

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

中原銀行股份有限公司*
ZHONGYUAN BANK CO., LTD.*

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

(Stock Code of H Shares: 1216)

(Stock Code of Preference Shares: 4617)

**ANNOUNCEMENT OF ANNUAL RESULTS FOR
THE YEAR ENDED DECEMBER 31, 2019**

The board of directors (the “**Board**”) of Zhongyuan Bank Co., Ltd. (the “**Bank**”) is pleased to announce the audited consolidated annual results (the “**Annual Results**”) of the Bank and its subsidiaries for the year ended December 31, 2019 (the “**Reporting Period**”) which were prepared in accordance with the International Financial Reporting Standards (“**IFRSs**”). The Board and the audit committee of the Board have reviewed and confirmed the Annual Results.

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Bank (www.zybank.com.cn). The annual report for the year ended December 31, 2019 will be despatched to the shareholders of the Bank and will be available on the above websites in due course.

On behalf of the Board
Zhongyuan Bank Co., Ltd.*
DOU Rongxing
Chairman

Zhengzhou, the People's Republic of China
March 27, 2020

As at the date of this announcement, the Board comprises Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie as executive directors; Mr. LI Qiaocheng, Mr. LI Xipeng and Mr. MI Hongjun as non-executive directors; Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny as independent non-executive directors.

* *Zhongyuan Bank Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry out banking and/or deposit-taking business in Hong Kong.*

Content

Corporate Information	2
Financial Summary	8
Chairman's Statement	11
President's Statement	13
Management Discussion and Analysis	16
Changes in Share Capital and Information on Shareholders	79
Directors, Supervisors, Senior Management, Employees and Institutions	89
Corporate Governance Report	114
Report of the Board of Directors	149
Report of the Board of Supervisors	161
Important Events	165
Independent Auditor's Report	169
Unaudited Supplementary Financial Information	354
Definitions	358



Chapter 1 Corporate Information

1. Basic Corporate Profile

Legal Name of the Company

中原銀行股份有限公司¹ (abbreviated as 中原銀行)

English Name of the Company

ZHONGYUAN BANK CO., LTD.¹ (abbreviated as ZYBANK)

Registered Office

Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province, the PRC

Headquarters in China

Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province, the PRC

Principal Business Place in Hong Kong

40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong

Board of Directors

Executive Directors:

Mr. DOU Rongxing (Chairman)
Mr. WANG Jiong
Mr. LI Yulin
Mr. WEI Jie

Non-Executive Directors:

Mr. LI Qiaocheng
Mr. LI Xipeng
Mr. MI Hongjun

¹

Zhongyuan Bank Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking/deposit-taking business in Hong Kong



Chapter 1 Corporate Information

Independent non-executive Directors:

Ms. PANG Hong
Mr. LI Hongchang
Mr. JIA Tingyu
Mr. CHAN Ngai Sang Kenny

Legal Representative

Mr. DOU Rongxing

Authorized Representatives

Mr. JIA Tingyu
Mr. ZHANG Ke

Joint Company Secretaries

Mr. ZHANG Ke
Ms. LEUNG Wing Han Sharon

Unified Social Credit Code

9141000031741675X6

Financial Licence Institution Number

B0615H241010001

Auditors

PRC Auditors

KPMG Huazhen LLP
8/F, KPMG Tower E2, Oriental Plaza, 1 East Chang'an Avenue,
Dongcheng District, Beijing, PRC

International Auditors

KPMG (Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance)
8/F, Prince's Building, 10 Chater Road, Central, Hong Kong



Chapter 1 Corporate Information

Legal Advisors as to PRC Laws

King & Wood Mallesons
17–18/F, East Tower, World Financial Center,
1 Dongsanhuan Zhonglu, Chaoyang District,
Beijing, PRC

Legal Advisors as to Hong Kong Laws

Paul Hastings
21–22/F, Bank of China Tower, 1 Garden Road, Hong Kong

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Domestic Shares Trustee Agency

China Securities Depository and Clearing Corporation Limited
23/F, Tower B, Investment Plaza, No. 27 Jin Rong Street, Xi Cheng District, Beijing,
China

H Stock Code

1216

Preferred Stock Code

4617

Investor's Enquiry

Website Address:

<http://www.zybank.com.cn>

Contact Telephone No.:

(86) 0371–85517898

Fax:

(86) 0371–85517892

Email:

Dongjianban@zybank.com.cn



Chapter 1 Corporate Information

2. Company Profile

Zhongyuan Bank Co., Ltd, the first provincial corporate bank in Henan Province, was established on December 23, 2014 with its headquarters located in Zhengzhou City, the capital of Henan Province, PRC. As of the date of this annual report, the Bank is operating 18 branches and 2 direct sub-branches with a total of 467 outlets. As a major promoter, it established 9 county banks and 1 consumer finance company in Henan Province and 1 finance leasing company outside of Henan Province. Zhongyuan Bank was listed on the Main Board of the Hong Kong Stock Exchange on July 19, 2017. Since its establishment, Zhongyuan Bank has been advancing towards the development goal of “developing Zhongyuan Bank into a leading commercial bank” advocated by Henan Provincial Committee and the provincial government through the “temple-style” shareholding structure, introduction of quality social capitals and deepening the market-oriented mechanisms. Following the three development strategies of “offering featured products in traditional banking business, accomplishing break-through by innovation and taking first-mover advantage in developing future banking” (傳統業務做特色、創新業務找突破、未來銀行求領先), it actively conducted “Internetization and Ruralization of Banking Services (上網下鄉)” with every endeavor to support local economic construction and serve the society, thus achieving good results in both operations and development.

As of December 31, 2019, the total assets of Zhongyuan Bank amounted to RMB709,885 million, representing an increase of 14.4% as compared with the beginning of the year. Zhongyuan Bank was recognized as “Ten Best City Commercial Banks of the Year (年度十佳城市商業銀行)” for five consecutive years by Financial Times and was awarded “Top Ten Iron-horse Banks (鐵馬十佳銀行)”, “Best Listed Company (最佳上市公司)” and “Outstanding City Commercial Bank of the Year (年度卓越城商行)” and other honors. Zhongyuan Bank ranked 181st amongst the top 1,000 banks in the world in terms of tier-one capital by The Banker (UK) in 2019 and the 28th among PRC banks on this list. Zhongyuan Bank was on Fortune’s list of China’s top 500 enterprises in 2019, ranking the 23rd amongst the commercial banks on the list and making it the only financial institution in Henan Province on the list.

Zhongyuan Bank has always adhered to the principle of “technology cultivation, technology prosperity (科技立行、科技興行)” since its establishment. Following the concepts of “stability, innovation, motivation and efficiency”, Zhongyuan Bank consistently explored the integration of financial technology and vigorously developed mobile finance and online finance to enhance the overall capability in financial services. It gained a leading position among domestic city commercial banks in terms of the application of financial technology. Zhongyuan Bank initiated digitalized transformation from 2018 and fully carried out the construction of technology and data capability with the target of building an agile and future bank.



Chapter 1 Corporate Information

3. Major Awards in 2019

- (1) On January 9, 2019, the Bank was awarded the prize for “Small and Medium Bank with Highest Financial Technology Value in 2018 (2018年度最具金融科技價值中小銀行)”.
- (2) On January 16, 2019, the Bank was awarded the “Prize for Outstanding Issuers (優秀發行機構獎)” and the “Prize for Outstanding Dealers (優秀自營商)” on medium-term bonds in 2018.
- (3) On January 17, 2019, the “Meeting of Beijing Financial Assets Exchange on Summary of Debt Financing Programs in 2018 and Prospects on Work in 2019 (北京金融資產交易所2018年度債權融資計劃總結暨2019年度工作展望大會)” was held in Zhuhai and the Bank was awarded the “Prize for Diligence and Struggling (砥礪奮進獎)” and the “Prize for Innovation and Pilot (創新領航獎)” by Beijing Financial Assets Exchange.
- (4) On March 8, 2019, the Bank was awarded the “Prize for Outstanding Contribution to Joint Construction of the Acceptance Market (受理市場共建突出貢獻獎)” issued by China Unionpay Corporation (中國銀聯總公司), making it the only financial institution awarded the honor in Henan Province.
- (5) On March 20, 2019, the “Breaking Through in Digital Transformation – 10th Meeting of China e-Finance Union and the Awarding Ceremony on Online Financial Innovation in the Banking Industry in 2018 (突圍數字轉型第十屆網金聯盟大會暨2018年度銀行業網絡金融創新表彰活動)” hosted by China e-Finance Union was held in Beijing and the WeChat Bank of the Bank was awarded the “Prize for Best Innovation in New Media Marketing Services in 2018 (2018年最佳新媒體營銷服務創新獎)”.
- (6) On July 26, 2019, the Bank was awarded the “Tianji Prize for Financial Technology (金融科技天璣獎) in 2019”.
- (7) On November 1, 2019, the Bank was awarded the Prize for Best Ten Small and Medium Banks for “Iron-horse Banks” in 2019 issued by the Modern Bankers.
- (8) On November 11, 2019, the Bank was awarded the “Prize for Growth in Golden Ox Wealth Management (金牛理財成長獎) in 2018”.
- (9) On November 19, 2019, the Bank was awarded the prize for “Brand Construction Bank in 2019 (2019年度品牌建設銀行)”.
- (10) On November 19, 2019, the Bank was awarded the prize for “Excellent City Commercial Bank in 2019 (2019年度亞洲卓越城市商業銀行)”.



Chapter 1 Corporate Information

- (11) On November 29, 2019, the Bank was awarded the “Golden Wealth Management (金理財) – City Commercial Bank Wealth Management Excellence Award (城商行理財卓越獎)” in 2019.
- (12) On December 5, 2019, the Bank was awarded the “2019 Golden Prize of China Electronic Banks–Best Innovation Prize for Agile Banks (2019年中國電子銀行金榜獎–最佳敏捷銀行創新獎)”.
- (13) On December 11, 2019, the Bank was awarded the “Prize for Emerging Private Banks (私人銀行新銳獎)” issued by the Association of Private Bankers in Greater China Region (大中華地區私人銀行家協會).
- (14) On December 13, 2019, the Fourth Annual Conference of China Transaction Banking and the Awarding Ceremony of the Ninth “Golden Trade Prize” for Financial Services Providers Highly Relied by Chinese Economic and Trade Enterprises (第四屆中國交易銀行年會暨第九屆中國經貿企業最信賴的金融服務商“金貿獎”頒獎典禮) was held in Beijing and the Bank was awarded the “Prize for Best Transaction Banking Services (最佳交易銀行服務獎)”.
- (15) On December 17, 2019, the “2019 (11th) Financial Summit on Excellent Leadership (2019 (第十一屆)卓越競爭力金融峰會)” hosted by China Business was held in Beijing and the Bank was awarded the “FinTech Bank with Excellent Competitiveness in 2019 (2019卓越競爭力科技金融銀行)”.
- (16) On December 19, 2019, the “2019 Annual China Fintech Conference and the Awarding Ceremony of the Prize for 10th Excellence and Innovation in Fintech and Services (2019年中國金融科技年會暨第十屆金融科技及服務優秀創新獎頒獎典禮)” was held in Beijing and the Bank was awarded the “Prize for Outstanding Contribution to Fintech Innovation in 2019–Prize for Contribution in Development and Innovation (2019年度金融科技創新突出貢獻獎—開發創新貢獻獎)”.
- (17) On December 20, 2019, the Bank was on list of “Leaders” on standards for online banking service enterprises in 2019 with the Q/ZYB 003–2019 Standards on Personal Online Banking Services (《Q/ZYB 003–2019個人網上銀行服務標準》), making it the only financial institution awarded the honor in Henan Province.
- (18) On December 20, 2019, the Bank was awarded the “Prize on Banks with Inclusive Financial Services in 2019 (2019年度普惠金融服務銀行獎)” at the awarding ceremony of the 13th “Golden Cicada Prize (金蟬獎)” held in Beijing.



Chapter 2 Financial Summary

		For the year ended December 31,				
			2019 vs			
	2019	2018	2018	2017	2016	2015
	(in millions of RMB, except percentages, unless otherwise stated)					
			Rate of			
			change (%)			
Operating results						
Net interest income	15,609.6	13,744.2	13.6	12,201.3	11,203.3	10,548.1
Net fee and commission income	1,865.6	1,280.2	45.7	769.6	449.1	134.9
Operating income	19,021.8	16,783.6	13.3	12,815.5	11,803.7	11,050.3
Operating expenses	(7,486.3)	(6,957.5)	7.6	(5,759.0)	(5,136.3)	(5,120.4)
Impairment losses on assets	(7,148.3)	(6,851.5)	4.3	(2,028.1)	(2,246.8)	(1,887.1)
Profit before taxation	4,360.6	2,974.6	46.6	5,028.4	4,420.6	4,042.8
Net profit	3,206.0	2,365.3	35.5	3,905.7	3,360.1	3,012.4
Net profit attributable to equity shareholders of the Bank	3,163.8	2,414.6	31.0	3,838.7	3,359.1	2,991.4
Calculated on a per share basis (RMB)			Rate of			
			change (%)			
Net assets per share attributable to equity shareholders of the Bank ⁽¹⁾	2.35	2.25	4.4	2.25	2.09	1.98
Earnings per share ⁽²⁾	0.13	0.12	8.3	0.21	0.20	0.19
Profitability indicators (%)			Change			
Return on average total assets ⁽³⁾	0.48	0.41	0.07	0.82	0.91	1.17
Return on average equity ⁽⁴⁾	5.52	5.43	0.09	9.57	9.75	9.81
Net interest spread ⁽⁵⁾	2.56	2.81	(0.25)	2.57	3.07	3.68
Net interest margin ⁽⁶⁾	2.65	2.83	(0.18)	2.76	3.26	3.96
Net fee and commission income to operating income	9.81	7.63	2.18	6.01	3.80	1.22
Cost-to-income ratio ⁽⁷⁾	38.45	40.59	(2.14)	44.00	41.21	39.73



Chapter 2 Financial Summary

		For the year ended December 31,				
	2019	2018	2019 vs 2018	2017	2016	2015
(in millions of RMB, except percentages, unless otherwise stated)						
Capital adequacy ratio indicators ⁽⁸⁾ (%)			Change			
Calculated based on the Administrative Measures for the Capital of Commercial Banks						
Core Tier-one capital adequacy ratio	8.51	9.44	(0.93)	12.15	11.24	14.77
Tier-one capital adequacy ratio	10.31	11.49	(1.18)	12.16	11.25	14.77
Capital adequacy ratio	13.02	14.37	(1.35)	13.15	12.37	16.14
Total equity to total assets	8.15	8.97	(0.82)	8.83	8.20	10.92
Asset quality indicators (%)			Change			
Non-performing loans to total loans ⁽⁹⁾	2.23	2.44	(0.21)	1.83	1.86	1.95
Allowance for loan impairment losses to non-performing loans ⁽¹⁰⁾	151.77	156.11	(4.34)	197.50	207.09	210.48
Allowance for loan impairment losses to total loans ⁽¹¹⁾	3.39	3.81	(0.42)	3.62	3.85	4.10
Other indicator (%)						
Loan-to-deposit ratio	77.71	73.48	4.23	64.85	67.20	67.97
Scale indicators			Rate of change (%)			
Total assets	709,885.0	620,444.3	14.4	521,989.8	433,071.4	305,890.7
Of which: net loans and advances to customers	291,230.1	246,551.7	18.1	191,708.8	158,547.3	133,876.1
Total liabilities	652,054.0	564,766.5	15.5	475,899.2	397,572.8	272,472.7
Of which: deposits from customers	389,731.5	349,387.0	11.5	306,708.3	245,352.8	205,370.4
Share capital	20,075.0	20,075.0	–	20,075.0	16,625.0	16,625.0
Equity attributable to equity shareholders of the Bank	56,744.7	54,857.5	3.4	45,268.9	34,719.3	32,945.0
Non-controlling interests	1,086.3	820.3	32.4	821.7	779.3	473.0
Total equity	57,831.0	55,677.8	3.9	46,090.6	35,498.6	33,418.0



Chapter 2 Financial Summary

- (1) Calculated by dividing equity attributable to equity holders of the parent company after deduction of other equity instruments at the end of the reporting period by the total number of ordinary shares at the end of the reporting period.
- (2) The ratio of net profit (net of dividends of preference shares distributed during the year) attributable to shareholders of the Bank to weighted average number of ordinary shares.
- (3) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.
- (4) Calculated based on the Rules on the Preparation and Submission of Information Disclosed by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share (Revision 2010) issued by China Securities Regulatory Commission. Represents net profit attributable to shareholders of the Bank for the period as a percentage of weighted average balance attributable to shareholders of the Bank for the period.
- (5) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, calculated based on daily average of the interest-earning assets and the interest-bearing liabilities.
- (6) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.
- (7) Calculated by dividing operating expenses after deduction of taxes and surcharges by operating income.
- (8) The Administrative Measures for the Capital of Commercial Banks was issued on June 7, 2012 and came into effect on January 1, 2013 by replacing the Administrative Measures for Capital Adequacy Ratio of Commercial Banks.
- (9) Calculated by dividing total non-performing loans and advances to customers by gross loans and advances to customers. Gross loans and advances to customers are exclusive of accrued interest.
- (10) Calculated by dividing allowance for impairment losses on loans and advances to customers by total non-performing loans. Total allowance for impairment losses on loans and advances to customers included allowance for impairment losses on loans at amortized cost and allowance for impairment losses on loans at fair value through other comprehensive income.
- (11) Calculated by dividing allowance for impairment losses on loans and advances to customers by gross loans and advances to customers.



Chapter 3 Chairman's Statement



Great goals can only be achieved with diligence and persistence and five years of struggle towards original aspirations deliver fruitful results. 2019 is the final year in the first five-year development plan of Zhongyuan Bank. Facing the complicated and changing external environment and with the care, support and assistance of all sectors of the society, we maintained our strategic focus, carried forward the entrepreneurial spirit, promoted development with transformation and improved quality and efficiency with management, thus achieving proven operating results and successfully drawing an end to the five-year development.

During the year, we supported high-quality development through enhancing the effectiveness of financial services. We calmly responded to the changes and challenges in the steady economic operation, seized the opportunities in the implementation of key national strategies, including the “Belt and Road” initiatives, the rejuvenation of rural areas and the rising of central China, as well as those in the rapid economic development in Henan Province. We deeply implemented the “Three Major Strategies (三大戰略)” and “Internetization and Ruralization of Banking Services (上網下鄉)”, actively practiced inclusive finance, improved the “three-in-one” financial services system in rural areas and launched the “five-professional” operation model on small and micro businesses, embarking on a differentiated and distinctive development path. As at the end of 2019, the asset size reached RMB709,885 million, representing an increase of 14.4% as compared with the beginning of the year. We recorded net profits of RMB3,206 million in 2019, representing an increase of 35.5% as compared with the same period of last year. We ranked high in terms of the increment and growth rate of deposits and loans in the province, providing strong momentum to the development of regional economy.

During the year, we stimulated high-quality development through deepening the digitalized transformation. We resolutely advanced toward a technology bank and a data bank and consistently expanded the width and depth of the digitalized transformation



Chapter 3 Chairman's Statement

with profound reforms in the structure, process, culture, talents and other aspects. The construction of technology infrastructure sped up, the data governance system was gradually improved and the data thinking of staff and the data culture were gradually shaped. The agility in quickly responding to market changes, the iteration of products and service innovation and the openness matching scenario-based financial services of the Bank were significantly enhanced. The transformation achieved multi empowering to staff and customers at the bottom level and the frontline.

During the year, we guaranteed high-quality development through enhancing the risk control capability. As a banking institution with operational risks, we maintained prudent risk preference and adhered to the concept of “actively controlling risks and risks creating value” and established a management system covering all processes from systems implementation, internal control inspection as well as supervision and appraisal. We intensified the portfolio management of three major risks, namely credit risks, market risks and operational risks. The establishment of the digitalized risk control system was advanced in an orderly way. We established a measurement monitoring system with the Value at Risk (VAR) and quota as the core, established the risk model laboratory and the joint R&D center on big data algorithm, completed the launch of the first phase of the new-generation credit system and actively expanded external data application. We adhered to “compliance with law, honest management (依法合規·從嚴治行)” and vigorously advocated the building of work style and compliance culture to create a working atmosphere of hard working, entrepreneurship and integrity.

During the year, we carried out refined management to facilitate high-quality development. We initiated the optimization of corporate governance, initiatively sought for scientific and efficient governance systems and improved the governance mechanism with “core leadership of the Party committee, strategic decision-making of the Board, implementation by senior management and supervision by the Board of Supervisors according to laws (黨委核心領導、董事會戰略決策、高管層執行落實、監事會依法監督)”. We actively transformed the management model, established an appraisal system on transformation and initiated the establishment of a full-caliber cost sharing system to improve the scientific and reasonable allocation of resources. We sped up in group operation and deployment, successfully acquired AB Leasing, smoothly completed increase of registered capital and share of Zhongyuan Consumer Finance and gradually perfected the corporate governance of county banks. Subsidiaries are under a virtuous circle in development and their coordination was further enhanced, laying a solid foundation for the high-quality and sustainable development of the Bank in the future.

2020 is the year to complete building a moderately prosperous society in all respects and the “13th Five-year Plan”. It is also a starting point of the second five-year development of Zhongyuan Bank. We will seize every minute and make more efforts to restart. Standing at the new starting point and embarking on a new journey, we will continue to implement the strategic layouts of the Central Committee of the Communist Party of China (CPC) (the “**CPC Central Committee**”) on financial development, focus on principal businesses and practice our original aspirations. We will adhere to serving the real economy, strictly control financial risks and steadfastly deepen innovation and transformation with an unwavering spirit and the courage for overcoming difficulties and achieving innovation. Under the care and guidance of CPC committees, governments and regulatory authorities at all levels and with the trust and support of investors and customers as well as the solidarity of all staff of the Bank, we will create new brilliance in the development of Zhongyuan Bank.



DOU Rongxing
Chairman



Chapter 4 President's Statement



The year 2019 witnessed the fifth anniversary of the establishment of Zhongyuan Bank. With diligence and persistence, Zhongyuan Bank expanded financial services through hard working, served people in central China with great efforts and demonstrated patriotism with sacrifice, thus achieving fruitful results.

During the past five years, Zhongyuan Bank followed instructions, remained true to its original aspirations and undertook missions, delivering outstanding results. In 2019, the operation and operating results of the customers of Zhongyuan Bank achieved remarkable improvements. The number of effective retail customers and effective corporate customers reached 4,448,000 and 33,000, respectively. The total assets amounted to RMB709,885 million, representing an increase of RMB89,441 million as compared with the end of last year. The balance of deposits (net of accrued interest) amounted to RMB385,046 million, representing an increase of RMB38,857 million as compared with the end of last year. The balance of loans (net of accrued interest) amounted to RMB299,205 million, representing an increase of RMB44,835 million as compared with the end of last year. The asset quality and profitability were continuously improved. The non-performing loan ratio was 2.23%, representing a decrease of 0.21 percentage point as compared with the beginning of the year. It achieved operating income of RMB19,022 million, representing an increase of 13.3%. Income from intermediate businesses amounted to RMB1,866 million, increasing 45.7%. It recorded net profits of RMB3,206 million, representing an increase of 35.5%. The Group made more important progresses.



Chapter 4 President's Statement

It acquired AB Leasing, obtaining the third license on finance leasing in Henan Province. Zhongyuan Consumer Finance Company (中原消費金融公司) successfully attracted foreign investment and its registered capital reached RMB2 billion, further enhancing its operation capability. The corporate governance of county banks gradually improved with the comprehensive benefits gradually released.

Only a solid foundation can lead to long-term sustainable development. In 2019, Zhongyuan Bank maintained serving the real economy as its responsibilities and facilitated the high-quality social and economic development with excellent financial services. We actively served key national strategies, fully supported Henan Province to fully leverage on “Four Brands (四張牌)” and advance the construction of “Three Zones and One Cluster (三區一群)” and assisted to the implementation of national strategies on “the ecological protection and high-quality development in the Yellow River basin” and “building Zhengzhou into a national center city” to grow up along with the economic development of Henan Province. We further focused on principal responsibilities and businesses, poured our efforts in supporting small and micro private enterprises, established the Department of Small and Micro Finance and developed the “five-professional” model on small and micro services. The balance of bank-wide loans to small and micro enterprises amounted to RMB119.5 billion, serving over 38,000 small and micro enterprises. We will continuously promote inclusive finance and leverage on FinTech to boost the availability and convenience of financial services. We increased our support to key groups. The balance of loans to targeted poverty alleviation programs through financial means amounted to RMB4.5 billion, representing an increase of RMB2 billion as compared with the end of last year.

Innovation is sought through sticking to the right path and achievements can be made with aspirations. Zhongyuan Bank was established under the background with rapid market changes and booming financial technologies. The development environment with uncertainties drives us thinking in advancing and developing in exploration with “putting customers to the center” as the beacon. Based on market characteristics and customer demands, we developed the strategy on “Internetization and Ruralization of Banking Services (上網下鄉)” and initiated the digitalized transformation to foster new drivers in struggles and draw strength from forging ahead. In 2019, Zhongyuan Bank further deepened the digitalized transformation and became a pioneer in the industry in overall transformation. Its organizational structure was further optimized. It completed the implementation of the tribal agile transformation in the retail line at the head office, achieved transformation of the corporate transaction banking towards an agile organization and initiated the construction of the linkage marketing system with the head office, branches and sub-branches. The adaptability of products to the market was consistently enhanced with higher speed in product innovation and iteration and increasingly diversified products. “Zhongyuan Jushang (中原聚商)”, “Yunong Loans (豫農貸)”, “credit cards” and other popular products attracted various fans. The technology base was further reinforced with six technology platforms and nine data basic platforms developed and launched, which accumulated energy for transformation and intensifying foundation. The strategy on “ruralization of banking services (下鄉)” was advanced in the favorable environment of the rejuvenation of rural areas. It consistently improved the



Chapter 4 President's Statement

rural financial service system covering counties, townships and villages and popularized online integrated financial services to develop an ecosystem on rural financial services. It supported the construction of rural infrastructure and the development modern agriculture. The balance of bank-wide agriculture-related loans amounted to RMB69.8 billion, representing an increase of RMB14.6 billion as compared with the beginning of the year and providing more considerate financial strength to rural residents in Henan Province.

The wisdom of all is unimaginable and the strength of all is unconquerable. Under the severe and complicated market environment with changes, Zhongyuan Bank achieved fruitful results, which is attributed to the joint efforts of 13,000 staff of the Bank as well as the trust and support of customers, investors and all sectors of the society. I hereby express my heartfelt thanks to all sectors of the society for their long-term concern about the development of Zhongyuan Bank.

Success can only be achieved through hard working. 2020 is the year to complete building a moderately prosperous society in all respects and the "13th Five-year Plan". It is also a starting point of the second five-year development of Zhongyuan Bank. At the beginning of the year, the novel coronavirus pneumonia broke out. It significantly affected people across the country and adversely affected all industries. But we are deeply believed that true warriors and the strong will tide over the firing line and the future is still bright. Zhongyuan Bank will stand with all Chinese people, hold on to our positions and make unremitting efforts with hope to contribute our strength, wisdom and enthusiasm for a more brilliant future.



WANG Jiong
President



Chapter 5 Management Discussion and Analysis

1. PAST ECONOMIC AND FINANCIAL ENVIRONMENT AND FUTURE PROSPECTS

During the Reporting Period, the global economy recorded slower growth and was still under deep adjustment after the international financial crisis with increasing uncertainties and instabilities. Most developed economic entities witnessed slower economic growth. The U.S. economy maintained steady growth with the labor market becoming increasingly tight. The Eurozone economy showed a stable trend after hitting the bottom. The French economy was relative stable and supported the Eurozone, but the German economy remarkably slowed down. The acceleration in Brexit was conducive to eliminating uncertainties and the Japanese economy declined after the recovery in economic growth in the first half. The growth in emerging economies saw declines at different extents. The economic growth in India declined while Brazil and Russia recovered after hitting the bottom. The South Africa maintained continuous economic sluggishness. As affected by the novel coronavirus pneumonia outbreak in 2020, the International Monetary Fund (IMF) cut its forecasts for the global economy growth rate to 3.2%.

During the Reporting Period, the Chinese economy remained stable as a whole with steady progress in development quality. The main expected objectives were well completed, laying a solid foundation for completing building a moderately prosperous society in all respects. The GDP was RMB99,086,500 million, representing an increase of 6.1% over last year, maintaining a medium-to-high speed growth. The growth in resident income was generally simultaneous with the economic growth. The national per capita disposable income was RMB30,733, representing an increase of 8.9% over last year and the growth rate was 0.2 percentage point higher than that of last year. The national per capita consumption expenditure was RMB21,559, representing an increase of 8.6% over last year, and the growth rate was 0.2 percentage point higher than that of last year. Fixed asset investment recorded stable growth. The national fixed asset investment (excluding farmers) amounted to RMB55,147,800 million, representing an increase of 5.4% over last year. Foreign trade increased against the unfavorable backdrop. The total import and export volume of goods was RMB31,544,600 million, representing an increase of 3.4% over last year and achieving quality improvement while maintain stable growth. Looking ahead, the novel coronavirus pneumonia outbreak will affect the Chinese economy to certain extent, but the duration and size of the effects will be limited. There are no changes in the fundamentals of China's steady and long-term sound economic development and high-quality economic growth.



Chapter 5 Management Discussion and Analysis

During the Reporting Period, the economy of Henan Province maintained stable as a whole and showed steady progress with continuous optimization in its economic structure, rapid growth in new drivers, and steady improvement in quality and benefit. The provincial GDP was RMB5,425,920 million, representing an increase of 7.0%, which was 0.9 percentage point higher than the national average level. The fixed asset investment saw steady growth. The provincial fixed asset investment (excluding farmers) increased 8.0%, which was 2.6 percentage points higher than the national average level. The consumer goods market operated smoothly. The total retail sales of consumer goods reached RMB2,273,302 million across the province, representing an increase of 10.4% over last year, which was 2.4 percentage points higher than the national average level.

During the Reporting Period, the Central Bank controlled counter-cyclic adjustments with macro policies in a scientific way and maintained prudent monetary policies and controlled the liquidity at reasonable level. It deepened the financial supply-side structural reform and continued to boost financial supports to the real economy, creating a favorable monetary and financial environment for high-quality development. The liquidity remained reasonably abundant in the banking system with the balance of broad money (M2) amounting to RMB198.65 trillion, representing a year-on-year increase of 8.7%. Loans recorded rapid growth with the balance of RMB and foreign currency loans of financial institutions reaching RMB158.6 trillion, representing a year-on-year increase of 11.9% and stronger credit support for the real economy. Public financing saw moderate growth with the scale of existing public financing amounting to RMB251.31 trillion, representing a year-on-year increase of 10.7%. The RMB exchange rate enjoyed stronger elasticity and remained stable basically on an appropriate and balanced level, playing the role as “an automatic stabilizer” in regulating macroeconomics and international payments. In the next step, the central bank will continue to maintain prudent monetary policies, make more efforts in enhancing counter-cyclic adjustments, structural adjustment and reform and keep reasonably abundant liquidity to promote the growth in monetary credit and public financing in line with the economic development.

