks must strictly comply with regulatory requirements, practically enhance risk compliance awareness of all staff, continuously improve internal control mechanism, system and processes, and improve the risk management level as well as the asset quality with various means.

2. Endeavors will be made to go back to the fundamental purpose of serving the real economy and adapting to the ecosystem of the banking industry. In 2019, regulators will step up efforts to crack down irregularities in the financial market, so as to further curb illegal and irregular business conducts. Banks should re-focus on serving the real economy in an all-round way, probe into the industry and customers to integrate into the industrial ecosystem and improve financial service level and products to meet customers' demands, so as to better serve the real economy.

3. Scientific and technical innovation will become an indispensable impetus for economic development. As such cutting-edged technologies as AI, blockchain, cloud computing, big data and biological recognition are under constant progress, finance and technology are becoming more integrated. Only when banks proactively welcome frontier technologies, constantly explore the application of such technologies in the banking sector, and leverage them to reduce costs, to control risks and to enhance management can such institutions optimize and upgrade their own development patterns, better implement policies regarding private enterprises, inclusive finance, small and micro businesses, agriculture, rural areas, and rural residents, and targeted poverty alleviation, and significantly solve the problem of finding it tough and expensive to access financing.

(III) Operational plan

In 2019, the Bank will proactively respond to national strategies and adapt to international and domestic economic and financial situation by means of further deepening the strategic principle of "being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking", strengthening support for private enterprises as well as small and micro businesses and raising the capability of serving the real economy.

1. Transformation of "industry banks" should be propelled to elevate the capability of serving the real economy. The Bank will conduct "industrialized" operation on such major fields as intelligent manufacturing, electronic information, transportation and logistics, health care, cultural tourism as well as energy conservation and environment protection, so as to provide diversified comprehensive financial service of "Commercial bank + Investment bank + Investment" for customers, satisfy enterprises' financial service demands at different stage in the life cycle and support transformation and upgrade of major sectors, especially private businesses in such sectors.

2. Science and technology should be refined to enhance support for private enterprises as well as small and micro businesses. The Bank will proactively implement the "Finance + Technology" strategy by empowering science and technology innovation through introduction and cultivation of technology talents. The Bank will establish a regular agile innovation mechanism, create an incubation platform for innovation, and focus on the combination of new technologies, upgrade of traditional business, innovation of business model and improvement of management efficiency, to provide customers with intelligent financial services that are more convenient, superior and secure. The Bank will continue to optimize KYB, set up risk models with big data, cloud computing and blockchain and launch fairly priced products to promote online process and strengthen support for private enterprises as well as small and micro enterprises; further innovate SAS and strive to resolve financing difficulties for receivables of private enterprises as well as small and micro enterprises in supply chain; promote the use of Pocket Finance APP to provide private enterprises as well as small and micro enterprises with one-stop, mobile and efficient financial services.

3. Changes should be proactively tackled to seek for growth drivers for the "ecosystem". The Bank will embrace, blend in and construct an ecosystem with an open mind, draw a map of ecological strategy, and search for an entry point in key sectors such as financial service, health care, auto service, real estate service and intelligent city to export account system, resource integration ability and risk control ability, expand business source, and look for new points for business growth.

4. The bottle line of compliance should be strictly observed to strengthen risk control. The Bank will pay close attention to changes in the external economic environment, comply with regulatory requirements in a strict manner, and comprehensively strengthen the management of credit risk, liquidity risk, market risk, operational risk, compliance risk and reputation risk. The Bank will take technical measures to complement risk defense and control in every aspect, continuously improve credit structure, strictly control increment risk, guard against and resolve stock risk, and hold the bottom-line of zero systematic risk.

IX. Prospects of the Bank(Continued)

(IV) Risk management

In 2019, the Bank will proactively respond to opportunities and challenges, holistically improve the ability of risk management, and support business transformation in an effective way. In 2019, the Bank's risk management mainly includes the following aspects:

1. Reinforcing asset quality. (1) The Bank will continuously improve the entry standard for industries, regions, products, customers and strictly control the threshold for entry in terms of areas, industries and customers with higher risk. (2) Based on the regulatory requirements and the changes in economic situation, the Bank will intensify management for risk portfolio and manage the high-risk industry limit in a strict manner. (3) The Bank will reinforce the establishment of quality management system for assets and improve internal appraisal and assessment mechanism for risk management. (4) The Bank will strategically classify customers account by account and define a classification standard, by which the Bank will decide whether to continue or terminate businesses with customers. (5) The Bank will enhance early warning to map out corresponding risk control measures in advance for early study, anticipation and implementation. (6) The Bank will accelerate risk resolution on problematic loans, customize suitable plans for each problematic loan and assign specific person to manage the loans, to ensure the resolution is performed in an effective manner.

2. Guiding business development. (1) The Bank will selectively serve major industries. With perspective industry study, the Bank will explore subdivided fields with development potential, identify and prejudge potential risks in the fields and formulate standards for business entry and exit and the negative list in such fields, to develop industrial risk policies based on the industrial study results in an effectively manner. (2) The Bank will comprehensively serve major customers. By establishing a customer evaluation model and concentrating on industrial and regional leading companies and core enterprises in the industrial chain, the Bank will mainly support customers with high rating and give up high-risk customers at the end of the model. (3) The Bank will formulate regional characteristics. Aiming at regional major industries, regional featured products and regional customer groups with obvious cluster characteristics in cities with faster economic growth surrounding Guangdong-Hong Kong-Macao Greater Bay Area, Yangtze River Delta, Pearl River Delta and Bohai Economic Rim, the Bank will execute diversified regional service programs. (4) The Bank will enhance foresight and initiative of risk management, communication with marketing teams as well as support and guidance of businesses. (5) The Bank will dig into customer demands and exploit product advantages to build up a comprehensive financial service system.

3. Intensifying compliance risk management and control. (1) The Bank will stick to the compliance bottom line, strictly control case risk, and make an effective investigation of risks. (2) A system should be formed in advance and the "internal regulation" management should be strengthened. (3) The Bank will establish an internal control examination mechanism and strengthen the compliance risk management and control in key areas for early identification and rectification. (4) The Bank will attach importance on the quality and efficiency through improving legal compliance service and supporting capability, intensifying legal compliance risk management and supporting the healthy development of businesses.

4. Enhancing the construction of system instruments. (1) The Bank will perform construction of platform instruments and systems centered on AI to forge an intelligent risk control platform and improve the intelligent risk management. (2) The Bank will build a sound data quality control mechanism to cumulate real, accurate, continuous and complete internal and external data for identifying, calculating, evaluating, supervising and reporting risks, and for evaluating capital and liquidity adequacy. (3) The Bank will improve the function of the risk management information system to support risk reporting and management decision making.

5. Enhancing the risk team building. (1) The Bank will continue to strengthen the awareness of comprehensive risk management, advocate the establishment of risk and compliance culture, and stress compliance operation. (2) The Bank will continuously improve a training system for different people, expand the coverage by a variety of training programs, i.e., by means of integrating on-line and off-line courses, and improve the results of the training. (3) The Bank will recruit talented personnel in every business sector on an incessant basis, optimize and improve a performance assessment system, and improve the productivity of the staff.

X. Particulars about reception of researches, visits and interviews

During the reporting period, the Bank conducted a number of communications about the Bank's operations and financial position and other matters with the institutions through the results announcements, the analyst meeting and the acceptance of investor research, and individual investors could make enquiry by phone. The communications involved topics on the Bank's operations and development strategy, periodic reports and interim announcements and their explanations. In accordance with the requirements of the *Guidelines on Fair Information Disclosure of Shenzhen Stock Exchange Listed Companies*, the Bank and the parties subject to the information disclosure obligation has strictly followed the principle of fair information disclosure with no violation. The Bank's primary receptions of investors during the reporting period are as follows:

Date	Mode	Target	Index of basic information for research
4 January 2018	Investment bank meeting	Institutions	CNINFO (www.cninfo.com.cn) *Record Chart of Investor Relationship Activities of Ping An Bank Co., Ltd.*
25 January 2018	Onsite survey	Institutions	
1 February 2018	Onsite survey	Institutions	
26 April 2018	Onsite survey	Institutions	
9 May 2018	Investment bank meeting	Institutions	
14 June 2018	Onsite survey	Institutions	
10 July 2018	Onsite survey	Institutions	
30 August 2018	Onsite survey	Institutions	
4 September 2018	Investment bank meeting	Institutions	
2 November 2018	Onsite survey	Institutions	
15 November 2018	Investment bank meeting	Institutions	
22 December 2018	Onsite survey	Institutions	
For the whole year	Communication by call, written inquiry	Individual	

Number of reception	689
Number of institution reception	598
Number of individual reception	645
Number of other reception	0
Any significant information disclosed, revealed or leaked	None

Significant Events

I. Profit distribution of ordinary shares and capital reserve converted into share capital of the company

(I) Formulation, implementation or adjustment of profit distribution policy, particularly cash dividends policy during the reporting period

The Bank reviewed and approved the *Plan of Returns to Shareholders of Ping An Bank Co., Ltd. for the period from 2018 to 2020* at the second Extraordinary Shareholders' General Meeting of 2017 held on 21 December 2017. From 2018 to 2020, the profit distributed in cash every year is between 10% and 30% of the distributable profit achieved in the current year. The Bank is currently in a mature stage with major capital expenditure arrangements. From 2018 to 2020, on the premise that the Company's capital adequacy ratio meets the regulatory requirements, when the Company distributes the dividends by way of cash or stock or a combination of both, the proportion of cash dividends in the current year's profit distribution is not less than 40% (including 40%).

The profit distribution proposal of the Bank for 2017 is based on the total share capital of 17,170,411,366 as at 31 December 2017. A cash dividend of RMB1.36 (tax inclusive) was distributed for every 10 shares. Do not distribute bonus shares and do not increase the share capital by converting the capital reserve. The Bank issued the Announcement on the Implementation of 2017 Annual Interest Distribution of Ping An Bank Co., Ltd. on 6 July 2018. The date of record of the profit distribution was 11 July 2018 and the ex-dividend date was 12 July 2017. The profit distribution proposal of the Bank for 2017 was implemented during the reporting period.

Special description of cash dividend policy	
Whether it complies with the provisions of the Articles of Association or the requirements of resolutions of the Shareholders' General Meeting:	Yes
Whether the dividend standards and proportions are definite and clear:	Yes
Whether the relevant decision-making processes and mechanisms are complete:	Yes
Whether the independent directors perform their duties and play their due role:	Yes
Whether the minority shareholders have the opportunity to fully express their opinions and demands and whether their legitimate rights and interests are adequately protected:	Yes
Whether the conditions and procedures for adjusting and changing the cash dividend policy are compliant and transparent:	Yes

(II) Profit distribution pre-plan or proposal and capital reserve converted into share capital pre-plan or proposal of the Company in recent three years (including the reporting period)

I. 2018 annual profit distribution pre-plan

In 2018, the Bank's audited net profit attributable to shareholders of the parent company amounted to RMB24,818 million and the profit available for distribution amounted to RMB96,335 million.

Based on the above profit situations and the relevant provisions of the State, the Bank made the following profit distribution in 2018:

1. The Bank did not appropriate any statutory surplus reserve as the balance of its statutory surplus reserve had exceed 50% of its share capital.

2. The general risk provision shall be withdrawn at 1.5% difference in the balance of risk assets at the end of the period, amounting to RMB1,298 million.

With the above profit distribution, as at 31 December 2018, the general risk provision amounted to RMB39,850 million; the balance of undistributed profit amounted to RMB95,037 million.

3. With a comprehensive consideration of the returns on shareholders' investment, requirements of regulatory authorities for the capital adequacy ratio and sustainable development of the Bank's business, in addition to the above statutory profit distribution, based on the total share capital of 17,170,411,366 of the Bank as at 31 December 2018, a cash dividend of RMB1.45 (tax inclusive) was distributed for every 10 shares, with a total cash dividend of RMB2,490 million. After the cash dividend was distributed, the remaining undistributed profit of the Bank amounted to RMB92,547 million.

The above pre-plan shall be reviewed and approved by the Bank at the 2018 Annual Shareholders' General Meeting.

II. 2017 Annual Profit Distribution Proposal

In 2017, the Bank's audited net profit attributable to shareholders of the parent company amounted to RMB23,189 million and the profit available for distribution amounted to RMB83,745 million.

Based on the above profit situations and the relevant provisions of the State, the Bank made the following profit distribution in 2017:

1. The Bank did not appropriate any statutory surplus reserve as the balance of its statutory surplus reserve had exceed 50% of its share capital.

2. The general risk provision shall be withdrawn at 1.5% difference in the balance of risk assets at the end of the period, amounting to RMB4,084 million.

With the above profit distribution, as at 31 December 2017, the general risk provision amounted to RMB38,552 million; the balance of undistributed profit amounted to RMB79,661 million.

3. With a comprehensive consideration of the returns on shareholders' investment, requirements of regulatory authorities for the capital adequacy ratio and sustainable development of the Bank's business, in addition to the above statutory profit distribution, based on the total share capital of 17,170,411,366 of the Bank as at 31 December 2017, a cash dividend of RMB1.36 (tax inclusive) was distributed for every 10 shares, with a total cash dividend of RMB2,335 million. After the cash dividend was distributed, the remaining undistributed profit of the Bank amounted to RMB77,326 million.

I. Profit distribution of ordinary shares and capital reserve converted into share capital of the company(Continued)

(II) Profit distribution pre-plan or proposal and capital reserve converted into share capital pre-plan or proposal of the Company in recent three years (including the reporting period)(Continued)

III. 2016 Annual Profit Distribution Proposal

In 2016, the Bank's audited net profit attributable to shareholders of the parent company amounted to RMB22,599 million and the profit available for distribution amounted to RMB73,343 million.

Based on the above profit situations and the relevant provisions of the State, the Bank made the following profit distribution in 2016:

1. The statutory surplus reserve shall be withdrawn at 10% of the after-tax profit audited by the domestic accounting firm, amounting to RMB2,260 million.

2. The general risk provision shall be withdrawn at 1.5% difference in the balance of risk assets at the end of the period, amounting to RMB6,940 million.

With the above profit distribution, as at 31 December 2016, the surplus reserve of the Bank amounted to RMB10,781 million; the general risk provision amounted to RMB34,468 million; the balance of undistributed profit amounted to RMB64,143 million.

3. With comprehensive consideration of the returns on shareholders' investment, requirements of regulatory authorities for the capital adequacy ratio and sustainable development of the Bank's business, in addition to the above statutory profit distribution, based on the total share capital of 17,170,411,366 of the Bank as at 31 December 2016, a cash dividend of RMB1.58 (tax inclusive) was distributed for every 10 shares, with a total cash dividend of RMB2,713 million. After the cash dividend was distributed, the remaining undistributed profit of the Bank amounted to RMB61,430 million.

(III) Table of cash dividends for ordinary shares in recent three years

Dividend-receiving year	Amount of cash dividends (tax inclusive)	Net profit attributable to shareholders of the Company in the dividend-receiving year	Proportion accounting for net profit attributable to shareholders of the Company	Amount of cash dividends in other ways	Proportion of cash dividends in other ways
2018	2,490	24,818	10.03%	Not applicable	Not applicable
2017	2,335	23,189	10.07%	Not applicable	Not applicable
2016	2,713	22,599	12.00%	Not applicable	Not applicable

(IV) During the reporting period, the Bank has profits and the parent company has positive undistributed profits, however, the pre-plan for cash dividend distribution is not proposed

☐ Applicable √ Not applicable

II. Pre-plan of profit distribution or capital reserve converted into share capital

√ Applicable ☐ Not applicable

Number of bonus shares per 10 ordinary shares (share)	-
Number of dividends per 10 ordinary shares (RMB) (tax inclusive)	1.45
Number of shares converted by capital reserve per 10 ordinary shares (share)	-
Base of share capital in distribution pre-plan (share)	17,170,411,366
Total cash dividends (RMB) (tax inclusive)	2,489,709,648
Distributable profit (RMB)	96,335,534,063
Proportion of cash dividends to total profit distribution	100%

Conditions of the cash dividend

If the Company has developed to a mature stage and there are major capital expenditure arrangements, when distributing profits, the proportion of cash dividends to the profit distribution shall be at least 40%.

Description of details on pre-plan of profit distribution or capital reserve converted into share capital

2018 annual profit distribution pre-plan of Ping An Bank Co., Ltd.: based on the total share capital of 17,170,411,366 of the Bank as at 31 December 2018, a cash dividend of RMB1.45 (tax inclusive) was distributed to all shareholders for every 10 shares. Do not distribute bonus shares and do not increase the share capital by converting the capital reserve. The pre-plan shall be reviewed and approved by the Bank at the 2018 Annual Shareholders' General Meeting.

III. Performance of commitment matters

1. Commitments that have been fulfilled during the reporting period and have not yet been fulfilled as at the end of the reporting period by the Company, shareholders, actual controllers, purchasers, directors, supervisors, senior managements or other related parties

√ Applicable ☐ Not applicable

Commitment causes	Commitment type	Commitment party	Contents of commitment	Time of commitment	Duration of commitment	Performance
Commitment made during the asset reorganization	Commitment on competition in the same business, related party transaction and independence	Ping An Insurance (Group) Company of China, Ltd.	Ping An intends to subscribe 1,638,336,654 shares issued by the Bank in a non-public manner (this major asset reorganization) with 90.75% of its original shares of Ping An Bank and the cash of RMB2,690,052,300: 1. After the completion of this major asset reorganization, during the period of Ping An as a controlling shareholder of Shenzhen Development Bank, if Ping An and other enterprises controlled by Ping An intend to engage in or substantially get the same business or commercial opportunities as those of Shenzhen Development Bank in the future, because the assets and business formed by such business or commercial opportunities may constitute a potential competition in the same business with Shenzhen Development Bank, Ping An and other enterprises controlled by Ping An will not engage in the same or similar business as that of Shenzhen Development Bank, to avoid a direct or indirect competition with the business operation of Shenzhen Development Bank. 2. After the completion of this major asset reorganization, for matters that occur between Ping An and other enterprises controlled by Ping An and Shenzhen Development Bank and constitute a related party transaction of Shenzhen Development Bank, by following the principle of openness, fairness and impartiality of market transactions, Ping An and other enterprises controlled by Ping An will perform transactions with Shenzhen Development Bank at a fair and reasonable market price, and fulfil the decision-making processes in accordance with the provisions of relevant laws, regulations and normative documents and fulfil the obligation of information disclosure according to the law. Ping An guarantees that Ping An and other enterprises controlled by Ping An will not obtain any improper benefits or make Shenzhen Development Bank undertake any unfair obligation through the transactions with Shenzhen Development Bank. 3. After the completion of this major asset reorganization, during the period of Ping An as a controlling shareholder of Shenzhen Development Bank, Ping An will maintain the independence of Shenzhen Development Bank and ensure that the personnel, assets, finance, organization and business of Shenzhen Development Bank are independent of those of Ping An and other enterprises controlled by Ping An.	29 July 2011	Long-term	Performance in progress

Commitment made during the initial public offering or refinancing	Commitment on trading restriction of shares	Ping An Insurance (Group) Company of China, Ltd.	Ping An makes a commitment that the subscribed 210,206,652 new shares issued by the Bank in a non-public manner shall not be transferred within 36 months from the date of listing of new shares (21 May 2015). Such shares shall not be sold and transferred between the non-affiliated enterprises and shall also not be transferred and disposed between the affiliated enterprises during the restricted share trade period. Any other arrangements for the disposal of the restricted shares shall not be made.	21 May 2015	Within three years	Performed. The relevant restricted shares were listed for circulation on 21 May 2018
Other commitments made for medium and small shareholders of the Company	Other commitments	The Bank	The Company has not made a performance commitment for the preference share issue. The Company will take effective measures to improve the use efficiency of funds raised to further enhance the profitability of the Company, thereby minimizing the impact of the preference share issue on the return to ordinary shareholders and fully protecting the legitimate rights and interests of shareholders of the Company, especially the minority shareholders.	14 March 2016	Long-term	Performance in progress
If the commitments are performed timely	Yes					
Specific reasons of failing to complete the performance and next plan (if any)	Not applicable					

2. If the profit forecast can be carried out for the Company's assets or projects and the reporting period is within the period of profit forecast, the Company shall explain whether the assets and projects can realize the original profit forecast and the reasons.

□ Applicable √ Not applicable

IV. Conditions on non-operating fund occupation of controlling shareholders and their related parties

During the reporting period, the Bank had no situation that the controlling shareholders and other related parties occupy the funds of the Bank.

V. Special instructions and independent opinions of independent directors on the funds occupation and external guarantee of the related parties of the Bank

The Bank had no situation that the controlling shareholders and other related parties occupy the funds of the Bank during the reporting period or during the previous period but continued into the reporting period.

The guarantee business is one of the Bank's conventional banking businesses approved by the relevant regulatory authorities. The Bank attaches great importance to the risk management of the business and strictly implements the relevant operation procedures and approval procedures, so that the risks of external guarantee business are effectively controlled. During the reporting period, the Bank had no other significant guarantee businesses that need to be disclosed except for the financial guarantee businesses within the scope of business approved by the relevant regulatory authorities.

VI. Description of the Board of Directors, Supervisory Committee and independent directors (if any) on the "non-standard audit report" issued by the accounting firm during the reporting period

□ Applicable √ Not applicable

VII. Description of the Board of Directors, Supervisory Committee and independent directors (if any) on the "non-standard audit report" issued by the accounting firm during the reporting period

√ Applicable □ Not applicable

See "II. Summary of Significant Accounting Policies and Accounting Estimates 36. Effect of Significant Changes in Accounting Policies" in "Section XI Financial Report" for details.

VIII. Description of the corrections of significant accounting errors that require retroactive restatement during the reporting period

□ Applicable √ Not applicable

IX. Description of the changes in the scope of consolidated statements as compared with those in the financial statements for the previous year

□ Applicable √ Not applicable

X. Employment of intermediary agencies

1. Employment of accounting firm for audit of annual financial reports

Currently appointed accounting firm

Name of domestic accounting firm	PricewaterhouseCoopers Zhong Tian LLP
Remuneration of domestic accounting firm	RMB9,200,000
Duration of audit service provided by domestic accounting firm	6 years
Names of CPAs of domestic accounting firm	Chen Anqiang and Gan Lili
Name of foreign accounting firm (if any)	Not applicable
Remuneration of foreign accounting firm (if any)	Not applicable
Duration of audit service provided by foreign accounting firm (if any)	Not applicable
Name of CPA of foreign accounting firm (if any)	Not applicable

Whether the employment of the accounting firm shall be changed during the current period

□ Yes √ No

Whether the employment of the accounting firm shall be changed during the audit

□ Yes √ No

X. Employment of intermediary agencies(Continued)

2. Employment of accounting firm, financial consultant and sponsor for internal control audit

Name of accounting firm for internal control audit	PricewaterhouseCoopers Zhong Tian LLP
Remuneration of accounting firm for internal control audit	RMB1,630,000
Name of financial consultant	Not applicable
Remuneration of financial consultant	Not applicable
Name of sponsor	Not applicable
Remuneration of sponsor	Not applicable

XI. Suspension in trading ordelisting after the disclosure of annual report

☐ Applicable √ Not applicable

XII. No relevant matter of bankruptcy reorganization

☐ Applicable √ Not applicable

During the reporting period, there was no relevant matter of bankruptcy reorganization for the Bank.

XIII. Major litigation and arbitration matters

In 2018, there was no litigation and arbitration matter that had significant impact on the operation for the Bank. At the end of 2018, there were 355 pending litigations in which the Bank acted as the prosecuted party, involving an amount of RMB1,422 million.

XIV. Punishment and rectification

The Bank and its directors, supervisors, senior managements, controlling shareholders and actual controllers were not investigated by the competent authorities, subject to coercive measures by the judiciary authorities or discipline inspection departments, transferred to the judiciary authorities or investigated for criminal responsibility, investigated or punished by the China Securities Regulatory Commission, banned from entering the securities market, identified as inappropriate candidates, imposed major administrative penalties by other administrative departments and publicly condemned by the stock exchanges during the reporting period.

XV. Integrity conditions of the Company and its controlling shareholders

During the reporting period, there was no case where the effective judgement of the court was not fulfilled and a large amount of debt was due and unpaid for the Company and its controlling shareholders.

XVI. During the reporting period, there were no equity incentive plan, employee stock ownership plan or incentive measures for other employees and their implementation for the Bank.

XVII. Matters on major related party transactions

1. See "VIII. Related Party Relationships and Transactions" in "Section XIII Financial Report" for details of "transactions between the Bank and Ping An and its related parties", "transactions between the Bank and its major shareholders and their related parties", "main transactions between the Bank and key management personnel" and "main transactions between the Bank and the units of key management personnel and associates".

2. Implementation of Announcement on Continuous Daily Related Party Transactions of Ping An Bank Co., Ltd. with Ping An Group

On 29 June 2017, the Bank reviewed and approved the Proposal on Continuous Daily Related Party Transactions of Ping An Bank Co., Ltd. with Ping An Group at the 2016 Annual Shareholders' General Meeting.

(1) At the end of 2018, the amount of credit related party transactions of Ping An and its subsidiaries approved by the Bank was RMB64,273 million and the credit balance was RMB23,013 million.

(2) At the end of 2018, the trade finance under the credit risk amounted to RMB79 million and the guarantee under the integrated finance business amounted to RMB18,000 million, and the platform financing under performance guaranty insurance amounted to RMB0.

(3) At the end of 2018, the amount of related party transactions for transfer of assets or assets income rights between the Bank and Ping An amounted to RMB0, and the corresponding service and management fees amounted to RMB1 million.

(4) At the end of 2018, the borrowing interest expenses from the inter-bank financing and the issue of negotiable interbank certificates of deposits transactions with Ping An Group amounted to RMB1,437 million, and the lending interest income was RMB0.

(5) At the end of 2018, the amount of connected transactions in relation to the acquisition of corporate credit-based assets or right of return on assets held by Ping An Group in proprietary funds by the Bank in inter-bank borrowing and proprietary funds (including investment principal, interest income, etc.) reached RMB6,419 million, and the amount of connected transactions in relation to the Bank's transfer of its corporate credit-based assets or right of return on assets held in inter-bank borrowing and proprietary funds to be held by Ping An Group in proprietary funds (including investment principal, service fees income, etc.) amounted to RMB0. The amount of connected transactions (including management fees expense, investment consulting fees expense, etc.) in relation to the acquisition of or investment in the active investment management products of Ping An Group (including asset management plan, trust plan, insurance debts plan, etc.) by the Bank in inter-bank borrowing and proprietary funds was RMB190 million, and the amount of connected transactions in relation to

XVII. Matters on major related party transactions(Continued)

the Bank's transfer of its active investment management products of Ping An Group (including asset management plan, trust plan, insurance debts plan, etc.) held in inter-bank borrowing and proprietary funds to be held by Ping An Group in proprietary funds (including investment principal, service fees income, etc.) was RMB0.

(6) At the end of 2018, the amount of connected transactions (including but not limited to interest income / expense, service fee income / expense, management fee income / expense, consultancy fee income / expense) in relation to the investment in the wealth management products of Ping An Group (including products under the capital market, debt, equity, financial derivatives and other categories) by the Bank in wealth funds was RMB71 million; the amount of connected transactions (including but not limited to interest income / expense, service fee income / expense, management fee income / expense, consultancy fee income / expense) in relation to the inter-bank asset and liability business between the Bank and Ping An Group (including inter-bank deposits, inter-bank lending, inter-bank borrowing, bond trading, bills business, etc.) was RMB732 million.

(7) At the end of 2018, the amount of connected transactions (including but not limited to interest income / expense, service fee income / expense, management fee income / expense, consultancy fee income / expense) arising from the financial derivatives business (including but not limited to various types of forward, swap, futures, options and precious metals business) with Ping An Group was RMB3,444 million.

(8) At the end of 2018, the amount of connected transactions (including but not limited to interest income / expense, service fee income / expense, management fee income / expense, consultancy fee income / expense) arising from the entrusted investment business with Ping An Group was RMB60 million.

(9) At the end of 2018, the agency services fees for insurance products of Ping An Group, other banks' products (including asset management plan, trust plan, etc.) and agency marketing was RMB2,102 million.

(10) At the end of 2018, the outsourcing services and intermediary service fees for business outsourcing, IT outsourcing and intermediary services with Ping An Group were RMB2,392 million.

The actual amount of each of the aforesaid business did not exceed the maximum estimated limit of the continuing connected transaction set out in the *Resolution of Ping An Bank Co., Ltd. on the Continuing Connected Transactions with Ping An Group* approved by the Annual General Meeting of 2016.

3. Disclosure of major connected transactions in the interim report which is available for inspection in related website

□ Applicable √ Not applicable

XVIII. Material contracts and their performance

1. Major entrustment, underwriting, lease: there was no major entrustment, underwriting, lease during the reporting period.

2. Material guarantee: apart from the guarantee business within its operating scope approved by the CBIRC, the Bank had no other material guarantee.

3. Other material contracts and their performance: the Bank had no material contract dispute during the reporting period.

XIX. Material entrusted funding and entrusted investments

During the reporting period, the Bank had no entrust finance items out of the scope of normal businesses. See "III. Notes to key items in the financial statements - Note 9. Financial assets held for trading/Note 10. Investment on debts/Note 11. Other investment on debts" and "VII. Risk disclosure - Note 1. Credit risk" in "Section XIII Financial Report" for specific information about the Bank's entrusted funding and entrusted investments.

XX. Other significant events

1. With approvals from the CBIRC and the PBoC, the Bank successfully issued the first tranche of financial bonds (hereinafter referred to as the "Bonds") on 14 December 2018 on the National Interbank Bond Market. The Bonds have a total size of RMB35 billion, which are three-year bonds with a fixed coupon rate of 3.79%. The collected funds will be specially invested on loans for small and micro businesses. Please refer to the Bank's announcement dated 19 December 2018 published on *China Securities Journal, Securities Times, Shanghai Securities News, Securities Daily* and the website of CNINFO (http://www.cninfo.com.cn) for further information.

2. On 14 August 2017, the first extraordinary general meeting of the Bank deliberated and approved the *Proposal of Ping An Bank Co., Ltd. on the Solution of Public Issuance and Listing of A-share Convertible Corporate Bonds.* The Bank intends to make a public issuance of no more than RMB26 billion of A-share convertible corporate bonds (hereinafter referred to as "the Issuance"). On 22 March 2018, the Bank received the *China's Banking Regulatory Commission on the Approval for Matters Relating to the Public Issuance of A-share Convertible Corporate Bonds by Ping An Bank Co., Ltd.* (Yin Jian Fu [2018] No. 71). On 20 June 2018, the Bank reviewed and approved the *Proposal on Extension of Validity Term of the Shareholders' Meeting's Resolution on Public Issuance of A-share Convertible Corporate Bonds and the Authorization Term* at the annual general meeting of 2017. On 26 December 2018, the Bank received the *Approval for the Public Issuance of A-share Convertible Corporate Bonds by Ping An Bank Co., Ltd.* issued by China's Banking Regulatory Commission (Yin Jian Xu Ke [2018] No. 2165).

On 25 January 2019, the Bank issued convertible corporate bonds of RMB26 billion to the public. The convertible corporate bonds issued by the Bank to the public have a face value of RMB100 per share, with a coupon rate of 0.2% for the first year, 0.8% for the second year, 1.5% for the third year, 2.3% for the fourth year, 3.2% for the fifth year and 4.0% for the sixth year. After deduction of issuance expenses, the net amount of funds raised totals RMB25,915 million, which is to be used to replenish core tier 1 capital. On 30 January 2019, the Bank received the *Security Registration Certificate* issued by Registration and Depository Department in Shenzhen Branch of China Securities Depository and Clearing Corporation Limited ("CSDC"). With approvals from the Shenzhen Stock Exchange, the convertible corporate bonds issued by the Bank to the public were listed and traded at the Exchange on 18 February 2019.

Please refer to the Bank's announcement dated 27 December 2018, 17 January 2019 and 25 January 2019 published on *China Securities Journal, Securities Times, Shanghai Securities News, Securities Daily* and the website of CNINFO (http://www.cninfo.com.cn) for further information.

Description of major events	Date of disclosure	Index of website disclosing temporary reports
The Bank makes a public issuance of no more than RMB26.0 billion of A-share convertible corporate bonds	27 December 2018, 17 January 2019 and 25 January 2019	*China Securities Journal, Securities Times, Shanghai Securities News, Securities Daily* and the website of CNINFO (http://www.cninfo.com.cn)

XXI. Significant events of subsidiaries of the Company

□ Applicable √ Not applicable

The *Proposal on Establishing Subsidiaries for Asset Management* was approved on 6 June 2018 at the 18th meeting by the 10th Board of Directors of the Bank. Such proposal was subject to the approval of relevant regulators.

Please refer to the Bank's announcement dated 7 June 2018 published on *China Securities Journal, Securities Times, Shanghai Securities News, Securities Daily* and the website of CNINFO (http://www.cninfo.com.cn) for further information.

XXII. Social responsibility report

1. Social responsibility performance

See the *2018 Corporate Social Responsibility Report of Ping An Bank Co., Ltd.* published by the Bank on the CNINFO (http://www.cninfo.com.cn) on 7 March 2019 for further information.

2. Performance of social responsibility in targeted poverty alleviation

√ Applicable □ Not applicable

(1) Planning of targeted poverty alleviation

As a pathfinder and pioneer of the financial reform, the Bank thoroughly implements the strategic decision on overcoming the tough challenges in poverty alleviation made by the Central Committee of CPC, significantly enhances its senses of responsibility, mission and urgency and proactively explores new routes for financial poverty alleviation in the new period, enabling poverty alleviation to move into a new stage with the assistance of finance. Gleaning financial resources for poor areas and accelerating industrial poverty alleviation with financial poverty alleviation is the indispensable strategy for such alleviation implemented by the Bank. In 2018, the Bank specially established the poverty alleviation finance office to implement "Village Official Project", planning to provide RMB100 billion as funds for industrial poverty alleviation in 5-8 years, focus on local competitive industries and invest such funds to support poverty alleviation projects sponsored by enterprises and governments, so as to propel local industrial development and promote the impoverished to participate in all aspects of the industrial value chain to increase income and throw off poverty.

(2) Summary of annual targeted poverty alleviation

Since the launch of the "Village Official Project" in early 2018, the Bank has innovated and developed a variety of financial poverty alleviation products such as "planting loans", "breeding loans", "hydro power loans", "photovoltaic loans", government bonds for poverty alleviation and corporate bonds for poverty alleviation. The bank has adopted measures based on the specific conditions of numerous poor areas and carried out "Finance + Industry" poverty alleviation in an effectively manner, and accumulatively invested RMB4,458 million of funds for industrial poverty alleviation, covering the poor in near hundred impoverished counties in Guangxi, Yunnan, Guizhou, Jiangxi and Sichuan and benefiting more than 330,000 impoverished people with the card establishment for archives.

Planting loans

The Bank customized "planting loans" for peasants in poor areas to support the planting development by encouraging them to plant sugarcane, wheat and fruits.

On 16 May 2018, the Bank provided loans for industrial poverty alleviation of RMB50 million for a sugar enterprise in Guangxi Province. In addition, the Bank also offered elite sugarcane varieties, covering films and quality organic fertilizers to the poor in a free manner, assigned technological experts to the impoverished village to direct planting, fertilization, irrigation, dissection of sugarcane seeds and pest control and coordinated sugar enterprises to resolve planters' sugarcane sales in such ways as order-based sales and acquisition with the floor price. A total of 187 poor households with the card establishment for archives in Zuodeng Yao Ethnic Township in Tiandong County, Baise City, Guangxi Province were benefited from this project.

Breeding loans

By injecting loan funds for industrial poverty alleviation, the Bank designed a "breeding loan" with Ping An features to help the underdeveloped areas to establish large-scale standard farms, and promote the poor to proactively participate in all aspects of the industrial value chain and achieve stable income growth.

In 2018, the Bank granted "breeding loans" to enterprises located in Guangxi and Jiangxi provinces aiming to support pig breeding in the undeveloped regions and by establishing the benefit-related mechanism of "risk and benefit sharing" with peasant households, the Bank propelled transformation and upgrade of the traditional breeding industry and drove all villagers to shake off poverty and achieve prosperity.

Hydro power loans

As a basic industry of the national economy, the hydro power industry is the energy industry encouraged by the nation, with favourable economic benefits, as well as great social and ecological effects. A great number of impoverished regions in our country appreciate extremely abundant hydro power resources, among which 700 of 832 undeveloped counties are to be developed, yet development and expansion of rural hydro power enterprises is restrained by the problem of finding it tough and expensive to access financing due to a lack of conventional collaterals. For the purpose of resolving the financing difficulties for hydro power enterprises, impelling development achievements of hydro power resources to benefit more impoverished people and contributing to shareable development, the Bank customized a new loan model named "poverty alleviation with hydro power" aiming to support construction and operation of hydro power stations in these underdeveloped areas, considered interests of relevant parties such as enterprises, rural economic collectives as well as villagers centring on the rural hydro power stations and explored a new route of "market operation and continuously benefit to the poor" for poverty alleviation with hydro power.

In order to maximize the poverty alleviation effect of credit funds, the Bank initiated the "211" mode for poverty alleviation with hydro power. Other than one-off compensation, the Bank entered into long-term "dividend contracts" with village collectives and the poor and into agreements on assistance and support as well as established long-acting mechanism for poverty alleviation. In 2018, the Bank issued loans of RMB689 million for the industrial poverty alleviation to numerous hydro power enterprises located in Guangxi and Yunnan provinces so as to support construction and operation of such hydro power stations, strengthen eco-protection in these undeveloped regions and bring about stable returns for the poor, which benefited such parties as enterprises, governments and the impoverished and drove the poor to increase income and throw off poverty on a targeted basis.

XXII. Social responsibility report(Continued)

2. Performance of social responsibility in targeted poverty alleviation(Continued)

(2) Summary of annual targeted poverty alleviation(Continued)

Photovoltaic loans

The Bank actively responded to the requirements of the National "13th Five-Year Plan for Power Development", took full advantage of the innovation factors and financial technology capability, and promoted photovoltaic poverty alleviation in rural areas based on relevant data and self-liquidating theory foundation of photovoltaic power generation collected by visiting photovoltaic companies, power companies, sales terminals and rural residents.

At the end of 2018, the Bank had received more than 1,900 "photovoltaic loan" applications, of which 710 were approved, with a total investment of RMB38 million, providing financing support for many farmers and photovoltaic terminal vendors.

Bonds for poverty alleviation

The Bank was actively engaged in the operation of government bonds for poverty alleviation by successively investing RMB2 billion in the 5-year government bonds issued by Guangxi Autonomous Region, RMB170 million in the special bonds for poverty alleviation of Yunnan Provincial Government and RMB149 million in poverty alleviation government bonds of Guizhou Province, to support poverty alleviation projects and the development of poor areas. On 3 December 2018, as the co-lead underwriter, the Bank underwrote China Three Gorges Corporation's short-term financing bonds for poverty alleviation, totaling RMB3 billion, of which RMB1.5 billion was purchased by the Bank. The fund raised was used for the construction of Baihetan hydro-power station project, which locates between two national poverty stricken counties, Qiaojia County of Yunnan Province and Ningnan County of Sichuan Province, and will benefit 820,000 persons who live in the reservoir area (including more than 100,000 persons listed as poverty-stricken persons).

Consumption poverty alleviation

General Secretary Xi Jinping pointed out: "Industry poverty alleviation requires effective measures to bridge the production and sales of agricultural products in poverty-stricken areas." Consumption poverty alleviation, deemed as the key point for the overall poverty alleviation that will turn the table, can activate the industry poverty alleviation by building a completed production and sales chain for agricultural products. Therefore, the Bank made every effort to support the sales end, opened up on-line agricultural products mall for poverty alleviation by leveraging the advantages of "Internet+" social poverty alleviation, directly connected the places of production and consumption to establish "finance+technology+production and sales" poverty alleviation closed-loop. The Bank's e-commerce poverty alleviation platform established a "special selected" poverty alleviation commodity upward system and made fully use of the advantages of "Internet+" to relieve the last mile concern for the sales of agricultural products from poor areas to thousands of families. At the end of 2018, 83 agricultural products from 19 poverty-stricken counties in 10 provinces nationwide, such as Guangxi brown sugar, Yin Shan oats, were ready for sale in Ping An Bank poverty alleviation mall.

Targeted poverty alleviation

To truly alleviate poverty, a group of wealth-building leaders with knowledge, technology and management ability is needed to help the implementation of the "Village Officer Project" in poor villages. The Bank recruited a group of pioneering volunteers from its employees to serve as the resident village officers on the front line of poverty alleviation, such as Yangtou Village in Zijin County of Guangdong Province, Heilu Village of Yunnan Province, Lanxun Village of Hainan Province, Xiageer Village of Hebei Province, and Guanshangjie Village of Shaanxi Province. Those volunteers dined and lived with villagers and helped to lift the poor villages from poverty by providing supports based the Bank's technology, knowledge and business ideas.

(3) Results of targeted poverty alleviation

Indicator	Unit	Quantity / implementation
I. General Situation		
Including: 1. Funds	RMB10,000	716,262
2. Goods and materials converted into cash	RMB10,000	106
3. Number of listed poverty-stricken personswho have got the help and got rid of poverty		
II. Investment of Items		
1. Poverty alleviation through the development of industries		
Including: 1.1 Types of poverty alleviation projects through the development ofindustries		"Planting loans", "breeding loans", "hydro power loans", "photovoltaic loans", government bonds for poverty alleviation, corporate bonds for poverty alleviation
1.2 Number of poverty alleviation projects through the development of industries	Nos	16
1.3 Amount of investment in poverty alleviation projects through the development of industries	RMB10,000	445,837
1.4 Number of listed poverty-stricken persons who have got the help and got rid of poverty	Person	2,147
2. Poverty alleviation through transfer employment		
Including: 2.1 Amount of investment in vocational skills training	RMB10,000	-
2.2 Number of persons participating in the vocational skills training	Person - time	20
2.3 Number of listed poverty-stricken rural households who have got the help and achieved the employment	Person	8
3. Poverty alleviation by relocating in other places		
Including: 3.1 Number of persons being employed in relocated households	Person	109
4. Poverty alleviation through education		
Including: 4.1 Amount of investment in funding poor students	RMB10,000	91
4.2 Number of poor students being funded	Person	1,537
4.3 Amount of investment in improving educational resources in poor areas	RMB10,000	30
5. Poverty alleviation through health care		
Including: 5.1 Amount of investment in medical and health resources in poor areas	RMB10,000	-

XXII. Social responsibility report(Continued)

2. Performance of social responsibility in targeted poverty alleviation(Continued)

(3) Results of targeted poverty alleviation(Continued)

Indicator	Unit	Quantity / implementation
6. Poverty alleviation through ecological protection		
Including: 6.1 Types of projects		
6.2 Amount of investment	RMB10,000	-
7. Miscellaneous social security measures		
Including: 7.1 Amount of investment in "left-behind women, children and the elderly"	RMB10,000	-
7.2 Number of "left-behind women, children and the elderly" being helped	Person	6
7.3 Amount of investment in poor disabled persons	RMB10,000	-
7.4 Number of poor disabled persons being helped	Person	-
8. Poverty alleviation through social work		
Including: 8.1 Amount of investment in poverty alleviation cooperation of the eastern and western regions	RMB10,000	-
8.2 Amount of investment in targeted poverty alleviation work	RMB10,000	91
8.3 Amount of investment in public welfare funds for poverty alleviation	RMB10,000	9
9. Other projects		
Including: 9.1. Number of projects	Nos	18
9.2. Amount of investment	RMB10,000	198
9.3 Number of listed poverty-stricken persons who have got the help and got rid of poverty	Person	487
III. Awards (content, level)		
Awards related to poverty alleviation		Responsible enterprise of 2018 Pioneer Unit for Targeted Poverty Alleviation Chinese Outstanding Contribution Unit for Targeted Poverty Alleviation of 2018 Annual Excellent Brand for Poverty Alleviation Innovation in Agriculture

(4) Follow-up plan of targeted poverty alleviation

In the future, the Bank will continue to deeply and thoroughly push forward the "Village Officer Project" to serve the society and the country. Under the premise of ensuring the steady growth of its main business of finance, the Bank will further invest resources to promote the integrative development of financial poverty alleviation and industry poverty alleviation by innovating products, service and technology, enriching targeted poverty alleviation service methods, and improving the financially-supported industry poverty alleviation mechanism. With our economic, scientific and technological strength and wisdom, Ping An Bank will promote the mature "Village Officer Project" mode and experience for poverty alleviation to more areas and domains, to precisely meet the actual need of the poor areas, help more poor persons get rid of poverty, and contribute to construction of beautiful countryside and promotion of rural revitalization strategy in the new era of China.

3. Environment protection related works

Whether the listed company and its subsidiaries belong to the key pollutant discharging units announced by the environmental protection department

☐ Yes √ No

Changes in Shares and Shareholders

I. Changes in shares

1. Statement of changes in shares

(Unit: Share)

Type of shares	Before change		Change(+, -)					After change	
	Number of shares	Percentage (%)	Issue of new shares	Bonus issue	Transfer from reserve	Others	Sub-total	Number of shares	Percentage (%)
I. Selling-restricted shares	252,427,994	1.47	-	-	-	-252,263,401	-252,263,401	164,593	Around 0
1. Shareholding of the state	-	-	-	-	-	-	-	-	-
2. Shareholding of state-owned legal entity	-	-	-	-	-	-	-	-	-
3. Shareholding of other domestic investors	252,427,994	1.47	-	-	-	-252,263,401	-252,263,401	164,593	Around 0
Of which: Shareholding of domestic legal entity	252,404,128	1.47	-	-	-	-252,247,983	-252,247,983	156,145	Around 0
Shareholding of domestic natural person	23,866	Around 0	-	-	-	-15,418	-15,418	8,448	Around 0
4. Shareholding of foreign investors	-	-	-	-	-	-	-	-	-
Of which: Shareholding of foreign corporation	-	-	-	-	-	-	-	-	-
Shareholding of foreign natural person	-	-	-	-	-	-	-	-	-
II. Selling-unrestricted shares	16,917,983,372	98.53	-	-	-	252,263,401	252,263,401	17,170,246,773	Around 100
1. RMB ordinary shares	16,917,983,372	98.53	-	-	-	252,263,401	252,263,401	17,170,246,773	Around 100
2. Domestically listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-
III. Total	17,170,411,366	100	-	-	-	-	-	17,170,411,366	100

Reason for the change in shares

√ Applicable ☐ Not applicable

1. During the reporting period, 252,247,983 selling-restricted shares were unlocked and became tradable, leading to the Bank's selling-restricted shares decrease and selling-unrestricted shares increase accordingly.

2. During the reporting period, due to the change in selling-restricted shares of senior management, 15,418 shares of restricted shares held by domestic natural persons were deducted from the Bank, leading to the Bank's selling-restricted shares decrease and selling-unrestricted shares increase accordingly.

Approval for the change in shares

☐ Applicable √ Not applicable

Transfer registration related to shares change

☐ Applicable √ Not applicable

Progress for share repurchase

☐ Applicable √ Not applicable

Progress for reducing repachased shares by means of centralized bidding

☐ Applicable √ Not applicable

Effect of shares change on the financial indicators such as basic and diluted earnings per share and net assets per share attributable to ordinary shareholders of the Company in the latest fiscal year and period

☐ Applicable √ Not applicable

Other disclosure deemed necessary by the Company or required by the securities authorities

☐ Applicable √ Not applicable

Changes in Shares and Shareholders

I. Changes in shares (Continued)

2. Statement of changes in selling-restricted shares

(Unit: Share)

Name of shareholder	Number of selling-restricted shares at the beginning of the year	Number of shares release from sales restriction in the current year	Number of increased selling-restricted shares in the current year	Number of selling-restricted shares at the end of the year	Reason for sales restriction	Unlock date
Ping An Insurance (Group) Company of China, Ltd.-the Group-proprietary fund	252,247,983	252,247,983	-	0	Non-public offering of ordinary shares	21 May 2018
Shenzhen Tefa Communications Development Corporation	113,089	-	-	113,089	Selling-restricted shares from share reform	-
Shenzhen Travel Association	30,504	-	-	30,504	Selling-restricted shares from share reform	-
Shenzhen Futian District Agriculture Development Service Company Yannan Agricultural Machine Agency	12,552	-	-	12,552	Selling-restricted shares from share reform	-
Total	252,404,128	252,247,983	-	156,145	-	-

Note: 1. The lock-up period of the selling-restricted shares held by Shenzhen Tefa Communications Development Corporation, Shenzhen Travel Association and Shenzhen Futian District Agriculture Development Service Company Yannan Agricultural Machine Agency expired on 20 June 2008, but the relevant shareholders has no yet delegated the Company to apply for unlocking.

2. The above figures do not include 8,448 locked shares held by directors and senior management in virtue of their capacity as senior management.

II. The issuance and listing of securities

1. Conditions on securities issuance (excluding preference shares) during the reporting period

□ Applicable √ Not applicable

2. Description of total number of shares of the Company, changes in shareholder structure and changes in the Company's asset and liability structure

□ Applicable √ Not applicable

3. Shares of existing internal staff

□ Applicable √ Not applicable

Changes in Shares and Shareholders

III. Shareholders and actual controllers

1. Number of shareholders and shareholding conditions

(Unit: Shares)

Total number of ordinary shareholders as at the end of the reporting period	429,409
Total number of ordinary shareholders as at the end of the month before the disclosure date of the annual report	369,119
Total number of preference shareholders with recovered voting rights as at the end of the reporting period (if any)	-
Total number of preference shareholders with recovered voting rights as at the end of the reporting period and as at the end of the month before the disclosure date of the annual report (if any)	-

Shareholdings of the top ten shareholders

Name of shareholder	Nature of shareholder	Number of shares held at the end of the reporting period	Share holding (%)	Changes during the reporting period	Number of restricted shares held	Number of selling-unrestricted shares held	Pledged or frozen	
							Status of shares	Number of shares
Ping An Insurance (Group) Company of China, Ltd.-the Group -proprietary fund	Domestic legal entity	8,510,493,066	49.56	0.00	-	8,510,493,066	-	-
Ping An Life Insurance Company of China, Ltd. - proprietary fund	Domestic legal entity	1,049,462,784	6.11	0.00	-	1,049,462,784	-	-
Hong Kong Securities Clearing Company Limited	Overseas legal entity	430,751,502	2.51	65,982,408	-	430,751,502	-	-
China Securities Finance Corporation Limited	Domestic legal entity	429,232,688	2.50	-60,942,683	-	429,232,688	-	-
Ping An Life Insurance Company of China, Ltd. - traditional - ordinary insurance products	Domestic legal entity	389,735,963	2.27	0.00	-	389,735,963	-	-
Central Huijin Investment Company Limited	Domestic legal entity	216,213,000	1.26	0.00	-	216,213,000	-	-
China Electronics Shenzhen Company	Domestic legal entity	142,402,769	0.83	-43,649,169	-	142,402,769	-	-
Henan Hongbao (Group) Co., Ltd.	Domestic legal entity	99,441,107	0.58	20,582,120	-	99,441,107	-	-
Xinhua Life Insurance Co., Ltd. - dividend - dividend for individual -018L-FH002 Shen	Domestic legal entity	49,603,502	0.29	-3,890,000	-	49,603,502	-	-
Bank of Communications - E Fund 50 Index Securities Investment Fund	Domestic legal entity	44,143,803	0.26	22,273,428	-	44,143,803	-	-
Details of strategic investors or general legal persons becoming top 10 shareholders for issuing new shares (if any)	None							
Explanation of the connected relationship or acting-in-concert relationship among the above shareholders	1. Ping An Life Insurance Company of China, Ltd. is a controlled subsidiary of and acting in concert with the Ping An Insurance (Group) Company of China, Ltd. "Ping An Insurance (Group) Company of China, Ltd. - the Group - proprietary fund", "Ping An Life Insurance Company of China, Ltd. - proprietary fund" and "Ping An Life Insurance Company of China, Ltd. - traditional - ordinary insurance product" are related parties. 2. The Bank is not aware of any related relationship or concerted action among any of other shareholders.							

(Unit: Shares)

Shareholdings of the top 10 unrestricted shareholders

Name of shareholder	Number of selling - unrestricted shares held	Type of shares	
		Type of shares	Number of shares
Ping An Insurance (Group) Company of China, Ltd.-the Group -proprietary fund	8,510,493,066	RMB ordinary shares	8,510,493,066
Ping An Life Insurance Company of China, Ltd. - proprietary fund	1,049,462,784	RMB ordinary shares	1,049,462,784
Hong Kong Securities Clearing Company Limited	430,751,502	RMB ordinary shares	430,751,502
China Securities Finance Corporation Limited	429,232,688	RMB ordinary shares	429,232,688
Ping An Life Insurance Company of China, Ltd. –traditional – ordinary insurance products	389,735,963	RMB ordinary shares	389,735,963
Central Huijin Investment Company Limited	216,213,000	RMB ordinary shares	216,213,000
China Electronics Shenzhen Company	142,402,769	RMB ordinary shares	142,402,769
Henan Hongbao (Group) Co., Ltd.	99,441,107	RMB ordinary shares	99,441,107
Xinhua Life Insurance Co., Ltd. - dividend - dividend for individual -018L-FH002 Shen	49,603,502	RMB ordinary shares	49,603,502
Bank of Communications - E Fund 50 Index Securities Investment Fund	44,143,803	RMB ordinary shares	44,143,803
Explanation of the connected relationship or acting-in-concert relationship among the top ten of selling-unrestricted shareholders and between top ten of selling-unrestricted shareholders and top ten shareholders	1. Ping An Life Insurance Company of China, Ltd. is a controlled subsidiary of and acting in concert with the Ping An Insurance (Group) Company of China, Ltd. "Ping An Insurance (Group) Company of China, Ltd. - the Group - proprietary fund", "Ping An Life Insurance Company of China, Ltd. - proprietary fund" and "Ping An Life Insurance Company of China, Ltd. - traditional - ordinary insurance product" are related parties. 2. The Bank is not aware of any related relationship or concerted action among any of other shareholders.		
Description of the shareholders who engage in securities margin trading business	None		

Any of the top ten shareholders or top ten of selling-unrestricted shareholders has conducted agreed repurchase during the reporting period.

☐ Yes √ No

Changes in Shares and Shareholders

III. Shareholders and actual controllers(Continued)

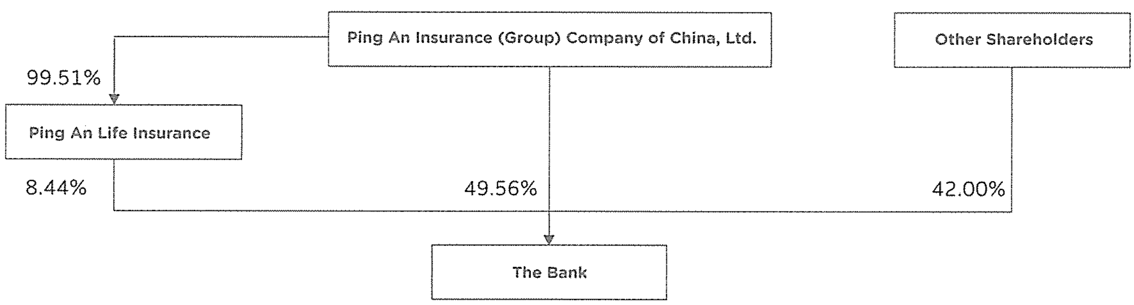
2. Particulars of controlling shareholder and de facto controller

Name of controlling shareholder	Legal representative	Establishment date	Organization Code	Main business
Ping An Insurance (Group) Company of China, Ltd.	Ma Mingzhe	21 March 1988	Unified social credit code: 91440300100012316L	Investment in insurance enterprises; supervision and management of various domestic and international businesses of investment holding enterprises; conducting of insurance funds investment businesses; conducting of domestic and international insurance businesses with the approval; conducting of other businesses approved by the China Banking and Insurance Regulatory Commission and the relevant state departments.
Equity of other domestic and foreign listed companies controlled and equity participation by the controlling shareholders during the reporting period	The controlling shareholder of the Bank, Ping An Insurance (Group) Company Of China, Ltd., was listed on the Main Board of the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange. As of the reporting date, Ping An was not yet disclosed the *2018 annual report. See the 2018 Annual Report of Ping An Insurance (Group) Company Of China, Ltd.* for details.			

3. Change in the controlling shareholders of the Bank during the reporting period

The controlling shareholder of the Bank is Ping An Insurance (Group) Company of China, Ltd. During the reporting period, there was no change in the controlling shareholders of the Bank. At the end of the reporting period, Ping An Group and its controlling subsidiary Ping An Life Insurance, as the controlling shareholders of the Bank, held 58% of the equity interests of the Bank in total, of which Ping An Group held 49.56% of the equity interests of the Bank. Ping An Life Insurance held 8.44% of equity interests of the Bank. Ping An Group dispatched directors to the Bank. Ping An Group was founded on 31 March 1988. Its registered address is 47F, 48F, 109F, 110F, 111F and 112F, Ping An Financial Centre, No. 5033, Yitian Road, Futian District, Shenzhen. The registered capital is RMB 18,280,241,410. The legal representative is Ma Mingzhe. The scope of business includes: investment in insurance enterprises; supervision and management of various domestic and international businesses of investment holding enterprises; conduct of insurance funds investment business; conduct of domestic and international insurance business with the approval; conduct of other businesses approved by the China Banking and Insurance Regulatory Commission and the relevant state departments. With a relatively loose shareholding structure, Ping An Group has neither controlling shareholder, nor any actual controlling person or ultimate beneficiary. There is no equity interest of the Bank pledged by Ping An Group and its controlling subsidiary Ping An Life Insurance.

A diagram showing the relationship between the Bank and its controlling shareholder is as follows:



As at 31 December 2018, shareholders who directly or indirectly held more than 5% equities of China Ping An were Charoen Pokph Group Co., Ltd. and Shenzhen Investment Holdings Co., Ltd. As of the reporting date, Ping An had not yet disclosed the 2018 annual report. See the *2018 Annual Report of Ping An Insurance (Group) Company Of China, Ltd.* for details.

4. Actual controllers

There is no actual controller for the Bank.

5. Other corporate shareholders with more than 10% shares held

None.

6. Reducing holding-shares of controlling shareholders, actual controllers, restructuring parties and other commitment units

☐ Applicable √ Not applicable

7. Other major shareholders prescribed by the *Interim Measures for Equity Interests Management of Commercial Banks* issued by CBIRC

(1) China Electronics Shenzhen Company. At the end of the reporting period, China Electronics Shenzhen Company held 0.83% of the equity interest of the Bank and dispatched directors to the Bank. China Electronics Shenzhen Company was founded on 19 May 1982. The registered address is No. 2072, 2070, Shennan Middle Road, Futian District, and Shenzhen. The registered capital is RMB350 million. The legal representative is Song Jian. The scope of business includes: ordinary operations, including import and export of proprietary and outsourced goods and technology (Operating upon the document Wai Jing Mao Zheng Shen Han Zi [97] No. 1980), economic cooperation business with foreign enterprises (Operating upon the document Wai Jing Mao He Han [2001] No. 500), sales of textiles, groceries, industry production materials (excluding gold, silver, auto mobile and hazardous chemical), petroleum products (excluding refined oil), hardware, AC electrical materials, chemical products (excluding hazardous chemical), construction materials, art crafts (excluding gold accessories); domestic sales of goods under import and export operation of the Company; labor service, information consulting, packaging service, property management, sales and rental service of self-owned properties; domestic freight forwarders; international freight forwarders; wholesale and retail of auto mobile, auto parts, engineering equipment, investment in and establishment of industries (specific projects are subject to additional approval) and start-up investment. China Electronics Corporation Information Service Co., Ltd. is the controlling shareholder of China Electronics Shenzhen Company. China Electronics Corporation is the actual controlling party and ultimate beneficiary. China Electronics Shenzhen Company does not pledge any equity interest of the Bank.

(2) Shenzhen Yingzhongtai Investment Co., Ltd. At the end of the reporting period, Shenzhen Yingzhongtai Investment Co., Ltd. held 10,200 shares of the equity interest of the Bank and dispatched supervisor to the Bank. Shenzhen Yingzhongtai Investment Co., Ltd. was founded on 29 December 2001. The registered address is Room 102 (Office), B46 Longxiang Villa, Longxiang North Road, Fuyong Street, Bao'an District, Shenzhen. The legal representative is Che Guobao. The registered capital is RMB10 million. The scope of business includes: investment and establishment of industries (specific projects are subject to additional approval); domestic commerce, goods supply and marketing (excluding monopolized goods and voice control products). Mr. Che Guobao is the controlling shareholder and the actual controlling person of Shenzhen Yingzhongtai Investment Co., Ltd. Mr. Che Guobao and Mr. Che Guoquan are the ultimate beneficiaries of Shenzhen Yingzhongtai Investment Co., Ltd. Shenzhen Yingzhongtai Investment Co., Ltd. does not pledge any equity interest of the Bank.

Preference Shares

I. Issuance and listing of preference shares in the recent three years at the end of the reporting period

Mode of issue	Date of issue	Issue price (RMB/ share)	Dividend yield ratio	Issuing number (share)	Listing date	Trading number approved for listing (share)	Termination date of listing	Query index of use progress of funds raised	Query index of changes of funds raised
Non-public issuance	7 March 2016	100	4.37%	200,000,000	25 March 2016	200,000,000	-	See the *Special Report on the Deposit and Actual Use of Fund Raised of Ping An Bank Co., Ltd. in 2016* published by the Bank on the CNINFO (www.cninfo.com.cn) on 17 March 2017 for details.	-

II. Number and shareholdings of preference shareholders of the Company

Total number of preference shareholders at the end of the reporting period	15
Total number of preference shareholders at the end of the month before the release of the annual report	15

Shareholdings of shareholders with more than 5% preference shares or the top 10 preference shareholders

Name of shareholder	Nature of shareholder	Shareholding (%)	Number of shares held at the end of the reporting period	Changes during the reporting period	Number of selling - restricted shares held	Number of selling - unrestricted shares held	Pledged or frozen	
							Status of shares	Number of shares
Ping An Life Insurance Company of China, Ltd. - dividend - individual dividend	Domestic legal entity	29.00	58,000,000	-	-	58,000,000	-	-
Ping An Life Insurance Company of China, Ltd. - universal - individual universal	Domestic legal entity	19.34	38,670,000	-	-	38,670,000	-	-
Ping An Property & Casualty Insurance Company of China, Ltd. - traditional - ordinary insurance products	Domestic legal entity	9.67	19,330,000	-	-	19,330,000	-	-
China Post & Capital Fund - Hua Xia Bank - Hua Xia Bank Co., Ltd.	Domestic legal entity	8.95	17,905,000	-	-	17,905,000	-	-
Bank of Communications Schroder Asset Management - Bank of Communications - Bank of Communications Co., Ltd.	Domestic legal entity	8.95	17,905,000	-	-	17,905,000	-	-
Bank of China Limited Shanghai Branch	Domestic legal entity	4.47	8,930,000	-	-	8,930,000	-	-
Postal Savings Bank of China Domestic Co., Ltd.	Domestic legal entity	2.98	5,950,000	-	-	5,950,000	-	-
China Resources Szitic Trust Co., Ltd. - Investment No. 1 List - Capital Trust	Domestic legal entity	2.98	5,950,000	-	-	5,950,000	-	-
Hwabao Trust Co. Ltd. - Investment No. 2 Capital Trust	Domestic legal entity	2.98	5,950,000	-	-	5,950,000	-	-
Merchants Wealth - Postal Savings Bank - Postal Savings Bank of China Co., Ltd.	Domestic legal entity	2.98	5,950,000	-	-	5,950,000	-	-
Description of different requirements on other terms of preference shares held other than dividend distribution and residual property distribution	Not applicable							

Description of the related relationship or concerted action among top 10 preference shareholders and between top 10 preference shareholders and top 10 ordinary shareholders	1.Ping An Life Insurance Company of China, Ltd. and Ping An Property & Casualty Insurance Company of China, Ltd. are controlled subsidiaries of and acting in concert with the Ping An Insurance (Group) Company of China, Ltd. "Ping An Insurance (Group) Company of China, Ltd. - the Group - proprietary fund", "Ping An Life Insurance Company of China, Ltd. - proprietary fund", "Ping An Life Insurance Company of China, Ltd. - traditional - ordinary insurance product", "Ping An Life Insurance Company of China, Ltd. - dividend - individual dividend", "Ping An Life Insurance Company of China, Ltd. - universal - individual universal" and "Ping An Property & Casualty Insurance Company of China, Ltd. - traditional - ordinary insurance products" are related parties. 2.The Bank is not aware of any related relationship nor concerted action among any of other shareholders.

III. Profit distribution of preference shares of the Company

√ Applicable ☐ Not applicable

Repurchase or conversion of preference shares during the reporting period

√ Applicable ☐ Not applicable

(In RMB million)

Time of distribution	Dividend yield ratio	Amount of distribution (tax inclusive)	Meet distribution conditions and relevant procedures or not	Dividend payment method	Dividend accumulative or not	Participate in surplus profit distribution or not
7 March 2018	4.37%	874	Y	Interest payment in cash per year	N	N

Preference share distribution in recent three years

(In RMB million)

Distribution year	Amount of distribution (tax inclusive)	Net profit attributable to shareholders of the Company in the distribution year	Proportion accounting for net profit attributable to shareholders of the Company	Description of amount included in the next accounting year due to the insufficiency of distributable profits or participating in surplus profit distribution
2018	874	24,818	3.52%	Not applicable
2017	874	23,189	3.77%	Not applicable
2016	Not applicable	Not applicable	Not applicable	Not applicable

Whether profit distribution policies of preference shares are adjusted or changed

☐ Yes √ No

During the reporting period, the Company had profits and the parent company had positive undistributed profits, however, there was no profit distribution for preference shares.

☐ Applicable √ Not applicable

Other descriptions regarding preference shares distribution

☐ Applicable √ Not applicable

IV. Repurchase or conversion of preference shares

☐ Applicable √ Not applicable

There was no repurchase or conversion of preference shares during the reporting period.

V. Recovery of voting rights of preference shares during the reporting period

☐ Applicable √ Not applicable

There was no recovery of voting rights of preference shares during the reporting period.

VI. Accounting policies and reasons adopted for preference shares

√ Applicable ☐ Not applicable

See "13. Equity instrument in II. Summary of significant accounting policies and accounting estimates" in "Section XIII Financial Report" for "Accounting policies and reasons adopted for preference shares".

Convertible Corporate Bonds

I. Issuance and listing of convertible corporate bonds

Mode of issue	Date of issue	Issue price (parvalue)	Nominal interest rate	Issuing number (share)	Listing date	Listing number	Starting and ending dates of conversion
Public issuance	21 January 2019	100	0.2% for the first year, 0.8% for the second year, 1.5% for the third year, 2.3% for the fourth year, 3.2% for the fifth year and 4.0% for the sixth year	260,000,000	18 February 2019	260,000,000	From 25 July 2019 to 21 January 2025

II. Top ten holders as at the date of this initial registration of convertible corporate bonds

S/N	Name of holders	Number of holding	Percentage(%)
1	Ping An Insurance (Group) Company of China, Ltd.-the Group -proprietary fund	128,865,886	49.56
2	Ping An Life Insurance Company of China, Ltd. - proprietary fund	15,890,965	6.11
3	Guangfa Securities Co., Ltd.	8,130,450	3.13
4	Ping An Life Insurance Company of China, Ltd. -traditional - ordinary insurance products	5,901,382	2.27
5	China Merchants Securities Co., Ltd.	3,236,000	1.24
6	Changjiang Securities Co., Ltd.	3,089,542	1.19
7	Bohai Securities Co., Ltd.	2,427,000	0.93
8	Essence Securities Co., Ltd.	2,224,750	0.86
9	China Electronics Shenzhen Company	2,156,263	0.83
10	Huatai Securities Co., Ltd.	2,022,500	0.78

Note 1. On 30 January 2019, the Shenzhen Branch of CSDC completed registration on issuing the convertible corporate bonds and issued the Security Registration Certificate to the Bank;

2. Ping An Life Insurance Company of China, Ltd. is a controlled subsidiary of and acting in concert with the Ping An Insurance (Group) Company of China, Ltd. "Ping An Insurance (Group) Company of China, Ltd. - the Group - proprietary fund", "Ping An Life Insurance Company of China, Ltd. - proprietary fund" and "Ping An Life Insurance Company of China, Ltd. - traditional - ordinary insurance product" are related parties.

3. The Bank is not aware of any related relationship nor concerted action among any of other shareholders.

III. Adjustment history of conversion prices

As of the date of this report, there is no adjustment on the conversion prices of the convertible corporate bonds issued by the Bank.

IV. Accumulated conversion following the issuance of convertible corporate bonds

As of the date of this report, the convertible corporate bonds issued by the Bank fail to enter the conversion phase, so there is no conversion.

V. Significant changes in guarantors' profitability, condition of assets and credit standing

No collateral was provided for the convertible corporate bonds of the Bank.

VI. Changes in the Company's liabilities and credit

According to the credit rating results issued by China Chengxin Securities Rating Co., Ltd., the Bank received a rating of "AAA" with a stable outlook, and the convertible corporate bonds received a rating of "AAA". There is no change. The Bank is under favorable operation with stable financial indicators and sufficient solvency.

Information about Directors, Supervisors and Senior Management

I. Changes in shareholding by director, supervisor and senior management

Name	Title	Service status	Sex	Age	Term	Shareholding at the beginning of the year (share)	Shareholding increased in the year (share)	Shareholding decreased in the year (share)	Shareholding at the end of the year (share)
Xie Yonglin	Chairman	In-service	Male	50	From December 2016 to change of term	-	-	-	-
Hu Yuefei	Director and president of the Bank	In-service	Male	56	Director term: from December 2007 to change of term Term of president of the Bank: from December 2016 to	4,104	-	-	4,104
Tan Sin Yin	Director	In-service	Female	41	From January 2014 to change of term	-	-	-	-
Yao Jason Bo	Director	In-service	Male	47	From June 2010 to change of term	-	-	-	-
Ip So Lan	Director	In-service	Female	62	From June 2010 to change of term	-	-	-	-
Cai Fangfang	Director	In-service	Female	44	From January 2014 to change of term	-	-	-	-
Guo Jian	Director	In-service	Male	54	From February 2017 to change of term	-	-	-	-
Guo Shibang	Director	In-service	Male	53	From December 2017 to change of term	-	-	-	-
Yao Guiping	Director	In-service	Male	57	From December 2017 to change of term	-	-	-	-
Wang Chunhan	Independent director	In-service	Male	67	From January 2014 to change of term	-	-	-	-
Wang Songqi	Independent director	In-service	Male	66	From January 2014 to change of term	-	-	-	-
Han Xiaojing	Independent director	In-service	Male	63	From January 2014 to change of term	-	-	-	-
Guo Tianyong	Independent director	In-service	Male	50	From August 2016 to change of term	-	-	-	-
Yang Rusheng	Independent director	In-service	Male	50	From February 2017 to change of term	-	-	-	-
Qiu Wei	Chairman of the supervisory committee, employee supervisor	In-service	Male	56	From June 2010 to change of term	-	-	-	-

Name	Title	Service status	Sex	Age	Term	Shareholding at the beginning of the year (share)	Shareholding increased in the year (share)	Shareholding decreased in the year (share)	Shareholding at the end of the year (share)
Che Guobao	Supervisor of shareholder	In-service	Male	69	From December 2010 to change of term	-	-	-	-
Zhou Jianguo	External Supervisor	In-service	Male	63	From January 2014 to change of term	-	-	-	-
Luo Xiangdong	External Supervisor	In-service	Male	65	From January 2014 to change of term	-	-	-	-
Chu Yiyun	External Supervisor	In-service	Male	54	From June 2017 to change of term	-	-	-	-
Sun Yongzhen	Employee supervisor	In-service	Female	50	From October 2018 to change of term	-	-	-	-
Wang Qun	Employee supervisor	In-service	Female	50	From June 2017 to change of term	-	-	-	-
Wu Peng	Vice president of the Bank	In-service	Male	53	From August 2011 to	2,394	-	-	2,394
Xiang Youzhi	CFO	In-service	Male	54	From January 2018 to	-	6,000	-	6,000
Zhou Qiang	Secretary to the Board	In-service	Male	46	From June 2014 to	-	-	-	-
He Zhijiang	Vice president of the Bank	Left post	Male	53	From May 2017 to April 2018	-	-	-	-
Gan Yu	Employee supervisor	Left post	Male	42	From June 2017 to October 2018	-	-	-	-
Total						6,498	6,000	-	12,498

Note: On 15 August 2018, the 19th meeting of the 10th Board of Directors approved to engage Mr. Yang Zhiqun, Mr. Guo Shibang and Mr. Yao Guiping as the vice presidents of the Bank, and the appointment was subject to the approval of banking regulatory authority.

II. Changes in the directors, supervisors and senior management members

Name	Title	Type	Date	Reason
Xiang Youzhi	CFO	Appointed	29 January 2018	Appointed
He Zhijiang	Vice president of the Bank	Left post	4 April 2018	Left post
Sun Yongzhen	Employee supervisor	Appointed	25 October 2018	Appointed
Gan Yu	Employee supervisor	Left post	25 October 2018	Left post

Information about Directors, Supervisors and Senior Management

III. Tenure information

1. Professional background, main work experiences, current major responsibility in the Company of incumbent directors, supervisors and senior management

Mr. Xie Yonglin, Executive Director and Chairman.

He was born in September 1968 and received a master's degree in science and a PhD in management from Nanjing University.

He has been the Co-CEO of Ping An since December 2018, the deputy general manager of Ping An since September 2016 and the executive director of the Bank since December 2016. Mr. Xie joined Ping An in October 1994 as a grass-roots salesperson and successively worked as the deputy general manager of a Ping An Property & Casualty Insurance, the deputy general manager and general manager of a Ping An Life Insurance branch, and the general manager of the Marketing Department of Ping An Life Insurance. From June 2005 to March 2006, he was the deputy director of China Ping An Reform and Development Center. From March 2006 to November 2013, he was the operation director, the HR director, and vice president of Ping An Bank successively. From November 2013 to November 2016, he worked successively as the special assistant to Chairman, general manager & CEO, and the Chairman of Ping An Securities.

Mr. Hu Yuefei, Executive Director and President.

He was born in 1962 and received a master's degree in economics from Zhongnan University of Economics.

From January 1990 to February 1999, he was the director of Shenzhen Development Bank Party Affairs and Publicity Office, vice president and president of a sub-branch successively. From February 1999 to May 2006, he successively worked as the president of Shenzhen Development Bank Guangzhou Branch, the assistant to the president of head office. From May 2006 to December 2016, he worked as the vice president of Ping An Bank (then Shenzhen Development Bank). Since December 2007, he has worked as a director of Ping An Bank (then Shenzhen Development Bank). Since December 2016, he has served as president of Ping An Bank.

Before joining Shenzhen Development Bank, he was a staff member of the People's Bank of China Dong'an Sub-branch in Hunan province, a staff member and deputy director of HR department in Hunan Province Branch of the Industrial and Commercial Bank of China.

Tan Sin Yin, Non-executive Director.

She was born in 1977 with a Singapore citizenship. Graduated from MIT, she received a master's degree in EECS, a bachelor's degree in electrical engineering and a bachelor's degree in economics. Since January 2013, she worked as chief information officer of China Ping An and the Chairman of Ping An Technology (Shenzhen) Co., Ltd. Since December 2013, she served as the chief operating officer of China Ping An. Since June 2015, she was the deputy general manager of China Ping An. Since January 2016, she has served as the executive deputy general manager of China Ping An. From October 2017 to December 2018, she served as the vice CEO of China Ping An. Since December 2018, she has been the Co-CEO of China Ping An. Since January 2014, she has worked as a director of the Bank.

Before she joined China Ping An, Tan Sin Yin was a partner (global director) of McKinsey & Company, specialized in financial services. During her 12 years in McKinsey & Company, she used to cooperate with leading financial service institutions of 10 countries in the USA and Asia. She mainly focuses on such fields as strategies, organizations, operations and information and technology.

Mr. Yao Jason Bo, Non-executive Director.

Born in 1971, he is a member of the Society of Actuaries (FSA), and received a MBA degree in York University of the USA. He worked as an executive director of China Ping An since June 2009. And now he serves as the executive deputy general manager, CFO and the chief actuary of China Ping An. Since June 2010, he has served as a director of Ping An Bank (then Shenzhen Development Bank).

He joined China Ping An in May 2001. Then he worked as the deputy general manager of China Ping An from June 2009 to January 2016, and successively served as the deputy general manager of the Product Center of China Ping An, deputy chief actuary, manager of the Planning Department, deputy financial director and the financial head.

Mr. Yao Jason Bo once worked at Deloitte & Touche as a consultation actuary and senior manager.

Ms. Ip So Lan, Non-executive Director.

She was born in 1956 and received a bachelor's degree in computer science from London Central Institute of Technology in the UK. She has worked as the deputy general manager of China Ping An since January 2011 and the chief audit officer, audit head and compliance head respectively since March 2006, March 2008 and July 2010. She has served as a director of Ping An Bank (then Shenzhen Development Bank) since June 2010.

Ms. Ip So Lan joined China Ping An in February 2004. She worked as an assistant to the general manager of Ping An Life Insurance from February 2004 to March 2006 and an assistant to the general manager of China Ping An.

She once worked at AIA Group, Prudential (Hong Kong) Insurance Company, etc.

Ms. Cai Fangfang, Non-executive Director.

She was born in 1974 and received her master's degree in accounting from the University of New South Wales, Australia. She has served as an executive director of China Ping An since July 2014. Also, she has worked as the chief HR officer of China Ping An since March 2015 and a director of Ping An Bank since January 2014, respectively.

She joined China Ping An in July 2007. She successively worked as the deputy general manager and general manager of the Compensation Planning and Management Department of Human Resource Center of China Ping An from October 2009 to February 2012. She worked as the deputy chief financial officer of China Ping An and the general manager (concurrent post) of the Planning Department of China Ping An from February 2012 to September 2013. She worked as the deputy chief HR officer of China Ping An from September 2013 to March 2015.

Before she joined China Ping An, she once worked as a consulting director in Watson Wyatt Consultancy (Shanghai) Co., Ltd and an audit director specialized in financial industry at Britain Standards Institutions Management Systems Certification Co. Ltd.

Information about Directors, Supervisors and Senior Management

III. Tenure information(Continued)

1. Professional background, main work experiences, current major responsibility in the Company of incumbent directors, supervisors and senior management(Continued)

Mr. Guo Jian, Non-executive Director.

Born in 1964, he received his master's degree in electronic physics and devices from Chengdu Institute of Telecommunications (now the University of Electronic Science and Technology of China). He is now the deputy secretary of the CPC Committee, director, and general manager of China Electronics Shenzhen Company. He has worked as an independent director of Ping An Bank since February 2017.

He joined China Electronics Shenzhen Company in May 1988 and successively worked as salesperson, deputy director, assistant to the general manager and manager of the Business Department, deputy general manager, etc. Since July 2011, he has worked as director and general manager. Since April 2012, he has worked as deputy secretary of the CPC Committee and Chairman of Shenzhen Frontsurf Information Technology Co., Ltd. He was the deputy general manager and deputy secretary of the CPC Committee of China Power International Information Service Co., Ltd. from August 2013 to March 2016. He was the general manager of E-commerce Business Department 1 from October 2014 to April 2016.

He is a CPPCC member of Shenzhen, president of Shenzhen Chamber of Import and Export Trade, standing director of China Chamber of Commerce for Import and Export of Machinery & Electronics Products, vice-Chairman of Shenzhen Enterprise Confederation, etc.

Mr. Guo Shibang, Executive Director and Assistant to the President.

Born in 1965, he is a doctoral candidate in Guanghua School of Management, Peking University and is now a senior economist.

From July 1991 to July 1998, he successively worked as the principal staff member and deputy-director-general-level researcher (directing operations) at the head office of ICBC capital planning department; from July 1998 to March 2011, he successively worked as the president of CMBC, Beijing Shangdi Branch, member of CPC committee & deputy general manager of Beijing management department, secretary of the CPC Committee & president of Dalian branch, and vice chairman at the head office of retail management committee & general manager of retail banking department; from March 2011 to March 2014, he successively worked as the special assistant to CEO and vice general manager of Ping An Securities, CRO and chief compliance officer, etc.; from October 2016 to May 2017, he worked as the special assistant to chairman of Ping An Bank. He has been the assistant to the president of Ping An Bank since May 2017, and a director of Ping An Bank since December 2017.

Mr. Yao Guiping, Executive Director and Assistant to the President.

Born in 1961, he received a bachelor degree in economic management from Hubei College of Education and is now a senior economist.

He successively worked as an administrator of the saving department of PBoC, Hanchuan County branch from July 1981 to August 1986, as the director of planning department of ICBC, Xiaogan branch from August 1986 to December 1990, as the president and secretary of party general branch of ICBC, Yunmeng County branch from December 1990 to August 1993, as the vice president and deputy secretary of the CPC Committee of ICBC, Huangshi branch from August 1993 to January 2000, as the general manager of capital department of ICBC, Hubei branch from January 2000 to March 2004, as the president and secretary of the CPC Committee of ICBC, Shiyan branch from March 2004 to April 2007, as the general manager of corporate department of head office and trading banking department of former Ping An Bank from April 2007 to June 2008, as the president and secretary of the CPC Committee of Ping An Bank, Shenzhen branch from June 2008 to November 2016, as the secretary of the CPC Committee of unified management in Shenzhen of China Ping An and the initiator of joint conference in Shenzhen district from May 2013 to November 2016 and as the director of corporate business department of head office of Ping An Bank from May 2014 to May 2017. He was subsequently appointed as the member of CPC committee at the head office of Ping An Bank since August 2015. From July 2016 to November 2016, he worked as the executive deputy director of retail business development management committee of Ping An Bank. He has been the assistant to the president of Ping An Bank since May 2017 and a director of Ping An Bank since December 2017.

Mr. Wang Chunhan, Independent Director.

Born in 1951, he received a junior college degree and is now a senior economist. He has worked as an independent director of Ping An Bank since January 2014.

He successively worked as accountant, officer and deputy secretary of the CPC branch at Siwei Road Office of Wuhan Branch, the PBoC; deputy secretary (directing operations) and secretary of the CPC branch at Chezhan Road Office; officer at the CPC Consolidation Office of the Branch, deputy director (directing operations) and director (in the period from September 1983 to July 1985, he was studying in Jianghan University) of Political Affairs Office of the Branch. He was vice president of PBoC Wuhan Branch from April 1988 to December 1997 (in the period from October 1994 to December 1997, he was concurrently a member of the leadership team of Wuhan Municipal Government City Cooperative Bank and director of the Construction Preparation Office). He was appointed as executive vice Chairman, secretary of the CPC Committee and president of Wuhan Commercial Bank in the period from December 1997 to December 2000. He was Chairman, secretary of the CPC Committee and president of Wuhan Commercial Bank in the period from December 2000 and December 2006. He was Chairman, and secretary of the CPC Committee of Hankou Bank in the period from December 2006 and July 2009 (Wuhan Commercial Bank renamed as Hankou Bank in June 2008). He was counselor of the People's Municipal Government of Wuhan from July 2009 to May 2014. He was an independent director of Qishang Bank from May 2012 to December 2013. He has served as an independent director of Bank of Tibet since December 2011.

III. Tenure information(Continued)

1. Professional background, main work experiences, current major responsibility in the Company of incumbent directors, supervisors and senior management(Continued)

Mr. Wang Songqi, Independent Director.

Born in 1952, he received a PhD in economics. He is a professor and doctoral supervisor at the Graduate School of Science Academy of Social Sciences, a part-time doctoral supervisor of Central University of Finance and Economics, and a visiting professor of Southwestern University of Finance and Economics. He has worked as an independent director of Ping An Bank since January 2014.

Wang Songqi received his bachelor's degree in economics from the Financial Department of Jilin University of Finance and Economics in 1982, a master's degree in economics from Financial Department of Tianjin University of Finance and Economics in 1985 and his PhD from the Finance and Economics Department of Renmin University of China in 1988. He was a teacher at the Finance and Economics Department of Renmin University of China from August 1988 to December 1995. He has served as a research fellow of National Academy of Economic Strategy and Institute of Finance and Banking, both at Chinese Academy of Social Sciences since January 1996.

He was appointed as a director of the Forth China Society for Finance and Banking and Chairman of the National Youth Financial Institute. He is now the executive director of the Sixth China Society for Finance and Banking, and chief editor of the Banker. He receives special government allowances of the State Council. He has served as an independent director of Baoshang Bank since 2013.

Mr. Han Xiaojing, Independence Director.

Born in 1955, he received a master's degree in laws. He is a practicing lawyer in China and a founding partner of Commerce & Finance Law Offices. Since January 2014, he has served as an independent director of Ping An Bank.

Han Xiaojing received his bachelor's degree in laws from Zhongnan University of Economics and Law (old name: Hubei Finance and Economics College) in 1982 and his master's degree in laws from China University of Political Science and Law in 1985. He worked as a lecturer from 1985 to 1986 at China University of Political Science and Law. He worked as a layer at China Legal Affairs Center from 1986 to 1992. Since 1992, He has worked as a partner of Commerce & Finance Law Offices mainly engaged in securities, corporate restructuring / merger, banking, project financing, etc.

Han Xiaojing has served as an independent non-executive director of China COSCO Holdings Company Limited since 2007, an independent non-executive director of Far East Horizon Ltd since 2011, an independent director of Beijing Sanju Environmental Protection & New Materials Co., Ltd. since 2014, newly appointed as an external director of China National Aviation Fuel Group Corporation Limited since December 2017.

Mr. Guo Tianyong, Independent Director.

Born in August 1968, a PhD in economics, he is now a professor and doctoral supervisor of Finance School of Central University of Finance and Economics. He has served as an independent director of Ping An Bank since August 2016.

Mr. Guo received a bachelor's degree in science from Math Department of Shandong University in 1990, and worked at the PBoC Yantai Branch from 1990 to 1993. He received a master's degree in economics from the Department of Finance of Renmin University of China in 1996 and received a PhD in economics from the Graduate School of the PBoC in 1999. He has worked at the Central University of Finance and Economics since 1999. He has served as an independent director of Hundsun Technologies Inc. since May 2014 and an independent director of Digiwin Soft Co., Ltd. since October 2014.

Mr. Yang Rusheng, Independent Director.

Born in February 1968, he received a master's degree in economics from Jinan University. He is a certified public accountant and certified tax agent in China. Since February 2017, he has served as an independent director of Ping An Bank.

Now, he serves as a partner of Ruihua Certified Public Accountants and a director of Guangdong Institute of Certified Public Accountants, a director of Chinese Institute of Certified Public Accountants, president of the Shenzhen Institute of Certified Public Accountants, an independent director of Webank, a non-executive director of IPE GROUP LIMITED (SEHK No.: 00929) and a guest professor of Guangdong University of Finance & Economics.

He once worked for Shenzhen Construction Industry (Group) Co., Yong Ming (Shenzhen) Certified Public Accountants, Shenzhen Guangshen Certified Public Accountants, Shenzhen Youxin CPA firm, Wanlong Asia CPA Co., Ltd. and Crowe Horwath CPA Firm. He also served as a member of Ethics Commission of Shenzhen Institute of Certified Public Accountants, a member of Shenzhen Finance Bureau Certified Public Accountant Responsibility Judge Committee, vice-president of Shenzhen Institute of Certified Public Accountants, executive director of Shenzhen Certified Tax Agents Association and a director of the China Certified Tax Agents Association. He was an independent director of Shenzhen Tagen Group Co., Ltd., Shenzhen Coship Electronics Co., Ltd., Shenzhen Seg Co., Ltd. and former Ping An Bank, etc.

Mr. Qiu Wei, Chairman of the Supervisory Committee, Employee Supervisor.

Born in 1962, he received a PhD in finance from Southwestern University of Finance and Economics and is now a senior economist. He serves as the chairman of the supervisory committee, deputy secretary of the CPC Committee and secretary of committee for discipline inspection of Ping An Bank.

Mr. Qiu Wei successively worked as loan officer, staff member of information research unit, deputy director of capital department and director of foreign exchange department under PBoC, Sichuan Luzhou branch from July 1983 to February 1990, capital scheduler, comprehensive department director of head office and branch vice president, assistant to the general manager of HR department at the head office of Shenzhen Development Bank from March 1990 to February 1994, office director, assistant to the president, vice president, president and secretary of the CPC Committee of China Guangfa Bank, Shenzhen branch from March 1994 to May 2004, president and deputy secretary of the CPC Committee of SZITIC from June 2004 to October 2005, chairman of the supervisory committee, deputy secretary of the CPC Committee, secretary of committee for discipline inspection, and chairman of the labor union of former Ping An Bank (Shenzhen Commercial Bank) from November 2005 to May 2010.

III. Tenure information(Continued)

1. Professional background, main work experiences, current major responsibility in the Company of incumbent directors, supervisors and senior management(Continued)

Mr. Che Guobao, Supervisor of Shareholder.