2. OVERALL OPERATION OVERVIEW

During the Reporting Period, faced with complicated economic and financial situations as well as various internal and external difficulties and challenges, the Bank actively implemented the core value of “stability, innovation, motivation and efficiency (穩健、創新、進取、高效)”, strengthened the business philosophy of “customer-centric” and further promoted the transformation of digitalization. The Bank improved capabilities, promoted innovation-driven development, and adapted to competition, maintaining a favourable development trend. The Bank was recognized as “Ten Best City Commercial Banks (年度十佳城市商業銀行)” for five consecutive years by Financial Times, awarded “2019 Excellent City Commercial Bank (2019年度亞洲卓越城市商業銀行)”, “2019 Brand Construction Bank (2019年度品牌建設銀行)” and “2019 Financial Science and Technology Innovation Outstanding Contribution Award (2019年度金融科技創新突出貢獻獎)”, and the brand image has steadily improved.



Chapter 5 Management Discussion and Analysis

The rapid growth in the operational results and remarkable progress in quality and efficiency enhancement. The Bank implemented the concept of high-quality development, accelerated structural adjustments, improved refined management level, continuously enhanced profitability, and steadily increased business scale. Firstly, the economic benefits increased rapidly, and the sources of income continued to expand. During the Reporting Period, the Bank recorded operating income of RMB19,022 million, representing a year-on-year increase of RMB2,238 million or 13.3%. Profit before provision was RMB11,509 million, representing a year-on-year increase of RMB1,683 million or 17.1%. Net profit was RMB3,206 million, representing a year-on-year increase of RMB841 million or 35.5%. The Bank continued to strengthen management on pricing and effectively control the cost of liabilities. The net interest margin and net interest spread were 2.65% and 2.56%, respectively, maintaining the leading level in industry. At the same time, the Bank enhanced the awareness of cost constraint to effectively control cost expenditures. The cost-to-income ratio decreased to 38.45% in 2019 from 40.59% in 2018, representing a decrease of 2.14 percentage points as compared with the same period last year. The Bank continuously enhanced its product innovation application and created a diversified revenue structure. The Bank recorded fee and commission income of RMB1,866 million, representing an increase of RMB585 million or 45.7%. Fee and commission income accounted for 9.8% of the operating income, representing an increase of 2.2 percentage points as compared with the corresponding period of last year. Secondly, the steady growth in the asset scale and continuous improved structure of assets and liabilities. As of December 31, 2019, the Bank's total assets increased by RMB89,441 million or 14.4% to RMB709,885 million from the beginning of the year. The total loans (excluding accrued interest) amounted to RMB299,205 million, representing an increase of RMB44,835 million, or 17.6% as compared to the beginning of the year. The balance of deposits (excluding accrued interest) amounted to RMB385,046 million, representing an increase of RMB38,857 million or 11.2% as compared to the beginning of the year. The increase rate of deposits and loans were significantly higher than the average level of Henan Province, which provided strong power for the development of the real economy. The Bank strengthened asset and liability management and further optimized its asset and liability structure. The total loans with high yield (excluding accrued interest) accounted for 42.1% of the total assets, representing an increase of 1.1 percentage points as compared with the beginning of the year. The high-cost interbank liabilities (including interbank deposits issued) accounted for 29.8% of the total liabilities, representing a decrease of 2.0 percentage points as compared with the beginning of the year.

Comprehensive upgrade in its risk control capacity and continuous improvement in its asset quality. Firstly, system construction was strengthened and digital risk control capacity was effectively improved. The Bank accelerated the construction of a new generation of credit management systems, optimized retail big data risk decision models and "Xuanwu(玄武)" credit risk warning system, strengthened retail credit risk model system management, and gradually improved risk control capacity based on big data. Further to promote the non-retail big data risk supporting decision-making model project, the Bank focused on building credit evaluation systems for customers, regions, industries and debts, and consolidated the foundation for credit risk measurement. The stress tests management system covering the whole Bank was improved constantly, providing



Chapter 5 Management Discussion and Analysis

more sufficient decision-making basis for risk management. Secondly, consolidated policy implementation to continuously improve comprehensive risk management capabilities. The Bank continuously optimized the market risk management structure, refined the division of management responsibilities for the eight major risks, implemented the off-site delegation of chief risk officer, strengthened consolidated risk management, and initially built a “system + expert + technology” trinity big data intelligent risk control system. The Bank has established its comprehensive risk management mechanism which is compatible with its business scale and development stage. Thirdly, accurate demolition(精準拆彈), with a focus on the collection and resolution of non-performing and high-risk assets. The Bank solidly promoted to reduce old and control new(降舊控新), strengthened the main responsibility of risk management and control, resolved the problems left over from history and non-performing loans, and improved asset quality. The Bank firmly implemented the regulatory policy, by which all loans overdue more than 60 days were classified into non-performing loans. The loans overdue more than 90 days accounted for 86.96% of non-performing loans, representing a decrease of 11.58 percentage points over the beginning of the year; the overdue ratio was 3.32%, representing a decrease of 0.97 percentage point over the beginning of the year; the non-performing loan ratio was 2.23%, representing a decrease of 0.21 percentage point over the beginning of the year, which illustrated effective improvement of our asset quality.

Strategic transformation further advanced, and development advantages became increasingly prominent.

Firstly, digital transformation goes deep into structure, creating unique core competitiveness. The Bank completed a tribal agile transformation in the retail line, and further iterated the agile organization according to market changes to achieve rapid response to market changes. The Bank has deepened digital capacity construction and effectively enhanced the ability to create digital products, achieving full coverage of customer life cycles through large-scale big data use cases. The Bank has deployed 16 big data use cases, which have accumulatively tracked and released 1,741,500 marketing leads and assisted to sale various products of RMB59,714 million, gradually developing the core competitiveness of data-driven. Secondly, we promoted the transformation of the development model and significantly improved our operation capacity. We transited from focusing on outlets services to the coordinated development of “online plus offline”, and then to the trial run of the “Three-track System (三軌制)” in which the head office and branches marketing in coordination, therefore gradually realized the transition from providing services in a single scenario to offering ecosystem services in various integrated scenarios. Based on user experience, we extended the scenario and built an ecosystem where the online customer acquisition in scenarios by bulk is enhanced, and our ability in managing customers was greatly improved. The transformation of our retail banking business gradually showed results with retail customers reaching 14,946,200, representing an increase of 2,566,200 over the beginning of the year. Among which, the number of our mobile banking users amounted to 6,057,200, representing an increase of 2,087,300 or 52.6% from the beginning of the year. Our monthly active users in mobile banking reached 1,578,400, and the monthly active degree (月活躍度) increased 41.8% as compared with the previous year. Our credit cards business developed rapidly with the total number of credit cards issued reaching 1,997,700. The number of credit



Chapter 5 Management Discussion and Analysis

card customers reached 1,776,300, representing an increase of 820,000 or 85.7% over the beginning of the year. Our monthly active users of credit cards reached 1,114,900, representing an increase of 515,500 or 86.0% over the beginning of the year. Operating income from retail banking business accounted for 33.3%, representing an increase of 3.3 percentage points as compared to the previous year. With the transformation of our corporate banking business proceeding orderly, our transaction banking segment, based on the strategy of “data-based bank and technology bank (數據銀行、科技銀行)”, formed a comprehensive service solution with industry characteristics through exploring needs of enterprises in production, supply and sales by means of market research. We built the “ZY Bank e(原銀e)” series of product brands and constructed a relatively all-around product system covering domestic financing, cross-border finance, cash management and electronic channels. Our accumulated financing volume in business reached RMB124.950 billion, representing a year-on-year increase of 19.1%. Thirdly, it has implemented the future banking strategy to promote the construction of open bank. The Bank has made efforts on scenario finance, including exploring the development path of open bank and setting up four business scenarios including community, campus, catering and small and micro merchants, so as to create a new business model with the ecosystem as the core. Leveraging “perpetual loan(永續貸)”, the Bank accelerated the technology output and jointly innovative business rendering it into a new stage during which the Bank cooperated with many domestic small and medium banks to form a standardized technology and business docking system between city commercial banks and rural commercial banks. The Bank promoted the construction of IT infrastructure and established a “financial open platform” with an open banking foundation such as standardized API release, governance, and security control. The Bank has almost completed the research and development of the cloud-end system, having the ability to operate an open bank. Fourthly, the strategy of “ruralization of banking services (下鄉)” has achieved remarkable results, and rural financial services have reached a new level. The Bank continued to improve the three-in-one service network covering “county, township and village”, which has accumulated a demonstration effect of the farmers-benefiting services. As of December 31, 2019, the Bank had established 122 county sub-branches and 50 rural township sub-branches in Henan Province, and deployed 5,373 farmers-benefiting payment services points and inclusive financial service stations, which covered 60% of townships and villages of 18 cities of Henan Province and benefiting more than 10 million rural residents. By integrating Internet thinking, the Bank has launched “Yuan Beneficial Loans (原惠貸)” product system to provide support to the farmers for their consumption loans and business loans. It has also built an online ecosystem of “living + finance” in rural areas and a “financial + non-financial” service platform to activate the rural economy through cross-industry alliances, so as to promote rural revitalization together with the finance by continuously improving the efficiency of financial services.



Chapter 5 Management Discussion and Analysis

Increased efforts to innovation and further enhancement in brand reputation.

Firstly, the Bank has vigorously promoted the product innovation and continuously improved the service system. The Bank has followed the “customer-centric” development philosophy, focused on customer value, and constantly got rid of the stale and put forth the fresh to enhance the value and efficiency of financial services through improving customer experience. “Perpetual Loans” (永續貸) has been updated rapidly, of which the onlineization throughout the whole process has been achieved and business efficiency has been significantly improved, further highlighting the competitive advantages of “fast” and “perpetual”, and has always maintained the leading position in the market. The Bank is the first incorporated bank, which issued net worth products in Henan province. Its fundamental system of net worth products has been established, including the products of T+0 open-end, customer lifecycle type, periodic open-end, closed type, and the series of products included Zhongyuan Ruyibao (中原如意寶), Zhongyuan Xianjinbao (中原現金寶), Qianjing series (乾景系列), Stable Profit Increment series (穩健增利系列), “Smart” series (智慧系列) and “Profit” series (盈系列). The amount of the net worth products was accounting for 52.1%, representing an increase of 44.0 percentage points as compared to the beginning of the year. Secondly, the brand image of the Bank is gradually improved and its market influence is continuously expanded. The Bank has been awarded as “Ten Best City Commercial Banks” by Financial Times for five consecutive years; awarded “2019 Excellent City Commercial Bank (2019年度亞洲卓越城市商業銀行)” and “2019 Brand Construction Bank (2019年度品牌建設銀行)”, which is the only urban commercial bank to obtain such award. The Bank has become China Top 500 on The Fortune, ranking No. 23 among the commercial banks, which is the only local financial institution in Henan on the list. Among the top 1,000 Banks in the worldwide in 2019 released by The Bankers in British, the Bank’s total amount of tier-one capital was ranked No. 181 among the top 200 Banks in the worldwide, and ranking No. 28 among domestic Banks on the list, of which the ranking has been rising for three consecutive years. The Bank’s case of digital transformation was successfully selected into “10 major events of financial informationization in 2019 (2019年金融信息化10件大事)” by the Financial Electronic Magazine, becoming the selected case of the first small and medium-sized bank in the worldwide on the list since the selection, and the reputation on the society and the industry was significantly improved.



Chapter 5 Management Discussion and Analysis

3. ANALYSIS ON INCOME STATEMENT

For the year ended December 31, 2019, the Bank recorded profit before provision of RMB11,509 million, representing a year-on-year increase of 17.1%, recorded profit before taxation of RMB4,361 million, representing a year-on-year increase of 46.6% and recorded net profit of RMB3,206 million, representing a year-on-year increase of 35.5%.

For the year ended December 31,				
	2019	2018	Change	Rate of change
	(in millions of RMB, except percentages)			
Interest income	29,254.3	25,241.5	4,012.8	15.9%
Interest expense	(13,644.7)	(11,497.3)	(2,147.4)	18.7%
Net interest income	15,609.6	13,744.2	1,865.4	13.6%
Fee and commission income	2,207.7	1,479.4	728.3	49.2%
Fee and commission expense	(342.1)	(199.2)	(142.9)	71.7%
Net fee and commission income	1,865.6	1,280.2	585.4	45.7%
Net trading gains	283.6	365.2	(81.6)	(22.3%)
Net gains arising from investment securities	1,111.6	1,303.5	(191.9)	(14.7%)
Other operating income ⁽¹⁾	151.4	90.5	60.9	67.3%
Operating income	19,021.8	16,783.6	2,238.2	13.3%
Operating expenses	(7,486.3)	(6,957.5)	(528.8)	7.6%
Impairment losses on assets	(7,148.3)	(6,851.5)	(296.8)	4.3%
Share of losses of joint ventures	(26.6)	–	(26.6)	N/A
Operating profit	4,360.6	2,974.6	1,386.0	46.6%
Profit before taxation	4,360.6	2,974.6	1,386.0	46.6%
Income tax	(1,154.6)	(609.3)	(545.3)	89.5%
Net profit	3,206.0	2,365.3	840.7	35.5%
Net profit attributable to Equity shareholders of the Bank	3,163.8	2,414.6	749.2	31.0%
Non-controlling interests	42.2	(49.3)	91.5	(185.6%)

Note: (1) Other operating income includes government subsidies, rental income, net gains arising from disposal of property and equipment and others.



Chapter 5 Management Discussion and Analysis

3.1 Net interest income, net interest spread and net interest margin

For the year ended December 31, 2019, the Bank recorded net interest income of RMB15,610 million, representing an increase of RMB1,865 million or 13.6% as compared to last year. Particularly, a growth of net interest income of RMB4,035 million as compared to last year was attributable to the expansion of the Bank's business scale, and a decrease in net interest income of RMB2,170 million was attributable to the changes in yield or cost rate.

The following table sets forth the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income or expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost rate of these interest-bearing liabilities for the years ended December 31, 2018 and 2019.

	For the year ended December 31,					
	Average balance	2019 Interest income/expense	Average yield/cost ⁽¹⁾	Average balance	2018 Interest income/expense	Average yield/cost ⁽¹⁾
(in millions of RMB, except percentages)						
Interest-earning assets						
Loans and advances to customers	293,262.7	17,580.9	5.99%	222,781.7	13,746.7	6.17%
Investment securities and other financial assets ⁽²⁾	197,141.0	9,257.9	4.70%	186,371.6	9,905.7	5.32%
Finance lease receivables ⁽³⁾	4,870.3	364.4	7.48%	—	—	—
Deposits with the Central Bank	42,721.5	643.8	1.51%	46,195.0	690.0	1.49%
Deposits with banks and other financial institutions	15,390.2	218.8	1.42%	12,663.8	291.1	2.30%
Financial assets held under resale agreements	19,870.6	482.6	2.43%	13,478.3	392.8	2.91%
Placements with banks and other financial institutions	14,978.9	705.9	4.71%	4,718.4	215.2	4.56%
Total interest-earning assets	588,235.2	29,254.3	4.97%	486,208.8	25,241.5	5.19%
Interest-bearing liabilities						
Deposits from customers	381,939.7	7,354.7	1.93%	327,242.6	5,283.8	1.61%
Financial assets sold under repurchase agreements	31,048.1	920.7	2.97%	20,830.3	582.1	2.79%
Placements from banks and other financial institutions	14,496.2	724.0	4.99%	10,103.3	377.5	3.74%
Borrowings from the Central Bank	10,168.7	304.1	2.99%	4,693.7	135.4	2.88%
Deposits from banks and other financial institutions	43,670.7	1,278.9	2.93%	50,138.8	1,964.8	3.92%
Debt securities issued ⁽⁴⁾	84,360.4	3,062.3	3.63%	69,419.3	3,153.7	4.54%
Total interest-bearing liabilities	565,683.8	13,644.7	2.41%	482,428.0	11,497.3	2.38%
Net interest income		15,609.6			13,744.2	
Net interest spread⁽⁵⁾			2.56%			2.81%
Net interest margin⁽⁶⁾			2.65%			2.83%



Chapter 5 Management Discussion and Analysis

Notes:

- (1) Calculated by dividing interest income/expense by average balance.
- (2) The Bank has implemented New Accounting Standards for Financial Instruments since January 1, 2018, and such interest-earning assets consist of financial assets at amortized cost and financial assets at fair value through other comprehensive income.
- (3) The CBIRC gave its approval to the acquisition of 90% shares of AB Leasing Co., Ltd. (邦銀金融租賃股份有限公司) by the Bank in October 2019, and therefore AB Leasing Co., Ltd. became a non-wholly owned subsidiary of the Bank. The average balance of finance lease receivables represents the average daily balance during November and December.
- (4) Mainly consists of interbank deposits issued, financial bonds and tier-two capital bonds.
- (5) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, and based on daily average interest-earning assets and interest-bearing liabilities.
- (6) Calculated by dividing net interest income by the average balance of total interest-earning assets, and based on daily average interest-earning assets.

The following table sets forth the changes in the Bank's interest income and interest expense due to changes in volume and rate for the periods indicated. Changes in volume are measured by changes in the average balances of the Bank's interest-earning assets and interest-bearing liabilities and changes in rate are measured by changes in the average rates of the Bank's interest-earning assets and interest-bearing liabilities. Effects of changes caused by both volume and rate have been allocated to changes in interests.

For the year ended December 31, 2019 vs 2018			
Reasons for increase/(decrease)			
	Volume ⁽¹⁾	Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
(in millions of RMB)			
Interest-earning assets			
Loans and advances to customers	4,349.0	(514.8)	3,834.2
Investment securities and other financial assets	572.4	(1,220.2)	(647.8)
Finance lease receivables	364.4	—	364.4
Deposits with the Central Bank	(51.9)	5.7	(46.2)
Deposits with banks and other financial institutions	62.7	(135.0)	(72.3)
Financial assets held under resale agreements	186.3	(96.5)	89.8
Placements with banks and other financial institutions	468.0	22.7	490.7

Chapter 5 Management Discussion and Analysis

For the year ended December 31, 2019 vs 2018			
Reasons for increase/(decrease)			
	Volume ⁽¹⁾	Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
(in millions of RMB)			
Changes in interest income	5,950.9	(1,938.1)	4,012.8
Interest-bearing liabilities			
Deposits from customers	883.2	1,187.7	2,070.9
Financial assets sold under repurchase agreements	285.5	53.1	338.6
Placements from banks and other financial institutions	164.1	182.4	346.5
Borrowings from the Central Bank	157.9	10.8	168.7
Deposits from banks and other financial institutions	(253.5)	(432.4)	(685.9)
Debt securities issued	678.8	(770.2)	(91.4)
Changes in interest expense	1,916.0	231.4	2,147.4

Notes:

- (1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the previous year.
- (2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for the year.
- (3) Represents interest income/expense for the year minus interest income/expense for the previous year.

3.2 Interest Income

For the year ended December 31, 2019, the Bank's interest income increased by RMB4,013 million or 15.9% to RMB29,254 million as compared to the same period last year, primarily attributable to the increase in the volume of loans and advances to customers.

3.2.1 Interest income from loans and advances to customers

For the year ended December 31, 2019, the Bank's interest income from loans and advances to customers increased by RMB3,834 million or 27.9% to RMB17,581 million as compared to the same period last year, primarily attributable to the Bank's overall increase in the granting of loans as a result of the efforts in strengthening marketing promotion and promoting product innovation to continuously enhance support for the real economy. The average balance of loans increased from RMB222,782 million to RMB293,263 million.

Chapter 5 Management Discussion and Analysis

The following table sets out, for the periods indicated, the average balance, interest income and average yield for each component of the Bank's loans and advances to customers.

	For the year ended December 31,					
	Average balance	2019 interest income	Average yield	Average balance	2018 interest income	Average yield
<i>(in millions of RMB, except percentages)</i>						
Corporate loans	142,020.1	8,317.8	5.86%	122,944.9	7,590.4	6.17%
Discounted bills	26,767.4	1,020.0	3.81%	11,322.8	552.7	4.88%
Personal loans	124,475.2	8,243.1	6.62%	88,514.0	5,603.6	6.33%
Total	293,262.7	17,580.9	5.99%	222,781.7	13,746.7	6.17%

3.2.2 Interest income from investment securities and other financial assets

For the year ended December 31, 2019, the Bank's interest income from investment securities and other financial assets decreased by RMB648 million or 6.5% to RMB9,258 million as compared to the same period last year, primarily attributable to a decline in the average yield of investment securities and other financial assets by 0.62 percentage point. The decline in the average yield was mainly due to a lower yield of new investment securities and other financial assets as compared to that in the previous year as a result of market factors.

3.2.3 Interest income from finance lease receivables

For the year ended December 31, 2019, the Bank's interest income from finance lease receivables was RMB364 million, which mainly represented the income generated by the Bank's subsidiary AB Leasing Co., Ltd. from November to December.

3.2.4 Interest income from deposits with the Central Bank

For the year ended December 31, 2019, the Bank's interest income from deposits with the Central Bank decreased by RMB46 million or 6.7% to RMB644 million as compared to the same period last year, primarily attributable to the decrease in the average balance of deposits with the Central Bank. The decrease in the average balance of deposits with the Central Bank was primarily attributable to the Central Bank's frequent cuts in the reserve requirement ratio.



Chapter 5 Management Discussion and Analysis

3.2.5 Interest income from deposits with banks and other financial institutions

For the year ended December 31, 2019, the Bank's interest income from deposits with banks and other financial institutions decreased by RMB72 million to RMB219 million, primarily attributable to a decrease in the average yield of deposits with banks and other financial institutions. The decrease in the average yield of deposits with banks and other financial institutions was primarily due to the decrease in market interest rates.

3.2.6 Interest income from financial assets held under resale agreements

Interest Income from financial assets held under resale agreements increased by RMB90 million to RMB483 million for the year ended December 31, 2019 from RMB393 million for the year ended December 31, 2018, primarily because the average balance of financial assets held under resale agreements increased by RMB6,393 million to RMB19,871 million for the year ended December 31, 2019 from RMB13,478 million for the year ended December 31, 2018.

3.2.7 Interest income from placements with banks and other financial institutions

Interest income from placements with banks and other financial institutions increased by RMB491 million to RMB706 million for the year ended December 31, 2019 from RMB215 million for the year ended December 31, 2018, primarily because the average balance of placements with banks and other financial institutions increased by RMB10,261 million to RMB14,979 million for the year ended December 31, 2019 from RMB4,718 million for the year ended December 31, 2018.

3.3 Interest Expense

For the year ended December 31, 2019, the Bank's interest expense increased by RMB2,147 million or 18.7% to RMB13,645 million as compared to the same period last year, primarily attributable to the increase in the volume of deposits from customers and the average cost.



Chapter 5 Management Discussion and Analysis

3.3.1 Interest expense on deposits from customers

For the year ended December 31, 2019, the Bank's interest expense on deposits from customers increased by RMB2,071 million or 39.2% to RMB7,355 million as compared to the same period last year, primarily attributable to the increase in the average balance of deposits from customers of the Bank and the average cost. The increase in the average balance of deposits from customers of the Bank was primarily due to our efforts to develop our corporate banking and personal banking businesses, continue to diversify the application scenarios, expand the scope of customer acquisition and business linkage, enrich the product system, improve the service, widen the quality service channels and effectively drive the growth of deposits. The increase in the average cost of deposits from customers was primarily due to the increase in market interest rates driven by the effects of interest rate liberalization.

	For the year ended December 31,					
	Average balance	2019 interest expense	Average cost	Average balance	2018 interest expense	Average cost
(in millions of RMB, except percentages)						
Corporate deposits						
Demand	126,053.5	859.0	0.68%	124,775.7	779.7	0.62%
Time	78,655.2	1,952.5	2.48%	62,731.3	1,332.9	2.12%
Sub-total	204,708.7	2,811.5	1.37%	187,507.0	2,112.6	1.13%
Personal deposits						
Demand	40,932.2	200.7	0.49%	46,011.0	461.1	1.00%
Time	136,298.8	4,342.5	3.19%	93,724.6	2,710.1	2.89%
Sub-total	177,231.0	4,543.2	2.56%	139,735.6	3,171.2	2.27%
Total deposits from customers	381,939.7	7,354.7	1.93%	327,242.6	5,283.8	1.61%



Chapter 5 Management Discussion and Analysis

3.3.2 Interest expense on deposits from banks and other institutions

For the year ended December 31, 2019, the Bank's interest expense on deposits from banks and other financial institutions decreased by RMB686 million or 34.9% to RMB1,279 million as compared to the same period last year. The decrease in the interest expense on deposits from banks and other financial institutions was primarily attributable to the decrease in the average cost. The decrease in the average cost of deposits from banks and other financial institutions was primarily attributable to the decrease in market interest rates.

3.3.3 Interest expense on debt securities issued

For the year ended December 31, 2019, the Bank's interest expense on debt securities issued decreased by RMB91 million or 2.9% to RMB3,062 million as compared to the same period last year, primarily attributable to the lower interest rates of interbank deposits issued as compared to the previous year as a result of the decrease in market interest rates.

3.3.4 Net interest spread and net interest margin

The Bank's net interest spread decreased from 2.81% in last year to 2.56% in this year, while the Bank's net interest margin decreased from 2.83% for last year to 2.65% for the current year. The decreases in net interest spread and net interest margin were primarily attributable to (i) the increase in the average cost of deposits affected by the market competition and other factors; (ii) the notable decline in lending rates after the loan prime rate (LPR) reform; and (iii) the decrease in the average yield of investment securities and other financial assets as a result of the overall decline in market interest rates. The Bank will further focus on the regulatory orientation, adjust the asset/liability structure in a timely manner, strengthen the differentiated pricing management, effectively control the cost of liabilities and continue to improve asset returns.



Chapter 5 Management Discussion and Analysis

3.4 Non-interest income

3.4.1 Net fee and commission income

For the year ended December 31, 2019, the Bank's net fee and commission income increased by RMB585 million or 45.7% to RMB1,866 million as compared to the same period last year, primarily attributable to the Bank's continuous expansion of its intermediate businesses, service channel and the business volume based on its concept of serving the real economy and meeting the financial needs of consumers.

For the year ended December 31,				
	2019	2018	Change	Rate of change
(in millions of RMB, except percentages)				
Fee and commission income				
Bank card service fees	376.6	105.5	271.1	257.0%
Settlement and clearing service fees	385.4	205.5	179.9	87.5%
Agency service income	108.6	103.2	5.4	5.2%
Underwriting service income	299.7	205.7	94.0	45.7%
Acceptance and guarantee service fees	98.5	99.0	(0.5)	(0.5%)
Advisory and consulting fees	123.9	98.5	25.4	25.8%
Custodial service fees	449.0	421.8	27.2	6.4%
Wealth management business fees	366.0	240.2	125.8	52.4%
Sub-total	2,207.7	1,479.4	728.3	49.2%
Fee and commission expenses	(342.1)	(199.2)	(142.9)	71.7%
Net fee and commission income	1,865.6	1,280.2	585.4	45.7%

For the year ended December 31, 2019, the Bank realized bank card service fees income of RMB377 million, representing an increase of RMB271 million as compared to the same period last year, primarily because the Bank continued to develop its credit card business, leading to the rapid growth of the volume of card issuance, installment business and consumption transaction and driving the growth of related fee income.



Chapter 5 Management Discussion and Analysis

For the year ended December 31, 2019, the Bank realized settlement and clearing service fees of RMB385 million, representing an increase of RMB180 million as compared to the same period last year, primarily because the Bank accelerated the transformation of trading bank, continuously promoted product innovation and expanded service channels.

For the year ended December 31, 2019, the Bank realized wealth management business fees of RMB366 million, representing an increase of RMB126 million as compared to the same period last year, primarily attributable to the Bank's continued improvement of product systems and increase in the size of issuance of wealth management products.

For the year ended December 31, 2019, the Bank realized underwriting service income of RMB300 million, representing an increase of RMB94 million as compared to the same period last year, primarily because the Bank obtained qualification of B-Class lead underwriter and actively expanded underwriting business.

For the year ended December 31, 2019, the Bank realized agency service income of RMB109 million, representing an increase of RMB5 million as compared to the same period last year, primarily attributable to the Bank's continued development of agency business and expansion of service channel.

3.4.2 Net trading gains

For the year ended December 31, 2019, the Bank's net trading gains were RMB284 million, representing a decrease of RMB82 million as compared to the same period last year, primarily attributable to the decrease in profit or loss from changes in the fair value of security assets at fair value through profit or loss for the current period.

3.4.3 Net gains arising from investment securities

For the year ended December 31, 2019, the Bank's net gains arising from investment securities amounted to RMB1,112 million, representing a decrease of RMB192 million as compared to the same period last year, primarily attributable to the decrease in profit or loss from changes in the fair value of interbank investments at fair value through profit or loss for the current period.



Chapter 5 Management Discussion and Analysis

3.5 Operating expenses

For the year ended December 31, 2019, the Bank's operating expenses increased by RMB529 million or 7.6% to RMB7,486 million as compared to the same period last year, primarily attributable to the growths in staff costs, depreciation and amortisation caused by the Bank's active implementation of the strategy of "Internetization and Ruralization of Banking Services", accelerating the transformation to digital and technology-based bank and increasing strategic expenditures.

	For the year ended December 31,			
	2019	2018	Change	Rate of change
(in millions of RMB, except percentages)				
Staff costs				
Salaries, bonuses and allowances	3,055.1	2,736.7	318.4	11.6%
Staff welfare	299.2	241.7	57.5	23.8%
Social insurance and annuity	510.7	516.9	(6.2)	(1.2%)
Housing fund	191.5	159.9	31.6	19.8%
Employee education expenses and labor union expenses	108.8	94.2	14.6	15.5%
Others ⁽¹⁾	48.1	92.4	(44.3)	(47.9%)
Sub-total of staff costs	4,213.4	3,841.8	371.6	9.7%
Taxes and surcharges	171.7	144.3	27.4	19.0%
Depreciation and amortisation	1,136.0	845.3	290.7	34.4%
Other general and administrative expenses	1,965.2	2,126.1	(160.9)	(7.6%)
Total	7,486.3	6,957.5	528.8	7.6%

Note: (1) Primarily included expenses relating to dispatched staff.

For the year ended December 31, 2019, staff costs increased by RMB372 million or 9.7% to RMB4,213 million as compared to the same period last year, primarily attributable to the increase in salaries, bonuses and allowances as well as staff welfare as a result of the increase in the results of the Bank. Staff costs represented the largest component of the Bank's operating expenses, and accounted for 56.3% and 55.2% of the total operating expenses for the year ended December 31, 2019 and for the year ended December 31, 2018, respectively.