Born in 1949, he received his bachelor's degree in construction and machinery from Beijing University of Civil Engineering and Architecture. Now, he serves as the shareholder, legal representative and chairman of Shenzhen Yingzhongtai Investment Co., Ltd. He serves as supervisor of shareholder of Ping An Bank (formerly Shenzhen Development Bank) since December 2010.

Mr. Che Guobao served as the vice factory director of Beijing construction light steel structure factory from 1981 to 1982, deputy director general and secretary of the CPC Committee of Shenzhen Shekou District Authority from 1983 to 1984, deputy general manager of China Merchants Shekou Industrial Zone Holdings Co., Ltd. of Guangdong province being responsible for investment promotion, finance, import & export, trading, harbor service etc. from 1985 to 1991. He has served as chairman, legal representative and shareholder of Shenzhen Yingzhongtai Investment Co., Ltd. since 1992.

Mr. Zhou Jianguo, External Supervisor.

Born in 1955, he received a master's degree in economics from Zhongnan University of Economics and Law and is now a senior accountant. Now, he serves as chairman and secretary of the CPC Committee of Shenzhen Special Economic Zone Real Estate & Properties (Group) Co., Ltd. He works as an external supervisor of Ping An Bank since January 2014.

Mr. Zhou Jianguo successively worked as a teacher and deputy professor of accounting faculty, the principal at the financial teaching and research office, and deputy director of Jiangxi University of Finance and Economics from July 1983 to February 1993, director at the further education office of Jiangxi University of Finance and Economics from February 1993 to March 1996, deputy general manager of Shenzhen Zhonglvxin Industrial Co., Ltd. from March 1996 to February 1997, director of audit department and finance department and president assistant of Shenzhen Shangkong Industrial Co., Ltd. from February 1997 to September 2004, deputy general manager of Shenzhen Investment Holdings Co., Ltd. from October 2004 to June 2011. He has served as chairman and secretary of the CPC Committee of Shenzhen Special Economic Zone Real Estate & Properties (Group) Co., Ltd. since January 2009.

Mr. Luo Xiangdong, External Supervisor.

Born in 1953, he received a master's degree in economics from South China Normal University and is now a senior economist. He serves as an external supervisor of Ping An Bank since January 2014.

Mr. Luo Xiangdong once worked as a middle school teacher at the 69th middle school of Guangzhou City, economics teacher at the Marxism-Leninism office of Guangzhou University of Traditional Chinese Medicine, officer of leading roles of section or equivalent levels at the government office of special economic zones of Guangdong province. He entered the banking industry in 1998, and successively worked as director at the head office and general manager of development department of China Guangfa Bank from July 1988 to September 1993, standing vice president and secretary of committee for discipline inspection of China Guangfa Bank, Shenzhen branch from September 1993 to October 2012, supervisor at the head office of China Guangfa Bank from October 2012 to August 2013. While working in China Guangfa Bank, he once was in charge of businesses including credit, finance, risk and operation, and worked as director of Shenzhen Airlines and Wei Bao Financial Escort Co., Ltd.

Mr. Chu Yiyun, External Supervisor.

Born in 1964, he received a PhD in accounting from Shanghai University of Finance and Economics. Now, he serves as a professor and doctoral supervisor of school of accounting of Shanghai University of Finance and Economics. He works as an external supervisor of Ping An Bank since June 2017.

Mr. Chu Yiyun has been a teaching assistant, lecturer, deputy professor, professor and doctoral supervisor successively in school of accounting (then accounting faculty) of Shanghai University of Finance and Economics since 1986, full-time researcher of Academy of Accounting and Finance under Shanghai University of Finance and Economics of Key Research Base of Humanities and Social Sciences under Ministry of Education since September 2000, deputy secretary general and executive secretary general of China Accounting Association, accounting education branch (then China Accounting Teaching Association) since December 2000, director of the 8th board of governors under China Accounting Association since January 2014, member of the first Enterprise Accounting Standards Advisory Committee under Ministry of Finance since July 2016, and once served as an independent director of Ping An Bank (then Shenzhen Development Bank). He also served as an independent director of China Jushi Co., Ltd., Shanghai Tongji Science & Technology Industrial Co., Ltd., Tellhow Sci-tech Co., Ltd., Universal Scientific Industrial (Shanghai) Co., Ltd. and Bank of Jiaxing Co., Ltd.

Ms. Sun Yongzhen, Employee Supervisor.

Born in 1968, she received a master's degree in economics from Zhongnan University of Economics and Law and is now a senior economist. Now, she serves as the chief audit executive and deputy secretary of committee for discipline inspection of Ping An Bank.

From July 1993 to October 1996, Ms. Sun Yongzhen successively served as the senior staff member, principal staff member and deputy-director-general-level researcher of capital planning department under PBoC, Shenzhen Special Economic Zone branch; from October 1996 to February 2005, she successively served as the deputy general manager of capital planning department, deputy general manager of financial institution department and deputy general manager of financial interbank department under Shenzhen Development Bank; from March 2005 to August 2017, she successively served as a researcher of division I in the joint stock bank supervision department, researcher of policy and regulation department, head of the office of supervision, director of foreign bank supervision department, director of HR department (director of organization department of the CPC Committee) in CBRC Shenzhen branch; since August 2017, she has served as the chief audit executive and deputy secretary of committee for discipline inspection of Ping An Bank.

Ms. Wang Qun, Employee Supervisor.

Born in 1968, she graduated from Southern Institute of Metallurgy and majored in computer. Now, she serves as the general manager of key customer department III of Ping An Bank, Shenzhen branch. She works as an employee supervisor of Ping An Bank since June 2017.

Ms. Wang Qun joined Shenzhen Commercial Bank, Nanshan branch in March 1993. She successively served as the director of business department and corporate department and assistant to the president, and has been the general manager of key customer department III of Ping An Bank, Shenzhen branch since February 2010.

III. Tenure information(Continued)

1. Professional background, main work experiences, current major responsibility in the Company of incumbent directors, supervisors and senior management(Continued)

Mr. Wu Peng, Vice President of the Bank.

He was born in 1965. He majored in business management and received a PhD from Nanjing University in 2003.

Mr. Wu started his financial career in 1989 and worked in various subsidiaries of China Ping An. He successively served as vice president of Shenzhen branch of Ping An Life Insurance, general manager of Nanjing branch of Ping An Life Insurance, associate of head office of Ping An Property & Casualty Insurance, deputy general manager of head office of Ping An Life Insurance, general manager of head office of Ping An Property & Casualty Insurance, Chairman of China Ping An Insurance (Hong Kong) Co., Ltd., general manager of Eastern Region Division of original Ping An Bank as well as other posts. From August 2011, he has served as the vice president of Ping An Bank (then Shenzhen Development Bank).

Mr. Xiang Youzhi, CFO.

Born in 1964, he received a PhD in management from Xiamen University.

From July 1987 to September 1991, Mr. Xiang worked as a teaching assistant in business management department of East China Metallurgic Institute (now Anhui University of Technology); from September 1991 to July 1994, he studied in Xiamen University for a master's degree in accounting; from August 1994 to August 1995, he worked as a lecturer in business management department of East China Metallurgic Institute (now Anhui University of Technology); from September 1995 to August 1998, he studied in Xiamen University for a PhD in accounting; from September 1998 to April 2007, he successively served as the office manager of accounting department, assistant to the general manager of accounting department, deputy general manager of accounting department, general manager of planning and finance department and staff supervisor at the head office of CMBC; from April 2007 to July 2013, he successively worked as the director of finance and accounting department, general manager of financial management department and general manager of asset liability management department in Shenzhen Development Bank (now Ping An Bank); from July 2013 to May 2014, he worked as the general manager of the Planning Department of Ping An Insurance (Group) Company Of China, Ltd. From May 2014 to August 2017, he worked as the chief financial officer and general manager of the finance department of Ping An Insurance (Group) Company Of China, Ltd. Since August 2017, he has served as the CFO of Ping An Bank (approved by CBIRC on 29 January 2018).

Zhou Qiang, Secretary of the Board.

He was born in 1972. He majored in international finance in Department of Finance of Nankai University and received a PhD in economics.

From July 2001 to April 2007, he successively served as business manager of Investment Banking Division of Ping An Securities Co., Ltd., deputy general manager and general manager of investment banking management department. From April 2007 to October 2011, he served as deputy director of board office and securities affairs representative of China Ping An. From October 2011 to May 2014, he successively served as general manager assistant and deputy general manager of Ping An Securities. Since June 2014, he has served as secretary of the board of Ping An Bank. Since December 2016, he has served as a co-president of Investment Banking Division of Ping An Bank.

2. Directors and supervisors' service status in shareholder units

Name	Serving shareholder unit	Title	Term
Xie Yonglin	Ping An Insurance (Group) Company of China, Ltd.	Co-CEO	From December 2018 till now
		Deputy general manager	From September 2016 till now
Tan Sin Yin	Ping An Insurance (Group) Company of China, Ltd.	Co-CEO	From December 2018 till now
		Standing deputy general manager	From January 2016 till now
		COO	From December 2013 till now
		CIO	From January 2013 till now
	Ping An Life Insurance Company of China, Ltd.	Non-executive director	From January 2013 till now
Yao Jason Bo	Ping An Insurance (Group) Company of China, Ltd.	Standing deputy general manager	From January 2016 till now
		Chief actuary	From October 2012 till now
		CFO	From April 2010 till now
		Executive director	From June 2009 till now
	Ping An Life Insurance Company of China, Ltd.	Non-executive director	From September 2008 till now
Ip So Lan	Ping An Insurance (Group) Company of China, Ltd.	Deputy general manager	From January 2011 till now
		Compliance director	From July 2010 till now
		Audit director	From March 2008 till now
		CIA	From March 2006 till now
Cai Fangfang	Ping An Insurance (Group) Company of China, Ltd.	CHRO	From March 2015 till now
		Executive director	From July 2014 till now
	Ping An Life Insurance Company of China, Ltd.	Non-executive director	From December 2013 till now
Guo Jian	China Electronics Shenzhen Company	Deputy secretary of the CPC Committee	From April 2012 till now
		Director, deputy general manager	From July 2011 till now
Che Guobao	Shenzhen Yingzhongtai Investment Co., Ltd.	Chairman, legal representative, shareholder	From December 2010 till now

Information about Directors, Supervisors and Senior Management

III. Tenure information(Continued)

3. Directors, supervisors and senior management staff's service status in other units besides shareholder units

Name	Investee entities	Title
Tan Sin Yin	Ping An Property & Casualty Insurance Company of China, Ltd.	Non-executive director
	Ping An Annuity Insurance Company of China, Ltd.	Non-executive director
	Ping An Assets Management Co., Ltd.	Non-executive director
	Ping An Health Insurance Company of China, Ltd.	Non-executive director
	Shenzhen Ping An Financial Technology Consulting Co., Ltd.	Non-executive director
	Ping An Technology (Shenzhen) Co., Ltd.	Chairman
	Shenzhen Ping An Financial Services Co., Ltd.	Non-executive director
	Shanghai Lujiazui International Financial Asset Exchange Co., Ltd.	Non-executive director
	OneConnect Financial Technology Co., Ltd.	Non-executive director
	Lufax Holding Ltd.	Non-executive director
Yao Jason Bo	Ping An Property & Casualty Insurance Company of China, Ltd.	Non-executive director
	Ping An Health Insurance Company of China, Ltd.	Non-executive director
	Ping An Annuity Insurance Company of China, Ltd.	Non-executive director
	Ping An Assets Management Co., Ltd.	Non-executive director
	Ping An Trust Co., Ltd.	Non-executive director
	Ping An Securities Co, Ltd.	Non-executive director
	Ping An Technology (Shenzhen) Co., Ltd.	Non-executive director
	Ping An Uob Fund Management Co., Ltd.	Non-executive director
	Shanghai Lujiazui International Financial Asset Exchange Co., Ltd.	Non-executive director
	Ping An International Financial Leasing Co., Ltd.	Non-executive director
	OneConnect Financial Technology Co., Ltd.	Non-executive director
	Lufax Holding Ltd.	Non-executive director
	Ping An Healthcare and Technology Company Limited	Non-executive director
Ip So Lan	OneConnect Financial Technology Co., Ltd (Shanghai)	Supervisor
	Shenzhen OneConnect Intelligence Technology Co., Ltd.	Non-executive director
	Shanghai Lujiazui International Financial Asset Exchange Co., Ltd.	Non-executive director
	Lufax Holding Ltd.	Non-executive director
Cai Fangfang	Ping An Property & Casualty Insurance Company of China, Ltd.	Non-executive director
	Ping An Assets Management Co., Ltd.	Non-executive director
	Ping An Annuity Insurance Company of China, Ltd.	Non-executive director
	Ping An Health Insurance Company of China, Ltd.	Non-executive director
	Shanghai Lujiazui International Financial Asset Exchange Co., Ltd.	Non-executive director
	Ping An Healthcare and Technology Company Limited	Non-executive director
	OneConnect Financial Technology Co., Ltd.	Non-executive director

Name	Investee entities	Title
Guo Jian	Shenzhen Frontsurf Information Technology Co., Ltd.	Chairman
	Shenzhen Municipal Committee of CPPCC	CPPCC member
	Shenzhen Chamber of Commerce for Import & Export	President
	China Chamber of Commerce for Import and Export of Machinery and Electronic Products	Executive director
	Shenzhen Enterprise Confederation	Vice president
Wang Chunhan	Bank of Tibet	Independent director
Wang Songqi	Baoshang Bank Limited	Independent director
	Graduate School of Chinese Academy of Social Sciences	Professor and doctoral supervisor
	National Academy of Economic Strategy, and IFB, CASS	Researcher
	Central University of Finance and Economics	Part-time doctoral supervisor
	Southwestern University of Finance and Economics	Guest professor
	Sixth China Society for Finance and Banking	Executive director
	The Chinese Banker magazine	Chief editor
Han Xiaojing	Commerce & Finance Law Offices	Partner
	Sino-Ocean Group Limited	Independent non-executive director
	Far East Horizon Ltd.	Independent non-executive director
	China National Aviation Fuel Group Corporation Limited	External director
	Beijing Sanju Environmental Protection & New Materials Co., Ltd.	Independent director
Guo Tianyong	School of Finance of Central University of Finance and Economics	Professor and doctoral supervisor
	Hundsun Electronics Co., Ltd.	Independent director
	Digiwin Software Co., Ltd.	Independent director
Yang Rusheng	Ruihua Certified Public Accountants	Partner
	Webank	Independent director
	IPE GROUP LIMITED	Non-executive director
	Guangdong University of Finance & Economics	Guest professor
	Guangdong Institute of Certified Public Accountants	Director
	Chinese Institute of Certified Public Accountants	Director
	Shenzhen Institute of Certified Public Accountants	President
Zhou Jianguo	Shenzhen Special Economic Zone Real Estate & Properties (Group) Co., Ltd.	Chairman, secretary of the CPC Committee
Chu Yiyun	School of Accounting of Shanghai University of Finance and Economics	Professor and doctoral supervisor
	China Jushi Co., Ltd.	Independent director
	Shanghai Tongji Science & Technology Industrial Co., Ltd.	Independent director
	Tellhow Sci-tech Co., Ltd.	Independent director
	Universal Scientific Industrial (Shanghai) Co., Ltd.	Independent director
	BANK OF JIAXING CO., LTD.	Independent director

III. Tenure information(Continued)

4. Penalties imposed by securities regulatory authorities in past three years on directors, supervisors and senior management staff who are in-service and left their posts during the reporting period

☐ Yes √ No

IV. Compensation for directors, supervisors and senior management staff

Decision-making process, determining bases and actual payment of compensation for directors, supervisors and senior management staff of the Bank: the compensation plan for the Bank's senior management staff was deliberated and approved by board meeting of the Bank. The compensation plan for the Bank's directors and supervisors was deliberated and approved by the general meeting of shareholders of the Bank after being deliberated and approved by the Board of Directors and supervisory committee respectively.

Compensation for directors, supervisors and senior management staff during the reporting period:

(In RMB'0000)

Name	Title	Service status	Sex	Age	Total pre-tax compensation received from the Bank	Whether receiving compensation from related parties of the Bank
Xie Yonglin	Chairman	In-service	Male	50	477.70	No
Hu Yuefei	Director and president of the Bank	In-service	Male	56	457.19	No
Tan Sin Yin	Director	In-service	Female	41	-	Yes
Yao Jason Bo	Director	In-service	Male	47	-	Yes
Ip So Lan	Director	In-service	Female	62	-	Yes
Cai Fangfang	Director	In-service	Female	44	-	Yes
Guo Jian	Director	In-service	Male	54	31.10	No
Guo Shibang	Director	In-service	Male	53	386.61	No
Yao Guiping	Director	In-service	Male	57	390.42	No

Name	Title	Service status	Sex	Age	Total pre-tax compensation received from the Bank	Whether receiving compensation from related parties of the Bank
Wang Chunhan	Independent director	In-service	Male	67	41.70	No
Wang Songqi	Independent director	In-service	Male	66	40.34	No
Han Xiaojing	Independent director	In-service	Male	63	39.98	No
Guo Tianyong	Independent director	In-service	Male	50	41.06	No
Yang Rusheng	Independent director	In-service	Male	50	39.70	No
Qiu Wei	Chairman of the supervisory committee, employee supervisor	In-service	Male	56	371.29	No
Che Guobao	Supervisor of shareholder	In-service	Male	69	30.40	No
Zhou Jianguo	External supervisor	In-service	Male	63	30.40	No
Luo Xiangdong	External supervisor	In-service	Male	65	35.44	No
Chu Yiyun	External supervisor	In-service	Male	54	34.00	No
Sun Yongzhen	Employee supervisor	In-service	Female	50	77.51	No
Wang Qun	Employee supervisor	In-service	Female	50	223.91	No
Wu Peng	Vice president of the Bank	In-service	Male	53	370.82	No
Xiang Youzhi	CFO	In-service	Male	54	359.40	No
Zhou Qiang	Secretary to the Board	In-service	Male	46	318.44	No
He Zhijiang	Vice president of the Bank	Left post	Male	53	129.04	No
Gan Yu	Employee supervisor	Left post	Male	42	200.70	No

Note: 1. Directors Tan Sin Yin, Yao Jason Bo, Ip So Lan and Cai Fangfang serve in and receive compensation from Ping An Insurance (Group) Company Of China, Ltd., majority shareholder of the Bank. See the *2018 Annual Report of Ping An Insurance (Group) Company Of China, Ltd.* for information about their compensation. Aforesaid persons did not receive compensation from the Bank.

2. According to the *Supervisory Guidelines on Sound Compensation in Commercial Banks and relevant regulations of the Bank*, part payment of performance compensation for the Bank's senior management staff will be delayed. The delay period is 3 years. The total pre-tax compensation the Bank's senior management staff received from the Bank included the performance compensation which is delayed and unpaid. And this part of performance compensation will be paid in a delayed manner by year in next 3 years.

3. Compensations received from the Bank during the reporting period by newly appointed staff or those who left post in current year are calculated by their work time during the reporting period.

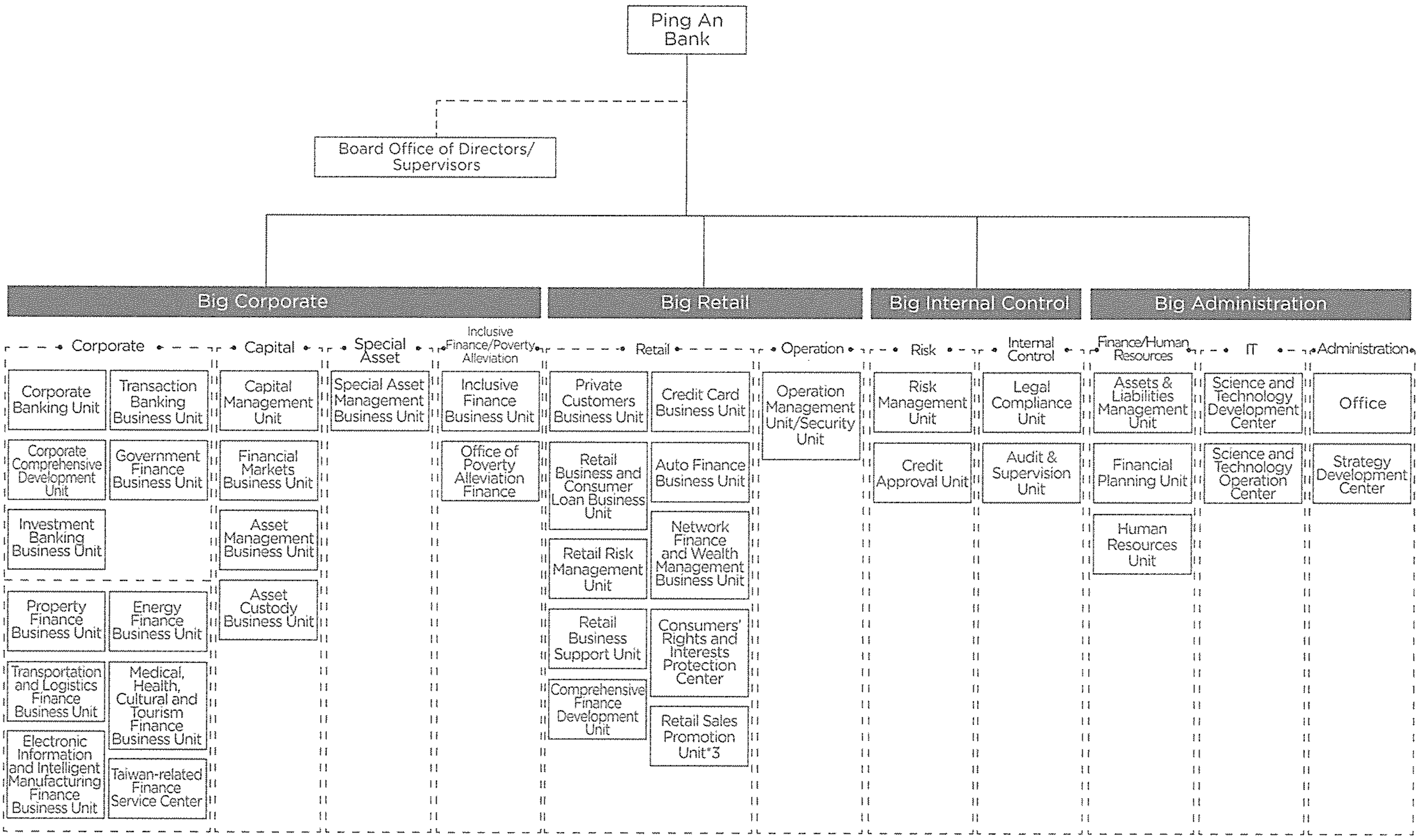
4. The total pre-tax compensation of executive directors, employee supervisors and senior management staff who work for the Bank is to be confirmed and others will be disclosed separately after confirmation.

Equity incentive awarded to the Company's directors and senior management staff during the reporting period

☐ Applicable √ Not applicable

Information about Directors, Supervisors and Senior Management

V. Department setting at the end of the reporting period



Note: The Bank has set a representative office in Beijing.

VI. Information about organizations and employees

1. Establishment of organizations

At the end of the reporting period, the Bank had 80 branches and 1,057 outlets in total. Information about the Bank's organizations (including branches and outlets) is as follows:

Organization name	Address	Number of outlets	Asset scale(In RMB million)	Number of employees
Shenzhen Branch	No. 1099, Shennan Middle Road, Futian District, Shenzhen	147	540,675	3,531
Shanghai Branch	No. 1333 Lujiazui Ring Road, Pudong New Area, Shanghai	68	273,676	1,900
Beijing Branch	No. 158, Fuxingmennei Street, Xicheng District, Beijing	60	227,362	1,923
Guangzhou Branch	Zhukong Commercial Building, No. 1 Huaqiang Road, Zhujiang New Town, Tianhe District, Guangzhou	53	141,348	1,563
Shanghai Pilot Free Trade Zone Branch	No. 799, Yanggao South Road, Pudong New Area, Shanghai	1	72,927	136
Hangzhou Branch	No. 36, Qingchun Road, Xiacheng District, Hangzhou	34	71,482	1,155
Nanjing Branch	No. 128, Shanxi Road, Gulou District, Nanjing	37	55,375	754
Wuhan Branch	No. 54, Zhongbei Road, Wuchang District, Wuhan	50	47,571	635
Chongqing Branch	No. 778, Jingwei Avenue, Yuzhong District, Chongqing	26	42,946	558
Xiamen Branch	No. 82, Lianqian Subdistrict, Zhanhong Road, Siming District, Xiamen	18	41,375	415
Chengdu Branch	No.99, Second Tianfu Street, Hi-tech Zone, Chengdu	35	40,338	669
Shenzhen Qianhai Branch	Building 28A, Qianhai Enterprise Dream Park, No. 63, Qianwan First Road, Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Shenzhen	1	38,757	40
Tianjin Branch	No. 349, Nanjing Road, Nankai District, Tianjin	33	37,009	767
Xi'an Branch	No. 240, Dongxin Street, Xincheng District, Xi'an	12	32,953	404
Ningbo Branch	No. 138, Jiangdong North Road, Jiangdong District, Ningbo	13	32,575	527
Hefei Branch	No. 999, Dongliu Road West, Shushan District, Hefei	4	32,025	224
Qingdao Branch	No. 28, Miaoling Road, Laoshan District, Qingdao	24	31,304	553
Shijiazhuang Branch	No. 78, Xinhua Road, Xinhua District, Shijiazhuang	13	31,173	325
Kunming Branch	No. 448, Qingnian Road, Panlong District, Kunming	35	30,159	508
Dalian Branch	No. 21, Ganglong Road, Zhongshan District, Dalian	23	29,699	672
Zhengzhou Branch	No. 25, Business Outer Ring Road, Zhengdong New District, Zhengzhou	20	28,140	452
Fuzhou Branch	No. 109, Wusi Road, Gulou District, Fuzhou	41	27,623	536
Jinan Branch	No. 13777, Jingshi Road, Lixia District, Jinan	17	25,108	513

Information about Directors, Supervisors and Senior Management

VI. Information about organizations and employees(Continued)

1. Establishment of organizations(Continued)

Organization name	Address	Number of outlets	Asset scale(In RMB million)	Number of employees
Changsha Branch	No. 456, Wuyi Avenue, Furong District, Changsha	10	24,555	338
Foshan Branch	District Five, Foshan News Center, Yuhe Road, Foshan New City, Foshan	29	21,446	637
Huizhou Branch	No. 8, Maidi East Road, Huicheng District, Huizhou	13	17,552	226
Taiyuan Branch	No. 6, Bingzhou North Road, Yingze District, Taiyuan	5	17,379	214
Haikou Branch	No. 22, Jinlong Road, Longhua District, Haikou	17	16,841	361
Wenzhou Branch	No. 1707, Wenzhou Avenue, Ouhai District, Wenzhou	19	16,445	359
Dongguan Branch	Block A, Fortune Plaza, Hongfu Road, Nancheng District, Dongguan	13	15,495	371
Wuxi Branch	No. 670, Zhongshan Road, Wuxi	11	14,838	210
Yantai Branch	No. 96, Huanshan Road, Zhifu District, Yantai	3	14,635	76
Shenyang Branch	A1, 163, Nanjing North Street, Heping District, Shenyang	7	12,158	300
Zhuhai Branch	No. 288, Hongshan Road, Xiangzhou District, Zhuhai	11	11,989	286
Suzhou Branch	No. 89, Suxiu Road, Suzhou Industrial Park, Suzhou	10	11,886	265
Tianjin Pilot Free Trade Zone Branch	Building 1, Ronghe Plaza, No. 168, Xisi Road, Tianjin Pilot Free Trade Zone (Tianjin Airport Economic Area)	1	11,692	91
Yiwu Branch	No. 223, Binwang Road, Yiwu	9	8,499	155
Nantong Branch	No. 38, Yuelong Road, Chongchuan District, Nantong	2	7,913	96
Quanzhou Branch	Lianjie International Center Building, No. 109, Binghai Street, Fengze District, Quanzhou	18	7,883	295
Nanchang Branch	Ruituoronghe Building, No. 88, Shangdu Road, Honggutan New District, Nanchang	1	6,990	159
Changzhou Branch	No. 288, Feilong East Road, Changzhou	10	6,903	164
Zhongshan Branch	No. 1, Xingzheng Road, East District, Zhongshan	12	6,512	244
Guiyang Branch	Jincheng Street, Guanshanhu District, Guiyang, Guizhou	1	5,652	139
Taizhou Branch	No. 181, Baiyunshan South Road, Taizhou Economic Development Zone, Taizhou	9	3,744	112
Xuzhou Branch	No. 2, Xi'an North Road, Xuzhou, Jiangsu	1	3,419	51
Weifang Branch	No. 343, Dongfeng East Street, Kuiwen District, Weifang	2	3,393	57
Tangshan Branch	No. 31, Xinhua West Street, Lubei District, Tangshan, Hebei	1	3,103	66
Taizhou Branch	No. 39, Qingnian South Road, Hailing District, Taizhou	2	2,699	49

Organization name	Address	Number of outlets	Asset scale(In RMB million)	Number of employees
Nanning Branch	B101-109, Jiuzhou International Building, No. 9, Zhongxin Road, Qingxiu District, Nanning	1	2,687	102
Shaoxing Branch	No. 711-713, Jiefang Avenue, Shaoxing	3	2,634	68
Luoyang Branch	No. 55, Binhe South Road, Luolong District, Luoyang	2	2,585	47
Zhangzhou Branch	Liyuan Plaza, Eastern Section of Nanchang Road, Xiangcheng District, Zhangzhou	5	2,564	57
Xiangyang Branch	No. 10, Chunyuan West Road, Xiangyang	2	2,152	42
Linyi Branch	No. 10, Jinqueshan Road, Lanshan District, Linyi	3	2,092	64
Zibo Branch	Zhongrun Comprehensive Building , No. 1, Zhongrun Avenue, High-tech District, Zibo	1	1,879	39
Yichang Branch	Zhongxing Plaza, No. 179, Yiling Avenue, Wujiagang District, Yichang	1	1,856	34
Dongying Branch	No. 55, Fuqian Street, Dongying District, Dongying	2	1,841	45
Jingzhou Branch	Fengtai Mansion, Beijing Road, Shashi District, Jingzhou	2	1,791	38
Rizhao Branch	No. 89, Taian Road, Rizhao	2	1,657	29
Branch in Xiamen Area of Fujian Pilot Free Trade Zone	No. 99, Xiangyu Road. Huli District, Xiamen	1	1,580	4
Mianyang Branch	No. 116, Northern Section of Huoju West Street, Hi-tech Zone, Mianyang	1	1,539	30
Guangdong Pilot Free Trade Zone Nansha Branch	No. 106, Fengze East Road, Nansha District, Guangzhou	1	1,526	20
Langfang Branch	F4 Floor, Aimingdongdao New Word Center Office, Guangyang District, Langfang	1	1,195	43
Huzhou Branch	No. 72, Lianjiaxiang Road, Building 1, Shangzuo, Tianyuanyicheng, Huzhou	1	1,182	32
Leshan Branch	No. 358, Southern Section of Chunhua Road, Shizhong District, Leshan	2	1,130	33
Yancheng Branch	Fenghuang Culture Plaza, No. 611, Century Avenue, Yancheng	1	741	43
Hengqin Branch in Guangdong Pilot Free Trade Zone	Building 7, Hengqin Financial Industry Service Base, Shizimen Central Business District, Hengqin New Area, Zhuhai	1	563	15
Honghe Branch	No. 6, Daqiao Street, Gejiu	1	524	25
Jining Branch	Huiji Central Building, Junction of Guanghe Road and Communist Youth League Road, Jining	1	509	33

VI. Information about organizations and employees(Continued)

1. Establishment of organizations(Continued)

Organization name	Address	Number of outlets	Asset scale(In RMB million)	Number of employees
Branch in Fuzhou Area of Fujian Free Trade Zone	No. 68-1, Jiangbin East Avenue, Mawei Town, Mawei District, Fuzhou	1	297	5
Nanyang Branch	Wanda International, Junction of Zhongzhou Road and Yongan Road, Wolong District, Nanyang	1	282	26
Jinzhong Branch	East Region No. 1, Yujing City Garden Phase II, No. 233, Xinjian North Road, Yuci District, Jinzhong	1	236	30
Yangzhou Branch	No. 447, Jiangyang Middle Road, Yangzhou, Jiangsu	1	221	37
Wuhu Branch	1-2/F, Podium Building, Weixing Times Financial Center at the intersection of Beijing Middle Road and Jiuhua Middle Road, Jinghu District, Wuhu, Anhui	1	207	40
Xianyang Branch	No. 2, Dingcheng Garden, No. 11, Renmin East Road, Weicheng District, Xianyang	1	168	25
Weihai Branch	No. 75, Northern Qingdao Road, Weihai, Shandong	1	161	29
Deyang Branch	New Era Plaza, No. 308, First Section of Western Changjiang Road, Deyang	1	133	24
Hengyang Branch	Room 1104, 1/F, Hengyang Shenguotou Commercial Center, No. 21, Jiefang Avenue, Zhengxiang District, Hengyang, Hunan	1	43	22
Hohhot Branch	1-3/F, Block A, Ulan Fortune Plaza, No. 56, Ruyihe Street, Ruyi Development Zone, Hohhot	1	-	64
Yueyang Branch	Room 109A, 1/F, Building 2, Garden Mansion, No. 9, Jin'e Middle Road, Yueyanglou District, Yueyang, Hunan	1	-	23
Treasury Operation Center	No. 1333 Lujiazui Ring Road, Pudong New Area, Shanghai	1	114,487	47
Credit Card Center (sub-center inclusive)	No. 1, Liyumen Street, Qianwan First Road, Qianhai Shenzhen-Hongkong Modern Service Industry Cooperation Zone, Shenzhen	27	462,355	2,378
SME Finance BU	No. 5047, Shennan East Road, Luohu District, Shenzhen	1	Reflected in each branch	
Total		1,057	2,818,038	27,674

Note: The number of organizations was counted according to the licenses.

2. Information about employees

As of the end of the reporting period, the total number of in-service employees of the Bank was 34,626 (including 918 dispatched employees). The number of retired ex-employees who shall be paid pensions was 88. Among regular employees are 22,935 business personnel, 7,370 financial and operating personnel, 2,150 management and operation personnel and 1,253 administrative support and other personnel. And 84.1% of them have bachelor degrees or higher degree. 98.9% of them have college degrees or higher degree.

To support the Bank's medium and long-term strategic development goals, to give full play to compensation resources' guiding effects on strategic transformation requirements and stimulation of business vitality, by improving compensation incentive mechanism, reasonably design compensation structure and level, the Bank has developed a compensation policy, which is "market-oriented, follows the principle of paying compensations based on posts and bonuses on performance and determining long-term incentives based on long-term business performance and banking market value".

On the basis of good corporate governance requirements, the Bank has brought risk factors into incentive mechanism for assessment and appraisal. The Bank has set multidimensional indexes to comprehensively evaluate the performance of each business unit. A linkage mechanism of compensation resources with assessment results was also established. At the same time, the Bank has set up a linkage mechanism of employee bonuses with individual performance, department performance and organization performance to fully arouse the enthusiasm of organizations and employees.

To better prevent risks, improper incentives or over incentives, the Bank continued to perform the plan of delay in bonus payment in the year. Personnel who are related to this plan are all senior management staff, other management staff associated with risk management and market frontline staff. The delay period matches with the period of risk exposure. And according to risk index implementation, the nature and effect of risk exposure events and so on, it will be decided whether the payment will be made or how much the payment proportion will be when the delay period expires.

Corporate Governance

I. Basic Situation of corporate governance

During the reporting period, the Bank was committed to further completing the corporate governance system and perfecting the corporate governance structure in accordance with the provisions of the *Company Law, Securities Law, Commercial Bank Law* and other relevant laws and regulations, as well as the regulatory requirements of China Securities Regulatory Commission and China Banking and Insurance Regulatory Commission. The Bank has established a number of corporate governance systems, including the Articles of Association, rules of procedures for the Shareholders' General Meeting, rules of procedures for the Board of Directors and their special committees, rules of procedures for the Supervisory Committee and their special committees, information disclosure management system, investor relations system, shares held by directors, supervisors and senior management, and change management method, management system of insider information and insiders, accountability system of major errors in annual report information disclosure, system of preventing major shareholders and related parties occupying the funds, performance evaluation methods of directors and supervisors, etc.

The *Proposal on Revising the Articles of Association of Ping An Bank Co., Ltd.* was approved on 20 June 2018 at the 2017 Annual General Meeting of the Bank, which included Party building and requirements related to shareholding management into the *Articles of Association* and had been examined and approved by CBIRC.

During the reporting period, the Shareholders' General Meeting of the Bank has effectively played its functions in accordance with the relevant provisions of the *Company Law* and the *Articles of Association*. The Board of Directors shall be responsible to the Shareholders' General Meeting, and bear the ultimate responsibility for the operation and management of the bank, and shall hold the meeting in accordance with the legal procedures and exercise its functions and powers. The Supervisory Committee, with its responsible attitude towards all shareholders, shall maintain the close contact and communication with the Board of Directors and the management, and carry out performance evaluation of directors and supervisors, to effectively perform the supervisory functions and duties. The management of the Bank abides by the principle of good faith, prudently and diligently performs its duties, and carries out management according to the decision of the Board of Directors.

Whether there is a significant difference between the actual situation of corporate governance and the normative documents issued by the China Securities Regulatory Commission on the governance of listed companies

□ Yes √ No

II. Independence conditions of the Company on business, personnel, assets, organizations, finance etc. of controlling shareholders

The Bank is completely separated from business, organizations, personnel, finance, assets, etc. of controlling shareholders, and is provided with independent and completed businesses and self-operation capabilities. In terms of business, the Bank has an independent operation and sales system; in terms of organizations, the Bank has an organization structure which is completely independent from the controlling shareholders; in terms of personnel, the Bank is independent of controlling shareholder in labor, personnel and wages management and other aspects; members of operating management do not hold posts in the shareholders' units; in terms of finance, the Bank has established an independent financial management system and accounting system, with independent accounting, independent tax; in terms of assets, the Bank's assets are complete, and the property relations are clear. The Bank has independent premises for business activities and property rights, trademark registration right and non-patented technology and other intangible assets.

During the reporting period, the controlling shareholder of the Bank did not interfere with operation and management of listed companies, and there were no other non-standard situations of corporate governance.

III. Competition in the same business

☐ Applicable √ Not applicable

IV. Relevant conditions of annual Shareholders' General Meeting and Extraordinary General Meeting during the reporting period

1. Conditions of Shareholders' General Meeting during the reporting period

Session and type of meeting	Investor participation rate	Holding date	Disclosure date	Disclosure indexes
The First Extraordinary General Meeting of 2018	60.3491%	1 March 2018	2 March 2018	The *Resolution Announcement of 2018 First Extraordinary General Meeting of Ping An Bank Co., Ltd.*, the *Resolution Announcement of 2017 Annual General Meeting of Ping An Bank Co., Ltd.* and relevant announcements were published on the *China Securities Journal*, *Securities Times*, *Shanghai Securities News*, *Securities Daily* and CNINF (http://www.cninfo.com.cn)
2017 Annual General Meeting	60.5716%	20 June 2018	21 June 2018	

2. Preferred shareholders with resumed voting rights request to convene an extraordinary general meeting

☐ Applicable √ Not applicable

V. Implementation of responsibilities of independent directors during the reporting period

In 2018, the independent directors of the Bank actively, effectively and independently performed duties in accordance with the relevant laws, regulations, rules and requirements of the Bank's Articles of Association, made independent judgments and decisions on major issues, gave objective and impartial independent opinions, thereby safeguarding the overall interests of the Bank, especially protecting the legal rights and interests of minority stockholders from being violated. It has made due contribution to the corporate governance optimization of the Bank, construction, operation and management of the Board of Directors.

1. Participations of independent directors on the Board of Directors and Shareholders' General Meeting

Participations of independent directors on the Board of Directors						
Name of independent director	Number of participations in the Board of Directors during the reporting period	On-site attendance time	Participation time through communication	Entrusted attendance time	Absence time	Does he/she fail to take part in the meeting for continuous two times by himself/herself?
Wang Chunhan	8	6	2	0	0	No
Wang Songqi	8	6	2	0	0	No
Han Xiaojing	8	6	2	0	0	No
Guo Tianyong	8	6	2	0	0	No
Yang Rusheng	8	6	2	0	0	No
The number of independent directors attending the Shareholders' General Meeting	2 times					

The independent director did not fail to take part in the Board of Directors for continuous two times by himself/herself.

2. The independent director has not raised any objection on related issues raised by the Bank during the reporting period

3. Other instructions on implementation of responsibilities of the independent directors

Are the suggestions related to the Bank proposed by the independent director accepted?

√ Yes □ No

In 2018, the independent director gave independent opinions on 10 related matters considered by the Board of Directors, made a number of comments and suggestions during the meeting and adjournment, which were accepted or responded by the Bank.

VI. Responsibility performances of the special committees set under the Board of Directors during the reporting period

The tenth Board of Directors of the Bank set up six special committees: Strategic Development and Consumer Right Protection Committee, Audit Committee, Risk Management Committee, Related Transaction Control Committee, Nomination Committee and Remuneration and Appraisal Committee. In 2018, the tenth Board of Directors held 8 meetings, the special committees held 24 meetings, including four meetings of Strategic Development and Consumer Right Protection Committee, six meetings of Audit Committee, four meetings of Risk Management Committee, three meetings of Related Transaction Control Committee, three meetings of Nomination Committee and four meetings of Remuneration and Appraisal Committee. All special committees of the Board of Directors, in strict accordance with the *Articles of Association, the Rules of Procedures for the Board of Directors*, and the working rules of the committees, held meeting to perform their duties, and made comments and suggestions on the relevant work.

VII. Composition and working condition of the Supervisory Committee

During the reporting period, the Supervisory Committee, with its responsible attitude towards all shareholders and employees, fulfilled their duties, pursued diligence & responsibility, conducted Compliance operation according to the law in accordance with the *Company Law, Securities Law*, various guidelines of regulatory authorities, the Bank's *Articles of Association*, and various rules and regulations of the Supervisory Committee. A relatively comprehensive supervision system encompassing meeting supervision, strategic supervision, tour inspection and investigation supervision, performance evaluation supervision, external audit check supervision and communication and meeting supervision was set up, which positively promoted the robust development of the Bank's business, enhancement of risk control, and improvement of corporate governance structure.

The ninth Supervisory Committee sets up two special committees: Audit and Oversight Committee and Nomination and Appraisal Committee. In 2018, the Board of Supervisors held six meetings of the Board of Supervisors, and six meetings of special committees of the Supervisory Committee (including five meetings of Audit and Oversight Committee, and one meeting of Nomination and Appraisal Committee), and expressed opinions on the Bank's financial accounting, responsibility performances of directors, supervisors and executives, as well as related reports and conclusions. Chairman of the Supervisory Committee and members of the Supervisory Committee also attended six meetings of the Board of Directors throughout the year, twelve meetings of the special committees of the Board of Directors, two shareholders' general meetings, directly participated in most of business line meetings, compliance control, case preventing meeting and risk control meeting of the Bank, effectively exercised the performance supervision of senior management of the Board of Directors, as well as the supervisory functions of the Bank's financial management, risk management and internal control.

VIII. Working situation of external supervisors

During the reporting period, external supervisors of the Bank actively, effectively and independently performed supervisory duties in accordance with the relevant laws, regulations, rules and requirements of the Bank's *Articles of Association*, gave independent opinions, safeguarded the overall interests of the Bank, and made due contribution to the corporate governance optimization of the Bank, and improvement of the supervision mechanism.

Participations of external supervisors on the Supervisory Committee

Name	Number of participations in the Supervisory Committee during the reporting period	Personal attendance time	Entrusted attendance time	Absence time	Does he/she fail to take part in the meeting for continuous two times by himself/herself?
Zhou Jianguo	6	6	0	0	No
Luo Xiangdong	6	6	0	0	No
Chu Yiyun	6	6	0	0	No

The Supervisory Committee of the Bank has no objection on the supervision issues during the reporting period.

IX. Salary Management structure and decision-making procedures

The Board of Directors has Remuneration and Appraisal Committee; the independent directors are accounted for more than half of the members; members of the Committee have professional knowledge. As per authorization of the Board of Directors, the Remuneration and Appraisal Committee performs its duties in accordance with the *Articles of Association* and *Working Rules of the Remuneration and Appraisal Committee in the Board of Directors of Ping An Bank*; it manly reviews the remuneration management system and policy of the Bank, drafts the remuneration plan for directors and senior management, proposes suggestions on remuneration plan to the Board of Directors, and supervises the implementation of plan.

X. Evaluation and incentive mechanism of senior management

During the reporting period, the Bank shall assess senior management staff according to the completion of the annual work objectives and plans of the Bank, and the bonuses of senior management staff closely link up with the assessment results. The Bank will continue to improve the performance evaluation and incentive and restraint mechanisms of senior management.

XI. Internal control

1. Details about internal control critical defects found during the reporting period

☐ Yes √ No

2. Internal control self-evaluation report

Disclosure date of internal control evaluation report	7 March 2019
Disclosure index of internal control self-evaluation report	CNINF http://www.cninfo.com.cn
The proportion of total assets included in the evaluation scope in that of the Company's consolidated financial statement	100%
The proportion of operating revenue included in the evaluation scope in that of the Company's consolidated financial statement	100%

Identification standard of internal control defect

Defect grade	Definition	Identification standard	
		Quantitative standard	Qualitative standard
Major	A combination of one or more control defects that may cause a serious deviation from the control objectives.	1. The financial loss, in accordance with the loss amount, accounted for ≥1% of the annual operation revenue; 2. The misstatement of financial report, in accordance with the misstatement amount, accounted for ≥0.25% of total assets at the end of the year; 3. The proportion of financial misstatement amount in the total annual profit is ≥5%.	1. It has a serious impact on the realization of the Bank's overall control objectives; 2. It may have or has caused a significant amount of financial loss or misstatement of financial report; 3. It is in violation of the relevant laws and regulations or regulatory requirements, the circumstances are very serious, thus causing severe punishment from the regulatory authorities or other very serious legal consequences; 4. It may lead to serious business or service problems, causing that the services of a number of key products/ key customers cannot be carried out; 5. The negative impact has a wide range, thus causing widespread public concern at home and abroad, and having a serious negative impact on the Bank's reputation and stock price.

XI. Internal control(Continued)

2. Internal control self-evaluation report(Continued)

Defect grade	Definition	Identification standard	
		Quantitative standard	Qualitative standard
Significant	A combination of one or more control defects, whose severity and economic consequences are lower than significant defects, but may still cause a serious deviation from the control objectives.	1. The financial loss, in accordance with the loss amount, accounted for [0.05%-1%) of the annual operation revenue; 2. The misstatement of financial report, in accordance with the misstatement amount, accounted for [0.0125%, 0.25%) of total assets at the end of the year; 3. The proportion of financial misstatement amount in the total annual profit is [0.25%, 5%).	1. It has a certain impact on the realization of the Bank's overall control objectives; 2. It may have or has caused a larger amount of financial loss or misstatement of financial report; 3. It is in violation of the relevant laws and regulations as well as regulatory requirements, the circumstances are serious, thus causing more serious punishment from the regulatory authorities or other more serious legal consequences; 4. It may lead to business or service problems, causing that the service quality of one or several key products/ key customers is declined significantly; 5. The negative impact spreads inside and outside of the industry, thus causing public concern, and bringing a greater negative impact on the Bank's reputation in some areas.
General	Other control defects other than major defects and significant defects.	1. The financial loss in accordance with the proportion of loss amount accounted for the annual operation revenue is <0.05%; 2. The misstatement of financial report, in accordance with the misstatement amount, accounted for <0.0125% of total assets at the end of the year; 3. The proportion of financial misstatement amount in the total annual profit is <0.25%.	1. It has a slight impact or basically no impact on the realization of the Bank's overall control objectives; 2. It may have or has caused a smaller amount of financial loss or misstatement of financial report; 3. It is in violation of the relevant laws and regulations or regulatory requirements, the circumstances are very minor, thus causing lighter punishment from the regulatory authorities or other minor legal consequences; 4. It may lead to business or service problems, affecting one or several key products/key customers; the impact situation can be immediately controlled; 5. The negative impact is limited to a certain range, the degree of public concern is lower, and it brings a smaller negative impact on the Bank's reputation.

Number of major defects in financial report (Nr.)	0
Number of major defects in non-financial report (Nr.)	0
Number of significant defects in financial report (Nr.)	0
Number of significant defects in non-financial report (Nr.)	0

3. Internal control audit report

√ Applicable □ Not applicable

Review comments in the internal control audit report

We believe that Ping An Bank maintained effective internal control over all significant aspects in accordance with the Basic Norms of Enterprise Internal Control and the relevant regulations on 31 December 2018.

Disclosure of internal audit report	Disclosure
Disclosure date of internal control audit report	7 March 2019
Disclosure index of internal control audit report	CNINFO http://www.cninfo.com.cn
Opinion type of internal audit report	Unqualified
Whether there are major defects in the non-financial report	No

Whether the accounting firm issues internal audit report with modified opinion?

□ Yes √ No

Whether the internal control audit report issued by the accounting firm shares the same opinion with the self-evaluation report of Board of Directors

√ Yes □ No

Corporate Bonds

On 21 January 2019, the Bank made a public issuance of RMB26 billion of A-share convertible corporate bonds, which were listed at the Shenzhen Stock Exchange on 18 February 2019. Please refer to "Section IX Convertible Corporate Bonds" for details.

Financial Report

Auditor's Report

PwC ZT Shen Zi (2019) No. 10010

To the Shareholders of Ping An Bank Co., Ltd.,

Opinion

What we have audited

We have audited the accompanying financial statements of Ping An Bank Co., Ltd. (hereinafter "Ping An Bank"), which comprise:

•the balance sheet as at 31 December 2018;
•the income statement for the year then ended;
•the cash flow statement for the year then ended;
•the statement of changes in shareholders' equity for the year then ended; and
•notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Ping An Bank as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
We are independent of Ping An Bank 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 judgement, 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:

•Expected credit losses (ECL) measurement of loans and advances to customers, investment on debts and credit commitments
•Consolidation assessment of structured entities

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
I. ECL measurement of loans and advances to customers, investment on debts and credit commitments Refer to Note II 9(iv), 35(ii), 36 and Note III 8, 10, 32 to the financial statements As at 31 December 2018, loans and advances (including accrued interest) to customers in Ping An Bank's balance sheet amounted to RMB 2,003,790 million with loss provision of RMB 54,187 million recognised by management, investment on debts (including accrued interest) amounted to RMB 636,727 million with loss provision of RMB 7,361 million recognised by management, and credit commitment exposures amounted to RMB 588,399 million with provisions of RMB 836 million recognised by management. The impairment loss of loans and advances to customers, investment on debts and credit commitments recognised in the income statement totalled RMB 47,193 million. The balance of loss provision for loans and advances to customers and investment on debts as well as provisions for credit commitments reflected that management had made best ECL estimates based on the ECL model prescribed by Accounting Standard for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments on the reporting date.	We evaluated and tested the effectiveness of internal control design and operation related to the ECL measurement of loans and advances to customers, investment on debts and credit investments, mainly including: (1)ECL measurement model governance, including the selection, approval and application of model methodology, and internal control regarding continuous model monitoring and optimisation; (2)Internal control regarding management's significant judgements and assumptions, including group division, model selection, parameter estimation, judgements on significant increase in credit risk, default and credit impairment incurred, and review and approval of overlay adjustments for forwarding-looking and managerial reasons; (3)Internal control regarding the accuracy and completeness of key data used in model measurement; (4)Internal control regarding future cash flow forecast and present value calculation of corporate loans, advances and investment on debts in stage 3; (5)Information system internal control regarding model measurement. We mainly implemented the following substantive procedures: We reviewed the methodology of ECL model measurement and evaluated the reasonableness of group division, model selection, key parameters and significant judgements and assumptions. We conducted sampling verification on the operation of the model to test if the measurement model had properly reflect the model methodology prepared by management.

Key Audit Matter	How our audit addressed the Key Audit Matter
I. ECL measurement of loans and advances to customers, investment on debts and credit commitment (Continued) On basis of the evaluation on whether the credit risk of loans and advances to customers, investment on debts and credit commitments had increased significantly since the initial recognition, Ping An Bank used a three-stage impairment model for ECL measurement. For corporate loans and advances, investment on debts, personal loans, advances, and credit commitments in stage 1 and stage 2, management evaluated the loss provision by using the risk parameter model methodology that includes key parameters such as probability of default, loss given default, exposure at default and discount rate. For corporate loans, advances and investment on debts in stage 3, management evaluated loss provision by predicting the future cash flow of the loan or investment. Management's significant judgements and assumptions included in the ECL measurement model: (1)Classifying businesses with similar credit risk characteristic into the same group, selecting the proper measurement model and determining the key parameters related to the measurement; (2)Criteria involved in the judgement of significant increase in credit risk, default and credit impairment incurred; (3)Economic indicators, economic scenarios and the corresponding weights adopted in the forward-looking measurement; (4)Management's overlay adjustments for significant uncertainties not covered by the model; (5)Future cash flow forecast for corporate loans, advances and investment on debts in stage 3. Ping An Bank established relevant governance process and control mechanism for ECL measurement. In ECL measurement, Ping An Bank applied complex models, used a large number of parameters and data, and involved management's significant judgements and assumptions. Meanwhile, due to the contract exposures of loans and advances to customers, investment on debts and credit commitments and because the provisions for loss impairment were significant, we determined the ECL measurement as a key audit matter.	Based on the borrowers' financial and non-financial information and other external evidences and considerations, we took samples to evaluate if management had appropriately identified the loans suffering from significant increase in credit risk, default and credit-impairment. In terms of forward-looking measurement, we reviewed management's model analysis results of economic indicators selected and economic scenarios and weights adopted, evaluated the reasonableness of the financial indicator estimates, and conducted sensitivity tests on financial indicators, financial scenarios and weights. In addition, we assessed the reasonableness of the selection, use and measurement of significant uncertainties in management's overlay adjustments and checked the accuracy of the mathematical calculation. We took sampling check on the key data used in the model measurement, including historical data and measurement data, to assess the accuracy and completeness. We selected samples to check the key data transmitted between the model measurement engine and information system to verify the accuracy and completeness. For corporate loans, advances and investment on debts in stage 3, we selected samples and checked the loss provisions calculated based on the expected future cash flows and discount rate derived from the financial information of borrowers and warrantors, the latest appraisal value of collaterals and other information obtained. Based on the procedures we implemented and the inherent uncertainty of ECL measurement of loans and advances to customers, investment on debts and credit commitments, we considered that the models applied, key parameters used, significant judgements and assumptions made by management in the loss assessment were acceptable.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
II. Consolidation assessment of structured entities Refer to Note II 6 and 35(iv), and Note III 56 to the financial statements Ping An Bank managed and invested in several structured entities. As at 31 December 2018, the scale of unconsolidated wealth management products managed by Ping An Bank among all structured entities was RMB 537,781 million and the scale of asset securitisation products was RMB 36,620 million; and the carrying amount (including accrued interest) of assets formed due to investing in unconsolidated structured entities by Ping An Bank was RMB 265,163 million. Management assessed three aspects including Ping An Bank's power in owning structured entities, variable returns in structured entities and the ability of Ping An Bank in using the power in structured entities to affect its returns to decide whether Ping An Bank consolidated its managed or invested structured entities. Considering the scale of Ping An Bank's structured entities and evaluating whether structured entities needed to be consolidated involved significant management judgements, we considered consolidation assessment of structured entities as key audit matter.	We understood, assessed and tested the effectiveness of design and implementation of internal controls related to evaluating the consolidation of structured entities. These internal controls mainly included approval of transaction structures and contract terms, and review and approval of consolidation assessment and results. In addition, we checked supporting documents of structured entities managed or invested by Ping An Bank on a sampling basis, including related contracts, internal documents and information obtained as an investor or disclosed to investors, and assessed whether Ping An Bank constituted controls over structured entities by conducting the following audit procedures: 1. We understood the purpose of setting up structured entities and the participation of Ping An Bank in structured entities, and assessed management's judgement regarding whether Ping An Bank owned the power over structured entities; 2. We checked the structure design of risks and rewards by structured entities, including any asset owned in structured entities by Ping An Bank or guaranty for its income, arrangement for providing liquidity support, payment of expenses and allocation of income etc., to assess magnitude and variability of the variable returns in structured entities owned by Ping An Bank which was judged by management; 3. We decided Ping An Bank's role in the aforesaid activities to be an agent or a principal in charge based on whether the Bank is able to influence the amount of return by using the rights of structured entities, including analysing Ping An Bank's decision scope, gained rewards and other interests, and other participators' rights. Based on the implemented procedures, the consolidation judgment of structured entities made by Management is acceptable.

Other information

Management of Ping An Bank is responsible for the other information. The other information comprises all of the information included in 2018 annual report of Ping An Bank other than the financial statements and our auditor's report thereon.

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

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 Ping An Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, 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 these financial statements, management is responsible for assessing Ping An Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Ping An Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Ping An Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

•Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

•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 Ping An Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these 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 Ping An Bank to cease to continue as a going concern.

•Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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.

PicewaterhouseCoopers Zhong Tian LLP	Signing CPA	Chen Anqiang (Engagement Partner)
Shanghai, the People's Republic of China	Signing CPA	Gan Lili
6 March 2019		

Balance Sheet

As at 31 December 2018
(All amounts in RMB million unless otherwise stated)

	Note III	31 December 2018	31 December 2017
ASSETS			
Cash and balances with central banks	1	278,528	310,212
Deposits with banks and other financial institutions	2	85,098	130,208
Precious metals		56,835	87,501
Placements with and loans to banks and other financial institutions	3	72,934	59,015
Derivative financial assets	4	21,460	16,080
Financial assets held under resale agreements	5	36,985	41,934
Accounts receivables	6	-	52,886
Interest receivables	7	-	20,354
Loans and advances to customers	8	1,949,757	1,660,420
Financial investments:			
Financial assets held for trading	9	148,768	39,575
Investment on debts	10	629,366	-
Other investment on debts	11	70,664	-
Other equity investment	12	1,519	-
Available-for-sale financial assets	13	-	36,744
Held to maturity investment	14	-	358,360
Debt instruments classified as receivables	15	-	372,323
Investment properties	16	194	209
Property and equipment	17	10,899	8,036
Intangible assets	18	4,771	4,701
Goodwill	19	7,568	7,568
Deferred income tax assets	20	29,468	24,989
Other assets	21	13,778	17,359
TOTAL ASSETS		3,418,592	3,248,474

	Note III	31 December 2018	31 December 2017
Liabilities			
Borrowings from central bank	23	149,756	130,652
Deposits from banks and other financial institutions	24	392,738	430,904
Placements from banks and other financial institutions	25	24,606	28,024
Financial liabilities held for trading		8,575	9,047
Derivative financial liabilities	4	21,605	17,712
Financial assets sold under repurchase agreements	26	7,988	6,359
Due to customers	27	2,149,142	2,000,420
Salaries and welfare payable	28	12,238	10,713
Taxes payable	29	9,366	11,891
Interest payable	30	-	26,063
Debt securities issued	31	381,884	342,492
Provisions	32	860	25
Other liabilities	33	19,792	12,118
Total liabilities		3,178,550	3,026,420
Shareholders' equity			
Share capital	34	17,170	17,170
Other equity investment	35	19,953	19,953
Including: Preference shares		19,953	19,953
Capital reserve	36	56,465	56,465
Other comprehensive income	51	786	(528)
Surplus reserve	37	10,781	10,781
General reserve	38	39,850	38,552
Retained earnings	39	95,037	79,661
Total shareholders' equity		240,042	222,054
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,418,592	3,248,474

The accompanying notes form an integral part of these financial statements.

The financial statements are signed by:

Legal representative: Xie Yonglin President: Hu Yuefei CFO/ Head of accounting department: Xiang Youzhi

Income Statement

For the year ended 31 December 2018
(All amounts in RMB million unless otherwise stated)

	Note III	2018	2017
I. Operating income			
Interest income	40	162,888	148,068
Interest expenses	40	(88,143)	(74,059)
Net interest Income	40	74,745	74,009
Fee and commission income	41	39,362	35,725
Fee and commission expenses	41	(8,065)	(5,051)
Net fee and commission income	41	31,297	30,674
Investment income	42	9,186	632
Including: losses from derecognisition of financial assets measured at amortised cost		(65)	(274)
Gains or losses on changes in fair value	43	892	(61)
Exchange gains or losses	44	209	166
Other operating income	45	170	186
Gains or losses on disposal of assets		88	10
Other income		129	170
Total operating income		116,716	105,786
II. Operating costs			
Taxes and surcharges	46	(1,149)	(1,022)
Business and administrative expenses	47	(35,391)	(31,616)
Total operating costs		(36,540)	(32,638)
III. Operating profit before impairment losses on assets		80,176	73,148
Impairment losses on credit	48	(47,814)	-
Impairment losses on other assets		(57)	-
Impairment losses on assets	49	-	(42,925)
IV. Operating profit		32,305	30,223
Add: Non-operating income		28	38
Less: Non-operating expenses		(102)	(104)
V. Profit before tax		32,231	30,157
Less: Income tax expenses	50	(7,413)	(6,968)
VI. Net profit		24,818	23,189
(I) Net profit from continued operations		24,818	23,189
(II) Net profit from discontinued operations		-	-

	Note III	2018	2017
VII. Other comprehensive income, net of tax	51		
(I) Not to be reclassified into profit or loss in subsequent periods			
Changes in fair value of investments in other equity investment		1	-
(II) To be reclassified into profit or loss in subsequent periods			
1. Changes in fair value of financial assets designated at fair value and changes included into other comprehensive income		644	-
2. Provision for credit losses on financial assets designated at fair value and changes included into other comprehensive income		267	-
3. Gains or losses arising from changes in fair value of available-for-sale financial assets		-	281
Sub-total		911	281
Total other comprehensive income		912	281
VIII. Total comprehensive income		25,730	23,470
IX. Earnings per share			
Basic earnings per share (RMB Yuan)	52	1.39	1.30
Diluted earnings per share (RMB Yuan)	52	1.39	1.30

The accompanying notes form an integral part of these financial statements.

Statement Of Changes In Shareholders' Equity

For the year ended 31 December 2018

(All amounts in RMB million unless otherwise stated)

	Note	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total shareholders' equity
I. As at 31 December 2017		17,170	19,953	56,465	(528)	10,781	38,552	79,661	222,054
Changes from initial implementation of the revised accounting standards for financial instruments	II 36	-	-	-	402	-	-	(4,935)	(4,533)
As at 1 January 2018		17,170	19,953	56,465	(126)	10,781	38,552	74,726	217,521
II. Movements in the year									
(i) Net profit		-	-	-	-	-	-	24,818	24,818
(ii) Other comprehensive income	III 51	-	-	-	912	-	-	-	912
Total comprehensive income		-	-	-	912	-	-	24,818	25,730
(iii) Profit appropriation									
1. Appropriation to surplus reserve	III 39	-	-	-	-	-	-	-	-
2. Appropriation to general reserve	III 39	-	-	-	-	-	1,298	(1,298)	-
3. Dividends on ordinary shares	III 39	-	-	-	-	-	-	(2,335)	(2,335)
4. Dividends on preference shares	III 39	-	-	-	-	-	-	(874)	(874)
III. As at 31 December 2018		17,170	19,953	56,465	786	10,781	39,850	95,037	240,042

	Note	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total shareholders' equity
I. As at 1 January 2017		17,170	19,953	56,465	(809)	10,781	34,468	64,143	202,171
II. Movements in the year									
(i) Net profit		-	-	-	-	-	-	23,189	23,189
(ii) Other comprehensive income		-	-	-	281	-	-	-	281
Total comprehensive income		-	-	-	281	-	-	23,189	23,470
(iii) Profit appropriation									
1. Appropriation to surplus reserve		-	-	-	-	-	-	-	-
2. Appropriation to general reserve		-	-	-	-	-	4,084	(4,084)	-
3. Dividends on ordinary shares		-	-	-	-	-	-	(2,713)	(2,713)
4. Dividends on preference shares		-	-	-	-	-	-	(874)	(874)
III. As at 31 December 2017		17,170	19,953	56,465	(528)	10,781	38,552	79,661	222,054

The accompanying notes form an integral part of these financial statements.

Cash Flow Sataement

For the year ended 31 December 2018
(All amounts in RMB million unless otherwise stated)

	Note III	2018	2017
I. Cash flows from operating activities			
Net decrease in amounts due from the Central Bank and deposits with banks and other financial institutions		90,075	-
Net increase of deposits from the Central Bank		16,791	110,255
Net increase in customer deposits and deposits from banks and other financial institutions		84,569	115,803
Net decrease in placements with and loans to banks and other financial institutions		9,727	-
Net increase in financial assets sold under repurchase agreements		1,624	-
Net decrease in financial assets held under resale agreements		107	1,921
Cash received from interest and fee and commission income		180,118	154,707
Cash received relating to other operating activities	54	53,267	28,518
Sub-total of cash inflows		436,278	411,204
Net increase in amounts due from the Central Bank and deposits with banks and other financial institutions		-	(37,487)
Net increase in loans and advances to customers		(287,146)	(269,977)
Net increase in placements with banks and other financial institutions		-	(19,512)
Net decrease in placements from banks and other financial institutions		(3,465)	(24,562)
Net increase in financial assets held for trading		(70,579)	-
Net decrease in financial assets sold under repurchase agreements		-	(11,404)
Net increase in accounts receivables		-	(47,318)
Cash payments for interest and fee and commission expenses		(76,438)	(59,164)
Cash paid to and on behalf of employees		(16,194)	(14,345)
Cash payments for taxes and surcharges		(22,155)	(23,675)
Cash paid relating to other operating activities	55	(17,624)	(22,540)
Sub-total of cash outflows		(493,601)	(529,984)
Net cash flows used in operating activities		(57,323)	(118,780)

	Note III	2018	2017
II. Cash flows from investing activities			
Cash received from investments upon disposal/maturity		440,302	628,623
Cash received from investment income		26,372	30,943
Cash received from disposal of property and equipment and other long-term assets		92	32
Sub-total of cash inflows		466,766	659,598
Cash payments for investments		(400,765)	(692,912)
Cash payments for property and equipment, intangible assets and other long-term assets		(4,619)	(2,817)
Sub-total of cash outflows		(405,384)	(695,729)
Net cash flows from/(used in) investing activities		61,382	(36,131)
III. Cash flows from financing activities			
Cash received from debt securities issued		765,579	901,644
Sub-total of cash inflows		765,579	901,644
Cash repayments of principal of debt securities		(740,810)	(834,670)
Cash payments for debt securities interest		(2,539)	(1,948)
Cash payments for dividend and profit appropriation		(3,209)	(3,587)
Sub-total of cash outflows		(746,558)	(840,205)
Net cash flows from financing activities		19,021	61,439
IV. Effect of foreign exchange rate changes on cash and cash equivalents		1,697	(2,918)
V. Net increase/(decrease) in cash and cash equivalents		24,777	(96,390)
Add: Cash and cash equivalents at beginning of the year		137,024	233,414
VI. Cash and cash equivalents at end of the year	53	161,801	137,024

The accompanying notes form an integral part of these financial statements.

Cash Flow Sataement(Continued)

For the year ended 31 December 2018
(All amounts in RMB million unless otherwise stated)

SUPPLEMENTARY INFORMATION	Note III	2018	2017
1. Adjustments for net profit to cash flows generated from operating activities			
Net profits		24,818	23,189
Adjusted for:			
Impairment losses on credit		47,814	-
Impairment losses on other assets		57	-
Impairment losses on assets		-	42,925
Interest income of impaired financial assets		(675)	(659)
Depreciation of investment properties		9	11
Depreciation of property and equipment		1,134	975
Amortisation of intangible assets		888	674
Amortisation of long-term prepaid expenses		434	516
Net losses from disposal of property and equipment and other long-term assets		12	7
Gains or losses from changes in fair value of financial instruments		(3,439)	(1,518)
Gains or losses from changes in fair value of foreign exchange derivatives		(1,491)	794
Interest on investment and investment income		(28,923)	(32,123)
Increase in deferred income tax assets		(3,259)	(7,252)
Interest expenses of debt securities issued		15,522	14,358
Increase in operating receivables		(219,692)	(347,032)
Increase in operating payables		109,469	186,420
Write-back of expected litigation losses		(1)	(65)
Net cash flows used in operating activities		(57,323)	(118,780)
2. Net increase/(decrease) in cash and cash equivalents			
Cash at end of the year	53	5,015	4,226
Less: Cash at beginning of the year		(4,226)	(4,495)
Add: Cash equivalents at end of the year	53	156,786	132,798
Less: Cash equivalents at beginning of the year		(132,798)	(228,919)
Net increase/(decrease) in cash and cash equivalents		24,777	(96,390)

The accompanying notes form an integral part of these financial statements.

Notes To The Financial Statements

For the year ended 31 December 2018
(All amounts in RMB million unless otherwise stated)

I. GENERAL INFORMATION

Ping An Bank Co., Ltd. (formerly known as Shenzhen Development Bank Co., Ltd.) (hereinafter referred to as the "Company") was established in the People's Republic of China (the "PRC") as a result of the restructuring of six rural credit cooperatives into a joint stock commercial bank with limited liability. The Company was established on 22 December 1987 after the initial public offering of its RMB ordinary shares on 10 May 1987. The Company was listed on the Shenzhen Stock Exchange on 3 April 1991 and the stock code is 000001. As at 31 December 2018, the share capital of the Company amounted to RMB 17,170 million, with a face value of RMB 1 for per share.

Board resolutions on Proposal of SDB on the Scheme of Merger of the Controlling Subsidiary Ping An Bank Co., Ltd. through Absorption and Proposal of SDB on Signing the Absorption Merger Agreement with Ping An Bank Co., Ltd. signed between the Company and the former Ping An Bank Company Limited (hereinafter referred to as "Former Ping An Bank") were approved during the first extraordinary general meeting held on 9 February 2012. The absorption and merger plan had been approved by the China Banking and Insurance Regulatory Commission (the former "China Banking Regulatory Commission", hereinafter referred to as "CBIRC") in accordance with "China Banking Regulatory Commission's Approval of absorption of Ping An Bank Co., Ltd. by Shenzhen Development Bank Co., Ltd." (Yin Jian Fu [2012] No. 192).

On 12 June 2012, the Shenzhen Market Supervision and Management Bureau approved Former Ping An Bank's deregistration application. In July 2012, as approved by the CBIRC in accordance with "China Banking Regulatory Commission on the approval for the renaming of Shenzhen Development Bank" (Yin Jian Fu [2012] No. 397), the Chinese name of the Company, " 深圳发展银行股份有限公司 ", was changed to " 平安银行股份有限公司 ". The English name of "Shenzhen Development Bank Co., Ltd." was changed to "Ping An Bank Co., Ltd.".

The registered office of the Company is located at No. 5047, Shennan Road East, Luohu District, Shenzhen, Guangdong Province, the PRC. Headquartered in Shenzhen, the Company operates its business in Mainland China. The institution number of the Company on No. 00386413 financial license issued by the CBIRC is B0014H144030001. The business license number of the Company issued by Shenzhen Market Supervision and Management Bureau is 91440300192185379H.

The Company is principally engaged in authorised commercial activities. The Company's ultimate holding company is Ping An Insurance (Group) Company of China, Ltd.

The financial statements were approved and authorised for issue by the Board of Directors on 6 March 2019.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1.Basis of preparation

The financial statements are prepared in accordance with the *Accounting Standard for Business Enterprises - Basic Standard*, the specific accounting standards, the application guidance for Accounting Standards for Business Enterprises issued subsequently, interpretations of Accounting Standards for Business Enterprises and other relevant regulations (hereinafter collectively referred to as "CAS") issued by the Ministry of Finance of the People's republic of China (hereinafter referred to as "the Ministry of Finance") on 15 February 2006 and in subsequent periods and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the *Public No. 15 - General Rules on Financial Reporting* issued by the China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

2.Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Company as at 31 December 2018 and their financial performance, cash flows and other information for the year then ended.

3.Accounting year

The Company's accounting year starts on 1 January and ends on 31 December.

4.Recording currency

The Company's recording currency and the currency adopted for preparation of the financial statements are RMB. All amounts are presented in RMB million unless otherwise stated.

5.Accounting basis and evaluation principle

The Company's financial statements have been prepared on an accrual basis using the historical cost as the basis of measurement, except for financial assets/liabilities held for trading, derivatives, placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income, loans and advances to customers designated at fair value and changes included into other comprehensive income, other investment on debts and other equity investment that have been measured at fair value. If assets are impaired, provisions for asset impairment are made in accordance with relevant requirements.

6.Business combination and consolidated financial statements

Business combination refers to a transaction or event bringing together two or more separate enterprises into one reporting entity. Business combinations are classified into the business combination under common control and the business combination not under common control.

Business combinations involving enterprises under common control

Business combination under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or the same parties both before and after the business combination and on which the control is not temporary. In a business combination under common control, the party which obtains control of other combining enterprise(s) on the combining date is the combining party, the other combining enterprise(s) is (are) the combined party. The "combining date" refers to the date on which the combining party actually obtains control on the combined party.

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus. If the capital surplus is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

Business combinations involving enterprises not under common control

Business combination not under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or the same parties both before and after the business combination. In a business combination not under common control, the party which obtains the control on other combining enterprise(s) on the acquisition date is the acquirer, and the other combining enterprise(s) is (are) the acquiree. The "acquisition date" refers to the date on which the acquirer actually obtains the control on the acquiree.

For the business combination not under common control, the acquirer shall, on the acquisition date, measure the identifiable assets, liabilities and contingent liabilities it obtains from the acquirer in light of their fair values.

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. The acquirer shall recognise the positive difference between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as goodwill and recognise the negative difference in profit or loss of the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

The consolidated financial statements are prepared on the basis of where control is achieved, including the Company and all its subsidiaries (including the structured entities).

Subsidiaries are the entities controlled by the Company. Control means having power over an investee, enjoying variable returns through involvement in relevant activities of the investee, and being able to impact the amount of such variable returns by using the power over the investee. The Company consolidates the subsidiaries at the date when control is achieved, and stops to consolidate at the date when control is lost.

A structured entity refers to an entity of which, when controller of an entity is determined, the voting rights or similar rights do not compose a decisive factor affecting the design of entity structure (e.g. the voting rights are only related to administrative affairs), and relevant activities of the entity are carried out in accordance with contracts or corresponding arrangements.

No significant difference exists between consolidated financial statements and the Company's standalone financial statements.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

7.Foreign currency translation

The Company translates the amount of foreign currency transactions into its recording currency.

Foreign currency transactions are translated into recording currency on initial recognition using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated using the spot exchange rate at the balance sheet date. All exchange differences are recognised in "Exchange gains or losses" or "Other comprehensive income" in the income statement. Non-monetary items denominated in foreign currencies measured at historical cost continue to be translated at the spot exchange rates at the dates of the transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rates at the date when the fair value was determined. All exchange differences are recognised in "Exchange gains or losses" or "Other comprehensive income" in the income statement.

8.Precious metals

Precious metals mainly include gold. Precious metals that are not related to the Company's precious metal trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Company for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in profit or loss for the period.

9.Financial assets and liabilities

(i)Initial recognition and measurement of financial instruments

When the Company becomes a party of financial instrument contract, relevant financial assets or liabilities are recognised.

At initial recognition, financial assets and liabilities are measured at fair value by the Company. For financial assets or financial liabilities not designated at fair value through profit or loss, transaction costs (such as commission and fee) that are directly attributable to the acquisition or issuance of financial assets or liabilities are added or deducted. Transaction costs for financial assets and liabilities designated at fair value through profit or loss are recognised as expenses through profit or loss. After initial recognition, for financial assets measured at amortised cost and investments in debt instruments designated at fair value and changes included into other comprehensive income, their expected credit losses are immediately recognised in profit or loss.

When the fair value of the financial assets and financial liabilities at initial recognition is different from their transaction costs, the Company confirms the difference in the following ways:

(i)If the fair value is determined based on the quoted price in active markets (i.e., Level 1 inputs) for identical assets or liabilities or based on valuation techniques using only observable market data, the difference is recognised in profit or loss.

(ii)In other cases, the Company defers the difference and determines each time point for recognising the profit or loss after the first deferral date. The difference may be amortised over the lifetime of the financial instruments, or deferred until the fair value of the instruments can be determined using observable market data, or recognised in profit or loss when the financial instruments are settled.

(ii)Classification and subsequent measurement of financial assets

Classification

The Company classifies its financial assets into the following categories:

-financial assets designated at fair value and changes included into the profits and losses for the period

-Financial assets designated at fair value and changes included into other comprehensive income

-Financial assets measured at amortised cost

Financial assets are classified based on the business model governing those financial assets and the characteristics of the corresponding contractual cash flows.

The business model reflects how the Company manages its financial assets to generate cash flows. In other words, it reflects whether the Company's goal is only collecting contractual cash flows of the assets, or both collecting contractual cash flows and trading the financial assets. If neither of the above is applicable (e.g., holding the financial assets for trading), the financial asset group falls into the category of "others" for business model and is classified as financial assets designated at fair value and changes included into the profits and losses for the period.

If the business model is collecting contractual cash flows, or includes both collecting contractual cash flows and trading the financial assets, the Company will assess whether the cash flows of financial instruments are solely payments of principal and interest. In the assessment, the Company considers whether the contractual cash flows are consistent with basic lending arrangements, that is, the interest only includes the time value of currency, credit risk, other basic lending risks and considerations for profit rates in compliance with the basic lending arrangements. If contract terms lead to risks or volatility exposures inconsistent with basic lending arrangements, the relevant financial assets should be classified as financial assets designated at fair value and changes included into the profits and losses for the period.

For financial assets containing embedded derivatives, the Company should analyse them as a whole when confirming if the contractual cash flows are solely payments of principal and interest.

Subsequent measurement

Debt instruments

Debt instruments refer to the instruments that are consistent with the definition of financial liabilities from the perspective of the issuer, loans, government bonds and corporate bonds, for instance.

Subsequent measurement of a debt instrument depends on the Company's business model governing the asset and the characteristics of the asset's contractual cash flows. The Company classifies debt instruments using the following three measurement methods:

-Measured at amortised cost: Assets that are held for receiving contractual cash flows and for sale and whose cash flows are solely payments of principal and interest are classified into financial assets measured at amortised cost. The interest income of such financial assets is recognised using the effective interest method. The Company's debt instruments measured at amortised cost mainly comprise balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions that are measured at amortised cost, financial assets held under resale agreements, loans and advances to customers that are measured at amortised cost, accounts receivables, investment on debts and other receivables.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

9.Financial assets and liabilities(Continued)

(ii)Classification and subsequent measurement of financial assets(Continued)

Debt instruments (Continued)

-Measured at amortised cost(Continued): The amortised cost of a financial asset shall be measured at the initial recognition amount adjusted as follows: (i) minus the principal repayments; (ii) plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount; (iii) minus the cumulative loss allowance (only applicable to financial assets). The Company calculates the interest income of the asset using the effective interest method and presents it as "interest income".

The effective interest rate is the interest rate at which the estimated future cash flows of a financial asset or financial liability in the expected lifetime is discounted to the carrying amount of the financial asset (i.e., the amortised cost before deduction of loss provisions) or the amortised cost of the financial liability. In the calculation of the effective interest rate, the ECL is not taken into account, while the transaction costs, premiums or discounts and fees paid or received that are an integral part of the effective interest rate are included.

-Designated at fair value and changes included into other comprehensive income: Assets that are held for receiving contractual cash flows and for sale and whose cash flows are solely payments of principal and interest are classified into financial assets designated at fair value and changes included into other comprehensive income. Such assets are subsequently measured at fair value, and the impairment losses or gains relating to the amortised cost of the financial asset, interest calculated using the effective interest method and foreign exchange gains and losses are recognised in profit or loss for the current period. Besides, other changes in the carrying amount are included in other comprehensive income. The accumulated gains or losses that are previously recognised in other comprehensive income are transferred from equity to profit or loss. Interest income from these financial assets is calculated at effective interest rate and recognised in profit or loss. The Company's debt instruments designated at fair value and changes included into other comprehensive income mainly comprise placements with and loans to banks and other financial institutions that are measured at fair value through other comprehensive income, loans and advances to customers that are measured at fair value through other comprehensive income and other investment on debts.

The fair value of a financial asset is the amount received from selling an asset or paid for transferring a liability in an orderly transaction on the measurement date. An orderly transaction refers to a transaction in which related assets or liabilities are traded in customary market activities in a period before the measurement date. Compulsory transactions such as liquidation are not orderly transactions.

-Designated at fair value and changes included into the profits and losses for the period: Financial assets not measured at amortised cost or not designated at fair value and changes included into other comprehensive income are classified as financial assets designated at fair value and changes included into the profits and losses for the period. Such assets are subsequently designated at fair value and changes included into the profits and losses for the period.

Financial assets designated at fair value and changes included into the profits and losses for the period held by the Company include financial assets held for trading and financial assets recognised as financial assets designated at fair value and changes included into the profits and losses for the period for they are not qualified as financial assets measured at amortised cost or financial assets designated at fair value and changes included into other comprehensive income. These financial assets are included in "Financial assets held for trading" in the balance sheet.

Equity instruments

Equity instruments refer to the instruments that are consistent with the definition of equity from the perspective of the issuer, that is, an instrument that does not contain contractual obligation to make a payment but is entitled to the net assets and residual income of the issuer, such as common stock.

All equity instrument investments held by the Company are subsequently measured at fair value. The Company classifies equity instrument investments not held for trading as equity instrument investments designated at fair value and changes included into other comprehensive income with presented as "investment in other equity investment" in balance sheet. After the designation, changes in fair value are recognised in other comprehensive income and should not be subsequently reclassified to profit or loss (even when they are disposed). Dividends as return on investment are recognised in profit or loss when the Company's right to receive dividends has been established.

(iii)Classification and subsequent measurement of financial liabilities

Financial liabilities held for trading

Financial liabilities held for trading refer to financial liabilities classified as at fair value through profit or loss, including those designated by the Company.

Such financial liabilities are measured at fair value and their gains or losses are recognised in profit or loss for the current period. For financial liabilities designated at fair value through profit or loss, gains or losses should be recognised as follows:

(1)For changes in fair value of the financial liabilities that arise from changes in the Company's own credit risk, the relevant amount should be recognised in other comprehensive income.

(2)Other changes in the fair value of the financial liabilities are recognised in profit or loss. If the treatment on the effect of changes in the financial liabilities' credit risk as stated in (1) will cause or worsen the accounting mismatch in profit or loss, the Company shall recognise the profit or loss of the financial liabilities (including the amount affected by changes in their own credit risk) in profit or loss for the current period.

Where a financial liability designated as fair value through profit or loss is derecognised, the accumulated gains or losses that are previously recognised in other comprehensive income are transferred from other comprehensive income to retained earnings.

A financial liability may be designated, on initial recognition, as at fair value through profit or loss only when one of the following conditions is satisfied:

(1)the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising the gains or losses on them on a different basis.

(2)as stated in formal written document with respect to risk management or investment strategy, the portfolio of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, and the information is reported on that basis to the Company's key management personnel;

(3)a hybrid instrument embedded with one or more derivatives, unless the embedded derivative does not significantly modify the cash flows of the hybrid instrument, or it is clear that a separation of the hybrid instrument from the embedded derivative is obviously inappropriate.

If a financial liability was designed as financial liability held for trading at initial recognition, it cannot be reclassified as other types of financial liabilities in subsequent periods; and other types of financial liabilities cannot be reclassified as financial liabilities held for trading, either.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

9.Financial assets and liabilities(Continued)

(iv)Impairment of financial assets

For debt instruments measured at amortised cost and those designated at fair value and changes included into other comprehensive income, as well as credit commitments (including bank acceptance of drafts, issuance of guarantees, issuance of letters of credit and loan commitments), the Company assesses the expected credit losses by taking into account the forward-looking information. The Company recognises relevant impairment provision at each reporting date. The measurement of expected credit losses reflects the following factors:

•unbiased probability weighted amount determined based on the assessment of a series of possible results;

•time value of money; and

•reasonable and supportable information that is related to past events, current situation and forecasting on future economic conditions and is available without undue cost or effort at the reporting date.

Loss provisions for credit commitments are presented in provisions. However, for an instrument that includes both loans and unused commitments, and the ECL of loans cannot be distinguished from that of the unused commitments by the Company, the loss provisions for both loans and unused commitments should be presented in the loss provisions for loans unless the total amount of loss provisions =exceeds the carrying amount of the loans, in which case, the loss provisions should be still presented in the provisions. For other financial assets that are subject to impairment requirements, their credit losses are recognised by adjusting their carrying amounts.

Measurement methods for assessment of expected credit losses are further described in Note VII 1.2.

(v)Modification of loan contracts

The Company will renegotiate or modify customer loan contracts due to certain special circumstances at times, which will in turn lead to changes in contract cash flows. In such cases, the Company will assess if there is a substantial change in the revised contractual terms. In making the assessment, factors need to be considered include:

(1)Where a modification of contract occurs when the borrower is suffering from financial difficulties, whether the modification only reduces the contract cash flows to the amount that is expected to be repaid by the borrower.

(2)If there's any newly added substantial term, for example, a term in regard to right to profits/equity returns is newly added, resulting in a substantial change in the risk characteristics of the contract.

(3)The loan term is significantly extended in the absence of financial difficulties for the borrower.

(4)Material change happens to the loan interest rate.

(5)Change happens to the loan currency.

(6)New collaterals and other credit enhancements dramatically change the level of loan credit risk.

If there is a substantial change in the revised contractual terms, the Company will derecognise the original financial asset and recognise a new financial asset designated at fair value. Meanwhile, a new effective interest rate is recalculated for the new asset. In this case, when applying impairment requirements to the modified financial asset, including when determining whether there is a significant increase in credit risk, the aforesaid modification date of contract will be regarded as the initial recognition date. For the above newly recognised financial asset, the Company is required to assess whether the asset is credit impaired at initial recognition, especially when the modification of contract occurs when the borrower fails to fulfil the initially agreed payment arrangement. Any change in carrying amount is recognised as gains or losses arising from derecognition, and is included into profit or loss for the period.

If there is no substantial change in the revised contractual terms, the modification of contract will not lead to de-recognition of the financial asset. The Company will recalculate the carrying amount of the financial asset in accordance with the revised contractual cash flows, and include gains or losses arising from the modification into profit or loss for the period. When recalculating the carrying amount, the original effective interest rate (or the credit-adjusted effective interest rate for purchased or originated credit-impaired financial asset) is adopted to discount the revised cash flows.

(vi)Derecognition other than modification of loan contracts

A financial asset or a part of a financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset have expired or been transferred, and (i) all the substantial risks and rewards of ownership of the financial asset have been transferred, or (ii) the Company has neither transferred nor retained substantially all risks and rewards of the ownership of the financial asset and retained no control over the financial asset.

In certain transactions, the Company retains the contractual rights to receive the cash flows, but bears the contractual obligation to transfer the received cash flows to the final payee, and has transferred all the substantial risks and rewards of ownership of the financial asset. In such case, the Company can derecognise the financial asset if the following conditions for transfer arrangement are met:

(1) The obligation to pay the received cash flows to the final payee only exists when equivalent cash flows are received from the financial asset.

(2) Sale or mortgage of the financial asset is prohibited; and

(3) The Company has obligation to transfer all cash flows received from the financial asset to the final payee as early as possible.

Based on the standard repurchase agreement and collaterals (shares or bonds) provided under securities margin trading, the Company will exercise the repurchase right at a predetermined price, and retain all the substantial risks and rewards of ownership of the collaterals, the requirements for derecognition therefore are not met.

When the contractual rights to receive the cash flows from the financial asset have been transferred, and the Company has neither transferred nor retained substantially all risks and rewards of the ownership of the financial asset and retained control over the financial asset, the transferred asset shall be accounted for using the continuing involvement method, and is recognised based on the extent to which the asset is involved. Relevant liabilities are recognised accordingly to reflect the rights or obligations the Company has retained. If the transferred asset is measured at amortised cost, the net carrying amount of the transferred asset and relevant liabilities is equal to the amortised cost of retained rights or liabilities; if the transferred asset is measured at fair value, the net carrying amount of the transferred asset and relevant liabilities is equal to the fair value of retained rights or liabilities.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

10.Financial guarantee contracts and loan commitments

Financial guarantee contract prescribes that when a particular debtor fails to pay back the debt according to the agreed terms, the contract signer must compensate the contract holders for the relevant loss.

Financial guarantee contracts are initially recognised at fair value and subsequently measured at the higher of the following amounts:

• impairment provision calculated using the method in Note II 9(iv).

• initially recognised amount net of revenue recognised under CAS 14 "Revenue".

Credit commitments provided by the Company are measured at impairment provision calculated using the method in Note II 9(iv).

The Company does not commit to granting loans at a price lower than the market interest rate nor settling loan commitments on a net basis by making cash payment or issuing other financial instruments.

11.Derivative financial instruments

A derivative is a financial instrument, the value of which is derived from an index value associated with another "underlying" financial instrument or the value of some other variables. Typically, an "underlying" financial instrument is a share, commodity or bond price, an index value or an exchange or interest rate.