For the year ended December 31, 2019, depreciation and amortisation expenses increased by RMB291 million or 34.4% to RMB1,136 million as compared to the same period last year, primarily because (i) the Bank continued to increase investment in information technology and construction of e-channels, thereby upgrading technological empowerment; (ii) from January 1, 2019, the Bank implemented the new leasing criteria and depreciated the right-of-use assets.



Chapter 5 Management Discussion and Analysis

For the year ended December 31, 2019, tax and surcharges amounted to RMB172 million, representing an increase of RMB27 million or 19.0% as compared to the same period last year, which was primarily due to the increase in the Bank's operating income.

For the year ended December 31, 2019, other general and administrative expenses decreased by RMB161 million or 7.6% to RMB1,965 million as compared to the same period last year. Other general and administrative expenses primarily include interest expenses on lease liabilities, property management fees, office expenses, business marketing expenses and others.

3.6 Impairment losses

For the year ended December 31, 2019, the Bank's impairment losses increased by RMB297 million or 4.3% to RMB7,148 million as compared to the same period last year, primarily because the Bank continued to strengthen refined management of the financial asset, make more provisions for asset impairment according to the principal of prudent operation and responding to the market operating environment, in order to lay a solid foundation for provision and improve the initiative and prospective to offset risks.

	For the year ended December 31,			
	2019	2018	Change	Rate of change
	(in millions of RMB, except percentages)			
Loans and advances to customers	3,714.3	6,082.7	(2,368.4)	(38.9%)
Investment financial assets ⁽¹⁾	2,631.1	584.4	2,046.7	350.2%
Other assets ⁽²⁾	802.9	184.4	618.5	335.4%
Total impairment losses	7,148.3	6,851.5	296.8	4.3%

Notes:

- (1) From January 1, 2018, the Bank implemented the New Accounting Standards for Financial Instruments, the impairment losses include impairment losses on financial investments at amortized cost and financial investments at fair value through other comprehensive income.
- (2) From January 1, 2018, the Bank implemented the New Accounting Standards for Financial Instruments, the impairment losses mainly include impairment losses on deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, off-balance sheet credit asset, finance lease receivables, repossessed assets, fixed assets, interest receivables and other receivables.



Chapter 5 Management Discussion and Analysis

3.7 Income tax expense

For the year ended December 31, 2019, the Bank's income tax increased by RMB545 million to RMB1,155 million as compared to the same period last year, primarily attributable to the increase in the Bank's profit before taxation.

For the year ended December 31,				
	2019	2018	Change	Rate of change
(in millions of RMB, except percentages)				
Current income tax	1,267.0	1,631.8	(364.8)	(22.4%)
Deferred income tax	(112.4)	(1,022.5)	910.1	N/A
Total income tax expenses	1,154.6	609.3	545.3	89.5%

4. ANALYSIS ON KEY ITEMS OF ASSETS AND LIABILITIES

4.1 Assets

As of December 31, 2019, the Bank's total assets increased by RMB89,441 million or 14.4% to RMB709,885 million as compared to the end of last year. The principal components of the Bank's assets consist of (i) loans and advances to customers (net); and (ii) investment securities and other financial assets (net), representing 41.0% and 35.5% of the Bank's total assets as of December 31, 2019, respectively.

The following table sets forth the components of the Bank's total assets as of the dates indicated.

	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Gross loans and advances to customers	301,001.5	42.4%	255,865.7	41.2%
Allowance for impairment losses	(9,771.4)	(1.4%)	(9,314.0)	(1.5%)
Net Loans and advances to customers	291,230.1	41.0%	246,551.7	39.7%
Finance lease receivables	27,859.0	3.9%	–	–
Investment securities and other financial assets	252,067.8	35.5%	252,645.9	40.7%
Financial assets held under resale agreements	16,838.6	2.4%	16,345.2	2.6%



Chapter 5 Management Discussion and Analysis

	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Cash and deposits with Central Bank	72,118.6	10.2%	64,544.5	10.4%
Deposits with banks and other financial institutions	10,873.9	1.5%	15,863.5	2.6%
Placements with banks and other financial institutions	20,039.0	2.8%	10,032.0	1.6%
Derivative financial assets	15.1	0.0%	43.1	0.1%
Interest in joint venture	1,095.6	0.2%	—	—
Other assets ⁽¹⁾	17,747.3	2.5%	14,418.4	2.3%
Total assets	709,885.0	100.0%	620,444.3	100.0%

Note: (1) Primarily consist of properties and equipment, deferred income tax assets, goodwill and other assets.

4.1.1 Loans and advances to customers

As of December 31, 2019, the Bank's gross loans and advances to customers (excluding accrued interest) increased by RMB44,835 million or 17.6% to RMB299,205 million as compared to the end of last year. The Bank's loans and advances to customers consist of corporate loans, personal loans and discounted bills.

The following table sets forth the distribution of the Bank's loans by business line as of the dates indicated.

	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate loans	141,808.7	47.1%	130,280.9	50.9%
Personal loans	131,424.7	43.7%	105,170.5	41.1%
Discounted bills	25,971.3	8.6%	18,918.8	7.4%
Sub-total	299,204.7	99.4%	254,370.2	99.4%
Accrued interest	1,796.8	0.6%	1,495.5	0.6%
Total loans and advances to customers	301,001.5	100.0%	255,865.7	100.0%



Chapter 5 Management Discussion and Analysis

(1) Corporate loans

Corporate loans are the largest component of the Bank's loan portfolio. As of December 31, 2019, the Bank's corporate loans increased by RMB11,528 million or 8.8% to RMB141,809 million as compared to the end of last year, representing 47.4% of the Bank's gross loans to customers (excluding accrued interests), primarily attributable to the Bank's increased supports to real economy.

The following table sets forth a breakdown of the Bank's corporate loans by collateral as of the dates indicated.

	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Unsecured loans	10,551.0	7.4%	8,378.9	6.4%
Guaranteed loans	64,210.8	45.3%	65,886.7	50.6%
Collateralized loans	40,541.9	28.6%	36,577.1	28.1%
Pledged loans	26,505.0	18.7%	19,438.2	14.9%
Total corporate loans	141,808.7	100.0%	130,280.9	100.0%

(2) Personal loans

As of December 31, 2019, the Bank's personal loans increased by RMB26,254 million or 25.0% to RMB131,425 million as compared to the end of last year, primarily attributable to the Bank's increased support for growth of social consumption.

The following table sets forth a breakdown of the Bank's personal loans by product type as of the dates indicated.

	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Personal residential mortgage loans	69,705.2	53.0%	50,865.7	48.4%
Personal business loans	27,311.7	20.8%	20,905.9	19.9%
Personal consumption loans	25,209.9	19.2%	29,032.2	27.6%
Credit card loans	9,197.9	7.0%	4,366.7	4.1%
Total personal loans	131,424.7	100.0%	105,170.5	100.0%



Chapter 5 Management Discussion and Analysis

(3) Discounted bills

As of December 31, 2019, the Bank's discounted bills increased by RMB7,053 million or 37.3% to RMB25,971 million as compared to the end of last year, which was primarily due to the Bank's increased support for small and micro enterprise and continuously satisfying customers' demand for short-term financing.

4.1.2 Investment securities and other financial assets

As of December 31, 2019, the Bank's net investment securities and other financial assets decreased by RMB578 million or 0.2% to RMB252,068 million as compared to the end of last year, primarily attributable to a deduction in our investments in trust plans.

The following table sets forth the composition of the Bank's investment securities and other financial assets as of the dates indicated.

	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Financial investments at fair value through profit or loss	42,185.5	16.8%	43,869.3	17.2%
Financial investments at fair value through other comprehensive income	52,672.3	20.9%	43,150.3	16.9%
Financial investments at amortised cost	156,651.5	62.3%	167,598.5	65.9%
Total investment securities and other financial assets	251,509.3	100.0%	254,618.1	100.0%
Add: accrued interest	2,519.5		2,029.4	
Less: impairment loss	(1,961.0)		(4,001.6)	
Net investment securities and other financial assets	252,067.8		252,645.9	

The following table sets forth the distribution of the Bank's investment securities and other financial assets as of the dates indicated.



Chapter 5 Management Discussion and Analysis

	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Debt Securities				
Debt securities issued by PRC government	46,654.5	18.5%	28,620.0	11.3%
Debt securities issued by PRC policy banks and other financial institutions	70,441.7	27.9%	48,428.5	19.2%
Debt securities issued by PRC corporate issuers	13,391.8	5.3%	14,226.9	5.6%
Sub-total	130,488.0	51.7%	91,275.4	36.1%
Other financial assets				
Wealth management products issued by other PRC commercial banks	11,147.7	4.4%	28,455.1	11.3%
Asset management plans	8,283.7	3.3%	11,252.7	4.5%
Trust plans	56,859.1	22.6%	89,200.3	35.3%
Others	42,769.8	17.0%	30,433.0	12.0%
Sub-total	119,060.3	47.3%	159,341.1	63.1%
Accrued interest	2,519.5	1.0%	2,029.4	0.8%
Net investment securities and other financial assets	252,067.8	100.0%	252,645.9	100.0%

4.1.3 Other components of the Bank's assets

Other components of the Bank's assets consist primarily of (i) financial assets held under resale agreements; (ii) cash and deposits with the Central Bank; (iii) deposits with banks and other financial institutions; (iv) placements with banks and other financial institutions; (v) finance lease receivables; and (vi) other assets.

As of December 31, 2019, the financial assets held under resale agreements increased by RMB493 million or 3.0% to RMB16,839 million as compared to the end of last year, primarily attributable to the Bank's adjustment of the size of the financial assets held under resale agreements at the end of the Reporting Period after taking comprehensive consideration of market price and the allocation demand of assets and liabilities.

As of December 31, 2019, the total cash and deposits with the Central Bank increased by RMB7,574 million or 11.7% to RMB72,119 million as compared to the end of last year, primarily attributable to an increase in the Bank's liquidation reserve at the Central Bank as a result of increased deposits size and transaction amount at the end of the Reporting Period.



Chapter 5 Management Discussion and Analysis

As of December 31, 2019, the total deposits with banks and other financial institutions decreased by RMB4,990 million or 31.5% to RMB10,874 million as compared to the end of last year, primarily attributable to the Bank's adjustment of the size of the deposits with banks and other financial institutions at the end of the Reporting Period after taking comprehensive consideration of market price and the allocation demand of assets and liabilities.

As of December 31, 2019, the total placements with banks and other financial institutions increased by RMB10,007 million to RMB20,039 million from RMB10,032 million for the end of last year, primarily attributable to the Bank's adjustment of the size of the placements with banks and other financial institutions at the end of the Reporting Period after taking comprehensive consideration of market price and the allocation demand of assets and liabilities.

As of December 31, 2019, the balance of finance lease receivables increased by RMB27,859 million to RMB27,859 million as compared to the end of last year. The change in such asset was primarily attributable to the Bank's successful acquisition of 90% shareholding of AB Leasing Co., Ltd. in October 2019.

4.2 Liabilities

As of December 31, 2019, the Bank's total liabilities increased by RMB87,288 million or 15.5% to RMB652,054 million as compared to the end of last year.

	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Deposits from customers	389,731.5	59.8%	349,387.0	61.9%
Deposits from banks and other financial institutions	61,578.1	9.4%	60,802.0	10.8%
Debt securities issued	79,720.4	12.2%	93,277.6	16.5%
Financial assets sold under repurchase agreements	66,544.9	10.2%	33,527.9	5.9%
Placements from banks and other financial institutions	28,058.7	4.3%	12,729.2	2.3%
Borrowings from the Central Bank	16,644.8	2.6%	9,247.5	1.6%
Income tax payable	799.9	0.1%	1,054.8	0.2%
Derivative financial liabilities	295.7	0.0%	228.1	0.0%
Financial liabilities held for trading	20.4	0.0%	—	—
Other liabilities ⁽¹⁾	8,659.6	1.4%	4,512.4	0.8%
Total liabilities	652,054.0	100.0%	564,766.5	100.0%

Note:

- (1) Primarily consist of payment and collection clearance accounts, staff salaries payable, finance lease deposits payable, lease liabilities, other tax payable, dividends payable, provisions and other payables.

Chapter 5 Management Discussion and Analysis

4.2.1 Deposits from customers

As of December 31, 2019, the Bank's total deposits from customers (excluding accrued interest) increased by RMB38,857 million or 11.2% to RMB385,046 million as compared to the end of last year, primarily attributable to the Bank's continued efforts to promote product innovation and improve quality of financial services, which effectively derived an increase in deposits.

The following table sets forth the Bank's deposits from customers by product type and maturity profile of deposits as of the dates indicated.

	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate deposits				
Demand	134,913.0	34.6%	133,615.6	38.2%
Time	76,125.3	19.5%	64,865.7	18.6%
Sub-total	211,038.3	54.1%	198,481.3	56.8%
Personal deposits				
Demand	49,483.3	12.7%	40,614.6	11.6%
Time	124,523.9	32.0%	107,093.1	30.7%
Sub-total	174,007.2	44.7%	147,707.7	42.3%
Accrued interest	4,686.0	1.2%	3,198.0	0.9%
Total deposits from customers	389,731.5	100.0%	349,387.0	100.0%

4.2.2 Deposits from banks and other financial institutions

As of December 31, 2019, the Bank's balance of deposits from banks and other financial institutions increased by RMB776 million or 1.3% to RMB61,578 million as compared to the end of last year, primarily because the Bank adjusted the size of deposits from banks and other financial institutions according to market interest rates and allocation strategies of assets and liabilities.

4.2.3 Placements from banks and other financial institutions

As of December 31, 2019, the Bank's balance of placements from banks and other financial institutions increased by RMB15,330 million to RMB28,059 million from RMB12,729 million for the end of last year, primarily because the Bank adjusted the size of the placements from banks and other financial institutions according to market interest rates and the demand for liquidity management.



Chapter 5 Management Discussion and Analysis

4.2.4 Debt securities issued

As of December 31, 2019, the Bank's balance of debt securities issued decreased by RMB13,557 million or 14.5% to RMB79,720 million as compared to the end of last year, primarily because the Bank appropriately adjusted the issuance size of interbank deposits according to the market conditions and allocation strategies of assets and liabilities at the end of the Reporting Period.

4.2.5 Financial assets sold under repurchase agreements

As of December 31, 2019, the Bank's balance of financial assets sold under repurchase agreements increased by RMB33,017 million from RMB33,528 million as at the end of last year to RMB66,545 million, primarily due to the Bank's increased reverse repurchase business of the Central Bank.

4.3 Shareholders' Equity

As of December 31, 2019, the Bank's total shareholders' equity increased by RMB2,153 million or 3.9% to RMB57,831 million as compared to the end of last year; the total equity attributable to shareholders of the Bank increased by RMB1,887 million or 3.4% to RMB56,745 million as compared to the end of last year. The increase in shareholders' equity was primarily attributable to an increase in the profits of the Bank during the Reporting Period.

	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Share capital	20,075.0	34.7%	20,075.0	36.1%
Other equity instrument	9,632.8	16.7%	9,632.8	17.3%
Capital reserve	14,317.3	24.8%	14,310.0	25.7%
Surplus reserve	1,818.3	3.1%	1,500.6	2.7%
General reserve	8,934.9	15.5%	7,884.3	14.2%
Re-evaluation and impairment reserve	705.1	1.1%	671.4	1.1%
Retained earnings	1,261.3	2.2%	783.4	1.4%
Equity attributable to shareholders of the Bank	56,744.7	98.1%	54,857.5	98.5%
Non-controlling interests	1,086.3	1.9%	820.3	1.5%
Total shareholders' equity	57,831.0	100.0%	55,677.8	100.0%



Chapter 5 Management Discussion and Analysis

5. OFF-BALANCE SHEET COMMITMENTS

The following table sets forth the contractual amounts of the Bank's off-balance sheet credit commitments as of the dated indicated.

	As of December 31, 2019	As of December 31, 2018
(in millions of RMB)		
Credit commitments		
Loan commitments	20,392.3	9,342.7
Bank acceptance	45,126.6	36,986.9
Letters of credit	13,298.0	11,444.1
Letters of guarantees	3,983.3	2,903.0
Total	82,800.2	60,676.7

6. ANALYSIS ON LOAN QUALITY

In 2019, facing with complex economic and financial situation, the Bank advanced further adjustment to credit structure, strengthened credit risk management, optimized credit procedures and strengthened post-loan management measures to step up the efforts on collection and disposal of non-performing loans, so as to keep the loan quality at a generally manageable level. As of December 31, 2019, the balance of non-performing loans of the Bank amounted to RMB6,679 million, representing an increase of RMB472 million as compared with the end of last year. The non-performing loan ratio was 2.23%, representing a decrease of 0.21 percentage point as compared with the end of last year; the ratio of loan in special mention category was 3.51%, representing a decrease of 0.41 percentage point as compared with the end of last year.

6.1 Distribution of Loans by Five-Category Loan Classification

The following table sets forth, as of the dates indicated, the Bank's loans by its five-category loan classification. According to the five-category loan classification system, the Bank classified its non-performing loans into substandard, doubtful and loss categories.

	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Normal	282,015.0	94.25%	238,199.7	93.64%
Special mention	10,511.0	3.51%	9,963.7	3.92%
Substandard	2,873.2	0.96%	2,780.5	1.09%
Doubtful	2,604.5	0.88%	2,273.8	0.90%
Loss	1,201.0	0.40%	1,152.5	0.45%
Total loans and advances to customers	299,204.7	100.00%	254,370.2	100.00%
Non-performing loans and non-performing loan ratio ⁽²⁾	6,678.7	2.23%	6,206.8	2.44%



Chapter 5 Management Discussion and Analysis

Note: (1) The core definitions of credit asset classifications in “Loan Risk Classifications Guiding Principles” are as follows:

Normal:	The borrower can fulfil the contracts, and there is insufficient reason to suspect that the principal and interest of loans cannot be repaid in full on time.
Special mention:	The borrower has the ability to make current payments for the principal and interest, but there may be some issues that could have adverse impacts on the payments.
Substandard:	The borrower's repayment ability has been evidently impaired and the borrower's normal income cannot repay the loan principal plus interest in full. Even with execution of guarantees, there may be some loss.
Doubtful:	The borrower cannot repay the principal plus the interest in full. Even with the execution of guarantees, there will definitely be a significant loss.
Loss:	After taking all possible actions or following all necessary legal procedures, the outcome of recovery for principal and interest is likely to be little or no recovery.

(2) Non-performing loan ratio is calculated by dividing non-performing loans by total loans and advances to customers.

6.2 Distribution of Loans and Non-Performing Loans by Product Type

The following table sets forth, as of the dates indicated, the Bank's loans and non-performing loans by product types.

	As of December 31, 2019				As of December 31, 2018			
	Loan amount	% of total	NPL Amount	NPL ratio	Loan amount	% of total	NPL Amount	NPL ratio ⁽⁴⁾
(in millions of RMB, except percentages)								
Corporate loans								
Short-term loans ⁽¹⁾	85,292.7	28.5%	4,650.8	5.45%	84,790.6	33.3%	4,467.4	5.27%
Medium-to-long-term loans ⁽²⁾	56,516.0	18.9%	455.3	0.81%	45,490.3	17.9%	182.1	0.40%
Sub-total	141,808.7	47.4%	5,106.1	3.60%	130,280.9	51.2%	4,649.5	3.57%
Personal loans								
Personal residential mortgage loans	69,705.2	23.3%	64.9	0.09%	50,865.7	20.1%	39.3	0.08%
Personal consumption loans ⁽³⁾	25,209.9	8.4%	193.6	0.77%	29,032.2	11.4%	248.5	0.86%
Personal business loans	27,311.7	9.1%	770.5	2.82%	20,905.9	8.2%	790.8	3.78%
Others	9,197.9	3.1%	69.6	0.76%	4,366.7	1.7%	4.7	0.11%
Sub-total	131,424.7	43.9%	1,098.6	0.84%	105,170.5	41.4%	1,083.3	1.03%
Discounted bills	25,971.3	8.7%	474.0	1.83%	18,918.8	7.4%	474.0	2.51%
Total	299,204.7	100.0%	6,678.7	2.23%	254,370.2	100.0%	6,206.8	2.44%

Chapter 5 Management Discussion and Analysis

Notes:

- (1) Short-term loans include loans with maturity of one year or less and advances.
- (2) Medium-to-long-term loans include loans with maturity of more than one year.
- (3) NPL ratio is calculated by dividing non-performing loans in each product type by gross loans in that product type.

As of December 31, 2019, the corporate non-performing loans of the Bank amounted to RMB5,106 million, representing an increase of RMB457 million as compared with the end of last year. The non-performing loan ratio was 3.60%, representing an increase of 0.03 percentage point as compared with the end of last year. The increase in corporate non-performing loans of the Bank was primarily due to the fact that the Bank actively adopted more prudent five-category loan classification system in 2019, by which the parent bank classified all loans overdue or with interest overdue more than 60 days as non-performing loans. In addition, the repayment abilities of certain customers were deteriorated greatly by the operation difficulties as a result of overall economic downside.

The personal non-performing loans of the Bank amounted to RMB1,099 million, representing an increase of RMB15 million as compared with the end of last year. The non-performing loan ratio was 0.84%, representing a decrease of 0.19 percentage point as compared with the end of last year. Such decrease was mainly because: 1. the Bank actively adopted more prudent five-category loan classification system, by which the parent bank classified all loans overdue or with interest overdue more than 60 days as non-performing loans, while continuously increasing efforts to reduce non-performing loans and proactively reducing personal non-performing loans; 2. the Bank successfully launched personal loans-based big data risk control model, thereby diversifying its online products and efficiently improving its digitalized risk control ability; 3. the Bank proactively responded to national policies by reinforcing credit structure adjustment and further developing personal credit business, and as of December 31, 2019, the personal loans amounted to RMB131,425 million, representing an increase of RMB26,254 million or 24.96% as compared with the end of last year. The percentage of personal loans increased by 2.5 percentage points as compared with the previous year.



Chapter 5 Management Discussion and Analysis

6.3 Distribution of Loans and Non-Performing Loans by Industry

The following table sets forth, as of the dates indicated, the Bank's loans and non-performing loans by industry.

	As of December 31, 2019				As of December 31, 2018			
	Loan amount	% of total	NPL Amount	NPL ratio	Loan amount	% of total	NPL Amount	NPL ratio
(in millions of RMB, except percentages)								
Leasing and business services	33,808.0	11.3%	92.6	0.27%	25,941.0	10.2%	126.3	0.49%
Manufacturing	26,562.4	8.9%	2,137.5	8.05%	29,135.1	11.5%	2,192.8	7.53%
Real estate	20,485.4	6.8%	412.0	2.01%	16,958.8	6.7%	427.7	2.52%
Wholesale and retail	16,748.1	5.6%	1,437.0	8.58%	18,001.4	7.1%	1,099.2	6.11%
Construction	11,638.6	3.9%	147.8	1.27%	9,885.3	3.9%	229.6	2.32%
Water, environment and public facilities management	7,672.3	2.6%	55.4	0.72%	7,473.6	2.9%	5.5	0.07%
Electricity, gas and water production and supply	4,537.7	1.5%	53.7	1.18%	4,367.6	1.7%	60.7	1.39%
Agriculture, forestry, animal husbandry and fishery	3,765.1	1.3%	489.4	13.00%	4,103.7	1.6%	240.7	5.87%
Health, social security and social welfare	3,570.9	1.2%	—	0.00%	2,477.7	1.0%	—	0.00%
Education	3,186.4	1.1%	15.5	0.49%	2,920.5	1.1%	12.9	0.44%
Accommodation and catering	3,081.2	1.0%	65.5	2.13%	3,271.3	1.3%	110.3	3.37%
Transportation, storage and postal services	2,602.9	0.9%	112.2	4.31%	2,122.3	0.8%	116.3	5.48%
Mining	2,178.5	0.7%	43.8	2.01%	2,157.8	0.9%	15.8	0.73%
Others	1,971.2	0.6%	43.7	2.22%	1,464.8	0.5%	11.7	0.80%
Total corporate loans	141,808.7	47.4%	5,106.1	3.60%	130,280.9	51.2%	4,649.5	3.57%
Total personal loans	131,424.7	43.9%	1,098.6	0.84%	105,170.5	41.4%	1,083.3	1.03%
Discounted bills	25,971.3	8.7%	474.0	1.83%	18,918.8	7.4%	474.0	2.51%
Total	299,204.7	100.0%	6,678.7	2.23%	254,370.2	100.0%	6,206.8	2.44%

Note: Non-performing loan ratio of an industry is calculated by dividing non-performing loans in the industry by gross loans granted to the industry.



Chapter 5 Management Discussion and Analysis

As of December 31, 2019, the non-performing corporate loans of the Bank mainly concentrated in the manufacturing industry, wholesale and retail industry and agriculture, forestry, animal husbandry and fishery industry, with non-performing loan ratio of 8.05%, 8.58% and 13.00%, respectively, of which:

1. the non-performing loans in the manufacturing industry decreased by RMB55 million as compared with the end of last year, with an increase of 0.52 percentage point in non-performing loan ratio, which was mainly attributable to the fact that the Bank actively adopted more prudent five-category loan classification system in 2019 and enterprise customers in manufacturing industry had a low profitability and a weakened repayment ability as a result of production and operation difficulties in the traditional manufacturing industry after being affected by the continuous economic downturn and relatively extensive operation models.
2. the non-performing loans in the wholesale and retail industry increased by RMB338 million as compared with the end of last year, with an increase of 2.47 percentage points in non-performing loan ratio, which was mainly attributable to the fact that the Bank actively adopted more prudent five-category loan classification system in 2019, as well as the effect of prolonged trade receivables cycle and slowdown of recollection on the capital turnover, and worsen operating conditions in the wholesale and retail industry after being significantly affected by the slowdown of the PRC economy development.
3. the non-performing loans in the agriculture, forestry, animal husbandry and fishery industry increased by RMB249 million as compared with the end of last year, with an increase of 7.13 percentage points in non-performing loan ratio, which was mainly attributable to the fact that the Bank actively adopted more prudent five-category loan classification system in 2019, as well as a weakened repayment capacity in the agriculture, forestry, animal husbandry and fishery industry as a result of production and operation difficulties in the industry after being affected by the macro-economic situation.



Chapter 5 Management Discussion and Analysis

6.4 Distribution of Loans and Non-Performing Loans by Collateral

The following table sets forth, as of the dates indicated, the Bank's loans and non-performing loans by collateral.

	As of December 31, 2019				As of December 31, 2018			
	Loan amount	% of total	NPL Amount	NPL ratio	Loan amount	% of total	NPL Amount	NPL ratio
(in millions of RMB, except percentages)								
Unsecured loans	22,520.3	7.5%	88.3	0.39%	22,309.8	8.7%	158.0	0.71%
Guaranteed loans	74,808.3	25.0%	3,189.8	4.26%	81,392.5	32.0%	3,177.0	3.90%
Collateralised loans	151,601.1	50.7%	2,646.0	1.75%	115,649.2	45.5%	2,348.5	2.03%
Pledged loans	50,275.0	16.8%	754.6	1.50%	35,018.7	13.8%	523.3	1.49%
Total	299,204.7	100.0%	6,678.7	2.23%	254,370.2	100.0%	6,206.8	2.44%

Note: NPL ratio by collateral is calculated by dividing non-performing loans in each product type secured by each type of collateral by gross loans in that type of collateral.

As of December 31, 2019, the balance of our guaranteed non-performing loans increased by RMB13 million from the end of last year, representing an increase in non-performing loan ratio of 0.36 percentage point, primarily because: 1. the Bank actively adopted more prudent five-category loan classification system in 2019; 2. borrowers of the Bank's guaranteed loans are mostly small and medium enterprises which are vulnerable to risks under current economic situations, the decline in their operations resulted in the decrease in contractual performance ability; 3. the limited guarantee capacity of the guarantors and their failure to repay loans on time resulted in the increase in the amount and ratio of our guaranteed non-performing loans.

As of December 31, 2019, the balance of our collateralised non-performing loans increased by RMB298 million from the end of last year, representing a decrease in non-performing loan ratio of 0.28 percentage point, primarily because while adopting more prudent five-category loan classification system, the Bank made efforts to further increase the written-off of non-performing assets, through cash collection, verification, restructuring and other means to resolve non-performing loans, the results have been remarkable.



Chapter 5 Management Discussion and Analysis

6.5 Borrowers Concentration

As of December 31, 2019, the balance of loans to any single borrower of the Bank did not exceed 10% of the Bank's net capital.

The following table sets forth, as of the end of 2019, the loan balance of the top ten single borrowers (excluding group borrowers) of the Bank, without any non-performing loans.

		As of December 31, 2019		
		Balance	% of	% of
			total loans	net capital
Industry				
(in millions of RMB, except percentages)				
Borrower A	Manufacturing	2,933.2	1.0%	4.2%
Borrower B	Leasing and commercial services	1,795.8	0.6%	2.6%
Borrower C	Real estate	1,300.0	0.4%	1.9%
Borrower D	Accommodation and catering	1,181.5	0.4%	1.7%
Borrower E	Real estate	998.9	0.3%	1.4%
Borrower F	Leasing and commercial services	893.0	0.3%	1.3%
Borrower G	Leasing and commercial services	885.0	0.3%	1.3%
Borrower H	Leasing and commercial services	800.0	0.3%	1.1%
Borrower I	Leasing and commercial services	787.5	0.3%	1.1%
Borrower J	Real estate	772.0	0.3%	1.1%
Total		12,346.9	4.2%	17.7%

As of December 31, 2019, the loan balance of the largest single borrower of the Bank was RMB2,933 million, accounting for 1.0% of the total amount of loans of the Bank, and the total amount of loans to the top ten single borrowers was RMB12,347 million, accounting for 4.2% of the total amount of loans of the Bank.



Chapter 5 Management Discussion and Analysis

6.6 Overdue loans

The following table sets forth, as of the dates indicated, the distribution of the Bank's loans to customers by maturity.

	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Current loans	289,262.4	96.68%	243,455.4	95.71%
Overdue loans				
Up to 3 months	4,134.3	1.38%	4,798.9	1.89%
Over 3 months up to 1 year	2,841.3	0.95%	2,702.5	1.06%
Over 1 years up to 3 years	2,047.6	0.68%	2,628.9	1.03%
Over 3 years	919.1	0.31%	784.5	0.31%
Sub-total	9,942.3	3.32%	10,914.8	4.29%
Total loans	299,204.7	100.00%	254,370.2	100.00%

Note: Overdue loans represent the principal amount of the loans on which principal or interest is overdue.

As of December 31, 2019, the amount of overdue loans totaled RMB9,942 million, representing a decrease of RMB973 million as compared with the end of last year. Overdue loans accounted for 3.32% of the total loans, representing a decrease of 0.97 percentage point as compared with the end of last year.

7. BUSINESS OPERATION SEGMENT REPORT

The table below sets forth the Bank's total operating income by business segments for the periods as indicated.