Derivatives are initially recognised at fair value on the date when a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives, such as debt-for-equity swap in convertible bonds and interest rate-based interest payments embedded in structured deposits, are embedded into hybrid contracts. In the case of a hybrid contract whose host contract is a financial asset, it is classified and measured as a whole. In the case of a hybrid contract whose host contract is not a financial asset, the embedded derivatives are separated as independent derivatives if the following criterion are met:

(i)the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract;

(ii)the instruments that have the same terms but exist independently meet the definition of derivatives; and

(iii)the hybrid instruments are not designated at fair value through profit or loss.

The Company can either measure the separated embedded derivatives at fair value through profit or loss or designate the hybrid contract whose host contract is not related to financial assets at fair value through profit or loss.

12.Offset of financial instruments

Financial assets and liabilities are presented separately in the balance sheet and cannot be offset. However, the net amount after offset shall be presented in balance sheet if the following conditions are met:

(i)The enterprise has the statutory right to offset the recognised amount, and the statutory right is executable; and

(ii)The enterprise plans a netting settlement, or meanwhile to sell the financial asset and pay off the financial liability.

When transferring the financial assets that not satisfying derecognition conditions, the transferor shall not offset the transferred financial assets and related liabilities.

13.Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

A financial instrument shall be classified as equity instrument if the following conditions are met: (i) the financial instrument does not include delivery of cash or other financial assets to other parties or contractual obligations of exchanging financial assets or financial liabilities with other parties in potential adverse conditions; and (ii) If the financial instrument will or may be settled in the Company's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Company to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Company exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Other equity investment issued by the Company are recognised according to the actual consideration received less transaction expenses directly attributable to equity transactions.

Dividend distribution for other equity investment in the duration is accounted for as profit distribution.

14.Investment properties

Investment properties are properties held to earn rentals or for capital appreciation or both. The investment properties of the Company are buildings that are leased out and the corresponding land use rights. Investment properties are recognised only when the related economic benefits are likely to flow into the Company and the costs can be reliably measured.

The investment properties are initially measured at cost and subsequently measured using the cost model. Depreciation of investment properties is calculated using the straight-line method.

	Useful life	Estimated net residual value	Annual depreciation rate
Buildings	15 to 35 years	1%-5%	2.7%-6.6%

(All amounts in RMB million unless otherwise stated)

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

15.Property and equipment and accumulated depreciation

(i)Recognition of property and equipment

Property and equipment is recognised only when related economic benefits are likely to flow into the Company and the cost of the asset can be measured reliably.

Subsequent expenditures incurred for property and equipment that meet the above conditions are included in the cost of the property and equipment and the carrying amount of the parts that are replaced is derecognised. Otherwise, subsequent expenditures are recognised in the income statement in the period in which they are incurred.

(ii)Measurement and depreciation of property and equipment

Property and equipment are initially measured at cost. All property and equipment are stated at cost less any accumulated depreciation and any impairment losses. The cost of an asset comprises the purchase price, related taxes, and any directly attributable expenditure of bringing the asset to working condition for its intended use, such as delivery and handling costs, installation costs and professional fees.

Depreciation is calculated using the straight-line method. The Company reasonably determines the useful lives and estimated net residual values of the property and equipment according to the natures and use patterns of the property and equipment as follows:

	Useful life	Estimated net residual value	Annual depreciation rate
Buildings			
Including: Properties	15 to 35 years	1%-5%	2.7%-6.6%
Including: Owner-occupied property improvements	5 or 10 years	-	20.0% or 10.0%
Transportation vehicles	5 to 8 years	3%-5%	11.9%-19.4%
Office and electronic equipments	3 to 10 years	1%-5%	9.5%-33.0%

The useful life and estimated net residual value of property and equipment and the depreciation method applied are reviewed at each balance sheet date, and adjusted prospectively, if appropriate.

16.Construction in progress

The costs of construction in progress are determined based on the actual costs incurred, including various necessary construction costs and other related expense during the construction period. Construction in progress is not depreciated.

Construction in progress is reclassified to the appropriate category of property and equipment, or long term prepaid expenses when completed and ready for use. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below the carrying amount.

17.Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance owned or controlled by the Company.

An intangible asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. As for any intangible asset acquired in a combination, if its fair value can be measured reliably, it shall be separately recognised as an intangible asset and shall be measured in light of its fair value. The Company analyses and assesses the useful life of an intangible asset on its acquisition. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Company.

An intangible asset with definite useful life is amortised over its useful life with the straight-line method.

	Useful life	Annual depreciation rate
Software and others	3 to 5 years	20%-33%
Core deposits	20 years	5%

The useful life and amortisation method of intangible assets with finite useful lives are reviewed at each balance sheet date. If the expected useful life of the asset or the amortisation method differs significantly from previous assessments, the amortisation period or amortisation method is changed accordingly as a change in accounting estimate.

The useful life of intangible assets with indefinite useful lives is reassessed at each balance sheet date. If there is evidence that the useful life of the asset becomes definite, the accounting policies for intangible assets with definite useful life described above are then applied.

Expenditure incurred for an internal research and development project is recorded as expenditure on the research phase and development phase by the Company, respectively. Expenditure on the research phase is recognised in profit or loss for the period in which it occurs. Expenditure on the development phase is recognised as an intangible asset only when the following conditions are satisfied:

(i)It is technically feasible to complete the intangible asset so that it will be available for use or sale;

(ii)The Company intends to complete the intangible asset and use or sell it;

(iii)How the intangible asset will generate economic benefits. The enterprise shall demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(iv)There are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and

(v)The expenditure attributable to the intangible asset during its development phase can be reliably measured.

Expenditure on the development phase which does not meet all of the above conditions is recognised in profit or loss in the period in which it is incurred.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

18.Long-term prepaid expenses

Long term prepaid expenses are those prepaid expenses with an amortisation period of more than one year (excluding one year), mainly include rental expenses and leasehold improvements.

Rental expenses are operating lease rental of property and equipment and are amortised over the lease term. Other long term prepaid expenses are amortised evenly according to the shorter one of their beneficial periods and legal periods of validity.

When long term prepaid expenses no longer provide future economic benefits, the unamortised amount is recognised in profit or loss for the period.

19.Foreclosed assets

Foreclosed assets are initially recognised at fair value. The difference between the initial fair value and the sum of the related loan principal, interest receivables and impairment provision is recorded in profit or loss for the period. At the balance sheet date, the foreclosed assets are measured at the lower of their carrying amount and net realisable value. When the carrying amount is higher than the net realisable value, a provision for the decline in value of foreclosed assets is recognised in "Impairment losses on assets" in the income statement.

20.Impairment of assets

For assets excluding financial assets and debt-expiated assets, the Company assesses impairment of assets as follows:

At each balance sheet date, the Company assesses whether there is any indication that assets may be impaired. If there is any indication that an asset may be impaired, the Company will estimate the recoverable amount and conduct impairment test for the asset. Intangible assets arising from business combination with indeterminate goodwill and service life are tested for impairment at least annually, irrespective of whether there is any indication that it may be impaired. Intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication of impairment.

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.

Where the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, the carrying value of the asset shall be recorded down to the recoverable amount, and the reduced amount shall be recognised in profit or loss for the current period. Simultaneously, a provision for asset impairment shall be made accordingly.

For impairment test of goodwill, the carrying amount of goodwill acquired in a business combination shall be reasonably allocated since the acquisition date to related asset unit or to related combination if it cannot be allocated to the asset unit. Related asset portfolio or combination of asset portfolios is expected to benefit from the synergies of the combination, and shall not be larger than an operating segment as defined by the Company.

When making an impairment test on the goodwill related asset portfolio or combination of asset portfolios, if there is an indication that the portfolio or combination may be impaired, the impairment test is firstly conducted for the asset portfolio or combination of asset portfolios unrelated to goodwill, with its recoverable amount calculated and the impairment loss recognised. Then the Company shall make an impairment test for the goodwill related asset portfolio or combination of asset portfolios by comparing the carrying amount with the recoverable amount. If the recoverable amount is lower than its carrying value, the impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset portfolio or combination of asset portfolios, and then deducted from the carrying amounts of other assets within the asset portfolio or combinations of asset portfolios in proportion to the carrying amounts of assets other than goodwill.

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

21.Recognition of income and expense

Income and expense is recognised to the extent that it is probable that the economic benefits will flow to or flow out of the Company and the income or expense can be reliably measured with the following specific recognition criteria met:

Interest income and interest expense

Interest income is calculated at the carrying amount of a financial asset multiplied by the effective interest rate, except for the following cases:

(i)For an originated or purchased credit impaired financial asset, the interest income is calculated at the amortised cost of the asset multiplied by the credit-adjusted original effective interest rate.

(ii)For a financial asset that is not an originated or purchased credit-impaired financial asset, but subsequently suffers from credit impairment (or "Stage 3"), the interest income is calculated at the amortised cost (i.e., net of the loss reserve) multiplied by the effective interest rate.

The effective interest rate is the interest rate at which the estimated future cash inflow or outflow of a financial asset or financial liability in the expected lifetime is discounted to the carrying amount of the financial asset (i.e., the amortised cost before deducting the loss reserve) or the amortised cost of the financial liability. The calculation of effective interest rate takes into account all contractual terms of the financial instrument and includes all fees and transaction costs that are an integral part of the effective interest rate.

Fee and commission income

The Company earns fee and commission income from a diverse range of services provided to its customers. Fee income can be divided into the following two categories:

(i)Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

(ii)Fee income from providing specific transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

The award credits granted by the Company to the bank card holders under customer loyalty programmes are recognised at fair value through contract liabilities. When the award credits are redeemed or expired, the amount originally recognised as contract liability that is related to redeemed or expired credits is recognised in profit or loss.

Dividend income

Dividends are recognised when the right to receive the dividends is established.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

22.Government grants

Government grants refer to the monetary or non-monetary assets obtained by the Company from the government, including tax return, financial subsidy and etc.

Government grants are recognised when the grants can be received and the Company can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivables. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

Government grants related to assets refer to government grants which are obtained by the Company for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets are either deducted against the carrying amount of the assets, or recorded as deferred income and recognised in profit or loss on a systemic basis over the useful lives of the assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss, or deducted against related costs, expenses or losses in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss, or deducted against related costs, expenses or losses directly in current period. The Company applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

23.Income tax

Income tax includes current income tax and deferred income tax. Except for goodwill arising from a business combination and to the extent that the tax arises from a transaction or event which is recognised directly in other comprehensive income, all the income tax should be expensed or credited to profit or loss as appropriate.

Current income tax

Current tax is the amount of income taxes payable in respect of the taxable profit for a period. Taxable profit is the profit for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

The current income tax liabilities or assets for the current period or previous periods are measured at the amount expected to be paid or recoverable according to the requirements of tax law.

Deferred income tax

Deferred tax is provided using the balance sheet liability method on temporary differences between the carrying amount of an asset or liability on balance sheet date and the tax base, and the difference between the tax base and the carrying amount of those items that are not recognised as assets or liabilities but have a tax base that can be determined according to tax laws.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(i)Where the deferred tax liability arises from the initial recognition of goodwill, or 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 or deductible loss; and

(ii)In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

For deductible temporary differences and unused deductible losses and tax credits that can be carried forward to subsequent years, the Company recognises the corresponding deferred tax asset to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the deductible losses and tax credits can be utilised, unless 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 the accounting profit nor taxable income or deductible loss.

For deductible temporary differences arising from investments in associates, the corresponding deferred income tax asset is recognised, to the extent that, it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available in the future, against which the temporary differences can be utilised.

At the balance sheet date, Deferred income tax assets and liabilities of the Company are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirement of tax laws, and the correspondingly income tax effect of such events shall be presented.

At the balance sheet date, the Company reviews the carrying amount of a deferred income tax asset. The carrying amount of a deferred income tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available in future periods to allow the benefit of the deferred income tax asset to be utilised. At the balance sheet date, unrecognised deferred income tax assets are reassessed and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow part or full of the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are offset and presented as net amount if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

24.Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

Post-employment benefits

The Company classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. In the reporting period, defined contribution plans include basic pensions and unemployment insurance.

Basic pensions

The Company's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retired, the local labour and social security institutions are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period.

Early retirement benefits

For certain local employees, the Company accounts for the early retirement benefits in accordance with the treatment of termination benefits, in which the salaries and social security contributions to be paid to and for the early retired employees from the off-duty date to the normal retirement date are recognised as liabilities with a corresponding charge to the profit or loss for the current period. The differences arising from the changes in the respective actuarial assumptions of the early retirement benefits and the adjustments of benefit standards are recognised in profit or loss in the period in which they occur. There are no capital injections into the early retirement benefits. The cost of benefits is determined by using the projected unit credit actuarial valuation method.

25.Cash equivalents

Cash equivalents are short term, highly liquid monetary assets held by the Company that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash equivalents comprise investments that have a short maturity of generally within three months since acquired, the unrestricted balance with the Central Bank, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and reverse repurchase agreements that have a short original maturity of generally within three months.

26.Related party

If a party has the power to control, jointly control or exercise significant influence over another party in making financial and operating decisions, they are regarded as related parties. Two or more parties are also regarded as related parties if they are subject to control or joint control from the same party.

27.Fiduciary activities

Where the Company acts in a fiduciary capacity such as nominee, trustee or agent, assets arising there on together with the related undertakings to return such assets to customers are excluded from the financial statements.

Entrusted loans granted by the Company on behalf of third-party lenders are recorded as off-balance sheet items. The Company acts as an agent and grants such entrusted loans to borrowers under the direction of the third-party lenders who fund these loans. The Company has been contracted by the third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Company charges a commission related to the management of the entrusted loans. The commission income is recognised averagely over the period in which the service is provided. The risk of loan loss is borne by the third-party lenders.

28.Leases

A lease that transfers in substance all the risks and rewards incident to ownership of an asset is classified as a finance lease. An operating lease is a lease other than a finance lease.

As a lessee under operating leases

Lease payments under an operating lease are recognised by a lessee on a straight-line basis over the lease term, and either included in the cost of another related asset or charged to profit or loss for the period.

As a lessor under operating leases

Lease income under an operating lease is recognised on a straight-line basis over the period of the lease in profit or loss.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

29.Segment information

The Company identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Company that satisfies all of the following conditions: (i) the component is able to earn revenues and incur expenses from its ordinary activities; (ii) whose operating results are regularly reviewed by the Company's management to make decisions about resources to be allocated to the segment and to assess its performance, and (iii) for which the information on financial position, operating results and cash flows is available to the Company. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

30.Contingent liabilities

A contingent liability is a possible obligation that arises from past transactions or events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events. It can also be a present obligation arising from past transactions or events but is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

31.Provisions

An obligation related to a contingency is recognised as a provision when all of the following conditions are satisfied except for contingent consideration and contingent liabilities assumed in the business combination:

(i)the obligation is a present obligation of the Company;

(ii)it is probable that an outflow of economic benefits will be required to settle the obligation; and

(iii)the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The Company reviews the carrying amount of a provision at the balance sheet date. When there is clear evidence that the carrying amount of a provision does not reflect the current best estimate, the carrying amount is adjusted to the current best estimate.

With regard to loss provisions for the Company's loan commitments and financial guarantee contracts, the ECL is assessed taking into account the forward-looking information. For the measurement of loss provisions for this regarding, please refer to Note II 9(iv) and Note VII 1.2.

32.Trade date accounting

All regular way purchases and sale of financial assets are recognised on the trade date, that is, the date on which the Company commits to purchase or sell the asset. A regular way purchase or sale of financial assets is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

33.Dividends

Dividends that are declared or approved for distribution after the balance sheet date are not recognised as liability of the balance sheet date, but disclosed as an event after the balance sheet date. Dividend payable is recognised as liability for the period when the dividend is approved.

34.Debt restructuring

Debt restructuring represents the consensus made by the creditor in accordance with the agreement with the debtor or based on the court order, when the debtor is in financial difficulty.

As a creditor, the difference between the carrying amounts of the debts and the cash receipts is recognised in profit or loss for the year if cash is received from discharging the debts. The difference between the carrying amounts of the debts and the fair value of the non-monetary assets is recognised in profit or loss for the period if non-monetary assets are received from discharging the debts. The difference between the carrying amounts of the debts and the fair value of the interests in share capital is recognised in profit or loss for the year if capital is exchanged in discharging the debts. The difference between the carrying amounts of the debts and the fair value of the debts after restructuring based on agreed terms and conditions is recognised in profit or loss for the year if terms and conditions are amended. If all of the above are applied, the disposals should be based on the sequential order of the cash received, the fair value of the non-monetary assets received, the fair value of the interests in share capital received less the carrying amounts of the debts, and finally settlement of debts based on terms and conditions agreed.

If provision has been made to the debts under restructuring, the difference resulting from the above is offset against the provision with the net change recognised in profit or loss for the period.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

35.Significant accounting judgements and estimates

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the balance sheet date. However, uncertainty of these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future.

(i)Classification of financial assets

Significant judgements involved in the Company's classification of financial assets include business model and analysis on contractual cash flow characteristics.

The Company determines the business model for financial asset management on the grouping basis, and factors to be considered include the methods of evaluation on financial asset performance and reporting of financial asset performance to key management personnel, risks affecting financial asset performance and management methods for such risks, the ways in which related business management personnel are remunerated, etc.

When assessing whether contractual cash flow characteristics of financial assets are consistent with basic lending arrangement, key judgements made by the Company include: the possibility of changes in timing or amount of the principal during the duration due to reasons such as repayment in advance; whether interest only include time value of money, credit risks, other basic lending risks and considerations for costs and profits; whether the repayment in advance reflects the principal outstanding and corresponding interest and reasonable compensation paid for early termination of the contract.

(ii)Measurement of expected credit losses

For financial assets measured at amortised cost and designated at fair value and changes included into other comprehensive income, as well as credit commitments, the Company measures the impairment provision using the expected credit loss model that involves the establishment and regular review of key definitions, parameters and assumptions, such as estimates on future macroeconomic conditions and borrowers' credit behaviour (e.g., possibility and corresponding losses of customer default). The measurement of expected credit losses requires a lot of significant judgements, such as:

- Classifying businesses with similar credit risk characteristic into the same group, selecting the proper measurement model and determining the key parameters related to the measurement;
- Criteria involved in the judgement of significant increase in credit risk, default and credit impairment incurred;
- Economic indicators, economic scenarios and the corresponding weights adopted in the forward-looking measurement;
- Management's overlay adjustments for significant uncertainties not covered by the model;
- Future cash flow forecast for corporate loans, advances and investment on debts in stage 3.

Specific information for the above judgements and estimates is set out in Note VII 1.2.

(iii)Income tax

Determining income tax provisions requires the Company to estimate the future tax treatment of certain transactions. The Company carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimates on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

(iv)Judgement of control over structured entities

Where the Company acts as asset manager of structure entities, the Company makes judgement on whether it is the principal or an agent for the structure entities. In the case that the asset manager serves as the agent, it exercises decision-making power mainly on behalf of other parties (other investors in the structured entity) and thus has no control over the structured entity. In the case that the asset manager is considered to exercise decision-making power mainly on behalf of itself, it serves as the trustee and has control over the structured entity. During the evaluation, the Company considers many factors and re-evaluate regularly to assess whether it takes the role as the principal or agent, such as: the scope of asset manager's decision-making power, rights held by other parties, salary levels as management service provider, and any other arrangements (such as direct investment) which could affect the exposure to variable returns from its involvement.

For the unconsolidated structured entities that the Company has interest in or provides liquidity support to, disclosures are shown in Note III 56.

(v)Fair value of financial instruments

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where practicable, the valuation techniques should make maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on areas such as credit risk (both the Company's and the counterparty's), volatility and correlation. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

(vi)Impairment of goodwill

The Company conducts impairment test on goodwill every year, and whenever there is an indication that the unit may be impaired. When an enterprise makes an impairment test of assets, it shall, as of the purchasing day, allocate the carrying value of the goodwill formed by merger of enterprises to the relevant asset portfolio by a reasonable method, and apply the appropriate discount rate for the calculation of the present value of future cash flows.

(vii)Core deposits

The Company reviews the reasonableness of core deposits' remaining useful life on each balance sheet date. The review involves making necessary adjustments on relevant parameters and assumptions based on the actual development of relevant fact patterns, so as to amortise the core deposits over an appropriate remaining useful life.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

36.Effect of significant changes in accounting policies

On 1 January 2018, the Company started to adopt the revised CAS 14 "Revenue" issued by the Ministry of Finance in July 2017. The adoption of this standard does not have significant impact on the Company's financial statements.

On 1 January 2018, the Company initially adopted the revised CAS 22 "Recognition and Measurement of Financial Instruments", CAS 23 "Transfer of Financial Assets" and CAS 24 "Hedge Accounting" issued by the Ministry of Finance in March 2017 and CAS 37 "Presentation of Financial Instruments" (hereinafter referred to as "the revised accounting standards for financial instruments") issued by the Ministry of Finance in May 2017. The adoption of the standards results in a significant change in accounting policies and the adjustment to relevant amounts has already been recognised in the financial statements.

Under the transition requirements of accounting standards for financial instruments after revision, the Company does not restate the comparatives. Adjustment to the carrying amounts of financial assets and liabilities at the first-time adoption date is included in retained earnings and other comprehensive income at beginning of the period.

Comparatives are accounted for and presented pursuant to CAS 22 "Recognition and Measurement of Financial Instruments" and CAS 23 "Transfer of Financial Assets" issued by the Ministry of Finance in 2006 and CAS 37 "Presentation of Financial Instruments" (hereinafter referred to as "the old accounting standards for financial instruments") issued by the Ministry of Finance in 2014.

The implementation of the revised accounting standards for financial instruments mainly leads to changes in recognition, classification and measurement of the Company's financial assets and liabilities as well as related accounting policies for impairment of financial assets.

36.1Accounting policies for financial instruments under the old accounting standards for financial instruments

36.1.1Financial assets and liabilities

The Company classifies its financial assets into four categories:

(i)Financial assets designated at fair value and changes included into the profits and losses for the period (e.g., financial assets held for trading);

(ii) Held to maturity investment;

(iii)Loans and financial assets classified as receivables; and

(iv)Available-for-sale financial assets.

The classification of financial assets depends on the Company's intention and ability to hold the financial assets. Financial assets are initially recognised at fair value. In the case of financial assets held for trading, the related transaction costs are directly recognised in profit or loss for the current period. For other financial assets, the related transaction costs are included in their initially recognised amounts.

Financial assets held for trading

Financial assets held for trading include financial assets held for trading and those designated at fair value and changes included into the profits and losses for the period by management upon initial recognition. Financial assets classified as held for trading include those financial assets that meet one of the following conditions: 1) they are acquired principally for the purpose of selling in the near term; 2) they are part of a portfolio of identified financial instruments that are managed together and for which there is objective evidence of a recent pattern of short term profit-taking; or 3) they are derivative instruments, except those designated as effective hedging instruments. These financial assets are measured at their fair values after initial recognition. All related realised and unrealised income are included in the profit or loss for the current period. Changes in fair value herein are recognised in "Gains or losses from changes in fair values" and interest earned according to the terms of the contract is accrued in interest income.

A financial asset or financial liability may be designated, on initial recognition, as at fair value through profit or loss only when one of the following conditions is satisfied:

(i)the designation eliminates or significantly reduces the measurement or recognition inconsistency of the related gains or losses that would otherwise result from measuring assets or liabilities on a different basis;

(ii)as stated in formal written document with respect to risk management or investment strategy, the portfolio of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, and the information is reported on that basis to the Company's key management personnel;

(iii)a hybrid instrument embedded with one or more derivatives, unless the embedded derivative does not significantly modify the cash flows of the hybrid instrument, or it is clear that a separation of the hybrid instrument from the embedded derivative is obviously inappropriate;

(iv)the hybrid instrument is embedded with derivatives which are required to be separately accounted for but where it is impossible to make an independent measurement when it is obtained or on the subsequent balance sheet date.

Held to maturity investment

Held to maturity investment are non-derivative financial assets with fixed maturity and fixed or determinable payments that the Company has the positive intention and ability to hold to maturity. These financial assets are subsequently measured at amortised cost using the effective interest method, with gains or losses arising from derecognition, impairment or amortisation recognised in profit or loss. If the Company has, during the current financial period, sold or reclassified (to available-for-sale financial assets) items of held to maturity investment, whose amount is significant in relation to the total amount of the held to maturity investment before the sale or reclassification, the Company shall reclassify the remaining portion of the held to maturity investment as available-for-sale financial assets, and the Company shall not again classify any financial assets as held to maturity investment in the current and the next two financial years. However, sales or reclassifications under the following circumstances are exceptions to the above:

(i)sales or reclassifications are close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(ii)the Company has withdrew substantially all of the financial asset's original principal through scheduled payments or prepayments as prescribed in the contract, and the remaining portion of the financial asset is sold or reclassified; or

(iii)sales or reclassifications are attributable to an isolated event that is beyond the Company's control and is non-recurring and could not have been reasonably anticipated by the Company.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

36.Effect of significant changes in accounting policies(Continued)

36.1Accounting policies for financial instruments under the old accounting standards for financial instruments(Continued)

36.1.1Financial assets and liabilities(Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are subsequently measured at amortised cost using the effective interest method, with gains or losses arising from derecognition, impairment or amortisation recognised in profit or loss. Loans and receivables mainly include balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers and debt instruments classified as receivables.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated on initial recognition as available for sale or those financial assets that are not classified in other categories. These financial assets are measured at their fair values after initial recognition.

Interest arising from the available-for-sale financial assets in the holding period is recognised in profit or loss using the effective interest method. Gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in "Other comprehensive income", except for impairment losses and foreign exchange gains and losses resulting from monetary financial assets; when the financial assets are derecognised, the cumulative gains or losses are transferred to "Investment income" in the income statement.

Where the Company has the positive intention and ability to hold the investments to maturity, available-for-sale financial assets can be reclassified to held to maturity investment.

The cost or amortised cost of a reclassified financial asset is its fair value at the date of reclassification. The effective interest rate of the reclassified held to maturity investment is determined at the date of reclassification. The unrealised profit or loss relating to the financial assets and previously recognised into shareholders' equity is amortised into profit or loss within the remaining periods using the effective interest method. Any difference between the amortised cost of the financial assets and the maturity amounts is also amortised into profit or loss within the remaining periods using the effective interest method. If any impairment occurs in the subsequent periods, the unrealised profit or loss previously recognised into shareholders' equity should be transferred into profit or loss.

Financial liabilities held by the Company are classified into financial liabilities held for trading and other financial liabilities.

Financial liabilities held for trading

Financial assets held for trading include those held for trading and those designated at fair value through profit and loss by management upon initial recognition. Changes in fair value are recognised in "Gains or losses from changes in fair values".

Other financial liabilities

Except for financial liabilities held for trading and financial guarantee contracts, deposits and other financial liabilities are subsequently measured at amortised cost using the effective interest method.

36.1.2Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is evidence of impairment of financial assets (other than those held for trading) as a result of one or more events ("impairment event") that occurred after initial recognition of those assets. Impairment event refers to the event that occurs after initial recognition with an impact on the estimated future cash flows and can be reliably estimated by the Company. Objective evidences of impairment are presented as follows: the issuer or the debtor is experiencing significant financial difficulty; the debtor violates the contract terms (e.g., default or delinquency in interest or principal payments); the creditor makes concessions to the debtor who has financial difficulty for economic or legal considerations; the debtor is likely to enter bankruptcy or other financial restructuring; the financial asset can't be traded in the active market any more due to serious financial difficulties of the issuer; it is unidentifiable whether the cash flow of a certain asset in a portfolio of financial assets has decreased, but the overall evaluation based on public data shows the estimated future cash flow of the portfolio has decreased and can be measured since initial recognition (e.g., the payment capacity of the debtor gradually deteriorates, or the unemployment rate increases in the debtor's home country or region, the price of the collateral dramatically declines in that region, the industry is going through a downturn, etc.); the equity instrument investor may not be able to recover the investment costs due to material adverse changes in technology, market, economy or law environment of the debtor; the fair value of the equity instrument investment seriously or non-temporarily declines; and other objective evidences that indicate the financial asset is impaired.

Financial assets measured at amortised cost

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The amount of reduction is recognised in profit or loss for the current period. The present value of estimated future cash flows is determined according to the financial asset's original effective interest rate with consideration to the value of related collateral.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a portfolio of financial assets with similar credit risk characteristics and that portfolio of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Future cash flows of a portfolio of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the portfolio. The Company will update the referential historical loss experience based on the current situation, including taking into account factors which only exist in the current period and exert no influence on the referential period of historical loss experience, and removing factors which only exert an influence on the referential period of historical loss experience but are not applicable to the current period. The methodology and assumptions used for estimating future cash flows are audited regularly by the Company.

Subsequent to the recognition of an impairment loss on a financial asset measured at amortised cost, if there is objective evidence of a recovery in value of the financial asset which can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed and recognised in profit or loss. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment was reversed.

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

36.Effect of significant changes in accounting policies(Continued)

36.1Accounting policies for financial instruments under the old accounting standards for financial instruments(Continued)

36.1.2Impairment of financial assets(Continued)

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the cumulative loss arising from the decline in fair value that had been recognised directly in shareholders' equity shall be removed from shareholders' equity and recognised in "Impairment losses on assets" in the income statement. The amount of the accumulated losses is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Objective evidence indicating impairment of investment in an equity instrument includes significant or non-temporary decline in the fair value. In conducting an impairment analysis, the Company considers quantitative and qualitative evidence. More specifically, the Company collectively considers the magnitude of the decline in fair value relative to the cost, volatility, and the duration of the decline in evaluating whether a decline in fair value is significant. The Company considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged, and assesses the investments in available-for-sale equity instruments individually on the balance sheet date. If the fair value at the balance sheet date is lower than its initial investment cost for more than 50% (inclusive) or lower than its initial investment cost for the duration of no less than 1 year (inclusive), therefore, the impairment loss is incurred. However, if its fair value at the balance sheet date is lower than its initial investment cost for more than 20% (inclusive) but no more than 50%, the Company will comprehensively consider other factors such as price volatility to determine whether the equity instrument investment has been impaired.

For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurred after the impairment loss was recognised in profit or loss, the previously recognised impairment loss shall be reversed and recognised in profit or loss for the current period. Impairment losses of an available-for-sale equity instrument shall not be reversed through the profit or loss.

36.1.3Interest income and interest expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available for sale and held for trading, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial instrument. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not the future credit losses.

Once a financial asset or a portfolio of similar financial assets has been impaired, interest income continues to be recognised using the rate of interest used to discount the future cash flows for measuring the impairment loss.

36.2Disclosure of effect on adopting the revised accounting standards for financial instruments

Accounting policies for financial instruments under the revised accounting standards for financial instruments are mainly presented in Note II 9, Note II 10, Note II 11, and Note II 12. At the initial implementation date, the Company analysed business model of its financial instruments and features of contractual cash flows arising from its financial assets, and appraised the effect of the revised accounting standards for financial instruments on the Company's financial statements at the beginning of the year. Disclosure of effect is as follows:

(i)Effect of changes in classification and measurement of financial assets under the revised accounting standards for financial instruments on the Company's retained earnings and other comprehensive income at beginning of the year:

Items	Carrying amount under the old accounting standards for financial instruments as at 31 December 2017	Effect of the revised accounting standards for financial instruments	Carrying amount under the revised accounting standards for financial instruments as at 1 January 2018
- Other comprehensive income	(528)	402	(126)
- Retained earnings	79,661	(4,935)	74,726

(ii)Financial assets are classified and measured according to the old/revised accounting standards for financial instruments as follows:

Financial assets	Note	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Cash and balances with central banks	(1)	310,212	310,212
Deposits with banks and other financial institutions	(2)	130,208	129,831
Placements with and loans to banks and other financial institutions	(3)	59,015	58,954
Derivative financial assets	(4)	16,080	16,080
Financial assets held under resale agreements	(5)	41,934	41,933
Loans and advances to customers	(6)	1,660,420	1,656,521
Financial assets held for trading	(7)	39,575	78,425
Investment on debts	(8)	-	671,911
Other investment on debts	(9)	-	54,148
Other equity investment	(10)	-	815
Available-for-sale financial assets	(11)	36,744	-
Held to maturity investment	(12)	358,360	-
Debt instruments classified as receivables	(13)	372,323	-

(All amounts in RMB million unless otherwise stated)

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

36.Effect of significant changes in accounting policies(Continued)

36.2Disclosure of effect on adopting the revised accounting standards for financial instruments(Continued)

(iii)Reconciliation of the carrying amount of financial assets classified and measured under the revised accounting standards for financial instruments:

(1)Cash and balances with central banks

	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Cash and balances with central banks	310,212	-	-	310,212

(2)Deposits with banks and other financial institutions

	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Deposits with banks and other financial institutions	130,208	-	(377)	129,831

(3)Placements with and loans to banks and other financial institutions

	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Placements with and loans to banks and other financial institutions	59,015	-	(61)	58,954
Including: Placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income	-	3,900	(7)	3,893
Placements with and loans to banks and other financial institutions measured at amortised cost	59,015	(3,900)	(54)	55,061

(4)Derivative financial assets

	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Derivative financial assets	16,080	-	-	16,080

(5)Financial assets held under resale agreements

	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Financial assets held under resale agreements	41,934	-	(1)	41,933

(6)Loans and advances to customers

	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Loans and advances to customers	1,660,420	-	(3,899)	1,656,521
Including: Loans and advances to customers designated at fair value and changes included into other comprehensive income	-	24,428	-	24,428
Loans and advances to customers measured at amortised cost	1,660,420	(24,428)	(3,899)	1,632,093

(All amounts in RMB million unless otherwise stated)

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

36.Effect of significant changes in accounting policies(Continued)

36.2Disclosure of effect on adopting the revised accounting standards for financial instruments(Continued)

(iii)Reconciliation of the carrying amount of financial assets classified and measured under the revised accounting standards for financial instruments(Continued):

(7)Financial assets held for trading

	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Financial assets held for trading	39,575	39,580	(730)	78,425
Reclassification of available-for-sale financial assets to financial assets held for trading		662	1	
Reclassification of held to maturity investment to financial assets held for trading		7,245	(203)	
Reclassification of debt instruments classified as receivables to financial assets held for trading		31,673	(528)	

(8)Investment on debts

	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Financial investments measured at amortised cost	-	672,948	(1,037)	671,911
Reclassification of available-for-sale financial assets to investment on debts		697	(1)	
Reclassification of held to maturity investment to investment on debts		351,115	(73)	
Reclassification of debt instruments classified as receivables to investment on debts		321,136	(963)	

(9)Other investment on debts

	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Other investment on debts	**-**	**54,084**	**64**	**54,148**
Reclassification of available-for-sale financial assets to other investment on debts		34,570	42	
Reclassification of debt instruments classified as receivables to other investment on debts		19,514	22	

(10)Other equity investment

	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Other equity investment	**-**	**815**	**-**	**815**
Reclassification of available-for-sale financial assets to other equity investment		815	-	

(11)Available-for-sale financial assets

	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Available-for-sale financial assets	**36,744**	**(36,744)**	**-**	**-**
Reclassification of available-for-sale financial assets to financial assets held for trading		(662)	-	
Reclassification of available-for-sale financial assets to investment on debts		(697)	-	
Reclassification of available-for-sale financial assets to other investment on debts		(34,570)	-	
Reclassification of available-for-sale financial assets to other equity investment		(815)	-	

(All amounts in RMB million unless otherwise stated)

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

36.Effect of significant changes in accounting policies(Continued)

36.2Disclosure of effect on adopting the revised accounting standards for financial instruments(Continued)

(iii)Reconciliation of the carrying amount of financial assets classified and measured under the revised accounting standards for financial instruments(Continued):

(12)Held to maturity investment

	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Held to maturity investment	358,360	(358,360)	-	-
Reclassification of held to maturity investment to financial assets held for trading		(7,245)	-	
Reclassification of held to maturity investment to investment on debts		(351,115)	-	

(13)Debt instruments classified as receivables

	Carrying amount presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Carrying amount presented under the revised accounting standards for financial instruments (1 January 2018)
Debt instruments classified as receivables	372,323	(372,323)	-	-
Reclassification of debt instruments classified as receivables to financial assets held for trading		(31,673)	-	
Reclassification of debt instruments classified as receivables to investment on debts		(321,136)	-	
Reclassification of debt instruments classified as receivables to other investment on debts		(19,514)	-	

(iv)The Company's impairment provision for financial assets are classified and measured according to the old/revised accounting standards for financial instruments as follows:

	Note	Impairment provision presented under the old accounting standards for financial instruments (31 December 2017)	Impairment provision presented under the revised accounting standards for financial instruments (1 January 2018)
Deposits with banks and other financial institutions		76	453
Placements with and loans to banks and other financial institutions measured at amortised cost		21	75
Placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income		-	25
Financial assets held under resale agreements		-	1
Loans and advances to customers measured at amortised cost	(1)	43,810	47,709
Loans and advances to customers designated at fair value and changes included into other comprehensive income	(1)	-	54
Investment on debts	(2)	-	4,270
Other investment on debts		-	67
Available-for-sale financial assets		337	-
Held to maturity investment		34	-
Debt instruments classified as receivables		3,205	-
Other financial assets		547	547
Total		48,030	53,201

(All amounts in RMB million unless otherwise stated)

II.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES(Continued)

36.Effect of significant changes in accounting policies(Continued)

36.2Disclosure of effect on adopting the revised accounting standards for financial instruments(Continued)

(v)Reconciliation from impairment provision for financial assets under the old accounting standards for financial instruments to impairment provision for financial assets classified and measured under the revised accounting standards for financial instruments:

(1)Impairment provision for loans and advances to customers

	Impairment provision presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Impairment provision presented under the revised accounting standards for financial instruments (1 January 2018)
Impairment provision for loans and advances to customers	43,810	-	3,953	47,763
Including: Loans and advances to customers measured at amortised cost	43,810	-	3,899	47,709
Loans and advances to customers designated at fair value and changes included into other comprehensive income	-	-	54	54

(2)Impairment provision for investment on debts

	Impairment provision presented under the old accounting standards for financial instruments (31 December 2017)	Reclassification (excluding changes arising from measurement)	Changes arising from measurement	Impairment provision presented under the revised accounting standards for financial instruments (1 January 2018)
Impairment provision for investment on debts	-	2,863	1,407	4,270
Reclassification of available-for-sale financial assets to investment on debts		-	4	
Reclassification of held to maturity investment to investment on debts		33	56	
Reclassification of debt instruments classified as receivables to investment on debts		2,830	1,347	

36.3Effect on adopting the revised formats of financial statements of financial enterprises

Pursuant to the Circular on Amendment to Formats of Financial Statements of Financial Enterprises for 2018 (Cai Kuai [2018] No. 36) issued by the Ministry of Finance in December 2018, the Company shall prepare its financial statements in accordance with the revised formats of financial statements of financial enterprises as of the accounting year beginning from 1 January 2018 and the Company is not required to restate previous comparatives. The adoption of the above revision has no material impact on the Company's financial position, financial performance and cash flows. The impacts are as follows:

(i)The interest of financial instruments accrued under the effective interest method should be included in the carrying amount of corresponding financial instruments and reflected in "Cash and balances with central banks", "Deposits with banks and other financial institutions", "Placements with and loans to banks and other financial institutions", "Financial assets held under resale agreements", "Loans and advances to customers", "Investment on debts", "Other investment on debts", "Deposits from banks and other financial institutions", "Placements from banks and other financial institutions", "Financial assets sold under repurchase agreements", "Due to customers" and "Debt securities issued", rather than being separately presented in "Interest receivables" or "Interest payable". Only the interest of financial instruments that is receivables or payable at maturity but has not been received or paid at the balance sheet date are reflected in "Interest receivables" or "Interest payable" and presented in "Other assets" or "Other liabilities".

(ii)"Net increase in financial assets classified as held for trading" should be added to "Cash flows from operating activities" in the cash flow statement to reflect net cash flows used in/from procurement or sale of financial assets classified as held for trading. It was presented as "Cash paid or received relating to other operating activities" in 2017.

37.Taxation

The main categories and rates of taxes applicable to the Company are set out as follows:

Category	Tax base	Tax rate
Corporate income tax (Note)	Taxable income	25%
Value-added tax ("VAT")	Taxable value-added amount	3%, 5%, 6%, 10%, 11%, 16%, 17%
City maintenance and construction tax	The amount of VAT	5%, 7%

Note: Pursuant to the Circular on Enterprise Income Tax Policy Concerning Deductions for Equipment and Appliances (Cai Shui [2018] No. 54), during the period from 1 January 2018 to 31 December 2020, new property and equipment except buildings with a unit price of up to RMB 5 million are allowed to be deducted against the taxable income in a one-off manner as costs and expenses in the current period rather than being depreciated over the years .

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS

1.Cash and balances with central banks

Category	31 December 2018	31 December 2017
Cash on hand	5,015	4,226
Statutory reserve with the Central Bank - RMB	222,974	266,802
Statutory reserve with the Central Bank - foreign currencies	6,455	4,457
Unrestricted balance with the Central Bank	41,899	32,898
Other deposits with the Central Bank - fiscal deposits	2,070	1,829
Sub-total	278,413	310,212
Add: Accrued interest	115	-
Total	278,528	310,212

Based on the related RMB and foreign currency deposits, the Company placed respective statutory reserves with the People's Bank of China in accordance with the requirements from the People's Bank of China. These reserve deposits were not available for use in the Company's daily operations. As at 31 December 2018, the RMB deposit reserve ratio was 12% (31 December 2017: 15%), and the foreign currency deposit reserve ratio was 5% (31 December 2017: 5%).

Fiscal deposits represent the amounts received from government-related bodies that are required to be deposited with the People's Bank of China according to the relevant regulations.

2.Deposits with banks and other financial institutions

Summarised by locations and types of banks and other financial institutions

Category	31 December 2018	31 December 2017
Domestic banks	72,688	120,242
Other domestic financial institutions	2,703	3,086
Overseas banks	8,975	6,956
Other overseas financial institutions	1	-
Sub-total	84,367	130,284
Add: Accrued interest	1,094	-
Less: Impairment provision (Note III 22)	(363)	(76)
Total	85,098	130,208

3.Placements with and loans to banks and other financial institutions

Summarised by locations and categories of banks and other financial institutions

	31 December 2018	31 December 2017
Placements with and loans to banks and other financial institutions measured at amortised cost		
Domestic banks	50,890	43,909
Other domestic financial institutions	1,222	4,209
Overseas banks	17,022	10,302
Other overseas financial institutions	-	616
	69,134	59,036
Add: Accrued interest	216	-
Less: Impairment provision (Note III 22)	(172)	(21)
Sub-total	69,178	59,015
Placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income		
Other domestic financial institutions	3,746	-
Add: Accrued interest	10	-
Sub-total	3,756	-
Total	72,934	59,015

As at 31 December 2018, the impairment provision for placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income amounted to RMB 16 million. Refer to Note III 22.

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

4.Derivative financial instruments

At the balance sheet date, the derivative financial instruments held by the Company are as follows:

	Notional amounts summarised by maturity date					Fair value	
	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total	Assets	Liabillities
31 December 2018							
Foreign exchange derivatives:							
Foreign exchange forward and swap contracts and options	476,739	386,716	11,292	-	874,747	7,359	(6,875)
Interest rate derivatives:							
Interest rate swap and other interest rate derivatives	935,837	1,251,313	979,519	1,880	3,168,549	11,828	(12,060)
Precious metals derivatives	55,369	28,502	200	-	84,071	2,273	(2,670)
Total	1,467,945	1,666,531	991,011	1,880	4,127,367	21,460	(21,605)

	Notional amounts summarised by maturity date					Fair value	
	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total	Assets	Liabillities
31 December 2017							
Foreign exchange derivatives:							
Foreign exchange forward and swap contracts and options	491,258	506,196	9,261	-	1,006,715	14,107	(15,649)
Interest rate derivatives:							
Interest rate swap and other interest rate derivatives	199,814	900,629	628,915	1,010	1,730,368	121	(91)
Precious metals derivatives	84,315	27,936	200	-	112,451	1,852	(1,972)
Total	775,387	1,434,761	638,376	1,010	2,849,534	16,080	(17,712)

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Company but does not reflect the risk.

5.Financial assets held under resale agreements

(a)Summarised by the categories of banks and other financial institutions

	31 December 2018	31 December 2017
Banks	10,370	29,301
Other financial institutions	26,566	12,633
	36,936	41,934
Add: Accrued interest	51	-
Less: Impairment provision (Note III 22)	(2)	-
Total	36,985	41,934

(b)Summarised by collateral

	31 December 2018	31 December 2017
Bonds	35,978	41,934
Bills	958	-
	36,936	41,934
Add: Accrued interest	51	-
Less: Impairment provision (Note III 22)	(2)	-
Total	36,985	41,934

6.Accounts receivables

	31 December 2018	31 December 2017
Receivables under factoring	-	52,886

The receivables under factoring are included in "Loans and advances to customers" in the Company's financial statements for the year ended 31 December 2018.

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

7.Interest receivables

	1 January 2017	Increase in the current year	Collection in the current year	31 December 2017
2017				
Bond investments and other financial investments	7,174	33,297	(31,904)	8,567
Loans and amounts due from banks and other financial institutions	8,186	114,353	(111,517)	11,022
Others	410	3,531	(3,176)	765
Total	15,770	151,181	(146,597)	20,354

As at 31 December 2017, RMB 537 million of the above interest receivables was past due. Such interest receivables was related to overdue loans within 90 days.

Refer to Note II 36.3(i) for the effect of the revised formats of financial statements of financial enterprises on interest receivables.

8.Loans and advances to customers

8.1 Summarised by corporate and individual

	31 December 2018	31 December 2017
Loans and advances to customers measured at amortised cost		
Loans and advances to corporates:		
Loans	781,829	840,439
Discounted bills	-	14,756
Sub-total	781,829	855,195
Loans and advances to individuals:		
Property mortgages	182,363	152,865
New Generation Loans	153,745	129,844
Auto finance loans	172,029	140,929
Receivables from credit cards	473,295	303,628
Others	172,581	121,769
Sub-total	1,154,013	849,035
Total loans and advances to customers measured at amortised cost	1,935,842	1,704,230
Add: Accrued interest	6,261	-
Less: Loan impairment provision (Note III 8.6)	(54,033)	(43,810)
Total loans and advances to customers measured at amortised cost	1,888,070	1,660,420
Loans and advances to customers designated at fair value and changes included into other comprehensive income		
Loans and advances to corporates:		
Loans	19,985	-
Discounted bills	41,702	-
Total loans and advances to customers designated at fair value and changes included into other comprehensive income	61,687	-
Carrying amount of loans and advances to customers	1,949,757	1,660,420

As at 31 December 2018, there were RMB 4,178 million discounted bills (31 December 2017: RMB 3,467 million) that had been pledged for agreements of borrowings from central bank.

As at 31 December 2018, there were RMB 85,468 million loans (31 December 2017: Nil) that had been pledged for medium-term borrowing facility.

For the year ended 31 December 2018, the Company disposed of and derecognised loans of RMB 22,908 million (2017: RMB 39,243 million) by transferring to third parties or credit asset securitisation and other ways.

As at 31 December 2018, the impairment provision for loans and advances to customers designated at fair value and changes included into other comprehensive income amounted to RMB 154 million. Refer to Note III 8.6.

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

8.Loans and advances to customers(Continued)

8.2 Summarised by industry

	31 December 2018	31 December 2017
Agriculture, husbandry and fisheries	5,837	9,291
Extraction (heavy industry)	41,140	58,048
Manufacturing (light industry)	119,845	141,976
Energy	21,745	25,261
Transportation, storage and communication	39,131	47,794
Commerce	101,104	116,394
Real estate	176,016	152,919
Social service, technology, culture and sanitary industries	144,186	134,339
Construction	45,403	48,107
Discounted bills	41,702	14,756
Loans to individuals	1,154,013	849,035
Others	107,407	106,310
Total loans and advances to customers	1,997,529	1,704,230
Add: Accrued interest	6,261	-
Less: Loan impairment provision (Note III 8.6)	(54,033)	(43,810)
Carrying amount of loans and advances to customers	1,949,757	1,660,420

8.3 Summarised by type of collateral held or other credit enhancements

	31 December 2018	31 December 2017
Unsecured loans	795,356	598,195
Guaranteed loans	200,873	222,883
Loans secured by collateral	959,598	868,396
Including: Loans secured by collateral	671,915	598,467
Loans secured by monetary assets	287,683	269,929
Sub-total	1,955,827	1,689,474
Discounted bills	41,702	14,756
Total loans and advances to customers	1,997,529	1,704,230
Add: Accrued interest	6,261	-
Less: Loan impairment provision (Note III 8.6)	(54,033)	(43,810)
Carrying amount of loans and advances to customers	1,949,757	1,660,420

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

8.Loans and advances to customers(Continued)

8.4 Summarised by overdue loans (Excluding accrued interest)

	31 December 2018				
	Overdue by 1 to 90 days (inclusive)	Overdue by 90 days to 1 year (inclusive)	Overdue by 1 to 3 years (inclusive)	Overdue by more than 3 years	Total
Unsecured loans	9,817	7,140	1,275	1,119	19,351
Guaranteed loans	1,490	4,610	2,924	266	9,290
Loans secured by collateral	6,665	11,564	4,774	299	23,302
Including: Loans secured by collateral	4,060	7,123	3,703	160	15,046
Loans secured by monetary assets	2,605	4,441	1,071	139	8,256
Total	17,972	23,314	8,973	1,684	51,943

	31 December 2017				
	Overdue by 1 to 90 days (inclusive)	Overdue by 90 days to 1 year (inclusive)	Overdue by 1 to 3 years (inclusive)	Overdue by more than 3 years	Total
Unsecured loans	7,127	6,289	1,753	104	15,273
Guaranteed loans	5,585	6,641	2,814	49	15,089
Loans secured by collateral	6,097	15,774	7,752	280	29,903
Including: Loans secured by collateral	3,703	10,237	4,974	146	19,060
Loans secured by monetary assets	2,394	5,537	2,778	134	10,843
Total	18,809	28,704	12,319	433	60,265

Overdue loans refer to the loans with either principal or interest being overdue by one day or more. For the overdue loans presented above, loans and advances to customers repayable by instalments, the total amount of loans is deemed overdue if part of the instalments is overdue.

For loans repaid on an instalment basis, only the amount which is not repaid upon maturity (not the total amount of loans) is deemed overdue. As at 31 December 2018, there were RMB 49,480 million (31 December 2017: RMB 58,744 million) loans that had been deemed overdue according to this criteria.

8.5 Summarised by geographical region

	31 December 2018	31 December 2017
Eastern District	588,078	539,248
Southern District	349,964	323,692
Western District	184,593	185,825
Northern District	298,178	279,698
Head Office	576,716	375,767
Total loans and advances to customers	1,997,529	1,704,230
Add: Accrued interest	6,261	-
Less: Loan impairment provision (Note III 8.6)	(54,033)	(43,810)
Carrying amount of loans and advances to customers	1,949,757	1,660,420

Details of the above geographical regions:

Eastern District: Shanghai branch, Hangzhou branch, Yangzhou branch, Yiwu branch, Taizhou branch, Shaoxing branch, Huzhou branch, Ningbo branch, Wenzhou branch, Nanjing branch, Wuxi branch, Changzhou branch, Suzhou branch, Nantong branch, Taizhou branch, Fuzhou branch, Zhangzhou branch, Fujian Pilot Free Trade Zone Fuzhou branch, Xiamen branch, Fujian Pilot Free Trade Zone Xiamen branch, Quanzhou branch, Shanghai Pilot Free Trade Zone branch, Hefei branch, Wuhu branch, Xuzhou branch, Nanchang branch, Yancheng branch;

Southern District: Shenzhen branch, Shenzhen Qianhai branch, Guangzhou branch, Guangdong Pilot Free Trade Zone Nansha branch, Zhuhai branch, Guangdong Pilot Free Trade Zone Hengqin branch, Foshan branch, Dongguan branch, Huizhou branch, Zhongshan branch, Haikou branch, Changsha branch, Hengyang branch, Yueyang branch, Nanning branch;

Western District: Chongqing branch, Chengdu branch, Deyang branch, Leshan branch, Mianyang branch, Kunming branch, Honghe branch, Wuhan branch, Jingzhou branch, Xiangyang branch, Yichang branch, Xi'an branch, Xianyang branch, Guiyang branch;

Northern District: Beijing branch, Dalian branch, Tianjin branch, Tianjin Pilot Free Trade Zone branch, Jinan branch, Linyi branch, Weifang branch, Dongying branch, Qingdao branch, Yantai branch, Rizhao branch, Zhengzhou branch, Luoyang branch, Shenyang branch, Shijiazhuang branch, Taiyuan branch, Tangshan branch, Zibo branch, Jining branch, Jinzhong branch, Langfang branch, Nanyang branch, Weihai branch, Hohhot branch;

Head Office: The departments of Head Office (including credit card department, capital operation department, special asset management department, financial institution department, asset management department, transaction banking department, etc.)

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

8.Loans and advances to customers(Continued)

8.6 Movements in impairment provision for loans

	2018	2017		
		Individual	Collective	Total
Loans and advances to customers measured at amortised cost				
Balance on 31 December 2017 and 31 December 2016	43,810	7,981	31,951	39,932
Effect of initial implementation of the revised accounting standards for financial instruments	3,899	-	-	-
Balance on 1 January 2018 and 1 January 2017	47,709	7,981	31,951	39,932
Provision for the current year	43,557	30,379	10,424	40,803
Amounts written off and sold (Note)	(46,409)	(27,853)	(11,757)	(39,610)
Recovery of loans and advances to customers written off previously	9,356	1,637	1,859	3,496
Decrease of loans and advances to customers due to rise in discount value	(675)	(659)	-	(659)
Other changes	495	(96)	(56)	(152)
Sub-total balance at end of the year (Note III 8.1)	54,033	11,389	32,421	43,810
Loans and advances to customers designated at fair value and changes included into other comprehensive income				
Balance on 31 December 2017 and 31 December 2016	-	-	-	-
Effect of initial implementation of the revised accounting standards for financial instruments	54	-	-	-
Balance on 1 January 2018 and 1 January 2017	54	-	-	-
Provision for the current year	100	-	-	-
Sub-total balance at end of the year	154	-	-	-
Total balance at end of the year	54,187	11,389	32,421	43,810

Note: The outstanding contract amount corresponding to the assets offset by the Company in 2018 is RMB 45,804 million. The Company still seeks to fully recover the legally-owned creditor's rights.

9.Financial assets held for trading

	31 December 2018	31 December 2017
Bonds		
Governments	19,835	128
Policy banks	14,027	8,733
Banks and other financial institutions	37,365	23,558
Corporates	6,537	2,168
Funds	45,567	4,639
Right to yields of asset management plan/asset management plans	11,746	-
Right to yields of trust/trust plan	5,810	-
Wealth management products issued by other banks	5,159	-
Asset-backed securities from asset securitisation	1,708	-
Equity investments	666	-
Others	348	349
Total	148,768	39,575

As at 31 December 2018, there were RMB 100 million bond investments that had been pledged for agreements of time deposits from the PBoC (31 December 2017: Nil).

10.Investment on debts

	31 December 2018
Bonds	
Governments	335,577
Policy banks	62,913
Banks and other financial institutions	53,255
Corporates	25,594
Right to yields of asset management plan/asset management plans	110,520
Right to yields of trust/trust plan	38,771
Asset-backed securities from asset securitisation	2,317
Sub-total	628,947
Add: Accrued interest	7,780
Less: Impairment provision (Note III 22)	(7,361)
Total	629,366

As at 31 December 2018, there were RMB 7,982 million bond investments that had been pledged for repurchase agreements; there were RMB 20,600 million bond investments that had been pledged for agreements of time deposits from the PBoC; and there were RMB 94,000 million bond investments that had been pledged for agreements of borrowings from central bank.

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

11.Other investment on debts

	31 December 2018
Bonds	
Governments	1,583
Policy banks	14,145
Banks and other financial institutions	8,876
Corporates	6,388
Asset-backed securities from asset securitisation	4,288
Right to yields of asset management plan/asset management plans	9,610
Right to yields of trust/trust plan	25,089
Sub-total	69,979
Add: Accrued interest	685
Total	70,664

	31 December 2018			
	Amortised cost	Fair value	Fair value changes charged to other comprehensive income	Total impairment provision
Debt instruments	70,077	70,664	587	(332)

12.Other equity investment

	31 December 2018
Listed equity	8
Unlisted equity	1,511
Total	1,519

	31 December 2018		
	Cost	Fair value	Fair value changes charged to other comprehensive income
Listed equity	-	8	8
Unlisted equity	1,577	1,511	(66)
Total	1,577	1,519	(58)

13.Available-for-sale financial assets

	31 December 2017
Measured at fair value	
Available-for-sale debentures	35,270
Available-for-sale equity instruments	1,474
Total	36,744

Available-for-sale financial assets summarised by relevant information:

	31 December 2017
Available-for-sale debentures	
Fair value	35,270
Amortised cost	35,543
Charged to other comprehensive income	(234)
Total impairment provision	(39)
Available-for-sale equity instruments	
Fair value	1,474
Cost of sales	1,491
Charged to other comprehensive income	281
Total impairment provision	(298)
Total	
Fair value	36,744
Amortised cost/cost of sales	37,034
Charged to other comprehensive income	47
Total impairment provision	(337)

Available-for-sale financial assets summarised by impairment provision:

2017	Available-for-sale debentures	Available-for-sale equity instruments	Total
1 January 2017	42	129	171
Increase in the current year	-	236	236
Transfer out on disposal in the current year	-	(67)	(67)
Other movements	(3)	-	(3)
31 December 2017	39	298	337

As at 31 December 2017, RMB 1,002 million of the above available-for-sale financial assets was impaired assets.

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

14.Held to maturity investment

	31 December 2017
Bond investments summarised by issuer:	
Governments	198,831
Policy banks	69,700
Banks and other financial institutions	68,294
Corporates	21,569
Sub-total	358,394
Less: Impairment provision (Note III 22)	(34)
Total	358,360

As at 31 December 2017, there were RMB 6,359 million held-to-maturity bond investments that had been pledged for repurchase agreements; there were RMB 21,326 million held-to-maturity bond investments that had been pledged for agreements of time deposits from the PBoC; and there were RMB 71,676 million held-to-maturity bond investments that had been pledged for agreements of borrowings from central bank.

15.Debt instruments classified as receivables

	31 December 2017
Wealth management products issued by other banks	6,970
Right to yields of asset management plan/asset management plans	242,799
Right to yields of trust/trust plan	52,105
Local government bonds	70,843
Loan-backed bills	2,448
Brokerage income certificate	350
Asset-backed securities from asset securitisation	13
Sub-total	375,528
Less: Impairment provision (Note III 22)	(3,205)
Total	372,323

As at 31 December 2017, there were RMB 16,264 million local government bonds that had been pledged for agreements of time deposits from the PBoC.

16.Investment properties

	31 December 2018	31 December 2017
Cost:		
Balance at beginning of the year	329	339
Transfer to property and equipment	(37)	(27)
Transfer from property and equipment	20	17
Balance at end of the year	312	329
Accumulated depreciation:		
Balance at beginning of the year	120	118
Provision	9	11
Transfer to property and equipment	(13)	(19)
Transfer from property and equipment	2	10
Balance at end of the year	118	120
Carrying amount		
Balance at end of the year	194	209
Balance at beginning of the year	209	221

As at 31 December 2018, there were RMB 3 million (31 December 2017: RMB 4 million) investment properties for which the corresponding registration certificates had not been obtained.

The gross rental income earned from the investment properties for the year ended 31 December 2018 amounted to RMB 31 million (2017: RMB 35 million). The accrued direct operating expense amounted to RMB 1 million (2017: RMB 1 million).

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

14.Property and equipment

2018	Buildings	Transportation vehicles	Office and electronic equipment	Total
Cost:				
Balance at beginning of the year	8,452	98	5,262	13,812
Additions	24	5	1,555	1,584
Transfer from investment properties	37	-	-	37
Transfer to investment properties	(20)	-	-	(20)
Transfers from construction in progress	2,389	-	1	2,390
Decrease	(25)	(11)	(280)	(316)
Balance at end of the year	10,857	92	6,538	17,487
Accumulated depreciation:				
Balance at beginning of the year	2,364	50	3,360	5,774
Additions	412	12	710	1,134
Transfer from investment properties	13	-	-	13
Transfer to investment properties	(2)	-	-	(2)
Decrease	(48)	(8)	(277)	(333)
Balance at end of the year	2,739	54	3,793	6,586
Impairment provision:				
Balance at beginning of the year	2	-	-	2
Balance at end of the year (Note III 22)	2	-	-	2
Book value				
31 December 2018	8,116	38	2,745	10,899
31 December 2017	6,086	48	1,902	8,036

2017	Buildings	Transportation vehicles	Office and electronic equipments	Total
Cost:				
Balance at beginning of the year	8,399	155	4,892	13,446
Additions	19	-	650	669
Transfer from investment properties	27	-	-	27
Transfer to investment properties	(17)	-	-	(17)
Transfers from construction in progress	29	-	6	35
Decrease	(5)	(57)	(286)	(348)
Balance at end of the year	8,452	98	5,262	13,812
Accumulated depreciation:				
Balance at beginning of the year	2,031	88	3,009	5,128
Additions	328	12	635	975
Transfer from investment properties	19	-	-	19
Transfer to investment properties	(10)	-	-	(10)
Decrease	(4)	(50)	(284)	(338)
Balance at end of the year	2,364	50	3,360	5,774
Impairment provision:				
Balance at beginning of the year	2	-	-	2
Balance at end of the year	2	-	-	2
Book value				
31 December 2017	6,086	48	1,902	8,036
31 December 2016	6,366	67	1,883	8,316

As at 31 December 2018, the original cost of RMB 73 million (31 December 2017: RMB 72 million) and net book value of RMB 22 million (31 December 2017: RMB 24 million) of buildings were in use by the Company without having the registration certificates of property rights.

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

18.Intangible assets

2018	Core deposits(Note)	Software	Others	Total
Cost/valuation				
Balance at beginning of the year	5,757	3,132	7	8,896
Additions in the current year	-	638	-	638
Transfer from development expenditure	-	352	-	352
Decrease in the current year	-	(34)	-	(34)
Balance at end of the year	5,757	4,088	7	9,852
Amortisation				
Balance at beginning of the year	1,871	2,319	5	4,195
Amortisation charged in the current year	288	599	1	888
Decrease in the current year	-	(2)	-	(2)
Balance at end of the year	2,159	2,916	6	5,081
Book value				
31 December 2018	3,598	1,172	1	4,771
31 December 2017	3,886	813	2	4,701

2017	Core deposits(Note)	Software	Others	Total
Cost/valuation				
Balance at beginning of the year	5,757	2,529	7	8,293
Additions in the current year	-	409	-	409
Transfer from development expenditure	-	200	-	200
Decrease in the current year	-	(6)	-	(6)
Balance at end of the year	5,757	3,132	7	8,896
Amortisation				
Balance at beginning of the year	1,584	1,934	4	3,522
Amortisation charged in the current year	287	386	1	674
Decrease in the current year	-	(1)	-	(1)
Balance at end of the year	1,871	2,319	5	4,195
Book value				
31 December 2017	3,886	813	2	4,701
31 December 2016	4,173	595	3	4,771

Note: Core deposits were accounts that a financial institution expected to maintain for an extended period of time due to ongoing business relationships. The intangible asset value associated with core deposits reflected the use of the deposits at a lower cost alternative source of funding.

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

19.Goodwill

2018

	Balance at beginning of the year	Increase in the current year	Decrease in the current year	Balance at end of the year	Impairment provision
Former Ping An Bank	7,568	-	-	7,568	-

2017

	Balance at beginning of the year	Increase in the current year	Decrease in the current year	Balance at end of the year	Impairment provision
Former Ping An Bank	7,568	-	-	7,568	-

Former Ping An Bank was acquired by the Company in July 2011 and the goodwill acquired from this business combination amounted to RMB 7,568 million. The goodwill acquired from the business combination was allocated to the eastern district, southern district, western district, northern district and credit card centre cash-generating units for impairment test so as to compare the recoverable amount with the carrying amount of the cash-generating units. Those cash-generating units were consistent with the cash-generating units recognised at the acquisition date and during the impairment test of goodwill in prior years.

The recoverable amounts of the cash-generating units were determined based on the present value of the expected future cash flows of the cash-generating units. The expected future cash flows were determined based on the expected cash flows from the 5 years' budget plan as approved by management. The cash flows beyond the 5 years' period were extrapolated based on the long-term average growth rates within the operating geographic locations and industries of the cash-generating units. The pre-tax discounted rate used to discount the cash flows reflected the specific risk associated with the cash-generating units. The discount rate for future cash flow is 12.76% (31 December 2017: 13.17%).

As at 31 December 2018, there was no impairment of goodwill as shown in the impairment test (31 December 2017: Nil).

20.Deferred income tax assets

The temporary differences of deferred income tax assets and liabilities before offsetting are shown below:

	31 December 2018		31 December 2017	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
Provision for asset impairments	118,564	29,641	97,848	24,462
Salaries and bonuses	4,584	1,146	3,557	889
Changes in fair value of financial assets and liabilities held for trading, derivatives and precious metals	-	-	2,174	544
Changes in fair value of financial assets designated at fair value and changes included into other comprehensive income	-	-	-	-
Changes in fair value of available-for-sale financial assets	-	-	715	179
Others	232	58	61	15
Sub-total	123,380	30,845	104,355	26,089
Deferred income tax liabilities				
Identifiable assets acquired in business combination of Former Ping An Bank at fair value	(3,796)	(949)	(4,075)	(1,019)
Changes in fair value of financial assets and liabilities held for trading, derivatives and precious metals	(136)	(34)	-	-
Changes in fair value of financial assets designated at fair value and changes included into other comprehensive income	(500)	(125)	-	-
Property and equipment	(1,076)	(269)	(325)	(81)
Sub-total	(5,508)	(1,377)	(4,400)	(1,100)
Net book value	117,872	29,468	99,955	24,989

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

20.Deferred income tax assets(Continued)

2018

	31 December 2017	Effect of the revised accounting standards for financial instruments	1 January 2018	Recognised in profit or loss (Note III 50)	Recognised in other comprehensive income (Note III 51)	31 December 2018
Deferred income tax assets						
Provision for asset impairments	24,462	1,379	25,841	3,934	(134)	29,641
Salaries and bonuses	889	-	889	257	-	1,146
Changes in fair value of financial assets and liabilities held for trading, derivatives and precious metals	544	265	809	(809)	-	-
Changes in fair value of financial assets designated at fair value and changes included into other comprehensive income	-	45	45	(45)	-	-
Changes in fair value of available-for-sale financial assets	179	(179)	-	-	-	-
Others	15	-	15	43	-	58
Sub-total	26,089	1,510	27,599	3,380	(134)	30,845
Deferred income tax liabilities						
Identifiable assets acquired in business combination of Former Ping An Bank at fair value	(1,019)	-	(1,019)	70	-	(949)
Changes in fair value of financial assets and liabilities held for trading, derivatives and precious metals	-	-	-	(34)	-	(34)
Changes in fair value of financial assets designated at fair value and changes included into other comprehensive income	-	-	-	45	(170)	(125)
Property and equipment	(81)	-	(81)	(188)	-	(269)
Sub-total	(1,100)	-	(1,100)	(107)	(170)	(1,377)
Net book value	24,989	1,510	26,499	3,273	(304)	29,468

2017

	1 January 2017	Recognised in profit or loss(Note III 45)	Recognised in other comprehensive income(Note III 46)	31 December 2017
Deferred income tax assets				
Provision for asset impairments	16,757	7,705	-	24,462
Salaries and bonuses	1,203	(314)	-	889
Changes in fair value of financial assets and liabilities held for trading, derivatives and precious metals	699	(155)	-	544
Changes in fair value of available-for-sale financial assets	273	-	(94)	179
Others	75	(60)	-	15
Sub-total	19,007	7,176	(94)	26,089
Deferred income tax liabilities				
Identifiable assets acquired in business combination of Former Ping An Bank at fair value	(1,085)	66	-	(1,019)
Others	(91)	10	-	(81)
Sub-total	(1,176)	76	-	(1,100)
Net book value	17,831	7,252	(94)	24,989

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

21.Other assets

(a)Summarised by nature

	31 December 2018	31 December 2017
Prepayments and guarantee deposits (Note III 21b)	1,245	1,150
Deposit of litigation fees (Note III 21c)	1,064	854
Fees receivables	927	719
Foreclosed assets (Note III 21d)	4,623	5,240
Construction in progress (Note III 21e)	738	1,872
Long-term prepaid expenses (Note III 21f)	1,094	1,092
Settlement receivables	1,886	5,890
Development expenditure	708	444
Interest receivables (Note II 36.3)	1,152	-
Others (Note III 21g)	1,322	933
Total other assets	14,759	18,194
Less: Impairment provision		
Deposit of litigation fees (Note III 21c)	(486)	(347)
Foreclosed assets (Note III 21d)	(256)	(288)
Others (Note III 21g)	(239)	(200)
Total impairment provision	(981)	(835)
Net amount	13,778	17,359

(b)Prepayments and guarantee deposits summarised by ageing

	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Less than 1 year	931	74.78%	876	76.17%
1 to 2 years	66	5.30%	50	4.35%
2 to 3 years	43	3.45%	36	3.13%
Over 3 years	205	16.47%	188	16.35%
Total	1,245	100.00%	1,150	100.00%

As at 31 December 2018 and 31 December 2017, the Company had not made any bad debt provision for prepayments.

(c)Deposit of litigation fees

	31 December 2018			
	Carrying amount		Provision for bad debts	
	Amount	%	Amount	Coverage
Less than 1 year	476	44.74%	(84)	17.65%
1 to 2 years	319	29.98%	(181)	56.74%
2 to 3 years	140	13.16%	(104)	74.29%
Over 3 years	129	12.12%	(117)	90.70%
Total	1,064	100.00%	(486)	45.68%

	31 December 2017			
	Carrying amount		Provision for bad debts	
	Amount	%	Amount	Coverage
Individual assessment	458	53.63%	(99)	21.62%
Collective assessment:				
Less than 1 year	290	33.96%	(147)	50.69%
1 to 2 years	72	8.43%	(67)	93.06%
2 to 3 years	24	2.81%	(24)	100.00%
Over 3 years	10	1.17%	(10)	100.00%
Sub-total	396	46.37%	(248)	62.63%
Total	854	100.00%	(347)	40.63%

(d)Foreclosed assets

	31 December 2018	31 December 2017
Lands and buildings	4,574	5,184
Others	49	56
Total	4,623	5,240
Less: Impairment provision (Note III 22)	(256)	(288)
Net amount	4,367	4,952

During the year, the Company took possession of collateral held as a security with a carrying amount of RMB586 million (2017: RMB 1,071 million).The collateral mainly comprised buildings. During the year, the Company disposed debt assets of RMB 1,203 million (2017: RMB 326 million). The Company planned to dispose of the repossessed assets through auctions, bidding or transfers in the future.

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

21.Other assets(Continued)

(e)Construction in progress

	31 December 2018	31 December 2017
Balance at beginning of the year	1,872	930
Increase in the current year	1,395	1,087
Transfer to property and equipment	(2,390)	(35)
Transfer to long-term prepaid expenses	(138)	(110)
Balance at end of the year	739	1,872

Construction in progress of the Company is listed as follows:

2018	Budget	Balance at beginning of the year	Increase in the current year	Decrease in the current year	Balance at end of the year	Percentage of engineering investment to budget
Chongqing branch office	499	428	71	(499)	-	-
Kunming branch office	626	495	119	(614)	-	-
Wuhan Ping An Bank mansion	882	401	401	(802)	-	-
Nanchang branch Ruituo Ronghe mansion	249	168	81	(249)	-	-
Guiyang branch office	226	152	74	(226)	-	-
Changsha branch Xiangjiang financial centre	1,155	-	489	-	489	42%
Others		228	160	(138)	250	
Total		1,872	1,395	(2,528)	739	

(f)Long-term prepaid expenses

	31 December 2018	31 December 2017
Balance at beginning of the year	1,092	1,317
Increase in the current year	315	205
Transfers from construction in progress	138	110
Amortisation charged in the current year	(434)	(516)
Other decreases in the current year	(17)	(24)
Balance at end of the year	1,094	1,092

(g)Others

	31 December 2018			
	Carrying amount		Impairment provision	
	Amount	%	Amount	Coverage
Less than 1 year	720	54.47%	(47)	6.53%
1 to 2 years	406	30.71%	(56)	13.79%
2 to 3 years	45	3.40%	(19)	42.22%
Over 3 years	151	11.42%	(117)	77.48%
Total	1,322	100.00%	(239)	18.08%

	31 December 2017			
	Carrying amount		Impairment provision	
	Amount	%	Amount	Coverage
Individual assessment	493	52.84%	(134)	27.18%
Collective assessment:				
Less than 1 year	244	26.15%	(16)	6.56%
1 to 2 years	170	18.22%	(32)	18.82%
2 to 3 years	15	1.61%	(7)	46.67%
Over 3 years	11	1.18%	(11)	100.00%
Sub-total	440	47.16%	(66)	15.00%
Total	933	100.00%	(200)	21.44%

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

22.Provision for asset impairments

2018	Note III	1 January 2018	Provision/ (reversal) for the year (Note III 48)	Amounts written off	Recovery of assets written off previously	Amounts released upon disposal of assets	Decrease of loans due to rise in discount value	Other movements	31 December 2018
Impairment provision for deposits with banks and other financial institutions	2	453	(94)	-	-	-	-	4	363
Impairment provision for placements with and loans to banks and other financial institutions measured at amortised cost	3	75	94	-	-	-	-	3	172
Impairment provision for placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income		25	(9)	-	-	-	-	-	16
Impairment provision for financial assets held under resale agreements	5	1	1	-	-	-	-	-	2
Impairment provision for loans and advances to customers measured at amortised cost	8.6	47,709	43,557	(45,804)	9,356	(605)	(675)	495	54,033
Impairment provision for loans and advances to customers designated at fair value and changes included into other comprehensive income	8.6	54	100	-	-	-	-	-	154
Impairment provision for investment on debts		4,270	3,318	-	-	(232)	-	5	7,361
Other investment on debts	11	67	265	-	-	-	-	-	332
Impairment provision for property and equipment	17	2	-	-	-	-	-	-	2
Impairment provision for foreclosed assets	21d	288	57	-	-	(88)	-	(1)	256
Impairment provision for others		547	364	(182)	9	(13)	-	-	725
Total		53,491	47,653	(45,986)	9,365	(938)	(675)	506	63,416

2017	Note III	1 January 2017	Provision/ (reversal) for the year (Note III 49)	Amounts written off	Recovery of assets written off previously	Amounts released upon disposal of assets	Decrease of loans due to rise in discount value	Other movements	31 December 2017
Impairment provision for deposits with banks and other financial institutions	2	78	-	-	-	-	-	(2)	76
Impairment provision for placements with and loans to banks and other financial institutions	3	22	-	-	-	-	-	(1)	21
Impairment provision for loans and advances	8.6	39,932	40,803	(39,203)	3,496	(407)	(659)	(152)	43,810
Impairment provision for available-for-sale financial assets	13	171	236	-	-	(67)	-	(3)	337
Impairment provision for held to maturity investment	14	1	33	-	-	-	-	-	34
Impairment provision for debt instruments classified as receivables	15	1,655	1,550	-	-	-	-	-	3,205
Impairment provision for foreclosed assets	21d	300	24	(7)	-	(30)	-	1	288
Impairment provision for property and equipment	17	2	-	-	-	-	-	-	2
Impairment provision for others		431	279	(166)	4	-	-	(1)	547
Total		42,592	42,925	(39,376)	3,500	(504)	(659)	(158)	48,320

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

23.Borrowings from central bank

	31 December 2018	31 December 2017
Medium-term borrowing facility	132,000	106,500
Selling repurchase bonds to the Central Bank	11,240	20,600
Selling repurchase bills to the Central Bank	4,281	3,552
Add: Accrued interest	2,235	-
Total	149,756	130,652

24.Deposits from banks and other financial institutions

	31 December 2018	31 December 2017
Domestic banks	76,970	119,947
Other domestic financial institutions	307,244	295,179
Overseas banks	4,296	15,778
Add: Accrued interest	4,228	-
Total	392,738	430,904

25.Placements from banks and other financial institutions

	31 December 2018	31 December 2017
Domestic banks	12,369	18,297
Overseas banks	12,190	9,727
Add: Accrued interest	47	-
Total	24,606	28,024

26.Financial assets sold under repurchase agreements

	31 December 2018	31 December 2017
(a)Summarised by collateral		
Bonds	7,982	6,359
Add: Accrued interest	6	-
Total	7,988	6,359
(b)Summarised by banks and other financial institutions		
Banks	7,982	3,759
Other financial institutions	-	2,600
Add: Accrued interest	6	-
Total	7,988	6,359

27.Due to customers

	31 December 2018	31 December 2017
Demand deposits		
Corporate customers	533,502	582,331
Individual customers	173,357	175,268
Sub-total	706,859	757,599
Time deposits (Note)		
Corporate customers	903,563	798,358
Individual customers	263,181	140,194
Sub-total	1,166,744	938,552
Pledged deposits held as collateral	175,098	218,900
Fiscal deposits	38,481	32,729
Time deposits from PBoC	17,903	34,812
Inward and outward remittances	23,472	17,828
Add: Accrued interest	20,585	-
Total	2,149,142	2,000,420

Note: As at 31 December 2018, time deposits included structural deposit of RMB 433,562 million (31 December 2017: RMB 217,598).

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

28.Employee benefits payable

	31 December 2018	31 December 2017
Short-term employee benefits payable(a)	12,159	10,621
Defined contribution plans and defined benefit plans payable (b)	77	89
Termination benefits payable(c)	2	3
	12,238	10,713

(a)Short-term employee benefits payable

2018	1 January 2018	Increase in the current year	Paid in the current year	31 December 2018
Wages and salaries, bonus, allowances and subsidies	10,003	14,249	(12,863)	11,389
Including: Deferred bonus	498	204	(130)	572
Social insurance, supplementary pension contributions and staff welfare	529	1,407	(1,267)	669
Housing funds	-	691	(691)	-
Labour union and training expenses	89	371	(359)	101
Others	-	23	(23)	-
Total	10,621	16,741	(15,203)	12,159

2017	1 January 2017	Increase in the current year	Paid in the current year	31 December 2017
Wages and salaries, bonus, allowances and subsidies	8,601	12,520	(11,118)	10,003
Including: Deferred bonus	420	193	(115)	498
Social insurance, supplementary pension contributions and staff welfare	501	1,374	(1,346)	529
Housing funds	-	670	(670)	-
Labour union and training expenses	71	297	(279)	89
Others	-	18	(18)	-
Total	9,173	14,879	(13,431)	10,621

(b)Defined contribution plans and defined benefit plans

	1 January 2018	Increase in the current year	Paid in the current year	31 December 2018
Basic pensions	41	954	(961)	34
Unemployment insurance	1	25	(25)	1
Defined benefit plans	47	-	(5)	42
Total	89	979	(991)	77

(c)Termination benefits payable

	31 December 2018	31 December 2017
Early retirement benefits payable	2	3

29.Taxes payable

	31 December 2018	31 December 2017
Corporate income tax payable	6,267	9,607
Unpaid VAT	2,661	1,818
VAT payable on transferring financial products	12	44
Additional taxes and surcharges payable	254	223
Others	172	199
Total	9,366	11,891

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

30.Interest payable

2017	1 January 2017	Increase in the current year	Decrease in the current year	31 December 2017
Interest payable for due to customers and amounts due from banks and other financial institutions	20,228	58,286	(54,092)	24,422
Interest payable for bonds	1,304	2,285	(1,948)	1,641
Total	21,532	60,571	(56,040)	26,063

Refer to Note II 36.3 for the effect of the revised formats of financial statements of financial enterprises on interest payable.

31.Debt securities issued

	31 December 2018	31 December 2017
Debt securities issued		
Hybrid capital debt instrument (Note 1)	5,116	5,116
Financial bonds (Note 2)	49,983	15,000
Tier 2 capital bonds (Note 3)	25,000	25,000
Sub-total	80,099	45,116
Interbank certificates of deposit issued (Note 4)	300,129	297,376
Add: Accrued interest	1,656	-
Total	381,884	342,492

As at 31 December 2018 and 31 December 2017, the Company did not have any defaults of principal, interest or other breaches with respect to the subordinated bonds and the hybrid capital debt instrument.

Note 1: As approved by the PBoC and CBIRC, the Company issued a fixed-rate hybrid capital debt instrument amounting to RMB 1.5 billion in the inter-bank market on 26 May 2009. The debt instrument has 15 years to maturity. The Company has the option to redeem the debt instrument at face value on 26 May 2019. The coupon rate for the first 10 years is 5.70%. If the Company does not exercise this option, the coupon rate will increase by 3 percentage points thereafter.

As approved by the PBoC and CBIRC, the Company issued a fixed-rate hybrid capital debt instrument amounting to RMB 3.65 billion in the inter-bank market on 29 April 2011. The debt instrument has 15 years to maturity with an annual interest rate of 7.50%. The Company has the option to redeem the debt instrument at face value on 29 April 2021.

Note 2: As approved by the PBoC and CBIRC, the Company issued financial debt instruments amounting to RMB 15 billion and RMB 35 billion respectively in the inter-bank market on 19 July 2017 and 14 December 2018. The debt instruments have 3 years to maturity, with a fixed coupon rate of 4.20% and 3.79% respectively.

Note 3: As approved by the PBoC and CBIRC, the Company issued tier 2 capital bonds in the inter-bank market with total amounts of RMB 9 billion, RMB 6 billion and RMB 10 billion respectively on 6 March 2014, 9 April 2014 and 8 April 2016. These subordinated bonds have 10 years to maturity with fixed coupon rates. The Company has the option to redeem these bonds at the end of the fifth year on certain conditions and the coupon rates are 6.80%, 6.50% and 3.85% respectively.

When the triggering event occurs, the Company has the right to irrevocably fully write down the principals of bonds and other tier 1 capital tools issued in the current year, without the consent from bondholders, from the day following the triggering event. Any unpaid accumulated interest payable will no longer be paid. Once the principal of bonds are written down, the bonds are permanently cancelled, no longer be restored in any condition. The triggering event is the earlier of following: (i) if the principals are not written down, the issuer will be prohibited from operating by CBIRC; (ii)) if no capital injection or equivalent support from the public sector, the issuer will be prohibited from operating by CBIRC.

Note 4: As at 31 December 2018, the original term of interbank certificates of deposit issued but unmatured was from 1 months to 3 years, and the annual interest rate was from 2.90% to 4.80% (31 December 2017: the original term was from 1 months to 3 years, and the annual interest rate was from 2.95% to 5.50%). The interbank certificates of deposit with original term less than 1 year (inclusive) amounted to RMB 297,133 million (31 December 2017: RMB 294,376 million).

32.Provisions

	31 December 2018	31 December 2017
Off-balance sheet provision for expected credit losses	836	-
Expected litigation losses	24	25
Total	860	25

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

33.Other liabilities

	31 December 2018	31 December 2017
Settlement & clearing and pending payables	9,512	4,670
Accrued and payable expenses	3,110	2,529
Inactive deposit account balances	212	225
Dividends payable (Note 1)	12	12
Amounts payable for custody	1,952	704
Contract liabilities (Note 2)	2,081	-
Deferred income	-	2,092
Quality warranties and deposits	605	664
Others	2,308	1,222
Total	19,792	12,118

Note 1: As at 31 December 2018 and 31 December 2017, the above-mentioned balance of dividends payable of RMB 12 million had been overdue for more than 1 year as the related shareholders had not collected the dividends.

Note 2: As presented in Note II 36, from 1 January 2018, the Company began to implement the revised CAS 14 "Revenue" released by the Ministry of Finance in July 2017. The obligation of the Company to transfer goods or services to customers according to consideration received should be presented as "Other liabilities - contract liability" and such obligation was presented as deferred income as at 31 December 2017.

34.Share capital

As at 31 December 2017, the number of the Company's ordinary shares issued and fully paid was 17,170 million, with a par value of RMB 1 per share. The nature and the structure of the share capital are as follows:

	31 December 2017	%	Movements in the year	31 December 2018	%
I.Restricted tradable shares					
Domestic non-state-owned corporation shares	252	1.47%	(252)	-	0.00%
II. Unrestricted tradable shares					
RMB ordinary shares	16,918	98.53%	252	17,170	100.00%
III. Total shares	17,170	100.00%	-	17,170	100.00%

Restricted tradable shares are shares whose holders are restricted to trade due to law, regulations or commitments. The Company's restricted tradable shares mainly consist of private placements to Ping An Insurance (Group) Company of China, Ltd.

35.Other equity investment

Outstanding financial instruments	Dividend rate	Issue price (Yuan)	Number of shares issued (million)	Issued amount (million)	Maturity or renewal	Conversion
Preference shares	4.37%	100	200	20,000	No maturity date	No conversion during the period

On 7 March 2016, the Company issued 200 million preference shares at par. The amount of RMB 19,952.5 million was included in other equity investment after deducting issuance costs. In the duration, in the case that relevant requirements are satisfied, the Company has the option to redeem the whole or part of the preference shares on dividend payment day every year since the date of expiry of 5 years after the approval of CBIRC. The redemption right for the preference shares is entitled to the Company after approval of the CBIRC. The nominal dividend rate of the preference shares is 4.37%, and the dividend is paid by cash at fixed rate annually.

As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. No profit will be distributed to ordinary shareholders unless the Company decides to completely distribute the current dividends on preference shares. The preference shares are non-cumulative preference shares and the Company has the option to cancel a portion or all of the dividends distribution. Preference shareholders shall not participate in the distribution of residual profits with ordinary shareholders.

As approved by CBIRC, the existing preference shares issued by the Company will be completely or partially converted to ordinary shares of the Company when the following triggering events of mandatory conversion happen:

1. Where the triggering events of other tier 1 capital instruments happen, namely when the core tier 1 capital adequacy ratio falls to 5.125% (or lower), the preference shares will be completely or partially converted to A shares at once as agreed in the contract to restore the core tier 1 capital adequacy ratio above the triggering point.

2. Where the triggering events of tier 2 capital instruments happen, the preference shares will be mandatorily converted to ordinary shares of the Company.

If the triggering conditions for mandatory conversion are all met, the existing preference shares will be completely or partially converted to A shares at agreed conversion price after approval of the regulator. Since the issuing scheme for preference shares is approved by the Board of Directors, where such conditions as bonus shares (excluding the option of cash dividend distribution), transfer to paid-in capital, issuance of new shares (excluding transfer to paid-in capital from issuance of financial instruments (e.g., preference shares, convertible bonds, etc.) with the terms of being convertible to ordinary shares) and allotment of shares happen, the Company will make accumulative adjustments for mandatory conversion price successively following the sequential order of the above conditions without consideration of ordinary share cash dividends.

The preference shares issued by the Company are classified as equity instrument and presented in shareholders' equity in the balance sheet. Based on relevant provisions of CBIRC, the preference shares meet all the criteria of qualified other tier 1 capital instruments.

3. Equity attributable to holders of equity instrument

	31 December 2018	31 December 2017
Equity attributable to owners		
Equity attributable to holders of ordinary shares	220,088	202,101
Equity attributable to holders of other equity	19,953	19,953

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

36.Capital surplus

	31 December 2018	31 December 2017
Share premium	56,465	56,465

37.Surplus reserve

In accordance with the Company Law, the Company is required to appropriate 10% of its profit after tax to its statutory surplus reserve until the reserve balance exceeds 50% of its registered capital. Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses or be converted to paid-in capital. When converting the statutory surplus reserve to paid-in capital, new shares can be distributed to shareholders according to the original share proportion, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital. The Company may also appropriate its profit after tax to the discretionary surplus reserve upon approval of the shareholders in general meetings.

As at 31 December 2018 and 31 December 2017, the amount of the surplus reserve represented the statutory surplus reserve.

38.General reserve

Pursuant to the relevant regulations issued by the MOF, the Company is required to maintain a general reserve within equity, through the appropriation of net profit.

39.Retained earnings

According to a resolution at the Board of Directors dated 6 March 2019, the Company will appropriate RMB 1,298 million to the general reserve based on net profit of 2018 audited by domestic certified public accountant. No appropriation will be made to the statutory surplus reserve as the balance of statutory surplus reserve exceeds 50% of the registered capital. The above distribution scheme is pending for the approval by the general meeting of shareholders.

The Company passed its profit appropriation resolution for the year of 2017 through the annual general meeting held on 20 June 2018. According to the resolution, the Company proposed to make appropriation of cash dividends of RMB 2,335 million for 2017 to its shareholders.

According to a resolution at the Board of Directors dated 14 March 2018, the Company appropriated RMB 4,084 million to the general reserve based on net profit of 2017 audited by domestic certified public accountant, and no appropriation was made to the statutory surplus reserve temporarily as the balance of statutory surplus reserve exceeded 50% of its registered capital. The above distribution scheme was approved by the general meeting of shareholders on 20 June 2018.