	For the year ended December 31, 2019		For the year ended December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate banking business	10,298.6	54.1%	9,733.1	58.0%
Retail banking business	6,339.4	33.3%	5,027.0	30.0%
Financial markets business	2,282.7	12.0%	1,937.4	11.5%
Other businesses	101.1	0.6%	86.1	0.5%
Total operating income	19,021.8	100.0%	16,783.6	100.0%



Chapter 5 Management Discussion and Analysis

8. ANALYSIS ON CAPITAL ADEQUACY RATIO

The Bank continued to optimize its business structure and strengthen its capital management. As of December 31, 2019, the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio of the Bank were 13.02%, 10.31% and 8.51% respectively, representing a decrease of 1.35 percentage points, 1.18 percentage points and 0.93 percentage point respectively, as compared to the numbers at the end of the last year, which fulfilled the requirements provided in the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by CBIRC. The changes in capital adequacy ratio were mainly due to an increase in the risk-weighted assets resulting from the business development of the Bank.

In accordance with the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by CBIRC, the capital adequacy ratio of the Bank was calculated as follows:

	As of December 31, 2019	As of December 31, 2018
	(in millions of RMB, except percentages)	
Share capital	20,075.0	20,075.0
Valid portion of capital reserve	14,657.9	14,605.8
Surplus reserve	1,818.3	1,500.6
General reserve	8,934.9	7,884.3
Retained earnings	1,261.3	783.4
Valid portion of minority interests	523.1	373.3
Total Core tier-one capital	47,270.5	45,222.4
Core tier-one capital deductions	(1,444.8)	(709.2)
Net core tier-one capital	45,825.7	44,513.2
Other tier-one capital	9,702.5	9,682.6
Net tier-one capital	55,528.2	54,195.8
Net tier-two capital	14,592.1	13,581.9
Net capital base	70,120.3	67,777.7
Total risk-weighted assets	538,420.8	471,779.0
Core tier-one capital adequacy ratio	8.51%	9.44%
Tier-one capital adequacy ratio	10.31%	11.49%
Capital adequacy ratio	13.02%	14.37%



Chapter 5 Management Discussion and Analysis

9. BUSINESS REVIEW

9.1 Corporate Banking Business

Under the guidance of the “Three Major Strategies”, with its proactive implementation of Internetization and Ruralization of Banking Services” and “Digital Transformation” and its adherence to the principle of serving real economy as a financial institution, the Bank has promoted the development of inclusive finance by supporting private small and micro enterprises. By laying equal emphasis to strengthening business foundation and innovative transformation, the Bank united as one, and seized opportunities to work hard to maintain healthy, rapid, and high-quality development of its business.

9.1.1 Corporate deposits

The Bank focused on building an endogenous growth mechanism for corporate deposits and optimizing the business structure of corporate deposits. The Bank provided corporate customers with cash management, active debt and other products, seized opportunities presented by the introduction of local debt policy and capital commitments, continuously deepened bank-government-enterprise cooperation, strengthened the building of basic customer base, optimized basic settlement services, and continuously improved the competitiveness of the corporate deposit business.

As of December 31, 2019, the Bank’s corporate deposit balance was RMB211,038 million, with an increase of RMB12,557 million as compared to the beginning of the year. The corporate deposits grew by 6.33% in terms of time-point increment, ranking 2nd among Henan in terms of new market share. Daily average balance of the corporate deposit of the Bank was RMB204,709 million, with an increase of RMB17,202 million or 9.17% as compared to the beginning of the year.

9.1.2 Corporate loans

The Bank regarded serving the local economy and society as its foundation, adapted to the economic transformation and upgrading, seized the market opportunity in high-quality assets, and improved quality and efficiency to dig into key industries, create unique solutions, and explore the construction of the industry ecosystem. The Bank once served its customers through managing traditional assets, now it has transformed to create value, meet customer needs, improve comprehensive contribution, and improve comprehensive financing service capabilities, in which we have achieved good market performance.



Chapter 5 Management Discussion and Analysis

The Bank has done a good job in moving forward the strategy of regional financial services, signed strategic cooperation agreements with multiple units, and designed comprehensive financial service solutions based on the resource advantages of both parties to deepen business cooperation and exchanges. During the Reporting Period, there were 293 major projects (an increase of risk exposure of more than RMB50 million) with a total amount of RMB53.3 billion.

As of December 31, 2019, the Bank's corporate loan balance was RMB141,809 million, with an increase of RMB11,528 million or 8.85% as compared to the beginning of the year.

9.1.3 Corporate customers

Based on the actual economic development of Henan Province, the Bank stayed true to the founding purpose of financial institutions to serve the real economy and promoted the adjustment of industrial structure and financial supply-side reform, adhered to being customer-oriented, focused on the in-depth operation of customers, adopted customized service models and business strategies for different customer groups, and carried out category-based operations and classified policies targeting at strategic customers, institutional customers, and small and micro enterprise customers, to innovate customer service models, improve customer service capabilities, explore diversified business paths, and promote the Company's business transformation and development. As of December 31, 2019, the number of corporate customers across the Bank reached 205,000 (including interbank customers), an increase of 12,000 from the beginning of the year.

9.1.3.1 Strategic customers

The Bank actively implemented layered operations for corporate customers, transformed the strategic customer business strategy, and realized the transition of strategic customers being served from serving themselves on their own. Through chain operations for strategic customers, dynamic circulation of group customer quotas, asset replacement circulation, and combination and matching, the Bank enhanced financial services, realized a transformation from extensive management of strategic customers to refined management, and increased the market share and comprehensive contribution of strategic customers. As of December 31, 2019, the Bank's head office-level strategic customer coverage was 83%. The balance of credit assets accounted for 29.3% of the total assets, representing an increase of 0.35% from the beginning of the year, of which, the strategic customers' daily average corporate deposit increased by RMB7,200 million or 36.22% as compared with the beginning of the year.



Chapter 5 Management Discussion and Analysis

9.1.3.2 Institutional customers

The Bank proactively expanded its institutional business coverage to foster new growth points of the business, and paid more attention to the policy trend to seize business opportunities in key segments of the institutions, sped up its building of the online system, to improve the vertical service capabilities for institutional customers. As of December 31, 2019, the daily average balance of institutional deposits of the Bank was RMB127,770 million, representing an increase of RMB12,864 million as compared to the beginning of the year. The number of institutional business agency qualification increased by 342 as compared with the beginning of the year.

9.1.3.3 Small and micro customers

The Bank has always adhered to the market positioning of “being close to the public, serving small and micro customers, supporting agriculture, rural areas and farmers, and promoting regional economic development”, fully expanded the financing channels for private enterprises and small and micro enterprises by building mechanism, creating products, getting through channels; adhering to “technology-based banking” strategy, the Bank has further innovated financial service models, strengthened the integration of finance with “Internet +” and utilized big data tools to develop more ways to attract customers, and made full use of online channels to provide private small and micro enterprises with efficient and convenient financial services.

As of December 31, 2019, the Bank served more than 38,000 small and micro enterprises. The small and micro customers of the Bank increased to 36,000, representing an increase of 8,000 as compared with 2018. The balance of the Bank’s small and micro loans increased to RMB42,028 million, representing an increase of RMB7,667 million as compared with 2018.

9.1.4 Bank’s products

During the Reporting Period, the Bank comprehensively reviewed the Company’s product structure, innovated product strategies, optimized product functions, gradually formed a comprehensive product structure and improved service capabilities to enhance customer experience and satisfaction.



Chapter 5 Management Discussion and Analysis

In terms of debt products, the Bank responded to customer needs efficiently, launching services, such as allotment of certificates of deposit of large units and monthly payment of interest, in order to improve the market competitiveness of products. In terms of customer settlement services and liquidity management, the Bank complied with the requirements of the self-regulatory mechanism for interest rate pricing, continuously optimized our cash management products, strengthened the use of our product portfolio, and provided customers with settlement convenience.

In terms of investment banking products, the Bank actively expanded innovative business products such as underwriting debt financing instruments of non-financial enterprises, asset securitization, overseas financing and financial advisory for listing in Hong Kong.

In terms of transaction banking products, the Bank leveraged financial technology and focused on digital transformation to vigorously develop transaction banking businesses such as cash management, domestic financing, international financing and electronic channels, formed “ZY Bank e(原銀e)” series of product brands, achieved upgrade from bill pool to asset pool, and continuously improved the transaction banking product system.

With regard to the comprehensive use of products, the Bank strengthened solution marketing, served customer needs through multiple channels, and enhanced the industry’s financial solution service capabilities. It held the Bank’s first comprehensive financial service solution competition and product knowledge competition called “ZY Cup(原銀盃)”, tailored for more than 100 provincial key state-owned enterprises, listed companies, central SOE subsidiaries, industry leaders, hospitals, and schools comprehensive financial solutions based on the key words of “team + relation + solution + product + online service”, and set up promotion teams to be responsible for the implementation of subsequent plans.

While the product system continued to be enriched, the Bank, guided by its strategy of building a “data bank and tech bank”, has carried out digital transformation to accelerate the onlineization and scenarioization of the Company’s products and services, and continue to enhance the competitiveness of the Company’s products.



Chapter 5 Management Discussion and Analysis

9.1.5 Investment banking

During the Reporting Period, the Bank exerted lots of efforts in promoting its transformation from traditional investment banks to investment banks with integrated service on the basis of the stable development of investment banking services such as structural financing, equity financing, and financial advisory, continued to enrich investment banking business products, expanded innovative business products, and has achieved new breakthrough in certain areas. On February 22, 2019, the Bank obtained the qualification of a Type B lead underwriter for non-financial corporate debt financing instruments of the China Interbank Market Dealers Association. As of December 31, 2019, the accumulated scale of debt financing instruments reported to the Association reached RMB18.9 billion, and 10 debt financing instruments were successfully issued, with a total amount of RMB8 billion. We are the first of the 12 new Type B lead underwriters to achieve the success of offering Association's products and taking the lead in completing the issuance of 10 instruments. The Bank also put on record of Beijing Financial Assets Exchange an accumulative amount of RMB11 billion of debt financing plans, and now it has successfully issued an amount of RMB3.55 billion.

The Bank actively revitalized the resources of its peers, established a cooperation circle with other banking, insurance, trust, and leasing financial institutions, and provided comprehensive and multi-channel integration financial services for large and medium-sized customers within the province through syndicated loans, joint investment, and fund matching. The Bank made full use of the advantages of innovative equity financing products to build bridges for the capital market; actively expanded the asset securitization business to provide comprehensive services including Pre-ABS investment, scheme design, and underwriting and issuance for leading enterprises inside and outside the province to meet their personalized financing needs of high-quality enterprises; continued to promote the construction of cross-border investment and financing cooperation platforms, vigorously advanced overseas financing and financial advisory services of listing in Hong Kong and cross-border M&A advisory financing services, and continued to explore innovative business models and service models.



Chapter 5 Management Discussion and Analysis

9.1.6 Transaction banking

The Bank's transaction banking business sticks to its "Future Bank" layout. During the Reporting Period, it established a transaction banking department and a transaction banking direct operation center, aiming at the implementation of innovative transaction banking business projects, focusing on specialty industries, and extending its service to upstream and downstream customers in the supply chain. Under the business logic of "active marketing driving fast product development", the construction of the industry's innovative online trading platform has achieved remarkable results. As of December 31, 2019, projects such as the modern logistics financial service platform have been successfully implemented, and have penetrated into industry transactions. Using technology risk control methods, we have served small, medium and micro customers on the industry chain to promote inclusive finance and drive the real economy. The Bank initiated the establishment of the Zhongyuan Supply Chain Cooperation and Development Alliance on June 11, 2019, and won the Best Transaction Banking Service Award in the 8th Golden Trade Awards for the most reliable financial service provider of Chinese economic and trade enterprises.

9.1.6.1 Cash management

Through independent research and development and product innovation, the Bank has established a relatively complete cash management product system, which can provide standardized and personalized cash management service solutions for enterprises, governments and public institutions. As of December 31, 2019, there were 9,600 cash management accounts, representing an increase of 281.05% as compared with the beginning of the year; the daily average balance of RMB-denominated deposits was RMB51,000 million, representing an increase of 45.37% as compared with the end of last year. Zhongyuan Bank has become a major cooperative bank for more customers in light of its comprehensive and all-around product system and service capabilities in cash management.



Chapter 5 Management Discussion and Analysis

9.1.6.2 Corporate electronic channels

The Bank constantly innovated the application scenarios of corporate electronic channels. With online corporate service, agile product construction and excellent customer experience as well as creating the best omni-channel service ecosystem as the vision, the Bank has always been committed to build its product systems to achieve rapid response to customer needs through accelerating product development with agile iteration. As of December 31, 2019, the aggregated number of the Bank's corporate online banking customers was 129,300, representing an increase of 16,700 customers as compared to the beginning of the year. The accumulated transaction amount was RMB2,253.3 billion, and the total transaction volume increased by 9,260,500 transactions as compared to the beginning of the year, accounting for 94.02% of the total number of transactions conducted by corporate banking customers during the same period.

9.1.6.3 Supply chain financing and trade financing

The Bank insisted on the customer-centric principle and actively promoted the online, digital and scenario-based development of supply chain finance business. In terms of product construction, the Bank adhered to the scientific philosophy of promoting development in an agile manner and striving for excellence, kept improving and committed to providing customized, professional and online supply chain finance services to customers in different industries and fields in the process of building an industrial financial ecosystem. The original bills pool was upgraded to an asset pool, extending to deposits, structured deposits, certificates of deposit, commercial bills and receivables, which further enhanced the product systems of the Bank. During the Reporting Period, the accumulated financing amount of the Bank's transaction banking business amounted to RMB124.950 billion, representing an increase of RMB8.1 billion in the daily average pledged deposits. The Bank ranked No.1 in the industry of Henan in terms of credit balance and was awarded "2019 China Supply Chain Financing Services Excellent Prize (2019年中國供應鏈金融卓越服務獎)".

9.1.6.4 Cross-border finance

The Bank made efforts to acquire relevant business qualifications, comprehensively promoted system construction and carried out business research. It successfully obtained the qualification for cooperating with forward foreign exchange settlement and sales business, and realized business landing; comprehensively launched a cross-border RMB two-way capital pool; and realized major business of capital projects full type coverage.



Chapter 5 Management Discussion and Analysis

As of December 31, 2019, the international settlement of international business of the transaction bank reached US \$4.76 billion, and international financing amounted to RMB13.55 billion; the Bank issued approximately US \$1.2 billion of letter credit for importation, with a year-on-year increase of 53%; the development of cross-border RMB business settlement achieved an amount of RMB1.6 billion, ranking fifth among its peers in the province.

9.2 Retail Banking Business

During the Reporting Period, the Bank's retail business implemented thoroughly the Bank's "Three Major Strategies", "Internetization and Ruralization of Banking Services" and "Three Focuses, One Persistence" and "Five Major Points", continuously strengthened and implemented customer-centered business philosophy, always taking digital transformation and technological innovation as the driving force, focused on process management, paid close attention to market orientation, continuously enriched and improved product systems with market competitiveness and characteristics, further promoted customer operations, strengthened the ability to attract large group of customers, and built "finance + scenario" ecosystem. Through all these measures, it has promoted the rapid and balanced development of customers, benefits, quality, and business scale, improved the digitalization, intelligence, and onlineization of the retail business of the Bank, and continuously cultivated the endogenous driving force for the development of retail business, with sound performance indicators in all dimensions.

9.2.1 Retail Deposits

During the Reporting Period, guided by digital transformation, the Bank has further facilitated the transformation of its retail business to render it more agile, data-based and online-oriented. Guided by the concept of customer operation, the Bank highlighted the role of big data utilization in improving customer operations. Meanwhile, it kept an eye on market hotspots, created products suiting for customer needs, focused on and built four high-frequency life scenarios, so as to take use of Internet thinking and the construction of the ecological circle, highlight bulk customer attraction and online customer attraction.

As of December 31, 2019, the time point balance of savings deposits was RMB174,007 million, representing an increase of RMB26,300 million or 17.81% as compared to the end of last year. The daily average balance of savings deposits was RMB177,231 million, representing an increase of RMB37,495 million or 26.83% as compared to the end of last year. The balance of asset under management was RMB225,576 million, representing an increase of RMB42,485 million or 23.20% as compared with the end of last year.



Chapter 5 Management Discussion and Analysis

9.2.2 Retail Loans

During the Reporting Period, the Bank took various measures simultaneously: while actively increasing loans, it continuously enriched its product system, accelerated product upgrading, focused on building hot products, accelerated the digital upgrade of perpetual loan products, and launched a product which would extend credit line automatically—"Yuan e Hua (原e花)", "e-loan e-card (e貸e卡)" and "granting loans with one certificate (一證貸)", while continuously improving the intelligence level of risk control, optimizing the risk control model, and supporting business development.

As of December 31, 2019, the time point balance of the personal loans was RMB131,425 million, representing an increase of RMB26,254 million or 24.96% as compared to the end of last year; the daily average balance of personal loans was RMB124,475 million, representing an increase of RMB35,961 million or 40.63% as compared to the end of last year.

9.2.3 Personal customers

As of December 31, 2019, the Bank's customers reached 14,946,200 in total, representing an increase of 2,566,200 or 20.73% as compared with the end of last year, of which 4,447,700 were active customers, representing an increase of 1,750,000 or 64.87% as compared with the end of last year.

9.2.3.1 Mass customers

As of December 31, 2019, the number of mass customers was 2,981,400, representing an increase of 479,800 over the previous year; the size of assets under management (including savings) was RMB163,220 million, representing an increase of RMB27,640 million over the previous year; the amount of savings deposits was RMB126,715 million, representing an increase of RMB17,595 million over the previous year.



Chapter 5 Management Discussion and Analysis

9.2.3.2 Wealth management & private banking customer groups

As of December 31, 2019, the number of wealth management & private banking customers was 25,300, representing an increase of 5,800 over the previous year; the amount of assets (including savings) was RMB59,337 million, representing an increase of RMB12,089 million over the previous year, of which the savings deposits of wealth management & private banking customers increased by RMB6,468 million. The number of customers with a balance exceeding RMB3 million was 4,000, representing an increase of 663, or 19.87% over the previous year. The balance of off-balance sheet assets was RMB22,664 million, representing an increase of RMB16,198 million or 250.51% over the previous year; the sales of trust amounted to RMB3,016 million.

9.2.4 Scenario Development and Operation

During the Reporting Period, the Bank focused on and built four high-frequency life scenarios and achieved significant results in this regard.

In terms of Zhongyuan Foodie Map, it has strengthened its integration with business districts and chain stores to continuously improve the platform's ability to attract customers. As of December 31, 2019, the platform has accumulated 47,600 registered merchants, with a total of 41,600 new merchants in 2019; the cumulative transaction value of the platform was RMB1,019 million, with RMB801 million happened in 2019, of which the amount of new online transactions was RMB8.2268 million, the new offline transaction was RMB793 million, and the total number of users was 324,700.

In terms of serving small and micro merchants, focused on the entire process of merchant operation services, the small and micro customer ecosystem products “Zhongyuan Jushang”, “Zhongyuan Juhui” and “Small and Micro Merchant Banks Back-Management Platform” have been launched to the market. As of December 31, 2019, the number of registered merchants was 209,000, of which 189,000 were retail customers, 98,000 were valid customers, and the effective rate was 51.85%. Deposits from these merchants were RMB5.32 billion, representing an increase of RMB4.252 billion from the end of last year. The balance of assets management was RMB7.68 billion, representing an increase of RMB6.142 billion from the end of last year.



Chapter 5 Management Discussion and Analysis

In terms of community products, a SAAS-based service model for property management systems has been established to enable house-owners to use the platform to pay fees. As of December 31, 2019, there were 702 communities registered online, covering 340 property companies. The total number of community users was 334,000, and the number of registered users was 109,000. The number of payment settled in the platform reached 166,000 with the amount of RMB44 million.

In terms of products in the education field, the creation of the four products of Zhongyuan Wisdom New Campus, the Edition for Campus and Teaching Assistants, Pay by Face Card, and Himalayan Purse has helped to create a closed-loop ecosystem around schools, training institutions, students, parents, and teachers. As of December 31, 2019, there were 2,969 registered schools and educational institutions, 370,000 registered users, with a total of 3.64 million settlements, a collection of RMB919 million, which has brought 118,700 new customers and driven the balance of the corporate settlement account to record an increase of RMB303 million, compared to the end of last year.

9.2.5 Wealth and Private Banking

During the Reporting Period, the Bank's wealth private banking business has been pursued agile transformation and technology empowerment, by proactively clarifying customer groups, products, activities and business strategies, and improving the comprehensive quality of customer service.

Focusing on the "three-in-one" customer group management philosophy, the Bank has further explored the unique customer groups and expanded the wealth and private customer group system. By building a "3 + 1 + N" product system based on "Best Selection", "Better Selection", and "Good Selection" and integrating domestic and foreign financial resources, it built a "luxury hotel booking platform", and integrated resources of regional alliances of different industries cooperation to launch the "Special Benefits for Local Business (屬地惠享服務專區)", special online communication channels for wealth and private banking manager, and innovate business models. It also continued to carry out "diamond" equity activities to establish a high-end private service brand image.

As of December 31, 2019, we have conducted a total of 4 business visits to ultra-high-net-worth customers, through which the total assets under management have increased to RMB2.891 billion.



Chapter 5 Management Discussion and Analysis

9.2.6 Agriculture-related Business

During the Reporting Period, in accordance with the Party Central Committee, State Council and Provincial Party Committee and Provincial Government's arrangements for the development of inclusive finance and the implementation of rural revitalization, and the guidance of the five national ministries and commissions and the six departments of Henan on financial assistance for rural revitalization, the Bank focused on building the rural financial service system through promoting the strategy of "Internetization and Ruralization of Banking Services", actively building a "trinity" of rural financial service system with "county sub-branches identifying the needs, township sub-branches implementing the plan, inclusive financial service stations extending service (縣域支行抓源頭、鄉鎮支行抓落地、普惠金融服務站點抓延伸)", relying on inclusive financial service stations, building a multi-level, wide-coverage, and sustainable pan-financial service system, and realized that "branches in the villages provide basic financial services, and branches in the towns provide comprehensive financial services (基礎金融服務不出村、綜合金融服務不出鎮)".

Based on the characteristics of rural residents' production and consumption, the Bank have launched innovative credit loans for farmers such as "Yunong Loan (豫農貸)" and "Wangnong Loan (旺農貸)", which were featured by applying online, approving in time, extending loans fast, and repay at any time. As of December 31, 2019, "Yunong Loan" had accumulatively released RMB380 million of loans and RMB4.32 billion of pre-granted credits, serving approximately 86,000 rural households and approximately 406,000 rural residents.

Through inclusive financial service stations, the Bank continued to promote farmers' related knowledge about non-cash payment, anti-illegal fundraising, anti-financial fraud, anti-counterfeit and other areas in the form of financial lectures, sending training to the countryside, and financial night schools, etc. Through on-site explanations, invitations and other ways, it popularized financial knowledge in the rural areas, and improved farmers' awareness of financial products, payment and settlement. As of December 31, 2019, a total of more than 15,000 lectures on financial knowledge have been held in rural areas, benefiting more than one million farmers.

As of December 31, 2019, the Bank had established 122 county-level sub-branches (including subordinates of county-level sub-branches), 50 township sub-branches, and 5,373 rural inclusive financial service stations and farmers-benefiting payment service outlets within the province. At present, the inclusive financial service stations under operation have covered 60% of the towns in 18 cities in Henan Province, benefiting more than 10 million rural residents, and accepting 1,214,600 various transactions of rural residents in the province with a cumulative amount of RMB4.318 billion.



Chapter 5 Management Discussion and Analysis

As of December 31, 2019, the balance of agriculture-related deposits was RMB18.92 billion, representing an increase of RMB8.95 billion or 89.78% from the end of last year, ranking first among 33 banks cooperating with Yinong Technology.

9.2.7 Credit Card Business

During the Reporting Period, the Bank continued to promote credit card marketing, take use of data, and carried out refined and differentiated customer operations, initially forming a closed-loop system for online operations. The number of card newly issued maintained a rapid growth rate, and the income from intermediate business continued to increase. Through attracting customers by innovative products and scenarios, customer operations had been continuously deepened. With the help of big data, the Bank was able to depict comprehensive and accurate portraits of customers from product preferences, potential value and other perspectives, so as to strengthen insights into customers, achieve targeted, proactive marketing and differentiated operations for customers. It also continuously increased the scale of interest-generating assets, optimized asset portfolio allocation, and improved comprehensive benefits of credit card business. Through the cooperation with JD Finance and International Card Organization, the Zhongyuan Bank JD Finance Co-branded Card and the Zhongyuan Bank MasterCard Platinum Card have been issued. As of December 31, 2019, 449,000 Co-branded Cards were issued and the transaction amount was RMB4.49 billion.

As of December 31, 2019 a total of 1,997,700 credit cards were issued, representing an increase of 968,900 as compared with the end of last year. A total of 1,528,800 cards were activated; the annual transactions amount totaled RMB58,040 million, representing an increase of 253.51%. The total income was RMB401 million, representing an increase of 301%. The loan balance was RMB9,198 million. Among them, the revolving loan was RMB7,768 million, and the balance of installment loans was RMB1,430 million.

9.2.8 Direct Bank

During the Reporting Period, the Bank's direct bank business regarded building a digitally transformed fintech service brand for small and medium-sized banks as its vision, and was committed to promoting the jointly innovative business of "perpetual loan". The Bank promoted the technology and risk control technology of the perpetual loan business to the cooperative banks, and supported them to provide loan services to individuals and small and micro businesses in their jurisdictions. As of December 31, 2019, 14 banks have signed agreements with us on jointly innovative business of "perpetual loan", of which 7 banks have started operations, and managed an amount of RMB1.78 billion of assets, establishing a good brand image and word-of-mouth effect in the industry.

Chapter 5 Management Discussion and Analysis

In order to support the efficient operation of the jointly innovative business of “perpetual loan”, in terms of standardized business operation systems, ten systems including standard interviews, due diligence, marketing management, and assessment incentives have been established; in terms of risk control, the “Double Risk Control” model and “Smart Policy” risk control system have been launched, realizing the separation of quantitative models from the first- and second-tier city models; in terms of business onlineization, it promoted the upgrading of technology tools of cooperative banks, and the “Immediate” APP has been fully used in cooperative banks. The distributed architecture-based YuanYin credit system has been upgraded over 33 times throughout the year with about 100 functions, which fully supported the development of cooperative bank credit business.

9.3 Financial Market Business

9.3.1 Treasury business

During the Reporting Period, the Bank conscientiously implemented regulatory policies, actively carried out currency market transactions such as RMB interbank lending and bond repurchase, and fully fulfilled the duties of a primary dealer while ensuring liquidity management needs to provide market liquidity support. As of December 31, 2019, the balance of the Bank’s deposits and placements with banks and other financial institutions as well as financial assets held under resale agreements was RMB47.752 billion, accounting for 6.73% of the Bank’s total assets. The balance of the Bank’s deposits and placements from banks and other financial institutions as well as financial assets sold under repurchase agreements was RMB156,182 million, accounting for 23.95% of the Bank’s total liabilities.

During the Reporting Period, the Bank seized market opportunities, optimized investment trading strategies, rationally controlled investment pace, adjusted account structure, thus effectively preventing credit risk accidents, and significantly improving asset investment returns. At the same time, the Bank kept up with the pace of market innovation, actively applied for relevant business qualifications, enriched business varieties, continued to improve the risk control mechanism, to achieved the steady development of financial market business.



Chapter 5 Management Discussion and Analysis

9.3.2 Interbank Business

Under the overall guiding principle of “optimizing resource allocation and achieving high-quality development”, the interbank business segment has always implemented the business strategy of providing mid-to-long-term liquidity support for the entire bank, serving interbank customers to conduct product sales, optimizing the asset structure to support the real economy, and adjusting assets scale to balance funds. While ensuring stable business growth, it improved product innovation and customer service capabilities, and effectively promoted the deepened development and innovation transformation of interbank business.

During the Reporting Period, the amount of interbank liabilities remained stable, asset allocation was continuously optimized, and product innovation and customer service capabilities were significantly improved. First, the upgrades of the “Y e-discount (原e贴)” 2.0 have enabled rapid landing of discounting of bills. As of December 31, 2019, the Bank’s cumulative discounted amount for the year exceeded RMB47.1 billion. Second, online trading in interbank deposits obtained the leading position in the industry, and customer service capabilities have been improved significantly. As the first batch of pilot banks in China to join CFETS interbank deposits, during the Reporting Period, 42 banks have opened accounts with us, of which 27 have started businesses with us. The accumulated transaction volume was RMB24.784 billion, which was highly recognized by foreign exchange trading centers and peer institutions.

9.3.3 Asset management

During the Reporting Period, the preliminary establishment of the Bank’s net worth product system was completed, and the expected scale of revenue-based products dropped steadily. The cycled net worth product “Ruyibao (如意宝)”, regular open product “Profit” series (盈系列), structured wealth management “Smart” series (智慧系列) and fixed income enhancement net value product “Anxin” series (安鑫系列) were successfully issued, providing consumers with more investment choice. During the Reporting Period, the Bank’s existing wealth management products totaled 341, with a size of RMB61,041 million, representing an increase of RMB8,823 million from the end of 2018.

The Bank’s Dingsheng (鼎盛) fortune series wealth management products operated steadily, generating stable income for customers. During the Reporting Period, the Bank issued a total of 748 wealth management products with a total amount of RMB175,075 million.



Chapter 5 Management Discussion and Analysis

During the Reporting Period, Zhongyuan Bank's Dingsheng (鼎盛) wealth series wealth management products were awarded the "City Commercial Banks Wealth Management Excellence Award of the Year (年度城商行理财卓越奖)" again, at the selection of "Golden Wealth Management (金理财)" campaign held by Shanghai Securities News and the "Bank Growth Award" at the selection of "Golden Cattle Wealth Management (金牛理财)" campaign held by China Securities Journal..

9.4 Distribution Channels

9.4.1 Physical distribution channels

As of December 31, 2019, the Bank had 18 branches and 2 direct sub-branches in total, covering all 18 cities in Henan Province. In particular, there were 295 city-level sub-branches, 122 county-level sub-branches and 50 township-level sub-branches, as well as 5,373 farmers-benefiting payment service outlets and inclusive financial service stations.

9.4.2 Self-service banking channel

The Bank's self-service equipment includes automatic teller machine, CRS, smart teller machine, smart cash counters, VTM, multimedia kiosk, mobile PAD, self-service receipt printer, etc. Those machines provide customers with a variety of convenient services such as depositing and withdrawal of cash, account opening and account services, self-service contracting services, investment and wealth management, utility bill payment, credit card business, and receipt printing. Focusing on the needs of customers, the Bank continuously develops and upgrades new functions of self-service devices. The functions of self-service equipment are continuously expanded, effectively diverting the counter business and reducing the pressure of the counter.