According to a resolution at the Board of Directors dated 29 January 2018, the Company distributed RMB 4.37 (inclusive of tax) per preference share as dividends based on the amount of issued preference shares of 200 million (with a face value of RMB 100 per share), and calculated with a nominal dividend rate of 4.37%. The calculation period for the dividends on preference shares was from 7 March 2017 to 6 March 2018. The dividends date was 7 March 2018. The total amount of the dividends distributed was RMB 874 million (inclusive of tax). The Company distributed dividends directly to preference shareholders.

40.Net interest income

	2018	2017
Interest income:		
Balances with central banks	4,002	4,232
Due from transaction between financial enterprises	10,933	10,726
Loans and advances to customers	118,184	94,976
Financial investments	28,363	34,078
Others	1,406	4,056
Total	162,888	148,068
Interest expenses:		
Borrowings from central bank	4,299	2,671
Due from transaction between financial enterprises	18,686	19,155
Due to customers	49,638	37,875
Debt securities issued	15,520	14,358
Total	88,143	74,059
Net interest income	74,745	74,009

41.Net fee and commission income

	2018	2017
Fee and commission income:		
Settlement fee income	2,477	2,392
Wealth management products related fee income	1,365	3,411
Agency business fee income	4,123	3,350
Bank card fee income	25,266	18,511
Advisory and consulting fee income	1,463	2,659
Asset custody fee income	2,856	3,046
Others	1,812	2,356
Sub-total	39,362	35,725
Fee and commission expenses:		
Bank card fee expenses	6,426	4,213
Agency business fee expenses	1,210	493
Others	429	345
Sub-total	8,065	5,051
Net fee and commission income	31,297	30,674

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

42.Investment income

	2018	2017
Gains on investments in precious metals	573	620
Net gain on derivative financial instruments (excluding foreign exchange derivative financial instruments)	301	162
Spread gains on loans and advances to customers designated at fair value and changes included into other comprehensive income	835	525
Spread gains on loans and advances to customers measured at amortised cost	(66)	(274)
Interest income, spread gains/(losses) and dividend income from financial assets held for trading	7,455	(170)
Spread gains on other investment on debts	136	-
Spread gains on investment on debts	1	-
Spread losses on available-for-sale financial assets	-	(68)
Other losses	(49)	(163)
Total	9,186	632

43.Gains and losses on changes in fair value

	2018	2017
Financial assets held for trading	1,162	(6)
Derivative financial instruments (excluding foreign exchange derivative financial instruments)	(270)	(55)
Total	892	(61)

44.Exchange gains or losses

	2018	2017
Gains from changes in fair values of foreign exchange derivatives	2,022	(794)
Other foreign exchange losses	(1,813)	960
Total	209	166

45.Other operating income

	2018	2017
Rental income	123	110
Others	47	76
Total	170	186

46.Taxes and surcharges

	2018	2017
City maintenance and construction tax	599	520
Educational surcharge	421	373
Others	129	129
Total	1,149	1,022

47.Business and administrative expenses

	2018	2017
Staff expenses		
Wages and salaries, bonus, allowances and subsidies	14,249	12,520
Social insurance and staff welfare	2,385	2,264
Housing funds	691	670
Labour union and training expenses	371	297
Others	23	18
Sub-total	17,719	15,769
Depreciation of property and equipment	1,134	975
Amortisation of expenses of improvements to property and equipment held under operating leases	429	481
Amortisation of intangible assets	888	674
Rental expenses	2,758	2,581
Sub-total	5,209	4,711
General and administrative expenses	12,463	11,136
Total	35,391	31,616

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

48.Impairment losses on credit

	2018
Impairment losses accrued/(reversed) for the year:	
Deposits with banks and other financial institutions	(94)
Placements with and loans to banks and other financial institutions	85
Financial assets held under resale agreements	1
Loans and advances to customers	43,657
Investment on debts	3,318
Other investment on debts	265
Other assets	364
Expected loss of credit commitment for off-balance-sheet projects (Note III, 32)	218
Total	47,814

49.Impairment losses on assets

	2017
Impairment losses accrued for the year:	
Loans and advances to customers	40,803
Available-for-sale financial assets	236
Held to maturity investment	33
Debt instruments classified as receivables	1,550
Foreclosed assets	24
Others	279
Total	42,925

Pursuant to the *Circular on Amendment to Formats of Financial Statements of Financial Enterprises for 2018* (Cai Kuai [2018] No. 36) released by the Ministry of Finance, the expected credit losses of financial instruments recognised for the current year were presented in the new item "Impairment losses on credit" in the Company's financial statements for the year ended 31 December 2018 (Note III 48).

50.Income tax expenses

	2018	2017
Income tax expenses for the current period	10,686	14,220
Deferred income tax expenses	(3,273)	(7,252)
Total	7,413	6,968

The reconciliation of income tax expense applicable to profit before tax at the statutory tax rate to income tax expense at the Company's effective income tax rate is as follows:

	2018	2017
Profit before tax	32,231	30,157
Income tax at the statutory rate of 25%	8,058	7,539
Tax-exempt income	(2,742)	(2,015)
Non-deductible expenses and other adjustments	2,097	1,444
Income tax expenses	7,413	6,968

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

51.Other comprehensive income

	Other comprehensive income in the balance sheet				Other comprehensive income in the income statement for the year ended 31 December 2018			
	31 December 2017	Effect of initial implementation of the revised accounting standards for financial instruments	1 January 2018	31 December 2018	Amount incurred before tax for the current year	Less: Reclassification of previous other comprehensive income into profit or loss	Less: Income tax expenses	Other comprehensive income after tax
I. Items that may not be reclassified into profit or loss in subsequent periods								
Changes in fair value of other equity investment	-	(44)	(44)	(43)	1	-	-	1
II. Items that will be reclassified into profit or loss in subsequent periods when specific condition is met								
Changes in fair value of financial assets designated at fair value and changes included into other comprehensive income	-	(191)	(191)	453	989	(175)	(170)	644
Provision for credit losses on financial assets at fair value and changes included into other comprehensive income	-	109	109	376	536	(135)	(134)	267
Gains or losses arising from changes in fair value of available-for-sale financial assets	(528)	528	-	-	-	-	-	-
Total	(528)	402	(126)	786	1,526	(310)	(304)	912

	Other comprehensive income in the balance sheet		Other comprehensive income in the income statement for the year ended 31 December 2017			
	31 December 2016	31 December 2017	Amount incurred before tax for the current year	Less: Reclassification of previous other comprehensive income into profit or loss	Less: Income tax	Other comprehensive income after tax
Items that will be reclassified into profit or loss in subsequent periods when specific condition is met						
Gains or losses arising from changes in fair value of available-for-sale financial assets	(809)	(528)	(52)	427	(94)	281

52.Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares issued by the Company during the year. Diluted earnings per share are calculated by dividing the net profit attributable to the ordinary shareholders of the Company after adjustment based on potential dilutive ordinary shares by the adjusted weighted average number of ordinary shares issued by the Company during the year. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2018 and therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation. Diluted earnings per share equal to basic earnings per share.

Basic earnings per share are calculated as follows:

	2018	2017
Net profit for the current year attributable to shareholders of the Company	24,818	23,189
Less: The preference dividends declared by the Company	(874)	(874)
Net profit for the current year attributable to ordinary shareholders of the Company	23,944	22,315
Weighted average number of outstanding ordinary shares (million)	17,170	17,170
Basic earnings per share (RMB Yuan)	1.39	1.30

53.Cash and cash equivalents

	31 December 2018	31 December 2017
Cash	5,015	4,226
Cash equivalents:		
Within three months before the original maturity date		
- Deposits with banks and other financial institutions	23,452	20,883
- Placements with and loans to banks and other financial institutions	52,167	28,603
- Financial assets held under resale agreements	36,936	41,935
Unrestricted balance with the Central Bank	41,899	32,898
Bond investments (with maturity of less than three months since acquired)	2,332	8,479
Sub-total	156,786	132,798
Total	161,801	137,024

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

54.Cash receipts relating to other operating activities

	2018	2017
Precious metals	34,996	-
Collection of amounts already written-off	8,939	3,500
Cash receipts from disposal of foreclosed assets	1,280	313
Derivative financial instruments	301	162
Gain on trading of bills	835	525
Financial instruments held for trading (Note II 36.3)	-	19,313
Others	6,916	4,705
Total	53,267	28,518

55.Cash payments relating to other operating activities

	2018	2017
Administrative expenses such as marketing and public relation expenses, rental expenses and others	17,624	18,171
Precious metals	-	4,369
Total	17,624	22,540

56.Structured entities

(a)Unconsolidated structured entities

(i)Unconsolidated structured entities managed by the Company

(1)Wealth management products

The unconsolidated structured entities managed by the Company are primarily wealth management products (hereafter referred to as the "WMPs") issued and managed by the Company as an agency. On the basis of analysing the potential target group of customers, the Company designs and sells the investment plan to the specific target customer group. The Company distributes the funds and investment income to the investors in accordance with contracts. As the manager of WMPs, the Company charges fees and commissions such as selling charges, fixed management fee, fluctuant management fee, etc. The variable return from the structured entities is not significant.

As at 31 December 2018, the total size of unconsolidated WMPs issued and managed by the Company amounted to RMB 537,781 million (31 December 2017: RMB 501,062 million).

As the manager of WMPs, the Company proactively manages the due date of assets and liabilities, and also the position and the proportion of the current assets in order to maximise the interest of investors. Temporary placements to WMPs are a commonly used way to manage liquidity risk. The placements may not be specified in the contracts. The transaction price is set by referencing the market interest rate. As at 31 December 2018, the balance of above-mentioned placements was RMB 20,000 million (31 December 2017: RMB 12,100 million); and interest income was RMB 287 million (2017: RMB 265 million). The placements balance was presented in "Placements with banks and loans to banks and other financial institutions".

(2)Asset-backed securitisations

The other type of unconsolidated entity managed by the Company is the Special Purpose Trust (hereafter referred to as the "SPT") established by the third party in order to facilitate the asset-backed securitisations business. The credit assets are transferred from the Company to the SPTs to issue asset-backed securities for financing. As at 31 December 2018, the unconsolidated SPTs managed by the Company amounted to RMB 36,620 million (31 December 2017: RMB 23,997 million). Performing as the loan service provider, the Company manages the loans in associate with the SPTs and charges fee and commissions.

The Company also holds part of all levels of the asset-backed securities in SPTs. The variable return from the structured entities is not significant. As at 31 December 2018, the maximum exposure of unconsolidated SPTs is asset-backed securities initiated by the SPTs and held by the Company, which are recognised in financial assets and the carrying amount of which amounts to RMB 97 million (31 December 2017: RMB 13 million). The carrying amount of these asset-backed securities approximates their fair value.

In 2018, the Company did not give financial support to any of these unconsolidated SPTs (2017: Nil).

For certain asset-backed securitisations, the Company may retain interests in the form of subordinated tranches which may give rise to the Company's continuing involvement in the transferred assets. The assets are recognised on the balance sheet to the extent of the Company's continuing involvement, and the rest part shall be de-recognised. The extent of the Company's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. As at 31 December 2018, the Company recognised continuing involvement assets of RMB 177 million (31 December 2017: RMB 49 million).

(All amounts in RMB million unless otherwise stated)

III.NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS(Continued)

56.Structured Entities(Continued)

(a) Unconsolidated structured entities(Continued)

(ii)Unconsolidated structured entities held by the Company

The Company invests in a number of other unconsolidated structured entities which are sponsored and managed by other entities for investment return in 2018. These assets include WMPs issued and managed by independent third parties, funds, trust plans and earning rights, asset management plans and earning rights, loan support bills, and asset-backed securities from asset securitisation initiated by the Company and managed by independent third parties, etc. The trust plans and asset management plans invested by the company are issued and managed by non-bank financial institutions. The basic assets of these products are mainly enterprise creditor's rights, bills, bank deposit receipts and asset securitized asset-backed securities. In 2018, the Company did not provide any liquidity support to those unconsolidated structured entities (2017: Nil).

As at 31 December 2018 and 31 December 2017, the carrying amount (including accrued interest) of and the Company's maximum exposure to these other unconsolidated structured entities is summarised in the table below:

31 December 2018	Carrying amount	Maximum exposure to loss	Total size of structured entities
Financial assets held for trading			
Funds	45,567	45,567	1,732,020
WMPs	5,159	5,159	Note
Trust plans and earning rights	5,810	5,810	Note
Asset management plans and earning rights	11,746	11,746	Note
Asset-backed securities from asset securitisation	1,708	1,708	40,039
Sub-total	69,990	69,990	
Investment on debts			
Trust plans and earning rights	38,886	38,886	Note
Asset management plans and earning rights	112,209	112,209	Note
Asset-backed securities from asset securitisation	2,324	2,324	34,511
Loan-backed bills	2,607	2,607	Note
Sub-total	156,026	156,026	
Other investment on debts			
Trust plans and earning rights	25,142	25,142	Note
Asset management plans and earning rights	9,694	9,694	Note
Asset-backed securities from asset securitisation	4,311	4,311	18,655
Sub-total	39,147	39,147	
Total	265,163	265,163	

31 December 2017	Carrying amount	Maximum exposure to loss	Total size of structured entities
Available-for-sale financial assets			
Asset-backed securities from asset securitisation	1,458	1,458	14,381
Held to maturity investment			
Asset-backed securities from asset securitisation	3,453	3,453	36,190
Financial assets held for trading			
Funds	4,639	4,639	53,688
Debt instruments classified as receivables			
WMPs	7,010	7,010	Note
Trust plans and earning rights	52,431	52,431	Note
Asset management plans and earning rights	244,462	244,462	Note
Loan-backed bills	2,475	2,475	Note
Asset-backed securities from asset securitisation	13	13	473
Sub-total	306,391	306,391	
Total	315,941	315,941	

The Company holds investments in or provides services for these structured entities to gain interest income and fee income.

Note: The information of total size of the unconsolidated structured entities listed above is not readily available from the public.

(b)Consolidated structured entities

Consolidated structured entities consist principally of WMPs that are issued and managed by the Company, with respect to which the Company has guaranteed the investors' principal investment upon maturity of the WMP regardless of its actual performance. As at 31 December 2018, the Company did not enter into financial support with any of these consolidated structured entities (31 December 2017: Nil).

IV.OPERATING SEGMENT INFORMATION

The Company identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and implements management on such basis. The Company mainly manages the operation by way of geographical segments and business segments. Geographically, the Company separately operates five reporting segments, Eastern District, Southern District, Western District, Northern District and Head Office. And in business lines, the Company separately manages the production and operation of three reporting segments, wholesale banking business, retail banking business and other businesses. The operating segment information is shown in details as follows:

Geographical operating segments

The geographical operating segments are identified as follows:

Eastern District: Shanghai branch, Hangzhou branch, Yangzhou branch, Yiwu branch, Taizhou branch, Shaoxing branch, Huzhou branch, Ningbo branch, Wenzhou branch, Nanjing branch, Wuxi branch, Changzhou branch, Suzhou branch, Nantong branch, Taizhou branch, Fuzhou branch, Zhangzhou branch, Fujian Pilot Free Trade Zone Fuzhou branch, Xiamen branch, Fujian Pilot Free Trade Zone Xiamen branch, Quanzhou branch, Shanghai Pilot Free Trade Zone branch, Hefei branch, Wuhu branch, Xuzhou branch, Nanchang branch, Yancheng branch;

Southern District: Shenzhen branch, Shenzhen Qianhai branch, Guangzhou branch, Guangdong Pilot Free Trade Zone Nansha branch, Zhuhai branch, Guangdong Pilot Free Trade Zone Hengqin branch, Foshan branch, Dongguan branch, Huizhou branch, Zhongshan branch, Haikou branch, Changsha branch, Hengyang branch, Yueyang branch, Nanning branch;

Western District: Chongqing branch, Chengdu branch, Deyang branch, Leshan branch, Mianyang branch, Kunming branch, Honghe branch, Wuhan branch, Jingzhou branch, Xiangyang branch, Yichang branch, Xi'an branch, Xianyang branch, Guiyang branch;

Northern District: Beijing branch, Dalian branch, Tianjin branch, Tianjin Pilot Free Trade Zone branch, Jinan branch, Linyi branch, Weifang branch, Dongying branch, Qingdao branch, Yantai branch, Rizhao branch, Zhengzhou branch, Luoyang branch, Shenyang branch, Shijiazhuang branch, Taiyuan branch, Tangshan branch, Zibo branch, Jining branch, Jinzhong branch, Langfang branch, Nanyang branch, Weihai branch, Hohhot branch;

Head Office: The departments of Head Office (including credit card department, capital operation department, special asset management department, financial institution department, asset management department, transaction banking department, etc.)

Management monitors the operating results of the Company's business units separately for the purpose of making decisions about resources allocations and performance assessment. When monitoring operating results of geographic regions, management mainly considers operating income, operating costs and operating profit.

2018	Eastern District	Southern District	Western District	Northern District	Head office	Total
Net interest income (1)	23,608	20,274	6,620	11,334	12,909	74,745
Net Non-interest Income (2)	3,136	2,944	809	1,569	33,513	41,971
Operating income	26,744	23,218	7,429	12,903	46,422	116,716
Operating expenses (3)	(7,478)	(6,725)	(2,670)	(5,136)	(14,531)	(36,540)
Including: Depreciation, amortisation and rental expenses	(1,136)	(945)	(537)	(977)	(1,614)	(5,209)
Impairment losses on credit and other assets	(5,359)	(6,090)	(8,612)	(12,900)	(14,910)	(47,871)
Net non-operating expenses	(30)	2	(17)	(13)	(16)	(74)
Segment (loss)/profit	13,877	10,405	(3,870)	(5,146)	16,965	32,231
Income tax expenses						(7,413)
Net profit						24,818

31 December 2018	Eastern District	Southern District	Western District	Northern District	Head office	Offsetting	Total
Total assets	741,691	839,989	208,909	484,593	1,897,288	(753,878)	3,418,592
Total Liabilities	725,757	827,999	212,236	488,712	1,677,724	(753,878)	3,178,550

(1)Included "External interest net income/expense" and "Internal interest net income/expense".

(2)Included net fee and commission income, investment income, gains or losses from fair value changes, net gains from foreign exchange and foreign exchange products, other operating income, gains or losses from disposal of assets and other income.

(3)Included taxes and surcharges, and general and administrative expenses.

(All amounts in RMB million unless otherwise stated)

IV.OPERATING SEGMENT INFORMATION(Continued)

Geographical operating segments(Continued)

2017	Eastern District	Southern District	Western District	Northern District	Head office	Total
Net interest income (1)	21,100	19,470	6,617	11,633	15,189	74,009
Net Non-interest Income (2)	2,489	2,752	866	1,384	24,286	31,777
Operating income	23,589	22,222	7,483	13,017	39,475	105,786
Operating expenses (3)	(6,641)	(6,437)	(2,387)	(4,835)	(12,338)	(32,638)
Including: Depreciation, amortisation and rental expenses	(1,115)	(931)	(489)	(948)	(1,228)	(4,711)
Impairment losses on assets	(9,917)	(5,941)	(8,373)	(9,944)	(8,750)	(42,925)
Net non-operating (expenses)/income	(27)	(19)	(16)	(15)	11	(66)
Segment (loss)/profit	7,004	9,825	(3,293)	(1,777)	18,398	30,157
Income tax expenses						(6,968)
Net profit						23,189

31 December 2017	Eastern District	Southern District	Western District	Northern District	Head office	Offsetting	Total
Total assets	714,545	792,004	236,023	509,173	1,684,914	(688,185)	3,248,474
Total liabilities	706,864	781,806	239,188	510,729	1,476,018	(688,185)	3,026,420

(1)Included "External interest net income/expense" and "Internal interest net income/expense".

(2)Included net fee and commission income, investment income, gains or losses on fair value changes, net gains from foreign exchange and foreign exchange products, other operating income, gains or losses from disposal of assets and other income.

(3)Included taxes and surcharges, and general and administrative expenses.

Business lines operating segments

For the year ended 31 December 2018, based on the management structure and policies, the business decisions, reporting and performance assessment should be in accord with two main business lines - wholesale banking business and retail banking business and other business segments. The segments are set out as follows:

Wholesale banking business

Wholesale banking business comprises corporate business and inter-bank business, providing financial products and services to corporate clients, governments and banks and other institutions. The financial products and services include: corporate loan, corporate deposit, trade financing, corporate and inter-bank wealth management, and all kinds of corporate intermediary businesses and inter-bank businesses.

Retail banking business

Retail banking business provides financial products and services to retail customers. The financial products and services include: personal loan, deposit, bank cards, individual wealth management, and others.

Other operations

The business line refers to the bond and money market investment by the Head Office in need of liquidity management. In addition, it refers to the collective management of non-performing assets and equity investment as well as assets, liabilities, income and expenses that are not directly attributable to a segment.

Segment assets, liabilities, revenues and profits are measured in accordance with the Company's accounting policy. Corporate tax is managed at company level, not for distribution in the operating segments. Segment income is mainly from interest income, and therefore interest income is presented in net amount. Net interest income, instead of interest income and interest expense, is used by the management.

Inter-segment transactions are mainly money transference. The terms of the transaction are set by period and by referencing the capital cost in the market. "Internal interest net income/expense" refers to the net interest income and expense from transfer pricing between operating segments, which will be presented in operation business of each branch after offsetting. In addition, "external interest net income/expense" refers to the interest income received from the third party or interest expense paid to the third party. The total amount of "external interest net income/expense" from every operating segment should be equal to the net interest income in the Company's income statement.

Segment revenue, profit, assets and liabilities include those directly attributable to a segment, and those allocated pro rata.

The Company thoroughly conducts internal funds transfer pricing, using term matching and re-pricing method to calculate the income and expense of an individual account (contract), in order to enhance gearing, reasonable pricing, and comprehensive evaluation of the Company's performance.

(All amounts in RMB million unless otherwise stated)

IV.OPERATING SEGMENT INFORMATION(Continued)

Business lines operating segments(Continued)

2018	Wholesale banking business (1)	Retail banking business	Other operations	Total
Net interest income (2)	29,266	38,812	6,667	74,745
Net non-interest income (3)	17,854	23,071	1,046	41,971
Operating income	47,120	61,883	7,713	116,716
Operating expenses (4)	(13,269)	(23,020)	(251)	(36,540)
Including: Depreciation, amortisation and rental expenses	(1,729)	(3,419)	(61)	(5,209)
Impairment losses on credit and other assets	(32,484)	(16,604)	1,217	(47,871)
Net non-operating expenses	(1)	(14)	(59)	(74)
Segment profit	1,366	22,245	8,620	32,231
Income tax expenses				(7,413)
Net profit				24,818

31 December 2018	Wholesale banking business (1)	Retail banking business	Other operations	Total
Total assets	1,492,753	1,098,626	827,213	3,418,592
Total liabilities	2,390,425	466,185	321,940	3,178,550

(1)Included small enterprise business.

(2)Included "External interest net income/expense" and "Internal interest net income/expense".

(3)Included net fee and commission income, investment income, gains or losses on fair value changes, net gains from foreign exchange and foreign exchange products, other operating income, gains or losses from disposal of assets and other income.

(4)Included taxes and surcharges, and general and administrative expenses.

2017	Wholesale banking business (1)	Retail banking business	Other operations	Total
Net interest income (2)	41,449	27,325	5,235	74,009
Net non-interest income/(expense) (3)	12,642	19,367	(232)	31,777
Operating income	54,091	46,692	5,003	105,786
Operating expenses (4)	(13,386)	(18,871)	(381)	(32,638)
Including: Depreciation, amortisation and rental expenses	(1,796)	(2,840)	(75)	(4,711)
Impairment losses on assets	(32,156)	(7,438)	(3,331)	(42,925)
Net non-operating income/(expense)	4	9	(79)	(66)
Segment profit	8,553	20,392	1,212	30,157
Income tax expenses				(6,968)
Net profit				23,189

31 December 2017	Wholesale banking business (1)	Retail banking business	Other operations	Total
Total assets	1,680,901	791,578	775,995	3,248,474
Total liabilities	2,382,174	342,512	301,734	3,026,420

(1)Included small enterprise business.

(2)Included "External interest net income/expense" and "Internal interest net income/expense".

(3)Included net fee and commission income, investment income, gains or losses on fair value changes, net gains from foreign exchange and foreign exchange products, other operating income, gains or losses from disposal of assets and other income.

(4)Included taxes and surcharges, and general and administrative expenses.

Information about major customers

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue as at 31 December 2018 and 2017.

(All amounts in RMB million unless otherwise stated)

V.COMMITMENTS AND CONTINGENT LIABILITIES

1.Capital commitments

	31 December 2018	31 December 2017
Authorised but not contracted	396	1,625
Contracted but not provided	1,509	1,276
Total	1,905	2,901

2.Operating lease commitments

The Company as the lessee has entered into non-cancellable operating leases for certain premises and equipment with the lessor. At the balance sheet date, the total future minimum lease payments under such leases were as follows:

	31 December 2018	31 December 2017
Within 1 year (inclusive)	2,280	2,178
1 to 2 years (inclusive)	1,889	1,701
2 to 3 years (inclusive)	1,586	1,327
Over 3 years	2,913	2,874
Total	8,668	8,080

3.Credit commitments

	31 December 2018	31 December 2017
Bank acceptance notes	251,154	248,155
Letter of guarantee issued	62,957	51,444
Letter of credit issued	83,757	55,763
Sub-total	397,868	355,362
Unused limit of credit cards	190,531	140,336
Total	588,399	495,698
Credit risk weighted amounts of credit commitments	194,921	176,352

Financial guarantee contracts commit the Company to make payments on behalf of customers upon the failure of the customers to perform the terms of the contracts. The expected credit loss provisions for bank acceptance of drafts, issuance of guarantees and issuance of letters of credit are presented in the provisions, and the expected credit loss provisions for unused limit of credit cards are presented in the loan and advance impairment provision.

As at 31 December 2018, the Company had revocable loan commitments amounting to RMB 1,483.70 billion (31 December 2017: RMB 1,736.00 billion), which are revocable under certain conditions or can be automatically revoked upon deterioration of a borrower's credit capacity according to the loan contract. The total contractual amount of the loan commitment does not necessarily indicate the future cash outflows.

4.Fiduciary activities

	31 December 2018	31 December 2017
Entrusted deposits	254,211	408,582
Entrusted loans	254,211	408,582
Entrusted wealth management funds	537,781	501,062
Entrusted wealth management assets	537,781	501,062

Entrusted deposits represent funds that depositors have instructed the Company to use to make loans to third parties as designated by them. The credit risk remains with the depositors.

Entrusted funding and entrusted investments represent the investment and asset management services provided by the Company to third parties in accordance with the agreed investment plans. The third parties provide funding for the related investments. Income from such investment activities is collected on behalf of and paid to the third parties according to the relevant contractual terms and actual investment income.

V.COMMITMENTS AND CONTINGENT LIABILITIES(Continued)

5.Contingency

5.1 Legal proceedings

As at 31 December 2018, the total claimed amount of the litigation cases of which the Company was the defendant was RMB 1,422 million (31 December 2017: RMB 3,037 million). These litigation cases are under legal proceedings. In the opinion of management, the Company has made adequate allowance for any probable losses based on the prevailing facts and circumstances.

5.2 Redemption and underwriting commitments of voucher-type government bonds and savings bonds (electronic)

As an underwriting agent of the MOF, the Company underwrites PRC voucher-type government bonds and savings bonds (electronic) and sells the bonds to the general public. The Company is obliged to redeem the bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the notional value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2018, the Company has sold voucher-type government bonds and savings bonds (electronic) with accumulated amounts of RMB 1,586 million (31 December 2017: RMB 1,838 million) and RMB 2,804 million (31 December 2017: RMB 3,298 million) respectively, to the general public that the Company has the obligation of early redemption. The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

As at 31 December 2018 and 31 December 2017, there was no unexpired underwriting commitment of the government bonds.

VI.CAPITAL MANAGEMENT

The primary objectives of the Company's capital management are to support the continuous growth in business, to ensure that the Company complies with regulatory capital requirements and to maximise shareholders' value. The Company regularly reviews its capital positions and implementation of related capital management strategy and to support the achievements of medium and long-term business objectives through active capital management, so as to unceasingly improve the use efficiency of capital. Capital structure is adjusted actively depending on the change of economic environment and risk characteristics. The required information of capital adequacy is filed with the CBIRC by the Company on a quarterly basis.

The Company calculates capital adequacy ratio pursuant to the Administrative Measures for the Capital Management of Commercial Banks (Provisional) promulgated by CBIRC in June 2012. In accordance with the requirements, for the purpose of the reporting period, credit-risk-weighted assets are measured using weighted method; market-risk-weighted assets are measured using standard method; and operating-risk-weighted assets are measured using standard indicator approach.

Pursuant to the Administrative Measures for the Capital Management of Commercial Banks (Provisional) issued by CBIRC, the capital position calculated by the Company on 31 December 2018 is shown below:

	Note	31 December 2018	31 December 2017
Core tier 1 capital adequacy ratio	(a)	8.54%	8.28%
Tier 1 capital adequacy ratio	(a)	9.39%	9.18%
Capital adequacy ratio	(a)	11.50%	11.20%
Core tier 1 capital			
Share capital		17,170	17,170
Capital reserve and investment revaluation reserve		56,465	56,465
Surplus reserve		10,781	10,781
General risk reserve		39,850	38,552
Retained earnings		95,037	79,661
Other comprehensive income		786	(528)
Deduction items from core tier 1 capital			
Goodwill	(b)	7,568	7,568
Other intangible assets (excluding land use rights)	(b)	4,579	4,173
Other net deferred tax assets that rest on bank's future earnings		8,160	6,020
Other tier 1 capital		19,953	19,953
Tier 2 capital			
Tier 2 capital tool and surplus		30,099	30,116
Excessive loan impairment provision		19,281	14,818
Net core tier 1 capital	(c)	199,782	184,340
Net tier 1 capital	(c)	219,735	204,293
Net capital	(c)	269,115	249,227
Risk-weighted assets	(d)	2,340,236	2,226,112

VI.CAPITAL MANAGEMENT(Continued)

Note:

(a)Core tier 1 capital adequacy ratio is equal to net core tier 1 capital divided by risk-weighted assets; tier 1 capital adequacy ratio is equal to net tier 1 capital divided by risk-weighted assets; and capital adequacy ratio is equal to net capital divided by risk-weighted assets.

(b)Goodwill and other intangible assets (excluding land use right) are the net amounts from deduction of the associated deferred tax liability.

(c)Net amount of core tier 1 capital is core tier 1 capital minuses exclusive items; net amount of tier 1 capital equals to tier 1 capital minuses exclusive items of core tier 1 capital; net amount of capital equals to total capital minus exclusive items of total capital.

(d)Risk-weighted assets include credit risk-weighted assets, market risk-weighted assets, and operating risk-weighted assets.

VII.RISK DISCLOSURE

1.Credit risk

Credit risk is the risk of loss arising from that a party of the financial instrument fails to fulfil its obligations.

The Company has established relevant mechanism for unified credit management, and periodically monitors the limit and reviews the credit risk.

1.1 Credit risk management

(i)Loans and advances to customers, financial guarantee and loan commitments

The Company has established a concentrated, vertical and individual comprehensive risk management framework and a "dispatched risk management, matrix and double-line reporting" risk management model. The Risk Management Committee of the Head Office is responsible for coordinating risk management of all levels. Professional departments such as the Risk Management Department, Corporate Credit Authorisation Department, Retail Risk Management Department, are responsible of credit management of the bank. The Risk Management Committee of the Head Office dispatch responsible leader for risk management or risk directors to branches and business unites, who undertake credit management duties in their own institutions.

The Company has formulated a complete set of credit management processes and internal control mechanisms, so as to carry out whole process management of credit business. Credit management procedures for its corporate and personal loans comprise the processes of credit origination, credit review, credit approval, disbursement and post management. In addition, the Company has formulated relevant policies of credit underwriting, which have defined the functions and responsibilities of different credit operational processes, and have enhanced the monitoring of the related compliance for improving the overall effective control of credit risk.

The Company also further enhanced its credit risk monitoring and early warning management system in order to improve its credit risk monitoring. The Company actively responds to the change of the credit environment by conducting regular analysis on credit risk situations and matters and taking precautionary risk control measures with a forward-looking vision. The Company has also set up a problematic loan optimisation mechanism to speed up the problematic loan optimisation process and to prevent them from deteriorating to non-performing loans.

Risks arising from financial guarantees and loan commitments are similar to those associated with loans and advances. Transactions of financial guarantees and loan commitments are, therefore, subject to the same portfolio management and the same requirements for application and collateral as loans and advances to customers.

If the Company, after executing all necessary procedures, expects that it may not be able to recover the whole or part of the financial assets, such financial assets shall be written off. . Signs indicating that amounts are not expected to be recovered include: (1) the compulsory execution of such financial assets has been terminated, and (2) even if the Company recovers the amounts by confiscating and disposing the collaterals, it is estimated that the value of the collaterals could not fully cover the principal and interest.

(ii)Bonds

The Company manages credit risk exposure of bonds and bills by setting restriction of investment size, issuer profile and rating and also post-investment management. Generally, corporate credit rating of issuer of bonds designated in foreign currencies is required to be equal to or higher than BBB (by Standard & Poor's or equivalent rating agencies) when purchasing. Corporate credit rating of issuer of bonds designated in RMB is required to be equal to or higher than AA (credit rating institutes shall obtain the admission by the Company) when purchasing. In respect of bond investing business, the Company implement List system access management for non-financial enterprises with credit rating of AA and AA+ or higher; in case of multiple rating results for the same issuer, the lowest rating result shall prevail.

(iii)Non-bond investment on debts

Non-bond investment on debts include WMPs issued by other banks, asset management plans and trust plans, etc. The Company has rating-based access policies in place towards the cooperating trust companies, securities companies and fund companies, and grants credit facility to the repurchase parties of trust beneficial rights, issuer of WMPs, and ultimate financing parties of directional asset management plans. Subsequent risk management is carried out on a regular basis.

(iv)Interbank transactions

Interbank transactions include deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements by other banks, etc. The Company reviews and monitors credit risk of individual financial institutions periodically and credit quota has been maintained for each bank and other institutions that having transactions with the Company.

VII.RISK DISCLOSURE(Continued)

1.Credit risk(Continued)

1.2 Measurement of expected credit losses

The revised accounting standards for financial instruments was initially implemented from 1 January 2018. The Company uses the "ECL model" to make provision for the impairment of financial assets measured at amortised cost and those designated at fair value and changes included into other comprehensive income, loan commitments and financial guarantee contracts.

For financial instruments included in the measurement of ECL, the Company applies "three stage" impairment model to measure the loss allowance and recognise the ECL in assessing whether the credit risk on a financial instrument has increased significantly since initial recognition.

Stage 1: Financial instruments with credit risk not increased significantly since initial recognition are classified to Stage 1.
Stage 2: Financial instruments with credit risk increased significantly since initial recognition yet without credit impairment are classified to Stage 2.
Stage 3: Financial instrument with credit impairment are classified to Stage 3.

12-month expected credit losses are recognised for financial instruments in Stage 1 and lifetime expected credit losses are recognised for financial instruments in Stage 2 and Stage 3.

Purchased or originally credit-impaired financial assets refer to financial assets with credit impairment at initial recognition, and lifetime expected credit losses are recognised for such assets.

The Company tests financial assets for expected credit losses impairment using risk parameter model and discounted cash flow model. Risk parameter model shall be adopted to assess credit losses on individual credit assets and corporate credit assets classified into Stage 1 and Stage 2. Discounted cash flow model shall be adopted to assess credit losses on corporate credit assets classified into Stage 3.

Forward-looking information is involved in expected credit loss assessment and complex models and assumptions are used in the calculation of expected credit losses. These models and assumptions involve future macro-economic condition and the credit status of the borrowers (for example, possibility of default by customer and loss therefrom). The Company makes judgement, assumptions and estimates in the measurement of expected credit risk in accordance with the accounting standards, including:

- Parameters for measuring expected credit losses
- Criteria involved in the judgement of significant increase in credit risk
- Definition of credit-impaired assets
- Forward-looking information

Parameters for measuring expected credit losses

Based on whether there is a significant increase in credit risk and whether assets are credit-impaired, provision for impairment of different types of assets is calculated at the 12-month or lifetime expected credit losses. The key parameters of ECL measurement include probability of default (PD), loss given default (LGD), and exposure at default (EAD). In accordance with the revised accounting standards for financial instruments, The Company establishes PD, LGD, and EAD models based on the current internal rating system for risk management in consideration of the quantitative analysis and forward-looking information of historical statistics (such as rating of counterparties, guarantee methods and collateral types, means of repayment, etc.).

• PD refers to the possibility that borrowers are unable to perform their repayment obligation in the next 12 months or during the rest of the lifetime. The Company calculates PD by combining historical default experience, which is calculated by adjusting the result of internal rating model or collective assessment, and forward-looking information to reflect the debtor's PD under the current macro-economic environment at a certain time point;

• LGD refers to the Company's estimate on the extent of losses from the exposure of default risk. LGD varies with the type of the counterparty in the transaction, the measure and priority of recourse, and the accessibility of collaterals and other credit supports. LGD is the percentage of risk exposure losses when default occurs.

• EAD refers to the repayment due to the Company when default occurred.

The Company adopts internal credit risk rating to reflect the PD assessment results of a single counterparty and adopts different internal rating models for different counterparties. The information about the borrower and specific information of the loan collected upon the application for loan will be included in rating model. The Company's rating system consists of 24 grades for non-default and one grade for default. The Company regularly monitors and reviews assumptions related to the calculation of expected credit losses, including the probability of default in terms of different maturities and changes in value of collaterals. In 2018, there was no significant change in the above estimation techniques or key assumptions.

Criteria involved in the judgement of significant increase in credit risk

At each balance sheet date, the Company assesses whether the credit risk of relevant financial instruments has increased significantly since initial recognition. The Company fully considers all the reasonable and supportable information on whether the credit risk has changed significantly, including forward-looking information. Main considerations include regulatory and business environment, internal and external credit rating, solvency, operation capacity, loan contract terms, repayment behaviour, etc. The Company, based on individual financial instruments or financial instrument groupings with similar credit risk characteristics, determines changes in the risk of default in the estimated lifetime of financial instruments by comparing the risk of default of financial instruments at the balance sheet date with that at the initial recognition.

The Company sets quantitative and qualitative criteria to judge whether the credit risk of financial instruments changes significantly since initial recognition, and the criteria include: overdue for more than 30 days, changes in PD, changes in credit risk classification and other situations indicating significant changes in credit risk.

Definition of credit-impaired assets

When determining whether the assets are credit-impaired under the revised accounting standards for financial instruments, the Company adopts consistent criteria with internal credit risk management objective for related financial instruments and takes quantitative and qualitative indicators as well. When the Company assesses whether the debtor's assets are credit-impaired, it mainly considers the following factors:

• Borrowings overdue for more than 90 days after the contractual payment day
• "Default" rating in internal credit rating
• Concessions made by the lender to the borrower (would not otherwise consider) for economic or contractual reasons related to the financial difficulties of the borrower
• Significant financial difficulty of the borrower
• High probability of the borrower's bankruptcy or other financial reorganisation
•Disappearance of the active market for financial assets

Credit impairment of financial assets are possibly due to the mutual effect of several incidents instead of individually identified incident.

(All amounts in RMB million unless otherwise stated)

VII.RISK DISCLOSURE(Continued)

1.Credit risk(Continued)

1.2 Measurement of expected credit losses(Continued)

Forward-looking information

Both the assessment of significant increase in credit risk and the calculation of expected credit losses involve forward-looking information. The Company identifies key economic indicators that affect credit risks and expected credit losses of all asset portfolios based on historical data analysis, such as YOY changes of GDP, Consumer Price Index, Purchasing Managers' Index, and M2, etc.

In 2018, the Company collected time sequence data of the above key economic indicators from the China Macro-economy Database published by Wind to establish forecasting function by analysing endogenous relationship across periods between economic indicators on the basis of random shock simulated using Monte Carlo model. In consideration of expert judgement, the Company took the 2018 Q3 macro indicators published by Wind, adding up with a certain positive or negative percentage variation, as the future key economic indicators forecasting values and determined final macro-economic assumptions and weights to measure related impairment provision by selecting different fractiles as the macro-economic value of three types of scenarios (optimistic, basic and pessimistic).

The impact of these economic indicators on PD and LGD varies by different businesses. The Company comprehensively considers internal and external data, expert forecast and statistical analysis to determine the relationship between these economic indicators and PD and LGD. The company evaluates and forecasts these economic indicators at least annually, provides the best future estimates, and regularly tests the results.

In 2018, the company considered different macroeconomic scenarios. The important macroeconomic assumptions used to estimate expected credit losses are listed below:

Item	Range
Annual Growth Rate of Gross Domestic Product	6.16%-6.64%
Growth Rate of Consumer Price Index	1.95%-3.04%
Purchasing Manager Index (PMI)	49.54%-51.11%
Annual Growth Rate of Broad Currency	7.87%-9.68%

Sensitivity analysis and management overlay

Expected credit losses are sensitive to parameters used in the model, macro-economic variables of forward-looking estimates, weight probability of the three scenarios, and other factors considered in the expert judgement. Changes in these input parameters, assumptions, models and judgements will have an effect on the significant increase in credit risk and the measurement of expected credit losses.

Assuming that the weight of optimistic scenario increases by 10%, while that of benchmark scenario decreases by 10%, the company's credit impairment provision decreases by RMB 571 million on December 31, 2018; assuming that the weight of pessimistic scenario increases by 10%, while that of benchmark scenario decreases by 10%, the company's credit impairment provision increases by RMB 814 million.

For the new changes in the external economic situation not reflected by the model, the company's management has also considered and therefore increased the provision to further enhance the ability to offset risks.

The table below shows the sensitivity analysis of the balance of provisions arising from ECL provision as all financial assets and credit commitments in Stage 2 are transferred into Stage 1 and recognizes changes in impairment provisions and provisions in the balance sheet:

	31 December 2018
The total amount of provision for impairment and provisions as all financial assets and credit commitments in Stage 2 are transferred into Stage 1	56,105
The total amount of impairment and provisions recognized in balance sheet	63,994
Difference - amount	(7,889)
Difference - %	-12%

(All amounts in RMB million unless otherwise stated)

VII.RISK DISCLOSURE(Continued)

1.Credit risk(Continued)

1.2 Measurement of expected credit losses(Continued)

The table below illustrates the changes in the carrying amount of the Company's major financial assets for the current year (including accrued interest):

		2018						
				Changes in three stages				
Item	Stage of impairment	Opening balance	Net increase /(decrease) in the current year (Note)	Net transfer/ (reversal) from Stage 1 to Stage 2	Net transfer/ (reversal) from Stage 1 to Stage 3	Net transfer/ (reversal) from Stage 2 to Stage 3	Write-off in the current year	Ending balance
Loans and advances to customers	Stage 1	1,588,016	378,959	(65,775)	(1,277)	-	-	1,899,923
	Stage 2	44,635	(20,413)	65,775	-	(44,812)	-	45,185
	Stage 3	71,579	(13,182)	-	1,277	44,812	(45,804)	58,682
	Sub-total	1,704,230	345,364	-	-	-	(45,804)	2,003,790
Investment on debts	Stage 1	656,033	(32,671)	(2,980)	-	-	-	620,382
	Stage 2	13,273	(3,609)	2,980	-	(6,847)	-	5,797
	Stage 3	6,875	(3,174)	-	-	6,847	-	10,548
	Sub-total	676,181	(39,454)	-	-	-	-	636,727
Other investment on debts	Stage 1	54,147	16,517	(514)	(41)	-	-	70,109
	Stage 2	-	-	514	-	(480)	-	34
	Stage 3	-	-	-	41	480	-	521
	Sub-total	54,147	16,517	-	-	-	-	70,664

Note: Changes due to purchase, origination, or derecognition (except for write-off) for the current year.

The table below illustrates the changes in the provision balance of the Company's major financial assets for the current year:

Item	Stage of impairment	2018							
					Changes in three stages				
		Opening balance	Net increase/ (decrease) in the current year (Note 1)	Increase in/ (reversal of) provision (Note 2)	Net transfer/ (reversal) from Stage 1 to Stage 2	Net transfer/ (reversal) from Stage 1 to Stage 3	Net transfer/ (reversal) from Stage 2 to Stage 3	Write-off in the current year	Ending balance
Loans and advances to customers	Stage 1	11,941	9,592	957	(5,175)	(49)	-	-	17,266
	Stage 2	3,447	(889)	9,600	5,175	-	(9,402)	-	7,931
	Stage 3	32,375	(5,263)	38,231	-	49	9,402	(45,804)	28,990
	Sub-total	47,763	3,440	48,788	-	-	-	(45,804)	54,187
Investment on debts	Stage 1	1,351	1,929	(411)	(1,431)	-	-	-	1,438
	Stage 2	682	(63)	24	1,431	-	(1,745)	-	329
	Stage 3	2,237	(413)	2,025	-	-	1,745	-	5,594
	Sub-total	4,270	1,453	1,638	-	-	-	-	7,361
Other investment on debts	Stage 1	67	262	(11)	(43)	-	-	-	275
	Stage 2	-	-	-	43	-	(42)	-	1
	Stage 3	-	-	14	-	-	42	-	56
	Sub-total	67	262	3	-	-	-	-	332

Note 1: Changes due to purchase, origination, or derecognition (except for write-off) for the current year.