As of December 31, 2019, the Bank's self-service equipment has reached 5,150 units in total, of which, there were 1,484 ATMs and CRSs, 820 smart teller machines, 391 smart cash counters, 50 VTMs, 1,210 multimedia kiosks, 1,083 mobile PADs and 112 self-service receipt printers. In 2019, a total of 38,689,700 transactions were completed via offline self-service channels, involving a total transaction amount of RMB183,817 million.



Chapter 5 Management Discussion and Analysis

9.4.3 E-banking channel

9.4.3.1 Personal online banking

As of December 31, 2019, the Bank's personal online banking attracted 291,000 new users, with the total number of users reaching 885,600. The total number of transactions reached 10,879,100, representing a year-on-year increase of 232.46% and the total transaction amount reached RMB49 million.

9.4.3.2 Mobile finance

(I) Mobile banking

1. We focused on the development of the 5.0 version of our mobile banking product. With the emphasis on user experience and through extensive researches and interviews, using technologies such as big data, machine learning, stream computing and micro service, the Bank built a new generation of mobile banking service which is featured with highlights and characteristics including "one framework, four versions and all customer groups coverage", meeting different needs of different users, smart customer service and smart authentication. As of December 31, 2019, the Bank's mobile banking obtained 2,087,300 new users and the total user number reached 6,057,200.
2. We continuously expanded our service scenarios. During the Reporting Period, the Bank launched an online auto mall and Zhongyuan Integrated Shopping Mall, providing strong supports for the marketing activities of branches and sub-branches of the Bank, which have achieved positive market responses. As of December 31, 2019, the number of third-party sellers in the online integrated mall reached 73 and the number of orders effectively completed was 36,000.



Chapter 5 Management Discussion and Analysis

(II) WeChat banking

We have launched a new version of WeChat banking platform, comprising three major functions, namely, “enjoyable life, colorful activities and convenient finance service”, and launched “multi-use code” and “connection between the two of our WeChat banking platforms” (Zhongyuan Bank and Zhongyuan Bank Credit Card). In addition, we entered into a strategic cooperative agreement with Huawei to carry out offline activities and by collaborating with “Tian Lebang” (天樂邦), we developed “benefits for followers” and “gaming center” functions targeting high frequency non-financial living scenarios. As of December 31, 2019, the number of followers of our WeChat banking reached 2,934,100, and the number of customers who have bound their accounts to our WeChat banking was 1,483,000, representing an increase of 541,000 as compared to the end of last year.

9.5 Information technology

Focusing on the objectives of digital transformation strategy and refined technology management, the Bank steadily promoted the implementation of strategic transformation and the construction of basic technology capability and innovation, made great efforts to improve information technology risk management, so as to support the steady development of the business of the Bank.

As required by the digital transformation strategy, the Bank vigorously promoted the construction of agile capability system, two-speed IT and digital banking. The main measures executed include: establishing an agile capability training system to forge Zhongyuan agile community; promoting the systematic reconstruction and optimization and the construction of distributed architecture, and launching the DevOps platform that integrating development, operation and maintenance to promote the construction of cloud platform; establishing a data governance organizational structure and setting up a data management committee; innovating and practicing the AgileData integration method and vigorously facilitating the development of data middle platform; building up a bank-wide digital literacy training system and data-driven cultural community, and taking multiple measures to advance the cultivation of digital application ability and digital culture.



Chapter 5 Management Discussion and Analysis

Catering to the demand of online processing, the Bank steadily carried forward the continuous optimization of system construction and functions, vigorously innovate financial science and technology, enhanced the reserve of scientific and technological talents, providing support for advancing key works. Firstly, the Bank launched 29 sets of new systems involving the front, middle and back offices, and 1,570 function parameters were optimized. Secondly, a scientific and technological innovation R&D team was founded to proactively keep abreast with the trend of cutting-edge science and technology and explore the application of big data, artificial intelligence and blockchain and other technological innovation. Thirdly, the Bank vigorously explored recruitment channels to arm the scientific and technological team in the head office and continuously optimize the staffing of important posts, and increased the investment in basic science and technology platforms and information security personnel, achieving proprietary control over core technologies step by step. By December 31, 2019, 459 members have been recruited by the technology team of the head office.

During the Reporting Period, the information system of the Bank was running smoothly as a whole with no major production liability incident incurred.

9.6 Investment Business of Subsidiaries and Joint Venture

For details of the Bank's subsidiaries, please refer to note 23 to the financial statements of this annual report.

9.6.1 County banks

9.6.1.1 Percentage of shareholding of the Bank in county banks

Name	Percentage of shareholding of the Bank
Linzhou Zhongyuan County Bank Co., Ltd. (林州中原村鎮銀行有限公司)	51.00%
Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行有限公司)	51.00%
Xinxiang Zhongyuan County Bank Co., Ltd. (新鄉中原村鎮銀行有限公司)	78.46%
Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行有限公司)	51.00%
Lushi Zhongyuan County Bank Co., Ltd. (盧氏中原村鎮銀行股份有限公司)	51.00%
Xiangcheng Huipu County Bank Co., Ltd. (襄城匯浦村鎮銀行股份有限公司)	41.00%
Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司)	51.72%
Xiping Caifu County Bank Co., Ltd. (西平財富村鎮銀行股份有限公司)	43.69%
Suiping Zhongyuan County Bank Co., Ltd. (遂平中原村鎮銀行股份有限公司)	51.02%



Chapter 5 Management Discussion and Analysis

9.6.1.2 Business development during the Reporting Period

The nine county banks provide local enterprises and retail banking customers with a broad range of financial products and services, including commercial and consumer loans, bill discounting, deposits from customers and fee-based and commission-based products and services, such as settlement services, remittance services and bank card services. We intend to incorporate the nine county banks into the Bank's comprehensive service offering channels, to take advantage of their existing local market position and customer base, thereby allowing us to further penetrate our services and enhance the Bank's brand awareness.

The nine county banks adhered to their market positioning of serving "agriculture, rural areas and farmers (三農)" and "small and micro enterprises (小微)" and extended credit following the principles of "micro, mobile and disperse (小額、流動、分散)". Their size of assets kept expanding with the structure of deposits and loans approaching rational, along with intensified support to agriculture and small and micro enterprises. As of December 31, 2019, the total assets amounted to RMB12,051 million, representing an increase of RMB1,092 million, or 9.96%, as compared to the beginning of the year. The balance of deposits amounted to RMB10,322 million, representing an increase of RMB1,477 million, or 16.70%, as compared to the beginning of the year. The total loans amounted to RMB7,994 million, representing an increase of RMB1,174 million, or 17.21%, as compared to the beginning of the year.

The nine county banks are independent legal entities regulated by the China Banking and Insurance Regulatory Commission. The Bank respects and strives to maintain the independent operation of such banks. The Bank believes that the independent business model has enabled the nine banks to leverage their local networks and customer relationships to adapt to changes in local markets.



Chapter 5 Management Discussion and Analysis

9.6.2 Consumer Finance Company

The registered capital of Consumer Finance Company established by the Bank was RMB2,000 million, and the Bank held 49.25% of its shares and has the common control over it. During the Reporting Period, Consumer Finance Company energetically implemented financial inclusion. Taking advantages of Zhongyuan Bank's Shareholders, it consolidated its position in Henan, penetrated to other regions in the PRC, rooted in areas and actively explored development models of Consumer Finance Company. As of December 31, 2019, the total amount of loans issued by Consumer Finance Company reached RMB30,438 million in 2019 with accumulated loans issued of RMB54,175 million, and the loan increased by RMB5,354 million in 2019 with the loan balance was RMB14,008 million in aggregate, with the number of loans transaction for the year exceeding 7.50 million and the aggregated number exceeding 13.19 million. The amount of operating revenue recorded for the year was RMB1,220 million. During the year, it gained 3,526,100 new customers, providing consumer finance services for an aggregate of 5,566,200 clients, and adding new vitality to the economic development of Henan Province and the whole country.

9.6.3 Financial Leasing Company

On February 19, 2019, the Bank acquired 90% of the equity of AB Leasing Co., Ltd. (邦銀金融租賃股份有限公司) ("AB Leasing"). Pursuant to the "Reply from the CBIRC on Change in Equity Ownership of AB Leasing Co., Ltd." (中國銀保監會關於邦銀金融租賃股份有限公司變更股權的批覆) (Yin Bao Jian Fu [2019] No. 917) issued by the CBIRC, the CBIRC gave its approval to the acquisition of the equity interest in AB Leasing held by CDRCB and AB Life Insurance by the Bank and Henan Wansong. Upon completion of the acquisition, the Bank and Henan Wansong will hold 2,700,000,000 and 300,000,000 shares of AB Leasing, representing 90% and 10% of the equity interest of AB Leasing, respectively. For details, please refer to the announcements dated February 19, 2019 and October 16, 2019 published by the Bank on the websites of the Stock Exchange and the Company, respectively.

AB Leasing was established and is conducting operations in China. Insisting on faithfully serving the development of real economy, AB Leasing focuses on infrastructure-related business that are related to the national economy and the people's livelihood; giving top priority to credit risk management in development, it constantly reinforces credit risk related research and investigation to ensure that credit risks are fully assessed; upholding the principles of legality, reasonability, applicability and completeness, it continuously improves its internal control system, enhancing the implementation thereof, ensuring that the company's development strategy and business objectives can be fully realized.



Chapter 5 Management Discussion and Analysis

As of the end of the Reporting Period, the total assets of AB Leasing were RMB32,182 million, and the balance of financial leases was RMB29,101 million. As of December 31, 2019, the amount released by AB Leasing totaled RMB60 billion, with the number of lease transaction reached 335 in aggregate. The amount of operating revenue was RMB3,027 million in aggregate. It has started business in 23 provinces, municipalities and autonomous regions in the PRC.

10. Risk management

During the Reporting Period, the Bank actively responded to the grim and intertwined internal and external operating situations, kept advancing the construction of “technological banking and data banking”, facilitated digital transformation, and promoted risk management in an agile manner. It vigorously improved the ability of intelligent risk management in the fintech environment, established an online, digital, and intelligent risk control system. The risk measurement was exalted through the deepening of big data application. In addition, the Bank rigorously perfected the review and approval framework to back up the sound and fast business development. It also solidly pushed ahead the work of reducing old and controlling new, further consolidated the quality of assets, thereby improved the risk mitigation and offsetting capability.

10.1 Credit risk

During the reporting period, the Bank further improved system and process, strengthened system construction, and strictly controlled credit risk, vigorously “reducing stocks, managing increments, controlling variables, and improving quality (壓降存量，控制增量，提升質量)”. During the Reporting Period, the asset quality of the Bank remained stable with a good momentum for growth, the credit structure continued to be optimized, and the concentration risk was generally controllable.

Proactively build a multi-level, differentiated risk policy system. By optimizing the first level risk appetite indicator system, the Bank has introduced a credit policy guidance and issued the guidance on the construction of risk management system of consolidated institutions.

Optimize the risk review mechanism to ensure the continuous improvement of review quality. The Bank thoroughly implemented the agile transformation strategy and created a quaternary agile working mechanism of “banking research + strategy + data + credit review”. Review during the credit process was strengthened and business risks arise were monitored in various aspects; assessment and guidance were reinforced, and access to credit was under strict control. Besides, the Bank tightened up the management of credit licenses, and guided the subsidiaries to expand the credit business in a prudent manner.



Chapter 5 Management Discussion and Analysis

Thoroughly fuel the work of reducing old and controlling new (降舊控新), and continuously improving asset quality. The Bank strictly implemented regulatory requirements to further consolidate asset quality; continued to advance the collection and settlement of non-performing assets and high-risk credit by exploring various resolving methods to improve the effectiveness of resolution; continued to carry out risk mapping investigations, with special investigations being conducted targeting on credit business risks, shadow banking risks, and external shock risks to effectively settle hidden risks.

Continue to facilitate the development of risk management systems with importance being attached to augment the capabilities of online, digital and intelligent risk control. The Bank is committed to boost the construction of a big-data intelligent risk control system that can amplify the mining, modeling, and applications of internal and external big data. On the one hand, the Bank speeded up the risk modelling on the basis of model risk management, and had established a more comprehensive model of life cycle risk management system. On the other hand, we accelerated the reconstruction of the new generation credit system, actively developed the second generation credit reporting system, and launched IFRS9 impairment measurement system, a new financial instrument to further improve the quality and efficiency of credit management and the accuracy and rationality of provision.

10.2 Market risk

During the Reporting Period, as a part of the continuously perfection of the market risk management system, the Bank launched the market risk management system, further enhancing the management of market risks.

Optimize the market risk management system. As demanded by business development and risk prevention and control, we formulated and issued Guidelines for Emergency Management of Major Market Risks of Zhongyuan Bank (《中原銀行重大市場風險應急管理辦法》) and other guidelines to lay a solid foundation for the market risk management system.

Accelerate the implementation and application of the market risk management system. In July 2019, the market risk management system of the Bank was launched and put into operation. At the same time, relying on the management system, the Bank has further refined the daily monitoring indicator system with quota management as the core, established intelligent monitoring systems such as bond early warning, transaction behavior analysis, so as to keep prompt alignment with the trend of credit bond risk.

Constantly enhance the effectiveness of market risk identification, measurement and monitoring. We have set up a monitoring system of different frequencies and levels to report market risk management daily, weekly, monthly, quarterly and annually, measure and monitor the bond valuation, duration, sensitivity, leverage and other indicators of trading accounts in a regular basis, keep track of internal and external market risks, and handled extra credit extension and other abnormal circumstances, thus guaranteed the effective execution of financial market business authorization and limit and further improved the management of market risks.



Chapter 5 Management Discussion and Analysis

Carry out stress tests regularly to learn the market risk tolerance in time. We evaluated the market risk tolerance of the Bank under different stress scenarios through the stress tests that can help identify and measure the bank account interest rate risk, bond specific market risk, foreign exchange risk and other major market risk conditions. Meanwhile, we further adjusted the market position and improved the term structure to deal with the potential risks under severe stress in efficiency.

10.3 Operational risk

During the Reporting Period, the Bank continuously improved its operational risk management by consummating its internal control compliance and operational risk management system.

The Bank has established an operational risk management structure composed of the Board, the Board of Supervisors, senior management, compliance department, internal audit department, all lines (departments) and branches. When unceasingly enhanced the operational risk management through business line inspection and employee behavior investigation, system improvement, and compliance education activities, the Bank, in accordance with the Guidelines for Operational Risk Management of Zhongyuan Bank and the requirements of the management system of three major instruments, and through its internal control compliance and operational risk management system, created and further perfected the management procedure featured by the identification, assessment, monitoring and early warning of market risks. Continuous optimisation of the system and process design had helped maintaining the continuity and effectiveness of the internal control and compliance and operational risk management of the Bank, and further improve the refined management of operational risk.

Based on strengthening internal control and implementing compliance management, and backed by internal audit and supervision, the Bank potentiated risk monitoring and prevention in key positions and critical areas to ensure effectiveness in the identification, assessment, control, monitoring and reporting of operational risks. Simultaneously, the business continuity and emergency management mechanism were improving. The Bank has completed the upgrading and transformation of the disaster recovery center and important information system, ensuring that the Bank could take timely measures in case of emergency, so that the business could continue and the impact and loss could be minimized. During the Reporting Period, the Bank's overall operation was standardized and orderly, and there was no major operational risk event.



Chapter 5 Management Discussion and Analysis

10.4 Liquidity risk

During the Reporting Period, the Bank strengthened liquidity risk management and constantly improved the construction of liquidity risk system. The overall liquidity was relatively abundant, and major liquidity regulatory indicators meet the regulatory requirements and kept improving. The liquidity risk management system was further optimized.

The Bank continued to optimize and improve the liquidity risk management system framework, clarified the responsibilities of the management and the head office and branches, strengthened collaborative management and control of liquidity risk at the bank level, and comprehensively controlled liquidity risk. By improving the risk policies, management methods and operation procedures related to liquidity risk management, institutional basis was provided for liquidity management. Relying on the management and the decision made by the asset and liability management committee, the Bank realized orderly transmission of liquidity management strategy, further improved market and business analysis, daily management, stress tests, emergency drill and other management tools, thereby elevated liquidity risk resilience. The Bank, as a primary dealer in the open market and the chair bank of the Liquidity Mutual Aid Mechanism of Henan City Commercial Banks (河南省城商行流动性互助机制), actively disseminated the monetary policy of the central bank, and fulfilled its responsibilities and obligations to actively maintain the security and stability of regional liquidity; continuously improved the research and judgment ability of macroeconomy, enhanced the foresight of liquidity management and dynamically adjusted liquidity management strategies.

10.5 Information technology risk

The Bank has established a hierarchical information technology risk management structural system based on the three lines of defense; with the information technology risk management policy as the core, the Bank formulated the information technology risk management system by tiers and regularly re-examined the system. It conducted information technology risk control self-assessment, information technology key risk indicators monitoring, information technology risk loss (event) database collection and other related work, establishing an effective risk management process system that supports risk identification, assessment, control/release, monitoring/reporting.



Chapter 5 Management Discussion and Analysis

The Bank continued to optimize the information technology risk organizational management process, improve the information technology risk management framework. It carried out information technology risk investigation and enhanced information technology outsourcing management to contain risk potentials from the very beginning; and amplified the information technology risk monitoring indicator system, giving priority to strengthening quantitative analysis and making risk monitoring and evaluation practical; it optimized information technology risk assessment standards and broadened the scope of assessment; and improved the disaster recovery system and emergency plans to ensure business continuity. During the Reporting Period, the information technology construction and risk management was rated 2C in the CBIRC's 2018 regulatory rating, with the score has been climbed for five consecutive years, demonstrating that the information technology risk management of the Bank is becoming better and better.

10.6 Reputational risk

During the Reporting Period, the Bank conscientiously conducted reputational risk prevention and control work, improved the reputational risk management system, optimized the reputational risk disposal mechanism and enhanced the effectiveness of reputational risk management. Preserving in the combination of prevention and disposal, and following the principles of “plan for hazards in peaceful days, take preventive and governance measures on collective basis (居安思危·群防群治)”, “centralized leadership, hierarchical management and control (統一領導·分層管控)”, “respond quickly, tackle problems together (快速反應·協同應對)” and “perform duties and comply with discipline, investigate accountability (履職守紀·責任倒查)”, we enhanced the capabilities and efficiency of preventing reputational risk and resolving reputational incidents.

Step up positive publicity efforts to enhance brand reputation. Monitoring and alerts on daily public opinions were strengthened, in-depth investigations on reputational risk factors were conducted, and we handled various types of reputational risk incidents in a proper manner. We have engaged professional agencies serving public opinion monitoring, established a 7*24-hour system to monitor public opinion in a full-network and all-media manner and strengthened daily public opinion monitoring, thereby ensured that we would be “the first to know and the first to respond”.

Establish a public opinion disposition platform, optimize the public opinion management and control process, and form the closed-loop management of reputation risk. Focusing primarily on the prevention and control of reputational risks in the ideological and business fields, we kept close contact with regulators and news authorities on a daily basis. Emergency drills were organized to handle reputational risk, trainings on reputational risk were organized to enhance the awareness of staff on reputational risk and their capabilities to handle reputational risk incidents, cultivating reputational risk management culture.



Chapter 5 Management Discussion and Analysis

The Bank strives to construct a reputation risk management culture of “prevention focused and all hands in (預防為主，全員參與)”, fostering the awareness of reputation risk prevention that is deep rooted, and enabling all employees of the Bank to establish the concept that “there is nothing trivial concerning reputation risk, reputation risk management is the duty of everyone and the prevention shall be emphasized (聲譽風險無小事，聲譽風險管理人人有責、重在預防)”.

10.7 Exchange rate risk

During the Reporting Period, the Bank strengthened its control over exchange rate risks. By closely monitoring the changing trend of exchange rates and proactively analyzing and assessing the impacts of exchange rate movements on its operations, the Bank enhanced its management in relation to exposures and limits of its foreign exchange business. Based on the actual needs of its business, the Bank enhanced strategy research on investment portfolio management and would hedge exchange rate risks when and as appropriate. The Bank devoted more efforts to the development of monitoring indicator system, setting a range of monitoring indicators including foreign currency exposure overnight limit and paying continuous attention to exposures of different foreign currencies held by the Bank in daily management, with a view to effectively monitoring various indicators such as exposures, limits and actions of trader. During the Reporting Period, the exchange rate risks of the Bank are stable and under control.

11. OPERATING STRATEGIES AND PROSPECTS

During the reporting period, the Bank focused on clients' value and strived to improve its customer service capability through innovative products and comprehensive services. As for retail business, by putting emphasis on user experience, the Bank expanded its service scenarios, built up business ecosystem, and implemented retail customer hierarchical management, and thus constantly improved its capabilities to obtain and activate customers. As for corporate business, the Bank was committed to providing integrated service solutions and strived to promote the development of transaction banking business with focus on key industries such as logistics, construction, healthcare and agriculture. As for interbank business, the Bank continuously improved its market business qualification, directed the business development back to its original nature, constantly expanded cooperative relationships with other financial institutions and improved the capability of asset returns.



Chapter 5 Management Discussion and Analysis

While steadily advancing the development of different business sectors, the Bank further promoted its digital strategic transformation. During the Reporting Period, the Bank completed tribal agile transformation for its retail business line, realized agile structural transformation for its corporate transaction banking and effectively improved the speed of product upgrading. The Bank promoted the implementation of 7 major plans including, among others, the improvement of big data application capability, and commenced the development of the system of coordinated marketing among the Bank, its branches and sub-branches, with pilot operation in branches achieving steady progress. The Bank strengthened the construction of scientific and technological infrastructure, and developed and launched six major scientific and technological platforms, including a unified development platform, a micro-service platform, and a cloud platform. The Bank improved its data application ability and built nine basic platforms including machine learning platform. The Bank also further advanced its online development, and formulated a set of general rules for the online development of the Bank.

Looking ahead into the future, the Bank will strive to fulfill its missions as a provincial legal person bank and to serve the development of regional economy. With an aim to develop into a fintech company, the Bank will continue to promote the implementation of digital strategic transformation to achieve edges for future competition in the banking industry and realize the transition from a follower to a leader of the industry.



Chapter 6 Changes in Share Capital and Information on Shareholders

1. Changes in Ordinary Shares of the Bank during the Reporting Period

There were no changes in the share capital of the Bank during the Reporting Period. As at the end of the Reporting Period, the total issued share capital of the Bank was 20,075,000,000 Shares, comprising 3,795,000,000 H Shares and 16,280,000,000 Domestic Shares.

2. Shareholdings of Top 10 Non-Overseas Listed Domestic Shareholders of the Bank

As at the end of the Reporting Period, there was no controlling shareholder or actual controller of the Bank. As at December 31, 2019, the shareholdings of the Bank's top 10 Shareholders of ordinary Shares were as follows:

No.	Name of Shareholders	Nature of Shareholders	Number of Shares held at the end of the Reporting Period	Approximate percentage of the total issued share capital of the Bank at the end of the Reporting Period
1	Henan Investment Group Co., Ltd. (河南投資集團有限公司)	State-owned Legal Person Shares	1,407,285,479	7.01%
2	Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司)	State-owned Legal Person Shares	1,156,751,425	5.76%
3	Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司)	Privately-owned Legal Person Shares	753,000,000	3.75%
4	Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司)	Privately-owned Legal Person Shares	568,000,000	2.83%
5	Henan Xingda Investment Co., Ltd. (河南興達投資有限公司)	Privately-owned Legal Person Shares	566,395,712	2.82%
6	Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司)	Privately-owned Legal Person Shares	553,109,303	2.76%
7	Xinxiang City Finance Bureau (新鄉市財政局)	State-owned Shares	337,492,544	1.68%
8	Southern Henan Highway Investment Co., Ltd. (河南省豫南高速投資有限公司)	Privately-owned Legal Person Shares	327,637,129	1.63%
9	Henan Aike Industrial Development Co., Ltd. (河南省愛克實業發展有限公司)	Privately-owned Legal Person Shares	300,000,000	1.49%
10	Xuchang City Finance Bureau (許昌市財政局)	State-owned Shares	252,020,004	1.26%
Total			6,221,691,596	30.99%

Note:

During the Reporting Period, Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司) acquired additional 78,272,387 Shares of the Bank from Henan Dagu Construction Engineering Co. Ltd. (河南大固建築工程有限公司) pursuant to a transfer agreement.



Chapter 6 Changes in Share Capital and Information on Shareholders

3. Interests and Short Positions of Substantial Shareholders under Hong Kong Regulations

As of December 31, 2019, so far as is known to the Bank and the Directors, substantial Shareholders of the Bank and other persons (other than Directors, Supervisors and chief executive officers of the Bank) who had interests and short positions in the Shares and underlying Shares of the Bank which were required to be notified to the Bank or the Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Bank under Section 336 of the SFO were as follows:

Name of Shareholders	Class of Shares	Nature of interests	Number of Shares ⁽¹⁾	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) ⁽²⁾	Approximate percentage of the total issued share capital of the Bank (%) ⁽²⁾
Henan Investment Group Co., Ltd. (河南投資集團有限公司) ⁽³⁾	Domestic Shares	Beneficial owner	1,407,285,479 (L)	8.64	7.01
Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) ⁽⁴⁾	Domestic Shares	Beneficial owner	1,156,751,425(L)	7.11	5.76
	Domestic Shares	Interest in controlled corporation	54,695,401(L)	0.34	0.27
Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) ⁽⁵⁾	Domestic Shares	Interest in controlled corporation	1,299,627,447 (L)	7.98	6.48
Zhong Sheng Capital (Hongkong) Co., Limited (中晟資本(香港)有限公司)	H Shares	Beneficial owner	214,168,000(L)	5.64	1.07
TIAN KUN INVESTMENT LIMITED ⁽⁶⁾	H Shares	Beneficial owner	726,000,000(L)	19.13	3.62
YINGCHUANG INTERNATIONAL INVESTMENT LIMITED ⁽⁶⁾	H Shares	Interest in controlled corporation	726,000,000(L)	19.13	3.62
Zhongchuang Investment (Holdings) Limited ⁽⁶⁾	H Shares	Interest in controlled corporation	726,000,000(L)	19.13	3.62
Ruipei Industrial (Shanghai) Co., Ltd. (芮沛實業(上海)有限公司) ⁽⁶⁾	H Shares	Interest in controlled corporation	726,000,000(L)	19.13	3.62
China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司) ⁽⁶⁾	H Shares	Interest in controlled corporation	726,000,000 (L)	19.13	3.62



Chapter 6 Changes in Share Capital and Information on Shareholders

Name of Shareholders	Class of Shares	Nature of interests	Number of Shares ⁽¹⁾	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) ⁽²⁾	Approximate percentage of the total issued share capital of the Bank (%) ⁽²⁾
China Minsheng Investment Group (中國民生投資股份有限公司) ⁽⁶⁾	H Shares	Interest in controlled corporation	726,000,000 (L)	19.13	3.62
AMTD Group Company Limited ⁽⁷⁾	H Shares	Interest in controlled corporation	482,288,000(L)	12.71	2.40
L.R. Capital Management Company (Cayman) Limited ⁽⁷⁾	H Shares	Interest in controlled corporation	482,288,000(L)	12.71	2.40
NEW MERIT GROUP LIMITED	H Shares	Beneficial owner	453,636,000(L)	11.95	2.26
Guangzhou Rural Commercial Bank Co., Ltd.	H Shares	Security interest held in Shares	303,000,000(L)	7.98	1.51
GOLD LEADING CAPITAL LIMITED	H Shares	Security interest held in Shares	573,964,000(L)	15.12	2.86
CITIC Securities Company Limited ⁽⁸⁾	H Shares	Interest in controlled corporation	221,593,927(L)	5.84	1.10
	H Shares	Interest in controlled corporation	221,593,927(S)	5.84	1.10
DBS Group Holdings Ltd ⁽⁹⁾	H Shares	Interest in controlled corporation	882,393,350(L)	23.25	4.40
	H Shares	Interest in controlled corporation	882,393,350(S)	23.25	4.40
Piramid Park Co., Ltd ⁽¹⁰⁾	H Shares	Beneficial owner	419,955,000(L)	11.07	2.09
Xu Yan (徐雁) ⁽¹⁰⁾	H Shares	Interest in controlled corporation	419,955,000(L)	11.07	2.09

Notes:

(1) (L) represents the long position, (S) represents short position.

(2) As of December 31, 2019, the number of total issued Shares of the Bank was 20,075,000,000, comprising 16,280,000,000 Domestic Shares and 3,795,000,000 H Shares.



Chapter 6 Changes in Share Capital and Information on Shareholders

- (3) Henan Investment Group Co., Ltd. (河南投資集團有限公司) is wholly owned by the Finance Department of Henan Province (河南省財政廳)².
- (4) Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) directly holds 1,156,751,425 Domestic Shares of the Bank (long positions) and indirectly holds 54,695,401 Domestic Shares of the Bank (long positions) through its controlled corporations, including 23,146,265 Domestic Shares of the Bank (long positions) directly held by Yongcheng Jingchuang Industry Co., Ltd. (永城精創實業有限公司), 9,961,851 Domestic Shares of the Bank (long positions) directly held by Kaifeng Iron Tower Rubber (Group) Co., Ltd. (開封鐵塔橡膠集團有限公司) and 21,587,285 Domestic Shares of the Bank (long positions) directly held by Shangqiu Tianlong Investment Co., Ltd. (商丘天龍投資有限公司), respectively. Therefore, by virtue of the SFO, Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) is deemed to be interested in the Domestic Shares (long positions) held by Yongcheng Jingchuang Industry Co., Ltd. (永城精創實業有限公司), Kaifeng Iron Tower Rubber (Group) Co., Ltd. (開封鐵塔橡膠集團有限公司) and Shangqiu Tianlong Investment Co., Ltd. (商丘天龍投資有限公司).
- (5) Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) is wholly owned by the State-owned Assets Supervision and Administration Commission of Henan Provincial People's Government (河南省人民政府國有資產監督管理委員會). Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) indirectly holds 1,299,627,447 Domestic Shares of the Bank (long positions) through its controlled corporations, including 1,211,446,826 Domestic Shares of the Bank (long positions) directly and indirectly held by Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司), 23,548,264 Domestic Shares of the Bank (long positions) directly held by Anyang Chemical Engineering Group Co., Ltd. (安陽化學工業集團有限責任公司), 15,621,486 Domestic Shares of the Bank (long positions) directly held by Henan Energy and Chemical Engineering Group Finance Co., Ltd. (河南能源化工集團財務有限公司) and 49,010,871 Domestic Shares of the Bank (long positions) indirectly held by Henan Energy and Chemical Construction Group Co., Ltd. (河南能源化工建設集團有限公司) through its controlled corporation, namely, Henan Guolong Mining Industry Construction Co., Ltd. (河南國龍礦業建設有限公司), respectively. Therefore, by virtue of the SFO, Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) is deemed to be interested in the Domestic Shares (long positions) held by Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司), Anyang Chemical Engineering Group Co., Ltd. (安陽化學工業集團有限責任公司), Henan Energy and Chemical Engineering Group Finance Co., Ltd. (河南能源化工集團財務有限公司) and Henan Guolong Mining Industry Construction Co., Ltd. (河南國龍礦業建設有限公司).