Note 2: This item mainly includes regular update of model parameters causes changes in probability of default, exposure at default, loss given default, and changes in stages have impact on the measurement of expected credit loss.

(All amounts in RMB million unless otherwise stated)

VII.RISK DISCLOSURE(Continued)

1.Credit risk(Continued)

1.3 Credit risk measurement

Credit risk exposure analysis

The Company conducts internal rating on the risk characteristics of assets based on the quality status of assets, and classifies the credit ratings of financial assets included in the measurement of expected credit losses into "low risk", "medium risk", "high risk" and "default" according to the internal rating yardstick. The credit ratings are only for internal credit risk management. "Low risk" means that an asset has high quality, and there is sufficient evidence to show that no default is expected to occur on the asset, or there is no sufficient reason to suspect that default is expected to occur on the asset; "medium risk" refers to factors that may adversely affect the quality of an asset, but there is no sufficient reason to suspect that the asset is expected to default; "high risk" means that there are factors that have an obvious adverse effect on the quality of an asset, but no occurance of default; the criterion for "default" is consistent with the definition of credit-impaired assets.

The table below provides an analysis on the credit risk rate of loans, advances and investment on debts included in the expected credit losses assessment. The carrying amount of financial assets below represents the Company's maximum credit risk exposure with these assets.

Loans and advances to customers

	31 December 2018				
	Stage 1	Stage 2	Stage 3		Total
Credit rating	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased credit-impaired assets	
Low risk	1,036,906	148	-	-	1,037,054
Medium risk	849,814	12,203	-	-	862,017
High risk	13,203	32,834	-	-	46,037
Default	-	-	58,682	-	58,682
Book value	1,899,923	45,185	58,682	-	2,003,790
Provision for impairment	(17,114)	(7,931)	(28,988)	-	(54,033)
Carrying amount	1,882,809	37,254	29,694	-	1,949,757

Investment on debts

Credit rating	31 December 2018				
	Stage 1	Stage 2	Stage 3		Total
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased credit-impaired assets	
Low risk	540,052	1,098	-	-	541,150
Medium risk	80,330	2,926	-	-	83,256
High risk	-	1,773	-	-	1,773
Default	-	-	10,548	-	10,548
Book value	620,382	5,797	10,548	-	636,727
Provision for impairment	(1,438)	(329)	(5,594)	-	(7,361)
Carrying amount	618,944	5,468	4,954	-	629,366

Risk concentration of the maximum credit risk exposure

Credit risk is often greater when counterparties are concentrated in a single industry or geographic location or have comparable economic characteristics.

The majority of the loans and financial guarantee contracts of the Company are related to the local customers within Mainland China. However, different areas in Mainland China have their own unique characteristics in terms of economic development. Therefore, each area in Mainland China could present different credit risks.

Please refer to Note III 8 for an analysis of concentration of loans and advances by industry and geographical region.

Collateral and other credit enhancements

The amount and type of collateral required are determined by the Company based on its assessment of the credit risk of the counterparty. The Company has implemented guidelines regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

• For reverse repurchase transactions, mainly in bills, beneficial right of trust, or securities;
• For corporate lending, mainly in charges over real estate properties, inventories, equity investments and trade receivables, etc.; and
• For retail lending, mainly in residential properties mortgages.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the provision for impairment losses.

(All amounts in RMB million unless otherwise stated)

VII.RISK DISCLOSURE(Continued)

1.Credit risk(Continued)

1.3 Credit risk measurement(Continued)

Loans and advances that are neither overdue nor impaired

On December 31, 2017, loans and advances that were neither overdue nor impaired were classified as pass and special-mentioned loans according to the five-tier classification.

	31 December 2017
Pass	1,605,813
Special-mentioned	37,443
Total	1,643,256

Loans and advances that are overdue but not impaired

The aging analysis of overdue loans and advances with no impairment on December 31, 2017:

	31 December 2017					
	Within 1 months	1 to 2 months	2 to 3 months	Over 3 months	Total	Fair value of the guarantee
Loans and advances to corporates	5,979	2,156	1,430	14,316	23,881	11,305
Loans and advances to individuals	5,173	1,685	1,182	56	8,096	2,014
Total	11,152	3,841	2,612	14,372	31,977	13,319

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (deducting impairment losses):

	31 December 2018					31 December 2017
	Stage 1	Stage 2	Stage 3	Not applicable	Maximum exposure to credit risk without taking account of any collateral and other credit enhancements	Maximum exposure to credit risk without taking account of any collateral and other credit enhancements
Balances with central banks	273,513	-	-	-	273,513	305,986
Deposits with banks and other financial institutions	85,098	-	-	-	85,098	130,208
Placements with and loans to banks and other financial institutions	72,934	-	-	-	72,934	59,015
Financial assets designated at fair value and changes included into the profits and losses for the period (excluding equity investments)	-	-	-	148,102	148,102	39,575
Derivative financial assets	-	-	-	21,460	21,460	16,080
Financial assets held under resale agreements	36,985	-	-	-	36,985	41,934
Accounts receivables	-	-	-	-	-	52,886
Interest receivables	-	-	-	-	-	20,354
Loans and advances to customers	1,882,809	37,254	29,694	-	1,949,757	1,660,420
Other investment on debts (excluding equity investments)	70,109	34	521	-	70,664	-
Available-for-sale financial assets (excluding equity investments)	-	-	-	-		35,270
Investment on debts	618,944	5,468	4,954	-	629,366	-
Held to maturity investment	-	-	-	-	-	358,360
Debt instruments classified as receivables	-	-	-	-	-	372,323
Other financial assets	6,871	-	-	-	6,871	8,711
Sub-total	3,047,263	42,756	35,169	169,562	3,294,750	3,101,122
Off-balance sheet items	391,548	4,751	733	-	397,032	354,755
Total	3,438,811	47,507	35,902	169,562	3,691,782	3,455,877

(All amounts in RMB million unless otherwise stated)

VII.RISK DISCLOSURE(Continued)

1.Credit risk(Continued)

1.3 Credit risk measurement(Continued)

The Company closely monitors collateral related to credit-impaired financial assets, as the possibility is greater that the Company confiscates such collateral in order to lower the potential losses when compared with other collaterals. On 31 December 2018, the Company's credit-impaired financial assets and the value of the collateral held to lower the potential losses were set out as follows:

	Total exposure	Provision for impairment loss (Note)	Carrying amount	Fair value of the collateral held
Credit-impaired assets				
Loans and advances to customers:				
- Loans and advances to corporates	46,383	19,090	27,295	35,567
- Loans and advances to individuals	12,299	9,900	2,399	2,440
Financial investments:				
- Investment on debts	10,548	5,594	4,954	6,438
- Other investment on debts	521	56	521	-
Total credit-impaired assets	69,751	34,640	35,169	44,445

Note: The impairment provision of RMB 58 million in loans and advances to corporates and other investment on debts is included in other comprehensive income.

Restructured loans and advances to customers

Restructured loans and advances to customers refer to those loans with renegotiated contract provisions due to deteriorated financial performance or inability to scheduled repayment. The Company reaches agreement with the borrowers in consideration of their financial difficulty or makes concessions based on the court order. As at 31 December 2018, the restructured loans and advances to customers of the Company amounted to RMB 23,039 million (31 December 2017: RMB 26,672 million).

2.Liquidity risk

Liquidity risk refers to that an enterprise encounters the shortage of funds when fulfilling its obligations associated with financial liabilities.

It is the Company's ultimate responsibility to manage liquidity risk. Asset liability management committee is the top management of the Company's liquidity risk management. Asset Liability Management Department, in the authority of asset liability management committee, is responsible for daily liquidity risk management. The performance of Board of Directors and senior management is evaluated regularly by the Supervisors Committee. Internal Audit Department is responsible for the internal auditing of liquidity risk.

Liquidity risk has been paid attention to by the Company, not only by constantly improving the liquidity risk management framework, but also by effective identification, measurement, monitoring, controlling the liquidity risk, conducting pressure test on liquidity risk, cautiously assessing the future needs on liquidity, continuously improving and refining emergency plan against liquidity risk, and enhancing the communication and coordination of each relevant department in order to improve the response efficiency of liquidity risk.

By the end of reporting period, the Company's liquidity is sufficiently maintained, with major liquid index equal to or higher than the regulatory requirements; various businesses grow steadily, with adequate and superior liquid asset reserve on a continuous basis.

The Company will continuously work on the improvement on the pertinence and flexibility of liquidity risk management to maintain the balanced development of capital sources and operations; meanwhile, continuously promote the structure optimisation of assets and liabilities, Strengthen the management of stable deposits and liquidation base.

For the year ended 31 December 2018
(All amounts in RMB million unless otherwise stated)

VII.RISK DISCLOSURE(Continued)

2.Liquidity risk(Continued)

As at 31 December 2018, the remaining contractual maturity analysis of the Company's financial assets and financial liabilities (based on contractual undiscounted cash flows) was as follows:

	31 December 2018							
	Overdue/on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial instruments cash flows								
Financial assets:								
Cash and balances with central banks	49,003	-	-	-	-	-	229,525	278,528
Amounts due from other financial institutions (1)	19,154	92,672	25,034	59,763	-	-	-	196,623
Financial assets held for trading	1,491	1,814	9,478	39,860	49,100	55,143	666	157,552
Loans and advances to customers	29,758	245,186	339,395	622,654	594,641	428,493	-	2,260,127
Investment on debts	5,713	9,466	16,238	93,776	359,018	238,975	-	723,186
Other investment on debts	480	66	3,122	15,800	35,320	31,593	-	86,381
Other equity investment	-	-	-	-	-	-	1,519	1,519
Other financial assets	2,249	572	1,610	-	550	29	-	5,010
Total financial assets	107,848	349,776	394,877	831,853	1,038,629	754,233	231,710	3,708,926
Financial liabilities:								
Borrowings from central bank	-	21,012	17,886	113,059	-	-	-	151,957
Amounts due to other financial institutions (2)	136,609	67,528	95,921	126,147	13	-	-	426,218
Financial liabilities held for trading	-	7,020	-	1,561	-	-	-	8,581
Due to customers	788,989	232,327	272,693	548,830	350,857	2,271	-	2,195,967
Debt securities issued	-	15,750	33,590	277,020	68,639	-	-	394,999
Other financial liabilities	17,329	-	-	2,364	-	-	-	19,693
Total financial liabilities	942,927	343,637	420,090	1,068,981	419,509	2,271	-	3,197,415
Net liquidity	(835,079)	6,139	(25,213)	(237,128)	619,120	751,962	231,710	511,511
Derivative cash flows:								
Derivative financial instruments settled on a net basis	-	58	165	871	(296)	(27)	-	771
Derivative financial instruments settled on a gross basis								
Including: Cash inflow	32,581	348,039	139,981	388,424	10,645	-	-	919,670
Cash outflow	(34,161)	(347,867)	(139,663)	(388,520)	(10,582)	-	-	(920,793)
	(1,580)	172	318	(96)	63	-	-	(1,123)

(1)Amounts due from other financial institutions included deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and financial assets held under resale agreements.

(2)Amounts due to other financial institutions included financial assets sold under repurchase agreements.

	31 December 2017							
	Overdue/ on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial instruments cash flows								
Financial assets:								
Cash and balances with central banks	39,087	-	-	-	-	-	271,259	310,346
Amounts due from other financial institutions (1)	15,422	94,825	39,015	87,093	325	-	-	236,680
Financial assets held for trading	-	4,750	10,747	9,555	13,913	3,044	-	42,009
Accounts receivables	-	654	1,879	48,316	3,735	-	-	54,584
Loans and advances to customers	49,169	98,630	336,782	516,325	560,072	358,783	-	1,919,761
Available-for-sale financial assets	-	230	4,536	17,272	8,507	7,535	1,474	39,554
Held to maturity investment	-	9,040	19,049	66,479	211,098	131,863	-	437,529
Debt instruments classified as receivables	26,153	41,440	20,246	97,161	179,294	48,992	-	413,286
Other financial assets	6,041	119	2,206	-	314	31	-	8,711
Total financial assets	135,872	249,688	434,460	842,201	977,258	550,248	272,733	3,462,460
Financial liabilities:								
Borrowings from central bank	-	21,616	1,110	111,394	-	-	-	134,120
Amounts due to other financial institutions (2)	142,807	95,347	103,176	130,006	84	-	-	471,420
Financial liabilities held for trading	-	1,658	2,621	4,904	-	-	-	9,183
Due to customers	789,042	207,084	231,654	446,563	388,037	3,054	-	2,065,434
Debt securities issued	-	49,904	132,194	118,123	52,759	-	-	352,980
Other financial liabilities	8,057	-	-	2,184	-	-	-	10,241
Total financial liabilities	939,906	375,609	470,755	813,174	440,880	3,054	-	3,043,378
Net liquidity	(804,034)	(125,921)	(36,295)	29,027	536,378	547,194	272,733	419,082
Derivative cash flows:								
Derivative financial instruments settled on a net basis	-	28	(2,490)	(1,403)	379	(16)	-	(3,502)
Derivative financial instruments settled on a gross basis								
Including: Cash inflow	29,939	122,423	133,829	284,253	4,501	-	-	574,945
Cash outflow	(33,627)	(125,439)	(137,555)	(291,364)	(5,560)	-	-	(593,545)
	(3,688)	(3,016)	(3,726)	(7,111)	(1,059)	-	-	(18,600)

(1)Amounts due from other financial institutions included deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and financial assets held under resale agreements.

(2)Amounts due to other financial institutions included financial assets sold under repurchase agreements.

(All amounts in RMB million unless otherwise stated)

VII.RISK DISCLOSURE(Continued)

2.Liquidity risk(Continued)

Analysis of credit commitments by contractual maturity date:

31 December 2018	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
Bank acceptance notes	46,074	71,050	134,030	-	-	-	251,154
Credit card commitments	114	1,609	8,207	63,835	116,766	-	190,531
Guarantee and letters of guarantee issued	3,175	6,080	16,634	32,951	4,117	-	62,957
Letter of credit issued	9,768	17,111	56,749	-	129	-	83,757
Total	59,131	95,850	215,620	96,786	121,012	-	588,399

31 December 2017	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
Bank acceptance notes	46,192	85,120	116,843	-	-	-	248,155
Credit card commitments	1	544	5,923	46,745	87,123	-	140,336
Guarantee and letters of guarantee issued	5,139	4,963	16,086	18,338	6,918	-	51,444
Letter of credit issued	11,260	15,422	28,043	16	1,022	-	55,763
Total	62,592	106,049	166,895	65,099	95,063	-	495,698

Management expects that not all of the commitments will be drawn before expiry of the commitments.

3.Market risk

The principal market risk faced by the Company comes from interest rates and the position of exchange rate products. The target of market risk management is to avoid uncontrollable loss of revenue or equity caused by market risk, and to offset the impact of volatility risk of financial instruments on the Company. The Board of Directors of the Company is responsible for approving policies of market risk management, and authorises the Asset and Liability Management Committee to specifically approve the credit limit on market risk for capital investment business, while conducting regular supervision on market risks. The specialised department under the Asset and Liability Management Committee undertakes regular functions of market risk monitoring, including determining a reasonable level of market risk exposure, monitoring daily operation of treasury business, giving advice to adjust maturity structure and interest rate structure of assets and liabilities.

Transaction account interest rate risk comes from the change in interest rates and product price of the transaction account resulting from the change in market interest rates, which in turn affects the profit or loss of the Company for the year. The Company mainly manages the transaction account by adopting measures such as the interest rate sensitive limit and daily and monthly stop-loss limit to ensure that the fluctuations of interest rate and market value of products are within the affordable scope of the Company.

Bank account interest rate risk comes from the mismatch of the maturity date or contract re-pricing date between interest-earning assets and interest-bearing liabilities. Interest-earning assets and interest-bearing liabilities of the Company are primarily priced in RMB. The Company manages interest rate risk primarily by adjusting the asset/liability pricing structure, regularly monitoring sensitive gaps of interest rate, analysing characteristics of asset/liability re-pricing, and using an asset/liability management system to conduct scenario analysis on interest risk. The Company regularly convenes the Asset and Liability Management Committee meetings to adjust the asset/liability structure timely and appropriately and manage interest rate risk by predicting future macro-economic trends and analysing base rate policies of the Peoples' Bank of China.

In the opinion of management, as the market risk of the Company's trading business activities is not material, the Company has not separately disclosed quantitative information about exposure to market risk arising from the trading portfolio.

(All amounts in RMB million unless otherwise stated)

VII.RISK DISCLOSURE(Continued)

3.Market risk(Continued)

3.1 Foreign exchange risk

The Company's foreign exchange risk exposure mainly comprises exposures from the mismatch of foreign currency assets and liabilities, and off-balance sheet foreign exchange position arising from derivative transactions. The currency risk of the Company mainly arises from loans and advances, investments and deposits denominated in foreign currencies. The Company has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

As at 31 December 2018, the Company's foreign currency assets and liabilities summarised by currency were as follows:

	31 December 2017			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets:				
Cash and balances with central banks	7,735	644	81	8,460
Amounts due from other financial institutions (1)	64,358	1,214	3,268	68,840
Financial assets held for trading and derivative financial assets	2,506	-	405	2,911
Loans and advances to customers	118,512	9,322	18,958	146,792
Investment on debts	17,567	653	698	18,918
Other investment on debts	5,605	-	-	5,605
Other equity investment	1	-	-	1
Other assets	1,168	78	33	1,279
Total assets	217,452	11,911	23,443	252,806
Liabilities:				
Amounts due to other financial institutions (2)	20,825	30	6,762	27,617
Financial liabilities held for trading and derivative financial liabilities	1	-	-	1
Due to customers	206,450	7,963	4,164	218,577
Other liabilities	2,682	47	15	2,744
Total liabilities	229,958	8,040	10,941	248,939
Net position of foreign currency (3)	(12,506)	3,871	12,502	3,867
Notional amount of derivative financial instruments	14,788	(4,485)	(12,129)	(1,826)
Total	2,282	(614)	373	2,041
Off-balance sheet credit commitments	49,219	319	4,475	54,013

(1)Amounts due from other financial institutions included deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and financial assets held under resale agreements.

(2)Amounts due to other financial institutions included financial assets sold under repurchase agreements.

(3)The net position of foreign currency comprised the related net position of monetary assets and liabilities.

As at 31 December 2017, the Company's foreign currency assets and liabilities summarised by currency were as follows:

	31 December 2017			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets:				
Cash and balances with central banks	6,531	748	71	7,350
Amounts due from other financial institutions (1)	44,129	5,223	2,028	51,380
Financial assets held for trading and derivative financial assets	468	-	409	877
Loans and advances to customers	116,533	9,955	15,835	142,323
Available-for-sale financial assets	898	-	-	898
Held to maturity investment	9,173	622	488	10,283
Debt instruments classified as receivables	2,449	-	-	2,449
Other assets	857	52	41	950
Total assets	181,038	16,600	18,872	216,510
Liabilities:				
Amounts due to other financial institutions (2)	52,099	34	4,152	56,285
Financial liabilities held for trading and derivative financial liabilities	4	-	-	4
Due to customers	179,025	13,759	4,456	197,240
Other liabilities	2,096	137	16	2,249
Total liabilities	233,224	13,930	8,624	255,778
Net position of foreign currency (3)	(52,186)	2,670	10,248	(39,268)
Notional amount of derivative financial instruments	53,938	(2,444)	(10,069)	41,425
Total	1,752	226	179	2,157
Off-balance sheet credit commitments	42,808	1,626	697	45,131

(1)Amounts due from other financial institutions included deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and financial assets held under resale agreements.

(2)Amounts due to other financial institutions included financial assets sold under repurchase agreements.

(3)The net position of foreign currency comprised the related net position of monetary assets and liabilities.

(All amounts in RMB million unless otherwise stated)

VII.RISK DISCLOSURE(Continued)

3.Market risk(Continued)

3.1 Foreign exchange risk(Continued)

The table below indicates the sensitivity analysis of exchange rate changes of the currencies to which the Company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement in the exchange rates against the RMB, with all other variables held constant on profit before tax. A negative amount in the table reflects a potential net reduction in profit before tax, while a positive amount reflects a net potential increase. As the Company has no cash flow hedges and has only a minimal amount of equity instruments denominated in foreign currencies, changes in exchange rates do not have any material potential impact on equity.

31 December 2018		
Currency	Change in exchange rate in %	Effect on profit before tax(RMB equivalent)
USD	+/-5	+/-114
HKD	+/-5	-/+31

31 December 2017		
Currency	Change in exchange rate in %	Effect on profit before tax(RMB equivalent)
USD	+/-5	+/-88
HKD	+/-5	+/-11

3.2 Interest rate risk

The Company's interest rate risk comes from the mismatch of the maturity date or contract re-pricing date between interest-earning assets and interest-bearing liabilities. Interest-earning assets and interest-bearing liabilities of the Company are primarily priced in RMB. The PBoC sets a cap and a floor on interest rates on deposits and loans, respectively.

The Company manages its interest rate risk by adjusting the composition of assets and liabilities, monitoring indicators such as the interest rate sensitivity gap on a regular basis and measuring risk exposure in accordance with the re-pricing characteristics of assets and liabilities. The Asset and Liability Management Committee meets regularly and manages interest rate risk exposures by adjusting the composition of the assets and liabilities in accordance with movements in market interest rates.

As at 31 December 2018, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's balance sheet items were summarised as follows:

	31 December 2018					
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets:						
Cash and balances with central banks	266,940	-	-	-	11,588	278,528
Precious metals	11,988	21,583	11,737	8,441	3,086	56,835
Amounts due from other financial institutions (1)	135,827	57,820	-	-	1,370	195,017
Financial assets held for trading and derivative financial assets	12,351	38,877	45,152	50,813	23,035	170,228
Loans and advances to customers	1,068,896	668,657	198,334	7,609	6,261	1,949,757
Investment on debts	25,820	82,385	327,779	185,601	7,781	629,366
Other investment on debts	3,386	14,278	31,145	21,170	685	70,664
Other equity investment	-	-	-	-	1,519	1,519
Property and equipment	-	-	-	-	10,899	10,899
Goodwill	-	-	-	-	7,568	7,568
Other assets	-	-	-	-	48,211	48,211
Total assets	1,525,208	883,600	614,147	273,634	122,003	3,418,592
Liabilities:						
Borrowings from central bank	38,071	109,450	-	-	2,235	149,756
Amounts due to other financial institutions (2)	298,150	122,891	10	-	4,281	425,332
Financial liabilities held for trading and derivative financial liabilities	6,914	285	-	-	22,981	30,180
Due to customers	1,323,966	503,471	274,611	1,000	46,094	2,149,142
Debt securities issued	48,447	268,149	63,632	-	1,656	381,884
Other liabilities	-	-	-	-	42,256	42,256
Total liabilities	1,715,548	1,004,246	338,253	1,000	119,503	3,178,550
Interest rate risk gap	(190,340)	(120,646)	275,894	272,634	Not applicable	Not applicable

(1)Amounts due from other financial institutions included deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and financial assets held under resale agreements.

(2)Amounts due to other financial institutions included financial assets sold under repurchase agreements.

(All amounts in RMB million unless otherwise stated)

VII.RISK DISCLOSURE(Continued)

3.Market risk(Continued)

3.2 Interest rate risk(Continued)

As at 31 December 2017, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's balance sheet items were summarised as follows:

	31 December 2017					
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets:						
Cash and balances with central banks	301,529	-	-	-	8,683	310,212
Precious metals	17,144	25,287	28,193	8,288	8,589	87,501
Amounts due from other financial institutions (1)	147,312	83,557	288	-	-	231,157
Financial assets held for trading and derivative financial assets	17,443	6,935	10,014	5,147	16,116	55,655
Accounts receivables	1,992	47,362	3,532	-	-	52,886
Loans and advances to customers	902,384	546,543	201,636	9,857	-	1,660,420
Available-for-sale financial assets	23,577	239	10,039	1,415	1,474	36,744
Held to maturity investment	42,196	63,696	157,292	95,176	-	358,360
Debt instruments classified as receivables	84,880	87,027	155,695	44,721	-	372,323
Property and equipment	-	-	-	-	8,036	8,036
Goodwill	-	-	-	-	7,568	7,568
Other assets	-	-	-	-	67,612	67,612
Total assets	1,538,457	860,646	566,689	164,604	118,078	3,248,474
Liabilities:						
Borrowings from central bank	22,722	107,930	-	-	-	130,652
Amounts due to other financial institutions (2)	338,926	126,296	65	-	-	465,287
Financial liabilities held for trading and derivative financial liabilities	4,208	3,003	-	-	19,548	26,759
Due to customers	1,308,046	391,271	283,264	-	17,839	2,000,420
Debt securities issued	180,250	114,126	48,116	-	-	342,492
Other liabilities	-	-	-	-	60,810	60,810
Total liabilities	1,854,152	742,626	331,445	-	98,197	3,026,420
Interest rate risk gap	(315,695)	118,020	235,244	164,604	Not applicable	Not applicable

(1)Amounts due from other financial institutions included deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and financial assets held under resale agreements.

(2)Amounts due to other financial institutions included financial assets sold under repurchase agreements.

The Company principally uses sensitivity analyses to measure and control interest rate risk. In respect of the financial assets and liabilities held for trading, in the opinion of management, the interest rate risk to the Company arising from this portfolio is not significant. For other financial assets and liabilities, the Company mainly uses a gap analysis to measure and control the related interest rate risk.

As at 31 December 2018 and 31 December 2017, the gap analyses of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) were as follows:

	31 December 2018		31 December 2017	
	Changes in interest rate (basis points)		Changes in interest rate (basis points)	
	(50)	50	(50)	50
Effect on the net interest income increase/(decrease)	1,227	(1,227)	1,353	(1,353)
Effect on equity increase/(decrease)	516	(516)	344	(344)

The above gap analyses assume that the interest rate risk profile of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) remains static.

The sensitivity of the net interest income is the effect of a reasonable possible change in interest rates on the net interest income for one year, in respect of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) held at the balance sheet date. The sensitivity of equity is calculated by revaluing the year-end portfolio of fixed-rate financial assets at fair value through profit or loss with changes included in other comprehensive income, based on a reasonable possible change in interest rates. Impact on income tax has not been considered in calculating the above effect on the net interest income and equity.

The above sensitivity analyses are based on the following assumptions: all assets and liabilities that are re-priced/due within three months (inclusive), and between three months and one year (inclusive) are assumed to be re-priced in the mid of the respective bands; and there are parallel shifts in the yield curve.

Regarding the above assumptions, the effect on the net interest income and equity as a result of the actual increases or decreases in interest rates may differ from that of the above sensitivity analyses.

4.Fair value of financial instruments

4.1 Financial assets and liabilities continuously measured at fair value

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The sources of the inputs comprise Bloomberg, Reuters and China Bond Market Website and National Equities Exchange and Quotations.

Level 3: Unobservable inputs for the asset or liability.

(All amounts in RMB million unless otherwise stated)

VII.RISK DISCLOSURE(Continued)

4.Fair value of financial instruments(Continued)

4.1 Financial assets and liabilities continuously measured at fair value(Continued)

As at 31 December 2018, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

31 December 2018	Quoted prices in active markets("Level 1")	Valuation technique-observable market variables ("Level 2")	Valuation technique-unobservable market variables("Level 3")	Total
Financial assets:				
Placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income	-	3,756	-	3,756
Financial assets held for trading	25	148,735	8	148,768
Derivative financial assets	-	21,460	-	21,460
Loans and advances to customers designated at fair value and changes included into other comprehensive income	-	-	61,687	61,687
Other investment on debts	-	70,664	-	70,664
Other equity investment	8	-	1,511	1,519
Total	33	244,615	63,206	307,854
Financial liabilities:				
Financial liabilities held for trading	8,575	-	-	8,575
Derivative financial liabilities	-	21,605	-	21,605
Total	8,575	21,605	-	30,180

As at 31 December 2017, financial assets and liabilities continuously measured at fair value were analysed below:

31 December 2017	Quoted prices in active markets("Level 1")	Valuation technique-observable market variables ("Level 2")	Valuation technique-unobservable market variables("Level 3")	Total
Financial assets:				
Financial assets held for trading	-	39,575	-	39,575
Derivative financial assets	-	16,080	-	16,080
Available-for-sale financial assets	39	35,859	846	36,744
Total	39	91,514	846	92,399
Financial liabilities:				
Financial liabilities held for trading	9,047	-	-	9,047
Derivative financial liabilities	-	17,712	-	17,712
Total	9,047	17,712	-	26,759

The Company takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. There is no transfer between Level 1 and Level 2 for the year ended 31 December 2018.

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market; the fair value of those not traded in an active market is determined by the Company using valuation techniques. The valuation models used mainly comprise discounted cash flow model and market comparable corporate model. The inputs of the valuation technique mainly include risk-free interest rate, benchmark rate, exchange rate, credit spread, liquidity premium, EBITDA multiplier and restricted discount.

Financial instruments classified to level 2 are mainly investments in bonds, foreign exchange forwards and swaps, interest rate swaps, currency options, precious metal contracts, inter-bank borrowings, financial investments, etc. The fair value of RMB denominated bonds is determined based on the valuation result from China Central Depository & Clearing Co., Ltd. while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of currency forwards and swaps, interest rate swaps, and foreign exchange options are determined by using the discounted cash flow method and the Blair-Scholes model. The fair value of the precious metals is determined in accordance with the closing price from Shanghai Gold Exchange. The fair values of inter-bank borrowings and financial investments are determined by using the discounted cash flow method. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

There were no financial assets or liabilities that were not continuously measured at fair value as at 31 December 2018 and 31 December 2017.

(All amounts in RMB million unless otherwise stated)

VII.RISK DISCLOSURE(Continued)

4.Fair value of financial instruments(Continued)

4.1 Financial assets and liabilities continuously measured at fair value(Continued)

The changes in Level 3 financial assets are analysed below:

Financial assets held for trading

	2018
31 December 2017	-
Effect of initial implementation of the revised accounting standards for financial instruments	8
1 January 2018	8
Purchases	-
Gains recognised in profit or loss	-
31 December 2018	8

Loans and advances to customers designated at fair value and changes included into other comprehensive income

	2018
31 December 2017	-
Effect of initial implementation of the revised accounting standards for financial instruments	24,428
1 January 2018	24,428
Purchases	3,414,352
Sales	(3,376,952)
Gains recognised in profit or loss	(141)
31 December 2018	61,687

Other equity investment

	2018
31 December 2017	-
Effect of initial implementation of the revised accounting standards for financial instruments	806
1 January 2018	806
Purchases	704
Sales	-
Gains recognised in profit or loss	1
31 December 2018	1,511

Available-for-sale financial assets

	2017
1 January 2017	162
Purchases	728
Gains or losses recognised in other comprehensive income	(44)
31 December 2017	846

(All amounts in RMB million unless otherwise stated)

VII.RISK DISCLOSURE(Continued)

4.Fair value of financial instruments(Continued)

4.2 Financial assets and liabilities not measured at fair value

Financial assets and liabilities that are not measured at fair value include: balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions measured at amortised cost, financial assets held under resale agreements, loans and advances to customers measured at amortised cost, investment on debts, held to maturity investment (in comparative figures only), debt instruments classified as receivables (in comparative figures only), borrowings from central bank, deposits from banks and other financial institutions, placements from banks and other financial institutions, proceeds from financial assets sold under repurchase agreements, due to customers, and debt securities issued.

The following table summarises the carrying amount and fair value of the investment on debts and debt securities issued that are not measured or disclosed at fair value:

	31 December 2018				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Investment on debts	629,366	-	631,616	-	631,616
Debt securities issued	381,884	-	381,124	-	381,124

	31 December 2017				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Held to maturity investment	358,360	-	352,045	-	352,045
Debt securities issued	342,492	-	341,490	-	341,490

(1)The fair value of investment on debts is determined based on quoted market prices, presented in level 1. If relevant market information cannot be obtained for investment on debts, discounted cash flow model is used to carry on the valuation, or where applicable, the quoted price with similar credit risk, maturity and yield is used, presented in level 2 and level 3.

(2)The fair value of debt securities issued is determined based on quoted market prices, presented in level 1. If all the significant inputs in calculating the fair value of debt securities issued are observable, the fair value is presented in level 2.

Discounted cash flow model is used to determine the financial assets and financial liabilities that are not measured at fair value other than the above. As the periods for these financial instruments are short or their interest rates float based on the market interest rate, there are no significant differences between their carrying amounts and fair values.

Assets	Liabilities
Cash and balances with central banks	Borrowings from central bank
Deposits with banks and other financial institutions	Deposits from banks and other financial institutions
Placements with and loans to banks and other financial institutions measured at amortised cost	Placements from banks and other financial institutions
Financial assets held under resale agreements	Financial assets sold under repurchase agreements
Loans and advances to customers measured at amortised cost	Due to customers
Other financial assets	Other financial liabilities
Debt instruments classified as receivables (in comparative figures only)	

VIII.RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1.Major related party relationships

(1)The parent company:

Name	Place of registration	Percentage of equity interest held	
		31 December 2018	31 December 2017
Ping An Insurance (Group) Company of China, Ltd.	Shenzhen, PRC	58.00%	58.00%

Ping An Insurance (Group) Company of China, Ltd. (hereafter referred to as "China Ping An") was established in Shenzhen, the People's Republic of China on 21 March 1988. The business scope of China Ping An includes investment in insurance business; supervision and management of various domestic and international businesses of investment holding enterprises; management of insurance funds; conducting of domestic and international insurance businesses with the approval; conducting of other businesses approved by the CIRC and the relevant state departments.

As at 31 December 2018, 8.44% of shares (31 December 2017: 8.44%) of the Company were indirectly held by China Ping An through its subsidiary, Ping An Life Insurance Company of China, Ltd.

(All amounts in RMB million unless otherwise stated)

VIII.RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(Continued)

1.Major related party relationships (Continued)

(2)Other major shareholders:

Name	Relationship with the Company
China Electronics Shenzhen Company	Shareholder that holds less than 5% of the equity interests of the Company and dispatches director to the Company
Shenzhen Yingzhongtai Investment Co., Ltd.	Shareholder that holds less than 5% of the equity interests of the Company and dispatches director to the Company

The transactions between the Company and its parent company and related parties, other major shareholders and their related parties are processed according to the normal commercial terms and business procedures. The above related parties mainly refer to subsidiaries, associates, joint ventures, key management, etc.

2.Major transactions between the Company and China Ping An and its related parties during the year are as follows:

Balance at end of the year	31 December 2018	31 December 2017
Interest receivables	4	51
Loans and advances to customers	24,410	25,898
Other assets	608	581
Deposits from banks and other financial institutions	5,642	8,525
Due to customers	58,515	64,248
Interest payable	201	493
Other liabilities	623	667
Guarantee issued	1,325	2,274
Petty Consumer Loan under insurance (Note 1)	5	242
Trade Finance under credit insurance (Note 2)	79	390
Letter of Guarantee under comprehensive financial business (Note 3)	18,000	18,000
Platform financing under performance guaranty insurance (Note 4)	-	1,500
Other equity investment (Note 5)	11,589	11,589

Transactions during the year	2018	2017
Interest income from transaction between financial enterprises	11	200
Interest income from loans and advances to customers	1,271	676
Agency fee income	911	1,532
Custody fee income	9	8
Investment income	43	-
Interest expenses on deposits from banks and non-bank financial institutions	122	127
Interest expenses for transaction between financial enterprises	35	215
Interest expenses of due to customers	797	1,430
Insurance premium expenses	199	165
Payment under operating leases	199	133
Service fee expenditure (Note 6)	4,293	3,479

Note 1: For the purpose of Petty Consumer Loan under insurance, loan applicant insures himself under individual consumption credit guarantee insurance of Ping An Insurance (Group) Company of China, Ltd. and its holding subsidiaries other than the Company (hereafter referred as "Ping An Group"), where the Company acts as the insurer who issues individual consumption loan to the applicant with the insurance as guarantee.

Note 2: For the purpose of Trade Finance under credit insurance, third party risk allocation mechanisms like credit insurance are introduced in trade financing, where the Company or the client as the insured and the Company as the beneficiary provides credit granting support to the enterprises in trading chain. In case of credit fund loss, Ping An Group will indemnify the Company accordingly.

Note 3: For the purpose of Letter of Guarantee under comprehensive financial business, Ping An Group raises funds to establish debt investment plan in order to loan to the client for investing certain projects, where the Company issues financing guarantee, and Ping An Group acts as beneficiaries. The Company provides letter of guarantee based on credit granting to the borrowers, whose credit granting risk control measures are primarily based on the guarantee provided by the borrowers.

Note 4: Platform financing under performance guaranty insurance refers to a borrowings performance guaranty insurance of Ping An Group insured by a financing platform as the applicant. The Company is responsible for the operation of the loans as the insured party and offers petty loans to borrowers (business units raising funds through the platform), which is guaranteed by the insurance. The borrowers buy payables guarantee insurance for buyers or performance guaranty insurance from Ping An Group. Therefore, the source of repayment of the loans of the Company will be secured as the payables guarantee insurance for buyers or performance guaranty insurance will be triggered when the borrowers default.

Note 5: On 7 March 2016, the Company issued 200 million preference shares at par, with a total amount of RMB 20 billion. The net amount of raised money excluding issuance expenses amounted to RMB 19,953 million. Ping An Group subscribed to RMB 11.6 billion of the total amount, and the actual subscription amount excluding issuance expenses amounted to RMB 11,589 million.

Note 6:Service fee expenditure is mainly arising from the use of Ping An Group's Wanlitong credit card reward platform service, network platform service fee, the use of communication service, etc.

(All amounts in RMB million unless otherwise stated)

VIII.RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(Continued)

3.Major transactions between the Company and other major shareholders and their related parties during the year are as follows:

Balance at end of the year	31 December 2018	31 December 2017
Due to customers	2	3

4.Major transactions with the key management personnel during the year are listed below:

Loans	2018	2017
Balance at beginning of the year	31	21
Increase in the current year	8	11
Decrease in the current year	(10)	(1)
Balance at end of the year	29	31
Interest income from loans	1	1

As at 31 December 2018 and 31 December 2017, the annual interest rates of these loan transactions ranged from 1.13%-8.53% and 1.13%-5.88%.

Deposits	2018	2017
Balance at beginning of the year	21	287
Increase in the current year	646	778
Decrease in the current year	(637)	(1,044)
Balance at end of the year	30	21
Interest expense on deposits	1	1

The above deposit transactions were processed according to the normal commercial terms and business procedures.

5.Details of the compensation for key management personnel are as follows:

	2018	2017
Salaries and other short-term employee benefits	40	38
Post-employment benefits	1	1
Deferred bonus accruals	3	1
Total	44	40

As at 31 December 2018, the Company has authorised a total credit facility of RMB 35,585 million (31 December 2017: RMB 6,735 million) for entities relating to the key management personnel of the Company and the associates, which included an outstanding loan balance amounting to RMB 3,144 million (31 December 2017: RMB 1,281 million) and an outstanding facility of the off-balance sheet items amounting to RMB 0 (31 December 2017: RMB 953 million). As at 31 December 2018, the Company took a deposit amounting to RMB 1,942 million from the above entities relating to the key management personnel of the Company and the associates (31 December 2017: RMB 2,854 million).

IX.Events after the balance sheet date

1.Profit distribution after the balance sheet date

Approved by the 22th meeting of the 10th Board of Directors of the Company dated 23 January 2019, the Company distributed RMB 4.37 (inclusive of tax) per preference share as dividends based on the amount of issued preference shares of 200 million (with a face value of RMB 100 per share), which was calculated at a nominal dividend rate of 4.37%. The calculation period for the dividends on preference shares was from 7 March 2018 to 6 March 2019. The dividends distribution date was 7 March 2019. The total amount of the dividends distributed was RMB 874 million (inclusive of tax). The Company distributed dividends directly to preference shareholders.

Approved by the 23th meeting of the 10th Board of Directors of the Company dated 6 March 2019, the Company proposed to distribute a cash dividend of RMB 1.45 (inclusive of tax) for every 10 shares based on the total share capital of 17,170 million shares as at 31 December 2018 after the appropriation to general risk reserve. The cash dividends proposed to distribute totalled RMB 2,490 million. The above distribution scheme was pending for approval by shareholders' general meeting.

2.Issuance of convertible corporate bonds

Reviewed and approved by the Company's Board of Directors and verified under *Approval for the Public Issuance of A-share Convertible Corporate Bonds by Ping An Bank Co., Ltd.* (Zheng Jian Xu Ke [2018] No.2165) issued by China Securities Regulatory Commission, the Company made a public issuance of RMB26 billion of convertible corporate bonds in January 2019, at a face value of RMB 100 per share with a term of six years from the issuance date. The coupon rate is 0.2% for the first year, 0.8% for the second year, 1.5% for the third year, 2.3% for the fourth year, 3.2% for the fifth year and 4.0% for the sixth year. The amount of funds raised net of issuance expenses was RMB 25,915 million, of which RMB 370 million was directly included in tier 1 core capital as equity.

(All amounts in RMB million unless otherwise stated)

X.COMPARATIVE INFORMATION

Certain comparative figures have been restated to conform to current year's presentation.

XI.OTHER SIGNIFICANT ITEMS

Assets and liabilities measured at fair value

2018	1 January 2018	Gains or losses on changes in fair value during the year	Accumulated valuation gain taken into other comprehensive income	31 December 2018
Assets:				
Precious metals	87,501	2,573	-	56,835
Placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income	3,893	-	6	3,756
Financial assets held for trading	78,425	1,217	-	148,768
Derivative financial assets	16,080	4,060	-	21,460
Loans and advances to customers designated at fair value and changes included into other comprehensive income	24,428	-	-	61,687
Other investment on debts	54,150	-	587	70,664
Other equity investment	813	-	(58)	1,519
Total	265,290	7,850	535	364,689
Liabilities:				
Financial liabilities held for trading	9,047	346	-	8,575
Derivative financial liabilities	17,712	3,925	-	21,605
Total	26,759	4,271	-	30,180

Net asset return and earnings per share

2018	Net asset return (%)		Earnings per share (RMB Yuan)	
	Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	10.88%	11.49%	1.39	1.39
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit or loss	10.83%	11.44%	1.39	1.39

2017	Net asset return (%)		Earnings per share (RMB Yuan)	
	Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	11.04%	11.62%	1.30	1.30
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit or loss	11.03%	11.61%	1.30	1.30

Including: Net profit therein attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss:

	2018	2017
Net profit for the current year attributable to shareholders of the Company	24,818	23,189
Less: The preference dividends declared by the Company	(874)	874
Net profit attributable to ordinary shareholders of the Company	23,944	22,315
Add/(Less): Non-recurring profit or loss items		
Loss/gain on disposal of property and equipment, foreclosed assets and long-term equity investment	(98)	(101)
Loss/gain from contingencies	(1)	1
Other net profit or loss	(54)	65
Income tax effect	35	8
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit or loss	23,826	22,288

The above net asset return and earnings per share are calculated in accordance with the rules stipulated in the *Regulation on Information Disclosure of Public Companies No. 9* as revised by the China Securities Regulatory Commission on 11 January 2010. The non-recurring profit and loss is calculated in accordance with the rules stipulated in the *Interpretation of Information Disclosure of Public Companies No. 1 - Non-recurring Profit and Loss* (CSRC Announcement [2008] No. 43), effective from 1 December 2008.

The profit or loss arising from changes in the fair value of financial assets and liabilities held for trading in the Company's ordinary course of business, and investment income arising from disposals of investment on debts, other investment on debts and financial liabilities held for trading are not disclosed as non-recurring profit and loss items.

Documents Available for Inspection Catalogue

1. The accounting statements sealed and signed by Chairman, President, CFO/the person in charge of accounting institution.

2. The original copy of audit report sealed by the accounting firm and sealed and signed by certified public accountants.

3. Originals of the Company's documents and announcements which have been publicly disclosed in *China Securities Journal, Securities Times, Shanghai Securities News, Securities Daily* during the reporting period.

Board of Directors of Ping An Bank Co., Ltd.

7 March 2019

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