²

On January 10, 2020, Henan Investment Group Co., Ltd. (河南投資集團有限公司) completed the change of relevant business registration particulars and the entire equity interests held by Henan Development and Reform Commission in Henan Investment Group Co., Ltd. (河南投資集團有限公司) was transferred to Henan Department of Finance at nil consideration.



Chapter 6 Changes in Share Capital and Information on Shareholders

- (6) China Minsheng Investment Group (中國民生投資股份有限公司), through its controlled corporations, namely China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司), Ruipai Industrial (Shanghai) Co., Ltd. (芮沛實業(上海)有限公司)(formerly known as Ruipai Investment (Shanghai) Co., Ltd. (芮沛投資(上海)有限公司)), Zhongchuang Investment (Holdings) Limited and YINGCHUANG INTERNATIONAL INVESTMENT LIMITED, is indirectly interested in 726,000,000 H Shares of the Bank (long positions) held by TIAN KUN INVESTMENT LIMITED. Therefore, by virtue of the SFO, each of China Minsheng Investment Group (中國民生投資股份有限公司), China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司), Ruipai Industrial (Shanghai) Co., Ltd. (芮沛實業(上海)有限公司), Zhongchuang Investment (Holdings) Limited and YINGCHUANG INTERNATIONAL INVESTMENT LIMITED is deemed to be interested in the H Shares of the Bank (long positions) held by TIAN KUN INVESTMENT LIMITED.
- (7) L.R. Capital Management Company (Cayman) Limited, through its controlled corporations, namely L.R. Capital Financial Holdings Limited, AMTD Group Company Limited and AMTD Asia (Holdings) Limited, indirectly holds 482,288,000 H Shares of the Bank (long positions) held by AMTD Asia Limited. Therefore, by virtue of the SFO, each of L.R. Capital Management Company (Cayman) Limited, L.R. Capital Financial Holdings Limited, AMTD Group Company Limited and AMTD Asia (Holdings) Limited is deemed to be interested in the H Shares of the Bank (long positions) held by AMTD Asia Limited.
- (8) CITIC Securities Company Limited, through its controlled corporations, namely CITIC Securities International Company Limited, CLSA B.V. and CITIC CLSA Global Markets Holdings Limited, indirectly holds 221,593,927 H Shares of the Bank (long positions) and 221,593,927 H Shares of the Bank (short positions) directly held by CSI Capital Management Limited and CSI Financial Products Limited, respectively. Therefore, by virtue of the SFO, each of CITIC Securities Company Limited, CITIC Securities International Company Limited, CLSA B.V. and CITIC CLSA Global Markets Holdings Limited is deemed to be interested in the H Shares of the Bank (long positions) and H Shares of the Bank (short positions) held by CSI Capital Management Limited and CSI Financial Products Limited, respectively. CITIC Securities Company Limited holds underlying Shares of the Bank (long positions and short positions) in derivative interests, including the underlying 221,593,927 H Shares (long position) derived from listed derivatives of the convertible instruments, and the underlying 221,593,927 H shares (short positions) derived from cash-settled unlisted derivatives.
- (9) DBS Bank Ltd. directly holds 882,393,350 H Shares (long positions) and 882,393,350 H Shares (short positions) of the Bank. DBS Bank Ltd. is a corporation wholly controlled by DBS Group Holdings Ltd. Therefore, by virtue of the SFO, DBS Group Holdings Ltd. is deemed to be interested in the 882,393,350 H Shares (long positions) and 882,393,350 H Shares (short positions) of the Bank held by DBS Bank Ltd..
- (10) Pyramid Park Co., Ltd is wholly owned by Xu Yan (徐雁).

Save as disclosed above, none of the substantial Shareholders or other persons had, as of December 31, 2019, any interests or short positions in the Shares or underlying Shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO.



Chapter 6 Changes in Share Capital and Information on Shareholders

4. Shareholders Holding 5% or More of the Total Ordinary Share Capital of the Bank

Please refer to the relevant sections 6.2–6.3 for details of the Shareholders with an interest in 5% or more of the share capital of the Bank.

5. Information on Substantial Shareholders Disclosed Under the Interim Measures for the Equity Management of Commercial Banks

According to the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by the CBIRC, in addition to the three Shareholders mentioned above, namely Henan Investment Group Co., Ltd. (河南投資集團有限公司), Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) and TIAN KUN INVESTMENT LIMITED, the following three Shareholders are also substantial Shareholders of the Bank.

- (1) Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司), which holds 753,000,000 domestic Shares of the Bank. The company was incorporated in Jinshui District, Zhengzhou City, Henan Province on October 24, 2001 with a registered capital of RMB850 million. The company's business scope includes investment and investment service management, information technology consulting services, enterprise planning management, project planning management, and electronic network engineering services (excluding items subject to state approval). During the Reporting Period, Mr. LI Xipeng (李喜朋), a non-executive Director of the Bank, was the chairman and legal representative of the company. The company was effectively owned by Mr. LI Xipeng and his wife, Ms. SHU Pujuan (舒蒲娟).
- (2) Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司), which holds 553,109,303 Domestic Shares of the Bank. The company was incorporated in Erqi District, Zhengzhou City, Henan Province on January 20, 2010 with a registered capital of RMB100 million. The company's business scope includes development and sale of real estate and property leasing. During the Reporting Period, Ms. LI Weizhen (李偉真), a Shareholder Representative Supervisor of the Bank, was the chief accountant of the company.
- (3) Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司), which holds 200,000,000 Domestic Shares of the Bank. The company was incorporated in Luolong District, Luoyang City, Henan Province on November 4, 2005 with a registered capital of RMB300 million. The company's business scope includes the construction and operation of long-distance natural gas pipelines, and the research, development, construction and operation of LPG and other oil and gas utilization projects (business within the above scope which is subject to approval shall not be operated before obtaining relevant approval(s)). During the Reporting Period, Mr. LI Wanbin (李萬斌), a Shareholder Representative Supervisor of the Bank, was the de facto controller of the company. Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司), which is effectively controlled by Mr. LI Wanbin, holds 207,657,871 Domestic Shares of the Bank.



Chapter 6 Changes in Share Capital and Information on Shareholders

6. Equity Pledge and Freezing

As at the end of the Reporting Period, so far as is known to the Bank, the Bank's 5,555,590,088 domestic Shares were subject to pledge, accounting for 27.67% of the total number of issued ordinary Shares (of which, the Domestic Shares pledged by the Bank's substantial Shareholders accounted for 4.93% of the total number of issued ordinary Shares). In addition, there were 883,234,310 Domestic Shares which were judicially frozen (of which, the Domestic Shares owned by the Bank's substantial Shareholders which were judicially frozen accounted for 1.00% of the total number of issued ordinary Shares).

7. Non-public Issuance of Offshore Preference Shares

7.1 The issuance and listing of Offshore Preference Shares

To replenish the Bank's capital through diversified ways, further enhance the Bank's capital strength and enhance the Bank's risk resistance, according to the approvals of China Banking Regulatory Commission Henan Supervision Bureau (Yu Yin Jian Fu [2018] No. 120) and the China Securities Regulatory Commission (Zheng Jian Xu Ke [2018] No. 1343), the Bank issued USD1,395 million non-cumulative perpetual Offshore Preference Shares on November 21, 2018. The Offshore Preference Shares were listed on the Hong Kong Stock Exchange on November 22, 2018 (stock name: ZYBNK 18USDPREF, stock code: 04617). The Offshore Preference Shares have a par value of RMB100 each with an issuance price of USD20 each. The total number of the Offshore Preference Shares issued is 69,750,000, and were all issued fully paid in U.S. dollars.

Based on the CNY Central Parity Rate published by the China Foreign Exchange Trading System on November 21, 2018, the gross proceeds from the issuance of the Offshore Preference Shares amounted to approximately RMB9,688 million. The proceeds raised from the issuance of the Offshore Preference Shares (after deducting the issuance expenses) were all used to replenish the Bank's additional Tier 1 capital as of the end of the Reporting Period, to increase the Bank's Tier 1 capital adequacy ratio and optimize the capital structure, which was consistent with the specific use previously disclosed.

For the issuance terms and relevant details of the Offshore Preference Shares, please refer to the announcement of the Bank published on the website of Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.zybank.com.cn).



Chapter 6 Changes in Share Capital and Information on Shareholders

7.2 Number of Offshore Preference Shareholders and particulars of shareholding

At the end of the Reporting Period, the Bank had one Offshore Preference Shareholder.

The shareholdings of the top 10 Offshore Preference Shareholders (or nominees) of the Bank are set out in the table below (the following data are based on the register of Offshore Preference Shareholders as at December 31, 2019):

Name of Shareholder	Nature of Shareholder	Type of Shares	Increase/decrease during the Reporting Period (shares)	Shareholding percentage (%)	Total shareholdings (shares)	Number of Shares subject to restriction on sale (shares)	Number of pledged or frozen shares (shares)
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore preference shares	69,750,000	100%	69,750,000	–	Unknown

Notes:

1. The shareholding of Offshore Preference Shareholders is based on the information set out in the register of Offshore Preference Shareholders of the Bank.
2. As the Offshore Preference Shares were issued by way of offshore non-public issuance, the information recorded on the register of Offshore Preference Shareholders is the information on the nominee of the investor(s) to whom the Offshore Preference Shares were allotted.

7.3 Profit distribution on the Offshore Preference Shares

Dividends of Preference Shares would be paid in cash by the Bank to Preference Shareholders. Each dividend will be payable annually in arrears on the dividend payment date. The first dividend payment date was November 21, 2019. During the Reporting Period, the Bank paid a dividend of USD78,120,000.00 (after tax) on Offshore Preference Shares on November 21, 2019.



Chapter 6 Changes in Share Capital and Information on Shareholders

As considered and approved at the meeting of the Board of the Bank held on August 29, 2019, the Bank will distribute the dividends on the Offshore Preference Shares pursuant to the terms of the Offshore Preference Shares. The total dividends on the Offshore Preference Shares distributed by the Bank amounted to US\$86,800,000, of which US\$78,120,000 was paid to the holders of Offshore Preference Shares at a coupon dividend rate of 5.60%, and US\$8,680,000 was withheld as the income tax at a rate of 10% pursuant to relevant laws and regulations. The dividend period was from November 21, 2018 (inclusive) to November 21, 2019 (exclusive), the dividend payment date was November 21, 2019 and the recipients were holders of Offshore Preference Shares whose names appeared on the register of members of the Bank as at the close of business of the clearing system on November 20, 2019. For details, please refer to the announcement on payment of a dividend for the Offshore Preference Shares published by the Bank separately on August 29, 2019. On November 21, 2019, the Bank completed the initial dividend payment after the issuance of the Offshore Preference Shares.

Table on profit distribution in respect of Offshore Preference Shares in the past three years:

Unit: RMB'000

Year of distribution	Amount of distribution (before tax)	Net profit attributable to the Shareholders of the Bank in the consolidated financial statements of the Bank for the year of distribution	Percentage of net profit attributable to the Shareholders of the Bank in the consolidated financial statements of the Bank (%)	Balance accumulated to the next accounting year due to insufficiency of distributable profits or the part that can be used for the distribution of retained profits
2019	609,224	3,163,849	19.26	—
2018	—	2,414,576	—	—
2017	—	3,838,703	—	—



Chapter 6 Changes in Share Capital and Information on Shareholders

7.4 Other information on the Offshore Preference Shares

During the Reporting Period, no Offshore Preference Shares have been repurchased, converted into ordinary shares or had their voting rights restored, and there was no occurrence of any triggering event that would result in mandatory conversion of Offshore Preference Shares into H Shares.

In accordance with Accounting Standards for Enterprise No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprise No. 37 – Presentation of Financial Instruments and Rules on the Differences between Financial Liability and Equity Instruments and Relevant Accounting Treatment promulgated by the Ministry of Finance of the PRC, as well as IAS 39 – Financial Instruments: Recognition and Measurement and IAS 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, the provisions of the issued and existing Offshore Preference Shares conform to the requirements as equity instruments, and will be calculated as equity instruments.

8. Purchase, Sale or Redemption of Listed Securities of the Bank

During the twelve months ended December 31, 2019, neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Bank.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

1. Basic Information of Existing Directors, Supervisors and Senior Management

1.1 Basic Information of Directors

Name	Gender	Month and year of birth	Starting Time of Term of Office	Positions	Shareholding or not
DOU Rongxing (竇榮興)	Male	March 1963	March 2018	Executive Director, chairman of the Board	No
WANG Jiong (王炯)	Male	June 1968	March 2018	Executive Director, president	No
LI Yulin (李玉林)	Male	March 1966	May 2018	Executive Director, executive vice president	No
WEI Jie (魏傑)	Male	August 1963	May 2018	Executive Director, vice chairman of the Board	Yes
LI Qiaocheng (李喬成)	Male	January 1963	March 2018	Non-executive Director	No
LI Xipeng (李喜朋)	Male	November 1963	March 2018	Non-executive Director	No
MI Hongjun (弭洪軍)	Male	February 1971	May 2018	Non-executive Director	No
PANG Hong (龐紅)	Female	April 1955	March 2018	Independent non-executive Director	No
LI Hongchang (李鴻昌)	Male	December 1948	March 2018	Independent non-executive Director	No
JIA Tingyu (賈廷玉)	Male	August 1942	March 2018	Independent non-executive Director	No
CHAN Ngai Sang Kenny (陳毅生)	Male	November 1964	March 2018	Independent non-executive Director	No

Note: The qualifications of Director and vice chairman for Mr. WEI Jie have been approved by regulatory authorities of the banking industry in the PRC on May 9, 2018 and July 26, 2018, respectively.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

1.2 Basic Information of Supervisors

Name	Gender	Month and year of birth	Starting Time of Term of Office	Positions	Shareholding or not
HAO Jingtao(郝驚濤)	Male	June 1971	March 2018	Employee representative Supervisor, chairman of the Board of Supervisors	No
JIA Jihong(賈繼紅)	Female	September 1963	March 2018	Employee representative Supervisor, Vice chairwoman of the Board of Supervisors	Yes
ZHANG Yixian(張義先)	Male	October 1967	March 2018	Employee representative Supervisor	No
LI Weizhen(李偉真)	Female	June 1965	March 2018	Shareholder representative Supervisor	No
LI Wan Bin(李萬斌)	Male	December 1971	March 2018	Shareholder representative Supervisor	No
LI Xiaojian(李小建)	Male	August 1954	March 2018	External Supervisor	No
Han Wanghong(韓旺紅)	Male	March 1954	March 2018	External Supervisor	No
SUN Xuemin(孫學敏)	Male	April 1963	March 2018	External Supervisor	No
PAN Xinmin(潘新民)	Male	January 1957	May 2019	External Supervisor	No

Note: Mr. HAO Jingtao and Ms. JIA Jihong were elected to be the Chairman and Vice Chairwoman, respectively, on the 7th meeting of the second session of the Board of Supervisors of the Bank on March 28, 2019. Please refer to the Bank's announcement dated March 28, 2019 for details.

On January 17, 2019, Mr. ZHAO Ming, a shareholder representative Supervisor of the Bank, resigned as a shareholder representative Supervisor and member of the Supervision Committee under the Board of Supervisors of the Bank as he intended to concentrate on other business commitments. On the same day, the Bank held the sixth meeting of the second session of the Board of Supervisors, at which Mr. PAN Xinmin was elected as a candidate of external Supervisor of the Bank and was elected by our shareholders to be an external supervisor of the second session of the Board of Supervisors at the Bank's annual general meeting of 2018. For details, please refer to the announcements of the Bank dated January 17, 2019 and May 20, 2019.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

1.3 Basic Information of Senior Management

Name	Gender	Month and year of birth	Positions	Date of appointment	Shareholding or not
WANG Jiong(王炯)	Male	June 1968	President	March 2018	No
LI Yulin(李玉林)	Male	March 1966	Executive vice president	March 2018	No
LIU Kai(劉凱)	Male	March 1971	Vice president	March 2018	No
ZHAO Weihua(趙衛華)	Male	March 1977	Vice president, chief risk officer	May 2018	No
ZHOU Litao(周麗濤)	Male	November 1979	Vice president	May 2018	No
LIU Qingfen(劉清奮)	Male	March 1970	Assistant to the president	June 2018	No
YAO Hongbo(姚紅波)	Male	April 1969	Assistant to the president	May 2019	No
ZHANG Ke(張克)	Male	October 1977	Secretary to the Board	March 2018	No
ZHANG Yi(張怡)	Female	March 1973	General manager of the planning and financing department	September 2015	No
ZHANG Yixian(張義先)	Male	October 1967	General manager of the audit department	December 2017	No

2 Changes of the Directors, Supervisors and Senior Management

2.1 Changes of the Directors

During the Reporting Period, there was no change in the Directors of the Bank.

2.2 Changes of Supervisors

On March 28, 2019, Mr. HAO Jingtao and Ms. JIA Jihong were elected as the Chairman and Vice Chairwoman of the Board of Supervisors of the Bank at the seventh meeting of the second session of the Board of Supervisors. Please refer to the announcement dated March 28, 2019 of the Bank for details.

On January 17, 2019, Mr. ZHAO Ming, a shareholder representative Supervisor of the Bank, resigned as a shareholder representative Supervisor and a member of the supervision committee under the Board of Supervisors of the Bank as he intended to concentrate on other business commitments. On the same day, the Bank held the sixth meeting of the second session of the Board of Supervisors, at which Mr. PAN Xinmin was elected as a candidate of external Supervisor of the Bank, and then he was elected by the shareholders as an external Supervisor of the second session of the Board of Supervisors at the 2018 annual general meeting of the Bank. Please refer to the announcements dated January 17, 2019 and May 20, 2019 of the Bank for details.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

2.3 Changes of Senior Management

On March 16, 2018, Mr. YAO Hongbo was appointed as an assistant to the president of the Bank at the 1st meeting of the second session of the Board of Directors of the Bank. On May 16, 2019, CBRC Henan Office approved the qualification of Mr. YAO Hongbo as assistant to the president of the Bank.

3 Biography of Directors, Supervisors and senior management

3.1 Biography of Directors

Mr. DOU Rongxing(竇榮興), born in March 1963, Chinese. Mr. Dou Rongxing is an executive Director and the chairman of the second session of the Board of the Bank, primarily responsible for the overall management, strategic planning and business development of the Bank. Mr. Dou has over 30 years of experience in banking business management. In addition to his role as the chairman of the Board, Mr. Dou is also the secretary of the party committee of the Bank. Mr. Dou's primary work experience prior to joining the Bank includes: (i) serving as the deputy chief (director-of-bureau level) and a member of the party group of the Office of Financial Service of Henan Government (河南省政府金融服務辦公室) from December 2013 to December 2014, during which period he also served as the executive director of the Leading Group Office of the Reform and Reorganization of Certain City Commercial Banks in Henan Province (河南省部分城市商業銀行改革重組工作); (ii) the Director of the wholesales business and the general manager of the corporate banking department of China CITIC Bank from June 2013 to December 2013; (iii) the secretary to the party committee and the president of the Zhengzhou Branch of China CITIC Bank from January 2005 to June 2013. He worked as the vice president of the Zhengzhou Branch of China Merchants Bank from September 2002 to January 2005. Mr. Dou held several positions successively at the Henan Branch of the China Construction Bank from July 1985 to August 2002, including: (i) an officer, the deputy chief of the investment research institution; (ii) the deputy chief of funds planning department, (iii) the deputy general manager of finance department, (iv) the deputy chief and the chief of the inspection and audit department, (v) the chief of the planning and finance department, (vi) the secretary to the party committee and the president of the Xinxiang Branch, and (vii) the chief of asset preservation department and the president of the Jinyuan Sub-branch. Mr. Dou was recognized as the "Outstanding Contribution Entrepreneur on the 40th Anniversary of Reform and Opening Up (改革開放四十週年傑出貢獻企業家)" by "The 8th Hong Kong International Finance Forum cum China Securities Golden Bauhinia Award" in December 2018. Mr. Dou is a member of the 13th National Committee of the Chinese People's Political Consultative



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Conference. Mr. Dou received a bachelor's degree in infrastructure finance and credit from Hubei College of Finance (湖北財經學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1985, a master's degree in investment finance from Zhongnan University of Finance (中南財經大學) (currently known as Zhongnan University of Economics and Law) in June 1995 and a doctor's degree in management science and engineering from Huazhong University of Science and Technology (華中科技大學) in December 2005. Mr. Dou is a senior economist accredited by China Construction Bank in December 1997.

Mr. WANG Jiong (王炯), born in June 1968, Chinese. Mr. Wang Jiong is an executive Director and the president of the Bank, primarily responsible for the daily operation and management and in charge of the human resources department, strategic development department, strategic transformation office, information technology department and data banking department of the Bank. Mr. Wang has more than 20 years of experience in banking business operations and management. Mr. Wang served as the secretary to the party committee and the president of the Haikou Branch of China CITIC Bank from May 2012 to December 2014, and was in charge of the planning group of the Haikou Branch of China CITIC Bank from November 2011 to May 2012. Prior to that, he successively held several positions in the Zhengzhou Branch of China CITIC Bank from March 2001 to November 2011, including the deputy general manager and the general manager of the planning and financing department, the assistant to the president, and the vice president. Mr. Wang's work experience also includes serving as the deputy manager, the manager, and the assistant to the general manager of the business department, the assistant to the general manager and the deputy general manager of the financial accounting department of the Zhengzhou Branch of China Guangfa Bank from December 1995 to March 2001. Before that, he worked at the Zhengzhou Railway Branch of China Construction Bank from August 1993 to November 1995 and at the human resources department of Zhengzhou College of Industry (鄭州工學院) from July 1990 and August 1993. Mr. Wang is a deputy of the 13th National People's Congress of Henan Province. Mr. Wang received a bachelor's degree in applied physics from Wuhan University (武漢大學) in July 1990, a secondary bachelor's degree in ideological and political education from Xi'an Jiaotong University (西安交通大學) in July 1994, and a doctor's degree in economics from Zhongnan University of Economics and Law in June 2009. Mr. Wang is a senior accountant accredited by the Review Committee of Senior Professional and Technical Positions of Accounting Professions of Henan Province (河南省會計系列高級專業技術職務評委會) in April 2000.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Mr. LI Yulin (李玉林), born in March 1966, Chinese. Mr. Li Yulin is an executive director and executive vice-president of the Bank, in charge of the general office, planning and finance department, accounting and operation department, consumer finance company and work group of financial leasing. Prior to that, Mr. Li had served as a vice president of the Bank from October 2016 to March 2018. Prior to joining the Bank, Mr. Li's primary work experience includes serving as the vice president of the Changsha Branch of China Merchants Bank (招商銀行長沙分行) from March 2016 to May 2016. Mr. Li held various positions successively in the Zhengzhou Branch of China Merchants Bank (招商銀行鄭州分行) from August 2002 to February 2016, including the assistant to the office chief, the vice general manager of the business department, the vice general manager of the planning group of the Sub-branch II, the president of the Huayuan Road Sub-branch (花園路支行), the general manager of the corporate banking department I, assistant to the president, the assistant to the president and the president of the Luoyang Branch (洛陽分行), the member of party committee and the vice president. He served as the vice president of the Huayuan Road Sub-branch of the Henan Branch of Industrial and Commercial Bank of China Limited (中國工商銀行河南省分行花園路支行) from March 2000 to August 2002. Prior to that, Mr. Li served successively as an accountant, a facility reviewer, the office chief and the vice president of the Railway Sub-branch of the Henan Branch of Industrial and Commercial Bank of China Limited (中國工商銀行河南省分行鐵路支行) from July 1989 to February 2000. Mr. Li completed his undergraduate education in finance at Zhengzhou University (鄭州大學) in June 1989.

Mr. WEI Jie (魏傑), born in August 1963, Chinese, is an executive director and vice-chairman of the Bank, in charge of the office of the board of directors and the board of supervisors. Prior to that, Mr. Wei had served as an assistant to the president of the Bank from December 2014 to March 2018. Mr. Wei's primary work experience prior to joining the Bank includes serving as the chairman and the secretary to the party committee of Shangqiu Bank from December 2009 to December 2014, the chief, the deputy secretary and the secretary to the party committee, and the Director and the general manager of Shangqiu City Credit Union Co., Ltd. from January 2003 to December 2009. Mr. Wei held several positions successively at the Shangqiu Branch of China Construction Bank from April 1992 to December 2002, including the deputy chief of facility department, the vice president, the president and the secretary to the party group of the Yongxia Mine District Sub-branch, and the president, the secretary to the party group and the secretary to the party general branch of the Liangyuan Sub-branch and vice president of Shangqiu Branch of China Construction Bank. He served as the chief of the construction economics section of the former Shangqiu Sub-branch of China Construction Bank from February 1987 to April 1992, and the member of the construction economics section and the deputy secretary to the communist youth league of the former Shangqiu District Central District of China Construction Bank



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

from August 1983 to February 1987. Mr. Wei received a technical secondary school diploma from School of Finance and Trade of Kaifeng (開封市財貿學校) in July 1983. Mr. Wei completed college education in fundamental construction economics at the Correspondence College of Renmin University of China in June 1988 and completed undergraduate education in finance and investment at Henan University in July 1995.

Mr. LI Qiaocheng (李喬成), born in January 1963, Chinese. Mr. Li Qiaocheng is currently a non-executive Director of the Bank. Mr. Li has been the deputy general accountant and a director of Henan Energy and Chemical Engineering Group Co., Ltd. (河南能源化工集團有限公司) from April 2016 and May 2016 to March 2019, respectively. Prior to that, Mr. Li's primary work experience includes serving as: (i) a member of the standing party committee, the Director, the vice general manager of Henan Energy and Chemical Engineering Group Hemei Investment Co., Ltd. (河南能源化工集團鶴煤投資有限公司) and a researcher at the vice general manager level of Hebi Coal (Group) Co., Ltd. (鶴壁煤業(集團)有限責任公司) successively from November 2012 to April 2016, (ii) the deputy general accountant, the chief of the finance department and the general accountant of Jiaozuo Coal (Group) Co., Ltd. (焦作煤業(集團)有限責任公司) from May 2009 to November 2012, (iii) the Director of finance of Yongcheng Coal and Electricity Group Co., Ltd. (永城煤電集團有限責任公司) and Yongmei Group Co., Ltd. (永煤集團股份有限公司) successively from May 2007 to May 2009, and (iv) the vice general manager and the Director of finance of Henan Zhenglong Coal Co., Ltd. (河南正龍煤業有限公司) successively from December 2003 to May 2007. Prior to that, Mr. Li worked at Beilutian Mine of Yima Mining Bureau (義馬礦務局北露天礦) from December 1982 to January 1994. In addition, Mr. Li worked as an accountant at the Yima Mining Bureau Middle School (義馬礦務局中學) from August 1981 to November 1982. Mr. Li received a technical secondary school diploma in finance and accounting from Zhengzhou Coal Technical School (鄭州煤炭工業學校) in July 1981 and a college diploma in corporate operation management from Henan Radio and Television University (河南廣播電視大學) in July 1986. He is a senior accountant accredited by Henan Government in September 2012.

Mr. LI Xipeng (李喜朋), born in November 1963, Chinese. Mr. Li Xipeng is currently a non-executive Director of the Bank. Mr. Li has been the chairman of the board of directors of Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司) (formerly known as Henan Shengrun Venture Capital Management Co., Ltd. (河南盛潤創業投資管理有限公司)) ("Henan Shengrun Group") since October 2001, and served as the director of FanXian Rural Commercial Bank Company Limited (範縣農村商業銀行股份有限公司) (the "FanXian Rural Commercial Bank"). Mr. Li received a Master of Business Administration degree for senior management from Cheung Kong Graduate School of Business (長江商學院) in March 2006.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Mr. MI Hongjun (弭洪軍), born in February 1971, Chinese. Mr. Mi Hongjun is a non-executive Director of the Bank. Mr. Mi currently serves as the chief executive officer of CMIG Leasing Holdings Limited. He served as the Director of finance to the Board of China Minsheng Investment Group (中國民生投資股份有限公司) from July 2014 to June 2019. He served as the Director of finance and secretary to the board of directors of Minsheng Royal Fund Management Co., Ltd. (民生加銀基金管理有限公司) from February 2012 to June 2014, the chief financial officer and the chief executive officer of Digital Diligent Knowledge (Beijing) Information and Technology Co., Ltd. (數字博識(北京)信息技術有限公司) from February 2009 to December 2011, the chief financial officer of Beijing Hinge Software Co., Ltd (北京和勤軟件技術有限公司) from September 2007 to January 2009, the Director of finance of Dayang Technology Development Inc. (中科大洋科技發展股份有限公司) from March 2004 to August 2007, and the Director of finance of Ec-Founder Company Limited (方正數碼有限公司) from March 2001 to February 2004.

Mr. Mi obtained an Executive Master of Business Administration degree from Tsinghua University (清華大學) in 2012 and was accredited as a senior accountant.

Ms. PANG Hong (龐紅), born in April 1955, Chinese. Ms. Pang Hong is an independent non-executive Director of the Bank. Ms. Pang has been a professor in the School of Finance of Renmin University of China (中國人民大學財政金融學院) since August 2010. Prior to that, she held several positions at Renmin University of China from December 1996 to August 2010, including the deputy secretary to the party committee in the School of Finance from January 2007 to August 2010, a deputy professor from July 2001 to August 2010, and a lecturer from December 1996 to July 2001. She also worked as a teacher in the School of Finance of Central University of Finance and Economics (中央財經大學財政金融學院) from September 1982 to December 1996. Ms. Pang was awarded the prize of “Innovation Pilot of Education in Beijing (北京市教育創新標兵獎)” by the Education Legal Union of Beijing Municipality for the year from 2003 to 2004 and was named the “Teacher of the Year (優秀教師獎)” by Baosteel Education Foundation (寶鋼教育基金會) in November 2003. Ms. Pang was also awarded the title of the “Top 10 Pilot in Education (十大教學標兵)” by Renmin University of China in September 2002 and the title of the “Excellent Ideological and Political Workers in Beijing (北京市優秀思想政治工作者)” by the People's Government of Beijing Municipality and the Communist Party of China Beijing Municipal Committee (中共北京市委) in March 1991. Ms. Pang received a bachelor's degree in economics from Central Institute of Finance and Banking (中央財政金融學院) (currently known as Central University of Finance and Economics) in August 1982 and a master's degree in economics from Central University of Finance and Economics in March 2001.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Mr. LI Hongchang (李鴻昌), born in December 1948, Chinese. Mr. Li Hongchang is an independent non-executive Director of the Bank. Mr. Li has served as a professor and the dean of Zhengzhou College of Finance (鄭州財經學院) from September 2013 to September 2018. Prior to that, Mr. Li served as a professor at Henan University of Economics and Law (河南財經政法大學) from December 2008 to December 2011. In addition, Mr. Li successively held several positions at Henan College of Finance (河南財經學院) (currently known as Henan University of Economics and Law) from July 1985 to December 2008, including the vice chief and the chief of the finance department, the assistant to the dean, the vice dean and the dean researcher. Mr. Li received a master's degree in economics from Zhongnan University of Finance in November 1985. Mr. Li is a professor in economics accredited by the Review Committee of Senior Positions of College Teachers of Henan Province (河南省高校教師高級職務評委會) in November 1993 and was awarded the title of "Top Expert in Henan Province (河南省優秀專家)" by Henan Government and the Communist Party of China Henan Provincial Committee (中共河南省委) in July 1995.

Mr. JIA Tingyu (賈廷玉), born in August 1942, Chinese. Mr. Jia Tingyu is an independent non-executive Director of the Bank. Mr. Jia has served as an independent non-executive director of Hang Seng Bank (China) Limited from January 2010 to January 2019, and during his tenures, he served as a member of the audit committee and the chairman of the risk committee under the board of Hang Seng Bank (China) Limited since May 2010 and April 2010, respectively. Prior to that, he concurrently served as the risk consultant, the deputy chief of the facility approval committee, the deputy chief of the audit committee, and a member of the assets and liability management committee of China CITIC Bank from January 2005 to September 2009. He served as the general manager of the risk control department, the deputy chief of the facility approval committee, and a member of the expert panel of China Merchants Bank successively from March 2000 to December 2004. Additionally, he served as the vice president and the president of the Chengdu Branch of China Merchants Bank successively from July 1997 to March 2000, and the deputy general manager of the facility approval department and the general manager of the department of planning and capital at China Merchants Bank successively from February 1992 to June 1997.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Mr. CHAN Ngai Sang Kenny (陳毅生), born in November 1964, Chinese (Hong Kong). Mr. Chan Ngai Sang Kenny is an independent non-executive Director of the Bank. Mr. Chan has over 30 years of experience in accounting, taxation, auditing and corporate finance. He is a partner and the funder of Kenny Chan & Co., a firm of Certified Public Accountants (Practicing). In addition, Mr. Chan has served on several tribunals and committees of the Government of Hong Kong, which includes the Mandatory Provident Fund Schemes Appeal Board (強制性公積金計畫上訴委員會), the Youth Development Programme Consultative Panel (青年發展計劃諮詢小組) of Home Affairs Department and the Occupational Retirement Schemes Appeal Board (職業退休計畫上訴委員會), and the Organizing Committee of the Hong Kong Youth Cultural & Arts Competitions Committee (全港青年學藝比賽大會統籌委員會), where he has served as the chairman. He was a member of the Youth Program Coordinating Committee of the Commission on Youth of the Home Affairs Bureau (民政事務局青年委員會青年活動統籌委員會) from April 2015 to March 2017. Mr. Chan currently serves as an independent non-executive director of several companies, including CMIC Ocean En-Tech Holding Co., Ltd. (Stock Code: HK.206) since October 2005, Sing On Holding Limited (Stock Code: HK.8352) since November 2016, Minsheng Education Group Co., Ltd. (Stock Code: HK.1569) since March 2017, Hebei Construction Group Corporation Limited (Stock Code: HK.1727) since December 2017 and Pak Tak International Limited (Stock Code: HK.2668) since October 2019. Mr. CHAN Ngai Sang Kenny is a member of the Australian Society of Certified Practicing Accountants since February 1989, the Hong Kong Institute of Certified Public Accountants since February 1992, the Institute of Chartered Accountants of Australia and New Zealand since March 1998, the Taxation Institute of Hong Kong (香港稅務學會) since August 1998, the Association of International Accountants since October 1998 and the fellow member of Hong Kong Institute of Directors (香港董事學會) since October 2016. Mr. CHAN Ngai Sang Kenny received a bachelor's degree in commerce (accounting and finance) from the University of New South Wales in Australia in October 1988.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

3.2 Supervisors

Mr. HAO Jingtao (郝驚濤), born in June 1971, Chinese. Mr. Hao Jingtao is the Chairman of the Board of Supervisors of the Bank, in charge of the Audit Department, Regional Audit Department I and Regional Audit Department II. He served as the deputy secretary of the party committee of the Bank from January 2018 and employee representative Supervisor of the Bank from March 2018, the executive vice president of the Bank from April 2015 to January 2018 and an executive director of the Bank from December 2014 to January 2018. Mr. Hao has more than 20 years of experience in banking business operations and management. Prior to joining the Bank, Mr. Hao's major work experience includes: serving as the vice president of the Hefei Branch of China Minsheng Banking Corp., Ltd. (中國民生銀行合肥分行) from December 2013 to December 2014; serving as a member of the party committee and the vice president of the Guiyang Branch of China CITIC Bank (中信銀行貴陽分行) from September 2011 to December 2013. He served successively as the deputy head of the planning group, vice president, secretary of the party committee and the president of the Luoyang Branch of China CITIC Bank(中信銀行洛陽分行) from December 2007 to September 2011. In addition, he served successively as the general manager of corporate banking department of the Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) and the president of the Information Mansion Sub-branch (信息大廈支行) of the Zhengzhou Branch. His work experience also includes serving as the deputy president of the Zhengzhou Chengdong Sub-branch of Bank of China (中國銀行鄭州城東支行) from December 2003 to February 2005, the president of the Xinmi Sub-branch of Bank of China (中國銀行新密市支行) from June 2001 to December 2003, the deputy head of accounting department of the Zhengzhou Sub-branch of Bank of China from July 1999 to June 2001. He worked at the Zhengzhou Branch of Bank of China from July 1994 to July 1997. Mr. Hao received a bachelor's degree in statistics from Zhongnan University of Finance (currently known as Zhongnan University of Economics and Law (中南財經政法大學) in July 1994 and a master's degree in applied economics (financial engineering) from Renmin University of China (中國人民大學) in January 2012. Mr. Hao is an accountant accredited by the Ministry of Finance of the People's Republic of China in May 1998.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Ms. JIA Jihong (賈繼紅), born in September 1963, Chinese. Ms. Jia Jihong is an employee representative supervisor and the Vice Chairwoman of the Board of Supervisors of the Bank, in charge of rural banking management department and subsidiaries. She has more than 30 years of experience in banking business operations and management. Prior to joining the Bank, Ms. Jia's major work experience includes: serving as the president, legal representative and the deputy secretary to the party committee of Nanyang Bank from December 2011 to December 2014 and serving as the president, legal representative and the deputy secretary to the party committee of Nanyang Commercial Bank Co., Ltd from May 2005 to November 2011. Ms. Jia held several positions in the Nanyang Branch of Agricultural Bank of China, including vice president and the deputy secretary to the party committee from December 1996 to May 2005, the deputy section chief and the section chief of the information computer successively from September 1989 to November 1996. Before that, Ms. Jia served as an accountant, a facility reviewer, the office chief, the vice president and the chairwoman of the labor union of the Sheqi County of Agricultural Bank of China successively from February 1981 to September 1987. Ms. Jia received a bachelor's degree in management from the Party School of the Central Committee of the Communist Party of China in December 1995, a master's degree in literature from Henan University in October 2001 and an Executive Master in Business Administration degree from Tsinghua University in July 2009. She studied at Wuhan Management Cadres College of Agricultural Bank of China (中國農業銀行武漢管理幹部學院) from September 1987 to July 1989. Ms. Jia is a certified senior consultant accredited by the Henan Science and Technology Committee (河南省科學技術委員會) in January 1999, a senior economist accredited by Agricultural Bank of China in December 2001 and received the basic qualification certificate for insurance agent from the CIRC in July 2002.

Mr. ZHANG Yixian (張義先), born in October 1967, Chinese. Mr. Zhang Yixian is an employee representative Supervisor and the general manager of the audit department of the Bank. Mr. Zhang's major working experience in the Bank: worked in the audit department of the Bank since July 2017 and served as the general manager of the audit department since December 2017. He also served as the general manager of the monitoring and guardian department of the Bank from January 2015 to June 2017. Prior to joining the Bank, Mr. Zhang' major work experience includes: serving as the president of the Yellow River Road Sub-Branch from May 2013 to January 2015, the general manager of the audit department of the Zhengzhou Branch from August 2012 to May 2013, the vice president of Luoyang Branch from August 2011 to August 2012, the deputy general manager of the monitoring and guardian department of Zhengzhou Branch from July 2007 to August 2011, the vice president of Zhengzhou Weisan Road Sub-Branch (緯三路支行) from July 2005 to July 2007, and the assistant to the general manager of accounting department of Zhengzhou Branch from July 2002 to July 2005. Mr. Zhang worked at the finance department of the Xinxiang Branch of China



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Construction Bank (建設銀行新鄉分行) from September 1993 to July 2002 and the finance department of Xingxiang State-owned 103 Factory (新鄉國營103廠財務部) from July 1990 to September 1993. Mr. Zhang received a college diploma in finance and accounting from Zhengzhou University of Aeronautics (鄭州航空工業管理學院) in July 1990, and is a mid-level accountant.

Ms. LI Weizhen (李偉真), born in June 1965, Chinese. Ms. Li Weizhen is a Shareholder representative Supervisor of the Bank. Ms. Li has been the deputy director of Henan Mingrui Accounting Firm (河南明銳會計師事務所) since November 2015 and the general accountant of Zhengzhou Kangqiao Real Estate Development Co. Ltd (鄭州康橋房地產開發有限責任公司) since December 2009. Ms. Li's work experience also includes serving as the general manager of Henan Chenghe Accounting Firm (河南誠和會計師事務所) from June 2008 to November 2015 and the deputy chief accountant of Asia Pacific (Group) CPAs (亞太(集團)會計師事務所) from October 1993 to June 2008. Ms. Li has been an independent non-executive director of several listed companies, including Zhengzhou Coal Industry and Electric Power Co., Ltd. (鄭州煤電股份有限公司) (SH.600121) since May 2016, Henan City Development Environment Co., Ltd. (河南城發環境股份有限公司) (SZ.000885) since February 2016 and Zhongyuan Environment protection Co., Ltd. (中原環保股份有限公司) (SZ.000544) since July 2013. Ms. Li completed her undergraduate education in planning and statistics in the department of economics at Zhengzhou University (鄭州大學) in July 1987 and received a master's degree in management from Tianjin University of Finance and Economics (天津財經學院) in June 1999. Ms. Li received the qualification as a PRC certified public accountant from the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in December 2008 and was accredited as a senior accountant by the Senior Review Committee of Accounting Professions of Henan Province (河南省會計系列高評會) in November 2002.

Mr. LI Wanbin (李萬斌), born in December 1971, Chinese. Mr. Li Wanbin is a Shareholder representative Supervisor of the Bank. Mr. Li has been the chairman of the board of directors of Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) since March 2011. Before that, Mr. Li worked as a director, the vice president, the general manager, the vice chairman of the board of directors and a member of the party committee of Henan Blue Sky Group Co., Ltd. (河南藍天集團有限公司) successively from July 2003 to August 2008. In addition, Mr. Li served as the chairman of the board of directors of several companies, including Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司) from August 2008 to March 2011, Southern Henan Highway Investment Co., Ltd. (河南省豫南高速投資有限公司) from October 2003 to October 2004, and Southern Henan Gas Co., Ltd. (河南省豫南燃氣有限公司) from September 2000 to December 2002. Mr. Li was also a director and the executive vice general manager of Henan Zhongyuan Gas and Chemical Engineering Investment Co., Ltd (河南中原氣化工程投資有限公司) from June 1999 to April 2001, and a sales personnel, the vice general manager and



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

the general manager of Zhumadian Middle Distillate Co., Ltd. (駐馬店中油銷售有限公司) successively from July 1994 to June 1999. Mr. Li received an Executive Master of Business Administration degree from Hong Kong University of Science and Technology (香港科技大學) in June 2012.

Mr. LI Xiaojian (李小建), born in August 1954, Chinese. Mr. Li Xiaojian is an external Supervisor of the Bank. Mr. Li's primary work experience prior to joining the Bank includes serving as the principal of Henan University of Economics and Law from September 2010 to September 2015, the principal of Henan College of Finance from October 2003 to September 2010, the vice principal of Henan University from September 2001 to October 2003, and the dean of the school of environment and planning of Henan University from April 1994 to September 2001. Mr. Li received a bachelor's degree in geography from Henan Normal University (河南師範大學) in January 1982. He received a doctor's degree in economical geography from Nankai University (南開大學) in June 1990 and completed a doctorate program at Australian National University in March 1990, respectively. Mr. Li is a professor accredited by Henan Government in November 1993.

Mr. HAN Wanghong (韓旺紅), born in March 1954, Chinese. Mr. Han Wanghong is an external Supervisor of the Bank. Prior to joining the Bank, Mr. Han held various other positions at Zhongnan University of Economics and Law, including serving as a professor from September 2002 to March 2019, a Ph.D. supervisor and the deputy director of the Investment Study Centre of Zhongnan University of Economics and Law from September 2009 to March 2019, as well as the vice president of the Committee of the Construction of the Investment Major of the Investment Association of China (中國投資協會投資學科建設委員會) from July 2015 to July 2019, the head of the investment department from September 2004 to December 2011, a lecturer and a deputy professor successively from September 1987 to August 2002. Mr. Han received a bachelor's degree in economics from Hubei College of Finance in July 1982, a master's degree in economics from Zhongnan University of Finance in November 1985 and a doctor's degree in industrial economics from Zhongnan University of Economics and Law in December 2008.

Mr. SUN Xuemin (孫學敏), born in April 1963, Chinese. Mr. Sun Xuemin is an external Supervisor of the Bank. Mr. Sun currently holds several positions at Zhengzhou University, including a professor in the business department since November 2001, the chief of the Strategic Research Centre of the Development of Modern Industry and Enterprises (現代產業與企業發展戰略研究中心) since April 2010 and the chief of the Corporation Research Centre (企業研究中心) since April 2004. Mr. Sun's work experience also includes serving as the legal representative and the executive director of Zhengzhou Jiebang Management Consulting Co., Ltd. (鄭州傑邦管理諮詢有限公司) since April 2005, the Director of Zhengzhou High-Tech Valley of Technology Development Co., Ltd. (鄭州高創穀科技園開發有限公司) since July



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

2015, the legal representative and executive director of Zhengzhou Zhengda Yunchuang Technology Co., Ltd. (鄭州鄭大雲創科技有限公司) since December 2015. Mr. Sun had served as an independent non-executive director of Jindan Rusuan Technology Co., Ltd. (河南金丹乳酸科技股份有限公司) from April 2011 to April 2016. Mr. Sun served as a member and the deputy chief of the “Expert Committee for Small and Medium Enterprises in Zhengzhou” (鄭州市中小企業專家服務團) from December 2010 to May 2014. Mr. Sun received a doctor’s degree in western economy from Huazhong University of Science and Technology in June 2008.

Mr. PAN Xinmin(潘新民), born in January 1957, Chinese. Mr. Pan Xinmin is an external supervisor of the Bank and has 40 years of experience in banking operations and management. He has been a senior researcher of Henan Songshan Think Tank (河南嵩山智庫) since November 2018. He served as an inspector in the inspection group at the head office of China Merchants Bank (中國招商銀行總行) from December 2015 to February 2017, the president and secretary to the CPC Committee of China Merchants Bank Kunming Branch (中國招商銀行昆明分行) from December 2009 to December 2015, the principal of the organization panel of China Merchants Bank Zhengzhou Branch (中國招商銀行鄭州分行) from July 2002 to December 2002, and the president and secretary to the CPC Committee of the same from December 2002 to December 2009. Mr. Pan was the president and secretary to the CPC Committee of China Everbright Bank Dalian Branch (光大銀行大連分行) from April 2001 to July 2002. He successively held several positions in China Construction Bank (中國建設銀行) from April 1980 to April 2001, including: (i) clerk of Henan Branch (河南省分行), (ii) deputy chief officer of Henan Branch, (iii) vice president and member of the CPC Committee of Zhumadian Branch (駐馬店分行), (iv) deputy director of Sanding office of Henan Branch, (v) the general manager of Henan Trust Investment Co., Ltd. (河南省信託投資公司), (vi) the president and secretary to the CPC Committee of Shangqiu Branch (商丘分行), (vii) vice president and member of the CPC Committee of Henan Branch. The working experience of Mr. Pan also includes being employed as a worker at the Third Coal Mine of Hebi Mining Bureau (鶴壁礦務局第三煤礦) from September 1977 to April 1978.

Mr. Pan graduated from Henan Accounting School (河南省會計學校) in February 1980, and graduated from Henan Radio and Television University (河南廣播電視大學) majoring in Chinese language and literature in July 1985. He studied in the Party School of the CPC Committee of Henan Province (河南省委黨校) from September 1992 to July 1994 and obtained the graduation certificate majoring in economics management for undergraduates at the evening college of the Party School. He completed the on-the-job postgraduate courses and obtained a master degree of economics from Zhongnan University of Finance (中南財經大學) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1996, and completed education in international finance (as an off-the-job transferred student) and graduated at the Business School of Wuhan University (武漢



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

大學商學院) and obtained a bachelor degree of economics in July 1999. He completed the on-the-job postgraduate courses and obtained a doctorate in management from the School of Management of Huazhong University of Science and Technology (華科技大學) in December 2008. Mr. Pan obtained the senior economist qualification in March 1994 and the certified public accountant qualification from the Chinese Institute of Certified Public Accountants in December 1997.

3.3 Senior Management

For biographical details of Mr. WANG Jiong (王炯) and Mr. LI Yulin (李玉林), please see “Biography of Directors, Supervisors and senior management – 3.1 Biography of Directors”. For the biographical details of Mr. ZHANG Yixian (張義先), please see “Biography of Directors, Supervisors and senior management – 3.2 Supervisors”.

Mr. LIU Kai (劉凱), born in March 1971, Chinese. Mr. Liu Kai is the vice president of the Bank, in charge of the compliance department, the administrative department, the monitoring and guardian department and the party committee inspection office. Mr. Liu has served as a vice president of the Bank since December 2014. Mr. Liu has more than 20 years of experience in banking operations and management. Mr. Liu’s primary work experience prior to joining the Bank includes serving as: (i) a member of the Leading Group Office for the reform and restructuring of some city commercial banks in Henan Province from December 2013 to December 2014, (ii) the assistant to the head of the Bureau of Financial Market of PBoC from August 2011 to November 2013, (iii) the president and the secretary to the party committee of PBoC Anyang Central Sub-branch and the head of the Anyang Central Sub-bureau of the State Administration of Foreign Exchange (國家外匯管理局安陽支局) from May 2007 to August 2011. He served successively as a chief section member, the deputy chief and the chief of the office of the party committee and the manager of the office of legal affairs of PBoC Zhengzhou Central Sub-branch from January 1999 to April 2007. Prior to that, Mr. Liu served successively as an officer and a section member of the finance management department and a deputy chief section member and a chief section member of the office of the Henan Branch of PBoC from July 1994 to January 1999. He worked at PBoC Tanghe County Sub-branch from July 1993 to July 1994. Mr. Liu received a bachelor’s degree in the science of law from Zhengzhou University in June 1993, and a master’s degree in liberal arts from Henan University in June 2007. Mr. Liu received a certificate for passing the lawyer’s qualification exam from the Department of Justice of Henan Province (河南省司法廳) in May 1995 and is a senior economist accredited by the PBoC in May 2005.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Mr. ZHAO Weihua (趙衛華), born in March 1977, Chinese. Mr. Zhao Weihua is the vice president and the chief risk officer of the Bank, in charge of risk segment. Prior to that, Mr. Zhao was the president assistant and the chief risk officer of the Bank from December 2014 to May 2018. Mr. Zhao has more than 18 years of experience in banking operations and management. Prior to joining the Bank, Mr. Zhao served as a member of the leading group office for the reform and restructuring of some city commercial banks in Henan Province from December 2013 to December 2014. Before that, Mr. Zhao held various positions in the Zhengzhou Branch of China CITIC Bank from July 2009 to December 2013, including (i) the assistant to the general manager of the risk management department and the retail banking department, (ii) the deputy general manager, the general manager of the risk management department and the manager of the credit approval department. In addition, he served as the credit approval manager of the Zhengzhou Branch of China CITIC Bank from July 2006 to February 2008. He worked as the assistant to the president of the Zhengzhou Zijing Shan Road Sub-branch of China CITIC Bank from February 2008 to July 2009. Prior to that, Mr. Zhao served as an accountant, a credit administrator, a specialized facility reviewer, the deputy manager and the manager of the real estate finance business department of the Henan Province Branch of China Construction Bank successively from August 1999 to August 2004. Mr. Zhao received a bachelor's degree in economics from Shaanxi College of Finance (陝西財經學院) (currently known as Xi'an Jiaotong University (西安交通大學)) in July 1999 and a Master of Business Administration degree from Sun Yat-Sen University (中山大學) in June 2006. Mr. Zhao is an intermediate economist accredited by the Human Resources Department of the PRC in November 2007.

Mr. ZHOU Litao (周麗濤), born in November 1979, Chinese. Mr. Zhou Litao is the vice president of the Bank, in charging of the financial market segment. Before that, Mr. Zhou was the corporate business director of the Bank from December 2014 to May 2018. Prior to joining the Bank, Mr. Zhou held several positions, including serving as the general manager of the asset management department of the investment banking division of the China CITIC Bank from May 2013 to December 2014, the general manager of the strategic customer department of the Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) from January 2013 to May 2013, the product manager, assistant to general manager, deputy general manager and general manager of the investment banking center of Zhengzhou Branch of China CITIC Bank successively from March 2008 to January 2013, and the product manager of corporate banking department of Zhengzhou Branch of China CITIC Bank from February 2006 to March 2008. He worked at the Henan Branch of the China Construction Bank (中國建設銀行河南省分行) from July 2001 to July 2003. Mr. Zhou received a bachelor's degree in Economics in July 2001 and a master's degree in business administration in February 2006, both from Xi'an Jiaotong University. Mr. Zhou was recognized as an intermediate economist in November 2007.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Mr. LIU Qingfen (劉清奮), born in March 1970, Chinese. Mr. Liu Qingfen is an assistant to the president of the Bank, in charging of the corporate business segment. Before that, Mr. Liu served as the secretary to the party committee and general manager of the head office of the Bank from December 2014 to July 2017 and the secretary to the party committee and president of the Zhengzhou Branch of the Bank from July 2017 to February 2018. Mr. Liu is the general manager of the corporate banking department of the Bank since February 2018. Prior to joining the Bank, Mr. Liu held several positions, including serving as a section member of the office of Zhengzhou Commercial Bank(鄭州市商業銀行) from July 1994 to July 1998, the vice president of Zhengbian Road Sub-branch(鄭汴路支行) and Qiaojiamen Sub-branch(喬家門支行) of Zhengzhou Commercial Bank successively from July 1998 to March 2000, the deputy director of the office of Zhengzhou Commercial Bank from March 2000 to November 2000, the deputy section chief and section chief of the customer section of Zhengzhou Branch of Bank of Communications(交通銀行鄭州分行) from November 2000 to April 2004, the vice president and president of the Weiwu Road Sub-branch(緯五路支行) of the Zhengzhou Branch of Bank of Communications successively from April 2004 to April 2006, the head of business expansion department of the Zhengzhou Branch of China Industrial Bank(興業銀行鄭州分行) from April 2006 to July 2007, the president of the Dongdajie Sub-branch(東大街支行) of the Zhengzhou Branch of China Industrial Bank from July 2007 to July 2012, the Director of the Dongdajie business department of the Zhengzhou Branch of China Industrial Bank from July 2012 to January 2013, the deputy secretary to the party committee and the president of Kaifeng Commercial Bank(開封市商業銀行) from January 2013 to December 2014. Mr. Liu graduated from Zhengzhou University(鄭州大學) with a bachelor's degree in Chinese language and literature in June 1994. Mr. Liu was awarded the intermediate economist in November 1998.

Mr. YAO Hongbo(姚紅波), male, born in April 1969, Chinese. Mr. YAO Hongbo is an assistant to the president of the Bank, in charging of the retail business segment. Previously, Mr. YAO served as the secretary to the party committee and president of the Bank's Xinxiang Branch from March 2016 to April 2018; served as the Bank's retail business director from April 2018 to May 2019. Since May 2018, he has been the assistant to the president of the Bank. Prior to joining the Bank, Mr. YAO Hongbo's major work experience includes: serving as an employee, director of the branch office and office director of China Construction Bank's Puchi County Branch from July 1992 to April 2001; a cadre in the integrated division under the asset protection department in China Construction Bank Henan Branch from April 2001 to January 2002; a cadre in the research department of the China Construction Bank Henan Branch office from January 2002 to January 2003; the organization section chief in the human resources department of the China Construction Bank Henan Branch from January 2003 to February 2005; the deputy director of Zhengzhou Branch Office of CITIC Bank from February



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

2005 to January 2008; the vice president of Zhengzhou Wenhua Road Sub-branch of CITIC Bank from January 2008 to January 2010; the president of CITIC Bank Zhengzhou Huanghe Road Sub-branch from January 2010 to April 2010; the president of CITIC Bank Zhengzhou Dongfeng Road Sub-branch from April 2010 to January 2013; the President of CITIC Bank Jiaozuo Branch from January 2013 to October 2015; and the general manager of the Banking Department of CITIC Bank Zhengzhou Branch from October 2015 to March 2016. Mr. YAO graduated from Zhengzhou University with a major in finance (bachelor's degree) in July 1992 and has a title of intermediate economist.

Mr. ZHANG Ke (張克), born in October 1977, Chinese. Mr. Zhang Ke is the secretary to the Board. Mr. Zhang has served as the secretary to the Board of the Bank since December 2014. His primary work experience prior to joining the Bank includes serving as a member of the Leading Group Office for the reform and restructuring of some city commercial banks in Henan Province from December 2013 to December 2014, the general manager of the accounting finance department, the chief accountant and a director of Kaifeng Commercial Bank from April 2010 to December 2013, as well as a business manager of the corporate planning department of Henan Investment Group Co., Ltd. (河南投資集團有限公司) from July 2007 to March 2010. Before that, Mr. Zhang worked as a deputy chief officer in the accounting finance section of the Central Sub-branch of Sanmenxia City of the PBoC from July 1999 to June 2007. Mr. Zhang received a bachelor's degree in management from Henan University of Finance in June 1999 and a Master of Business Administration degree from Xi'an University of Technology in April 2006. Mr. Zhang is a senior accountant accredited in December 2008.

Ms. ZHANG Yi (張怡), born in March 1973, Chinese. Ms. Zhang Yi is the general manager of the planning and financing department of the Bank. Ms. Zhang has served as the general manager of the planning and financing department of the Bank since September 2015. Her primary work experience prior to joining the Bank includes serving as a member of the leading group office for the reform and restructuring of some city commercial banks in Henan Province from December 2013 to December 2014, the deputy general manager of the planning and financing department from March 2011 to December 2013, and an employee and the assistant to the general manager of the planning and financing department of the Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) successively from June 2008 to March 2011. Ms. Zhang worked as an employee in the finance and accounting department at Henan Finance Securities Co., Ltd. (河南財政證券公司) from August 2000 to December 2001 and as an officer in the Government Procurement Department of the Bureau of Finance of Henan Province (河南省財政廳政府採購處) from January 1999 to August 2000. Ms. Zhang worked at Central China Securities Co., Ltd. (中原證券股份有限公司) from January 2002 to June 2005. Prior to that, Ms. Zhang was transferred from Henan Finance Securities Co., Ltd. to serve as an officer in the Administrative Politics and Law Department of the



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Bureau of Finance of Henan Province (河南省財政廳行政政法處) from January 1995 to December 1998, and she served as an employee in the computer department of Henan Finance Securities Co., Ltd. from August 1994 to December 1994. Ms. Zhang received a bachelor's degree in economics from Jiangxi Finance College (江西財經學院) in July 1994, a Master of Business Administration degree from Henan University in June 2004, and a doctor's degree in accounting from the Business School of Renmin University of China in June 2008. Ms. Zhang is a senior accountant accredited in May 2005.

4 Confirmation of Independence of Independent Non-executive Directors

The Bank has received from each of its independent non-executive Directors the annual confirmation of his independence and considered that all the independent non-executive Directors are independent pursuant to the guidelines set out in Rule 3.13 of the Listing Rules.

5 Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank has adopted the Model Code as the code of conduct for securities transactions of the Bank by all Directors and Supervisors. The Bank has also put in place guidelines in respect of dealings in securities of the Company with terms no less exacting than those of the Model Code, for the relevant employees (as defined in the Listing Rules). Having made specific enquiries to all Directors and Supervisors regarding their compliance with the Model Code, each of the Directors and Supervisors confirmed that those standards as provided thereunder have been complied with for the twelve months period from January 1, 2019 to December 31, 2019. Having made specific enquiries to the relevant employees regarding their compliance with the guidelines of dealing in securities of the Company, the Bank is not aware of any incompliance with the guidelines.

6 Interests and Short Positions of Directors, Supervisors and Chief Executive Officers in Shares, Underlying Shares and Debentures

As of December 31, 2019, the Directors, Supervisors and chief executive officers of the Bank who had interests and short positions in the Shares, underlying Shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Bank under Section 352 of the SFO, or which were required to be notified to the Bank and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code were as follows:



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Interests in Shares of the Bank (Long Positions)

Name	Class of Shares	Nature of interests	Number of Shares	Approximate percentage of the total issued share capital of the relevant class of the Bank ⁽¹⁾ (%)	Approximate percentage of the total issued share capital of the Bank ⁽¹⁾ (%)
Mr. WEI Jie	Domestic Shares	Beneficial owner	500,000	0.00	0.00
Mr. LI Xipeng ⁽²⁾	Domestic Shares	Interest in controlled corporation	753,000,000	4.63	3.75
Ms. JIA Jihong	Domestic Shares	Beneficial owner	2,472	0.00	0.00
Mr. LI Wanbin ⁽³⁾	Domestic Shares	Interest in controlled corporation	407,657,871	2.50	2.03

Notes:

- As of December 31, 2019, the number of total issued Shares of the Bank was 20,075,000,000, including 16,280,000,000 Domestic Shares and 3,795,000,000 H Shares.
- Mr. LI Xipeng and his spouse hold 100% equity interest in Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司). Therefore, by virtue of the SFO, Mr. LI Xipeng is deemed to be interested in the 753,000,000 Domestic Shares of the Bank (long positions) directly held by Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司).
- Mr. LI Wanbin is the de facto controller of Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司). Therefore, by virtue of the SFO, Mr. LI Wanbin is deemed to be interested in the 407,657,871 Domestic Shares of the Bank (long positions) directly held by Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司).



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

7 Remuneration Information for Directors, Supervisors and Senior Management

The Bank provide remuneration for Directors, Supervisors and Senior Management according to the “Administrative Measures on the Remuneration of Directors and Supervisors of Zhongyuan Bank Co., Ltd. 《(中原銀行股份有限公司董事、監事薪酬管理辦法)》”, “Administrative Measures on the Remuneration of Senior Management of Head Office of Zhongyuan Bank Co., Ltd. 《(中原銀行股份有限公司總行高級管理人員薪酬管理辦法)》”, “Measures for Evaluating the Performance of Directors and Senior Management of Board of Directors of Zhongyuan Bank Co., Ltd. 《(中原銀行股份有限公司董事會對董事、高管人員履職評價辦法)》”, “Measures for Evaluating the Performance of Directors, Supervisors and Senior Management of Board of Supervisors of Zhongyuan Bank Co., Ltd. 《(中原銀行股份有限公司監事會對董事、監事、高管人員履職評價辦法)》” and “Measures for the Administration of the Performance Appraisal of Senior Management of Head Office of Zhongyuan Bank Co., Ltd. in 2019 《(中原銀行股份有限公司2019年總行高級管理人員績效考核管理辦法)》”.

The specific remuneration plan of the Bank’s directors, supervisors and senior management personnel shall be reviewed by the Nomination and Remuneration Committee of the Board and submitted to the Board for final decision. The remuneration system of directors, supervisors and senior management personnel is determined based on the principles of power and responsibility consistency, incentives (both short-term and medium- and long-term incentives are taken into account) and constraints combination, promoting the marketization of the Bank’s income distribution for senior management.

Please refer to Note 10 to the financial statements for the remuneration of Directors and Supervisors during the Reporting Period. During the year ended December 31, 2019, no emolument was paid by the Bank to any of the Directors, Supervisors or the five highest paid individuals (including Directors, Supervisors and employees) as an inducement to join or upon joining the Bank or as compensation for loss of office.

Remuneration paid to the senior management (excluding the Directors and Supervisors) by bands for the year ended December 31, 2019 is set out below:

	No. of employees
RMB0 to RMB1,000,000	0
RMB1,000,000 to RMB2,000,000	2
RMB2,000,000 to RMB3,000,000	1
RMB3,000,000 to RMB4,000,000	4



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Note: As of December 31, 2019, three senior management of the Bank were also Directors or Supervisor, namely Mr. WANG Jiong (王炯), Mr. LI Yulin (李玉林) and Mr. ZHANG Yixian (張義先). For details of the remuneration of WANG Jiong, LI Yulin and ZHANG Yixian, please refer to note 10 to the financial statements of this annual report.

8 Employees' Remuneration Policies and Training Programs

8.1. Information of Employees

As of December 31, 2019, we had 13,491 employees in total, of which 1,416 employees at our head office and 12,075 employees at our branches and sub-branches. We had 225 dispatched staff. As of December 31, 2019, 10,333 employees or 76.59% had bachelor's degrees or above, with the average age of 35.78. We totally had 1,013 employees at village and township banks sponsored by the Bank, 354 employees at Henan Zhongyuan Consumer Finance Corp., Ltd. (河南中原消費金融股份有限公司) and 81 employees at AB Leasing Co., Ltd.

8.2. Employees' Remuneration Policies

The Bank's remuneration policies aim to establish a well-developed, scientific and effective incentive and restraint mechanism for realization of corporate strategy and long-term shareholder value. The policy is conducive to the implementation of strategic objectives, enhancement of competitiveness, cultivation of talents and control of risks. The Bank established a position evaluation-based and operating results-oriented remuneration distribution mechanism and developed a professional serial review method for employees to broaden the career development channels, which played an incentive and restraint role.

The Bank gave full play to the guiding role of remuneration in management and risk control. In accordance with the principle of combining immediate incentives with long-term incentives and combining effective incentives and responsibility constraints and subject to the needs of risk management, the Bank mitigates risks through deferred payment of performance compensation of senior management with regard to the risk factors that are not reflected currently, so as to promote the stable operation and sustainable development of the Bank.

The relevant remuneration management system of the Bank should be submitted to the Nomination and Remuneration Committee, the Executive Committee of the Board and the Board of Directors for review. The Bank did not have any share option incentive scheme or employee shareholding plan during the Reporting Period.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

8.3. Employees Training Programs

The Bank has set up the annual training programs according to its business development strategies and educational training plans, adhering to a people-oriented management philosophy, with “power digital transformation, to improve training quality” as the focus, and has carried out the training programs according to the principle of “different level, different classification, wide coverage”, and further enhanced the training experience of the trainees through diversified forms and multi-channel of the training, gradually improving the employee’s digitalization of thinking and digital application ability, and further enhancing the employee’s overall quality, professional ability and management level. The Bank has committed to provide strong organization guarantee and talent support for our long-term development. The Bank manages its training programs based on the mechanism of “standardized principles and planning, and hierarchical management and implementation”, and establishes a three-tier training system comprising “head office, branch, sub-branch (sector)”. During the reporting period, the Bank organized 225 tier 1 training in various categories in total, the planned completion rate is 100% with aggregated number of staff trained of 45,930 and 3.38 trainings per head. 18 branches of the Bank reported 2,225 tier 2 training programs at the beginning of the year and completed 2,434 training programs with the training duration of 2,169 days and aggregated number of staff trained of 133,403 and 10.14 trainings per head. Our training has basically reached full staff coverage and provides strong human resources protection for the sustainable and healthy business development of the Bank.

9 Information of Institutions under the Bank

As of December 31, 2019, there are 18 branches and 2 direct sub-branches, and 467 outlets in total, including 295 urban branches, 122 county-level branches and 50 township-level sub-branches under the Bank. We also have 5,373 farmers-benefiting payment service outlets and inclusive financial service stations. The following table sets out the branches and sub-branches:

No.	Region	Name of the Branch	Business Address (China)	Remarks
1	Zhengzhou, Henan	Headquarters	Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province	Directly in charge of 2 sub-branch institutions
2	Zhengzhou, Henan	Zhengzhou	Shengrun International Plaza, 219 Jinshui Road, Jinshui District, Zhengzhou City, Henan Province	In charge of one business department, 37 sub-branch institutions
3	Kaifeng, Henan	Kaifeng	No. 246, West Daliang Road, Kaifeng City, Henan Province	In charge of one business department, 30 sub-branch institutions
4	Xinyang, Henan	Xinyang	Approval Centre, Xinshi Street, Yangshan New District, Xinyang City, Henan Province	In charge of one business department, 29 sub-branch institutions



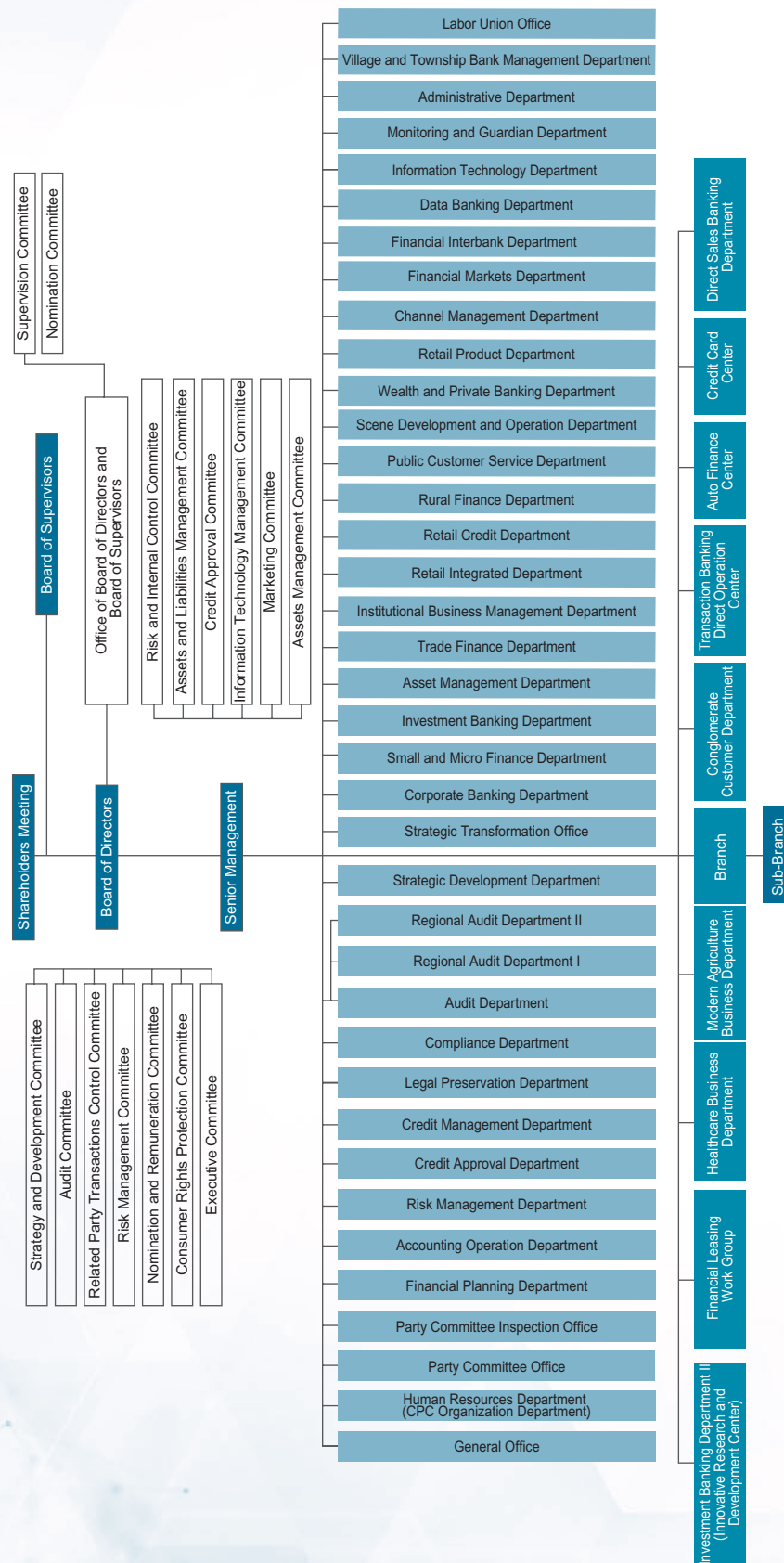
Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

No.	Region	Name of the Branch	Business Address (China)	Remarks
5	Anyang, Henan	Anyang	Northwest Corner, Intersection of Wenfeng Avenue and Guangming Road, Wenfeng District, Anyang City, Henan Province	In charge of one business department, 26 sub-branch institutions
6	Hebi, Henan	Hebi	Finance Centre, Qishui Avenue, Qibin District, Hebi City, Henan Province	In charge of one business department and 15 sub-branch institutions
7	Luohe, Henan	Luohe	Intersection of Huangshan Road and Songjiang Road, Yancheng District, Luohe City, Henan Province	In charge of one business department, 18 sub-branch institutions
8	Nanyang, Henan	Nanyang	No.6, Zhangheng Road, Nanyang City, Henan Province	In charge of one business department, 44 sub-branch institutions
9	Pingdingshan, Henan	Pingdingshan	Northwest Corner, Intersection of Zhongxing Road and Zhannan Road, Zhanhe District, Pingdingshan City, Henan Province	In charge of one business department, 12 sub-branch institutions
10	Puyang, Henan	Puyang	No.444, Shenglizhong Road, Puyang City, Henan Province	In charge of one business department, 23 sub-branch institutions
11	Sanmenxia, Henan	Sanmenxia	Southwest Corner of Yingbin Avenue and No. 2 Commercial Street, Central Business District, Sanmenxia City, Henan Province	In charge of one business department, 27 sub-branch institutions
12	Shangqiu, Henan	Shangqiu	Northeast Corner, Shangzi Plaza, Shangqiu City, Henan Province	In charge of one business department, 47 sub-branch institutions
13	Xinxiang, Henan	Xinxiang	No.599 Pingyuan Road, Hongqi District, Xinxiang City, Henan Province	In charge of one business department, 34 sub-branch institutions
14	Xuchang, Henan	Xuchang	East Jianan Avenue, Xuchang City, Henan Province(On the west to the Bureau of Finance)	In charge of one business department, 27 sub-branch institutions
15	Zhoukou, Henan	Zhoukou	MOCO New world Business Office Building, 150m east of the intersection of Qingfeng Road and Zhoukou Avenue, Zhoukou City, Henan Province	In charge of one business department, 27 sub-branch institutions
16	Zhumadian, Henan	Zhumadian	No. 168, Wenming Road, Zhumadian City, Henan Province	In charge of one business department, 37 sub-branch institutions
17	Jiaozuo, Henan	Jiaozuo	No.479, Renmin Road, Jiefang District, Jiaozuo City, Henan Province	In charge of one business department, 8 sub-branch institutions
18	Jiyuan, Henan	Jiyuan	No. 481, Middle Yellow River Road, Jiyuan City, Henan Province	In charge of one business department, 2 sub-branch institutions
19	Luoyang, Henan	Luoyang	No.66, Changxing Street, Luolong District, Luoyang City, Henan Province	In charge of one business department, 4 sub-branch institutions



Chapter 8 Corporate Governance Report

1. Organizational Structure Chart of Corporate Governance



Chapter 8 Corporate Governance Report

2. Summary of Organizational Structure of Corporate Governance

The Bank pursues excellence in corporate governance and is committed to continuously enhancing the quality and transparency of corporate governance for safeguarding shareholders' interests and enhancing the corporate values.

The Bank has established a comprehensive corporate governance structure in accordance with the requirements under the Hong Kong Listing Rules. The compositions of the Board and its special committees complied with the requirements under the Hong Kong Listing Rules. The responsibilities are clearly split among the general meeting, the Board, the Board of Supervisors and the senior management. The general meeting is the authority of the Bank, which exercises its powers pursuant to the laws. The Board shall be accountable to the shareholders' general meeting, and our Bank currently has six special committees under the Board. The special committees are operated under the leadership of the Board, and provide advice on the decision-making of the Board. The Executive committee under the Board is a standing organization of the Board. The Board of Supervisors shall be accountable to the shareholders' general meeting, with the target of safeguarding the legitimate interests of the Bank, the Shareholders, staff, creditors and other stakeholders, as well as supervising the stable and compliance operation of the Bank and the performance of the Board and the senior management. The senior management of the Bank work under the leadership of the Board, which is responsible for the implementation of the resolutions of the Board and the daily business operations of the Bank and is required to report to the Board and the Board of Supervisors on a regular basis. The president of the Bank shall be appointed by the Board and shall be accountable to the Board, which is responsible for the overall business operation and management of the Bank.

As of the end of the Reporting Period, the Bank strictly complied with the code provisions as stated in the Corporate Governance Code in Appendix 14 to the Listing Rules and the listing rules in relation to the disclosure of inside information. The Directors are not aware of any information which indicates that the Bank has not complied with the code provisions as stated in the Corporate Governance Code during the Reporting Period.

The Bank will continue to review and enhance corporate governance, for ensuring that our corporate governance continues to comply with the requirements under the Corporate Governance Code and to achieve a higher expectation from the Shareholders and investors.

Board Diversity Policy

The increasing diversity at the Board level is the key factor for the Bank to achieve its sustainable development, fulfill its strategic objectives and maintain good corporate governance.



Chapter 8 Corporate Governance Report

The Board diversity policy of the Bank specifies that in designing the composition the Board, board diversity shall be considered from several aspects, including but not limited to gender, age, regional and industrial experiences, skills, knowledge and educational background. All Board members' appointment will be based on both capability and integrity, and candidates will be considered against objective criteria, with due regard given to the benefits of diversity of the Board. Selection of candidates for the Board will be based on a range of diversity perspectives, including but not limited to gender, age, regional and industrial experiences, skills, knowledge and educational background.

Members of the Board	Age 40 to 49	Age 50 to 59	Age above 60
Mr. DOU Rongxing		✓	
Mr. WANG Jiong		✓	
Mr. LI Yulin		✓	
Mr. WEI Jie		✓	
Mr. LI Qiaocheng		✓	
Mr. LI Xipeng		✓	
Mr. MI Hongjun	✓		
Ms. PANG Hong			✓
Mr. LI Hongchang			✓
Mr. JIA Tingyu			✓
Mr. CHAN Ngai Sang Kenny		✓	

3. Information Regarding the Convening of the Shareholders' General Meetings

One Shareholders' general meeting were held during the Reporting Period.

On May 20, 2019, the Bank held the 2018 annual general meeting in Zhengzhou, Henan, at which 12 proposals were considered and approved, including "Proposal on the Work Report of the Board of Directors of Zhongyuan Bank Co., Ltd. for 2018", "Proposal on the Work Report of the Board of Supervisors of Zhongyuan Bank Co., Ltd. for 2018", "Proposal on the Financial Budget Report of Zhongyuan Bank Co., Ltd. for 2019" and "Proposal on the Final Account Report of Zhongyuan Bank Co., Ltd. for 2018".

The convening, notice, holding and voting procedures of the aforesaid Shareholders' general meetings were in compliance with the relevant laws and regulations and the relevant requirements of the Articles of Association of the Bank.



Chapter 8 Corporate Governance Report

4. The Board and its Special Committee

4.1 Operation of the Board

The Board of the Bank is responsible for the Shareholders' general meetings, and the directors are elected by the Shareholders' general meetings with a term of three years. The directors make decisions on the Bank's development strategy, operating plan and other matters mainly by form of board meetings. The board meetings are divided into regular board meeting and interim board meeting. The board meeting can be convened in the form of a physical meeting or in the form of written resolutions, and regular board meeting shall be convened in the form of a physical meeting. The Board shall hold at least four regular meetings annually convened by the chairman of the Board. Notices of the Board meetings shall be sent to all directors and supervisors in writing fourteen (14) days before the meeting, and the meeting documents shall be sent to all directors and supervisors five (5) days before the meeting. The Board and the senior management have established a good and communication mechanism. All proposals submitted to the Board meeting are subject to careful review and active discussion by all Directors before making a decision.

The Board has set up an office as its daily working organization which is responsible for preparing the general meeting, the Board meetings and all the meetings of special committees under the Board, and is responsible for implementing all the matters assigned by the general meeting, the Board and the special committees under the Board.

The Board and the senior management exercise their authority in accordance with the requirements under our Articles of Association, and the Board of the Bank performs regular discussion on risk management and internal control system. The Board believes that the risk management and internal control system established and implemented by the Bank is sufficient and effective.

4.2 Composition of the Board

As of the end of the Reporting Period, the Board consists of 11 Directors, including 4 executive Directors, i.e. Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie; 3 non-executive Directors, i.e. Mr. LI Qiaocheng, Mr. LI Xipeng and Mr. MI Hongjun; and four independent non-executive Directors, i.e. Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny.



Chapter 8 Corporate Governance Report

4.3 Functions and Powers of the Board

The Board shall exercise the following functions and powers:

1. convening Shareholders' general meetings and reporting its performance at the general meetings;
2. implementing resolutions of the Shareholders' general meetings;
3. deciding on development strategies, operational plans and investment programs of the Bank;
4. working out annual financial budget plans and final account plans of the Bank;
5. formulating profit distribution plans and plans for recovery of losses of the Bank;
6. formulating proposals for increases in or reductions of registered share capital, issuance of bonds or other securities and listing plans of the Bank;
7. formulating proposals for repurchase of the Bank's shares, merger, separation, change of the nature of the Bank and dissolution or liquidation;
8. within the scope of authority of the Shareholders' general meeting or within the powers prescribed by our Articles of Association, considering matters in relation to major equity investment and disposal with a single amount representing more than five percent (exclusive) and less than ten percent (inclusive) of the most recent audited net asset of the Bank;
9. within the scope of authority of the Shareholders' general meeting or within the powers prescribed by our Articles of Association, considering matters in relation to major asset acquisition and disposal with a single amount representing more than five percent (exclusive) and less than ten percent (inclusive) of the most recent audited net asset of the Bank;
10. deciding on the establishment of the internal management structure of the Bank;



Chapter 8 Corporate Governance Report

11. appointing or removing senior management, including the president and the secretary of the Board of Directors of the Bank; appointing or removing senior management, including vice presidents, assistants to the president and finance officers of the Bank, based on the recommendations of the president; and deciding on matters relating to their emoluments and awards or punishment;
12. establishing the basic management system of the Bank;
13. formulating proposals for any amendment to our Articles of Association;
14. managing the disclosure of information of the Bank;
15. proposing the appointment or replacement of accounting firms to the Shareholders' general meetings for the auditing of the Bank;
16. reviewing working reports of the president of the Bank and examining the performance of the president;
17. formulating capital replenishment plans;
18. formulating medium and long term incentive plans, such as equity incentive plans and employee stock ownership plans;
19. The Board of Directors shall establish a supervisory system to ensure that the management will formulate a code of conduct and working principles for the management staff and the business personnel at all levels and that the regulatory documents will specifically require employees at all levels to promptly report any possible conflict of interests, provide detailed rules and establish corresponding mechanism;
20. The Board of Directors shall establish a reporting system to require the senior management to report operational issues of the Bank to the Board of Directors regularly. The following items shall be regulated under this system:
 - (1) The contents and the basic standard of the information reported to the Board of Directors;
 - (2) The frequency of the report;
 - (3) The form of the report;



Chapter 8 Corporate Governance Report

- (4) The responsible bodies of the report and the responsibilities for delay or incompleteness of the report;
 - (5) The confidentiality of the report.
21. Exercising any other functions and powers prescribed by the laws, administrative regulations, departmental rules or the Articles of Association and authorized by the shareholders' general meetings

The Board is also responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code. The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employee Written Guidelines, and the Company's compliance with the Corporate Governance Code and disclosure in this report.

4.4 Director's Responsibility for the Preparation of the Financial Statements

The Directors acknowledge that they are responsible for the preparation of the financial statements of our Bank for the year ended December 31, 2019, which give a true and fair view of the state of affairs and results of the Bank. In doing so, the Directors opted for suitable accounting policies and applied them consistently and used accounting estimates as appropriate in the circumstances. With the assistance of the accounting and finance staffs, the Directors ensured that the financial statements of the Bank are prepared in accordance with statutory requirements and appropriate financial reporting standards. The statement of the external auditors with regard to their reporting responsibilities on the Group's financial statements is set out on page 169 to page 179 in the Independent Auditors' Report.

4.5 Meetings of the Board of Directors and the Directors' Attendance

During the Reporting Period, all Directors of the Board have attended the 2018 annual general meeting, other than LI Xipeng, being a Director, who did not attend such meeting due to other business. During the Reporting Period, the chairman of the Bank held one meeting with independent non-executive directors.

During the Reporting Period, our Bank convened 7 board meetings, which considered and approved 50 resolutions.



Chapter 8 Corporate Governance Report

The details of the board meetings are set out below:

Session of meeting	Date of meeting	Form of meeting
The 10th meeting of the second session of the Board	January 25, 2019	Circulation of written proposal
The 11th meeting of the second session of the Board	March 28, 2019	On-site
The 12th meeting of the second session of the Board	April 11, 2019	Circulation of written proposal
The 13th meeting of the second session of the Board	June 25, 2019	On-site
The 14th meeting of the second session of the Board	August 29, 2019	On-site
The 15th meeting of the second session of the Board	November 28, 2019	Circulation of written proposal
The 16th meeting of the second session of the Board	December 25, 2019	On-site

The attendance of each Director at the general meeting, board meeting and meetings of special committees under the Board during the Reporting Period is set out below:

Director		Annual general meeting of 2018	Board	Strategy and Development Committee	Risk Management Committee	Audit Committee	Nomination and Remuneration Committee	Related Party Transactions Control Committee	Consumer Rights Protection Committee
Executive Directors	DOU Rongxing	1/1	6/7	2/3	-	-	1/1	-	-
	WANG Jiong	1/1	5/7	3/3	1/2	-	0/1	5/7	1/1
	LI Yulin	1/1	7/7	-	2/2	-	-	-	1/1
	WEI Jie	1/1	7/7	3/3	2/2	-	-	7/7	-
Non-executive Directors	LI Qiaocheng	1/1	7/7	3/3	-	-	-	-	-
	LI Xipeng	0/1	5/7	2/3	-	-	-	-	-
	MI Hongjun	1/1	7/7	3/3	-	-	-	-	-
Independent Non-executive Directors	PANG Hong	1/1	7/7	-	2/2	3/3	1/1	-	-
	LI Hongchang	1/1	7/7	-	2/2	3/3	1/1	7/7	1/1
	JIA Tingyu	1/1	7/7	3/3	2/2	3/3	1/1	7/7	-
	CHAN Ngai Sang Kenny	1/1	7/7	-	-	3/3	-	7/7	1/1



Chapter 8 Corporate Governance Report

4.6 Independent Non-Executive Director

The Board of the Bank currently has 4 independent non-executive Directors with a term of 3 years, which complies with the relevant requirements under the Hong Kong Listing Rules.

Independent non-executive Directors of the Bank undertake the obligation to observe the principle of good faith in accordance with the relevant applicable laws and the Articles of Association, to safeguard the interests of the Bank as a whole, and particularly ensure that the legitimate rights and interests of depositors and minority shareholders of the Bank are not prejudiced. Independent non-executive Director performs the duties and responsibilities independently, without any interference by controlling shareholders of the Bank, or other entities or individuals who have a material interest in the Bank. The independent non-executive Directors of the Bank also attended the annual general meeting of the Bank to listen to shareholders' opinions. In addition, they have also committed contribution positively in the development of the Bank's strategy and policies by providing independent, constructive and informed advises.

The Bank has received from each of the independent non-executive Directors an annual confirmation letter of independence pursuant to the requirements under the Hong Kong Listing Rules, which confirmed their independence in written form, therefore, the Bank confirms that all the independent non-executive Directors have complied with the requirements under the Listing Rules in respect of their independence.

The independent non-executive Directors of the Bank have not raised any objections to the resolutions passed at the Board meetings or special committees meetings during the Reporting Period.

4.7 Appointment, Re-election and Removal of Directors

The Bank's appointment, re-election and removal of Directors are subject to the requirements of the Hong Kong Listing Rules and the Bank's Articles of Association. The Nomination and Remuneration Committee of the Board of the Bank conducts a preliminary verification of the qualifications and conditions of candidates for the Board, and proposes the qualified candidates to the Board of Directors for consideration. After the Board considered and approved, the candidates for the Board will be presented to the general meeting by way of written proposal. The Bank's general meeting of shareholders may, through ordinary resolutions, appoint relevant persons who meet the qualifications as Directors. For independent Director candidates, the Nomination and Remuneration committee of the Board will conduct qualification review before the appointment, focusing on independence, expertise, experience and ability.



Chapter 8 Corporate Governance Report

The term of office of the Directors of the Bank is three years and Directors can be re-elected and re-appointed upon expiration. The renewal term of independent non-executive directors shall not exceed six years.

Subject to relevant laws and administrative regulations, the shareholders' meeting may, in accordance with Articles 107 and 129 of the Bank's Articles of Association, remove any Directors whose term of office has not expired by an ordinary resolution before the expiration of the term of the Directors.

5. Committees under the Board

As of the end of the Reporting Period, Our Bank currently has 6 special committees under the Board, which are the Strategy and Development Committee, the Audit Committee, the Related Party Transactions Control Committee, the Risk Management Committee, the Nomination and Remuneration Committee and Consumer Rights Protection Committee, and one standing committee, which is the Executive Committee. Each special committee shall be accountable to the Board, which provides professional opinions to the Board or makes decisions for the professional matters as per the authorization of the Board.

5.1 Strategy and Development Committee

As of the end of the Reporting Period, the Strategy and Development Committee consists of 7 Directors, being Mr. DOU Rongxing (an executive Director), Mr. WANG Jiong (an executive Director), Mr. WEI Jie (an executive Director), Mr. LI Qiaocheng (a non-executive Director), Mr. LI Xipeng (a non-executive Director), Mr. MI Hongjun (a non-executive Director) and Mr. JIA Tingyu (an independent non-executive Director). Mr. DOU Rongxing is the Chairman.

The primary duties of the Strategic and Development Committee are:

1. studying and formulating long term development strategies and long and medium term development outlines of the Bank, and advising to the Board of Directors, including but not limited to studying and formulating long and medium term strategic objectives of the Bank; studying the business model of operation and development of the Bank and formulating the development direction and operational structure of the Bank;
2. supervising and evaluating the implementation of the strategies and providing proposals thereon;
3. providing advice on the adjustment of the development strategies according to variations of operational environment;
4. supervising and inspecting the implementation of the annual operational plans and investment plans of the Bank;



Chapter 8 Corporate Governance Report

5. studying and advising to the Board of Directors on the development of information technology and other specialized strategic development plans of the Bank according to the needs of strategic development plan;
6. studying and formulating strategies and policies of the social responsibilities of the Bank, supervising, inspecting and evaluating the performance of social responsibilities by the Bank;
7. studying and coordinating other significant matters relating to the strategic development of the Bank.

During the Reporting Period, the Strategic Development Committee under the Board held 3 meetings. The committee member DOU Rongxing commissioned WEI Jie to vote on his behalf for once and LI Xipeng commissioned LI Qiaocheng to vote on his behalf for once, all being committee members. Other committee members has attended meetings in person to consider 4 resolutions, including “Resolution on Promoting the Digital Transformation Plan of Zhongyuan Bank Co. Ltd.”, which put forward practical suggestions to the Bank’s strategic planning in response to changes in the internal and external environment.

5.2 Audit Committee

As of the end of the Reporting Period, the Audit Committee of the Bank consists of 4 Directors, being Mr. CHAN Ngai Sang Kenny (an independent non-executive Director), Ms. PANG Hong (an independent non-executive Director), Mr. LI Hongchang (an independent non-executive Director) and Mr. JIA Tingyu (an independent non-executive Director), respectively. Mr. CHAN Ngai Sang Kenny is the Chairman. The primary duties of the Audit Committee include the following:

1. conducting inspections on our risk and compliance, finance, accounting policies and practices, financial reporting procedures as well as our financial condition;
2. conducting our annual audit work;
3. advising on the engagement or change of external auditors;
4. judging the truthfulness, accuracy and completeness of the financial reports during the audit process and submitting them to the Board of Directors for review;
5. conducting reviews and inspections on our internal control (including financial control) system;



Chapter 8 Corporate Governance Report

6. performing other responsibilities in accordance with applicable laws and regulations;
7. performing other responsibilities as authorized by our Board of Directors.

All of the member of the Audit Committee are independent non-executive directors of the Bank. 4 members has focused on the Bank's risk, financial and compliance condition through considering the relevant financial reports, internal and external audit discussions as well as listening to special reports from internal auditing department, and actively put forward professional opinions and suggestions, and provided guidelines to the internal auditing works of the Bank to continuously promote the improvement in the Bank's risk control system. During the Reporting Period, the Audit Committee has totally convened 3 meetings. All members have attended in person and considered 13 resolutions, including the "Proposal on the 2018 Final Account Report of Zhongyuan Bank Co., Ltd." and "Proposal on the Unaudited Interim Financial Statements of the Group for the period ended June 30, 2019 of Zhongyuan Bank Co., Ltd.", and met with external auditor for communication and interaction in the absence of the executive Directors and the senior management of the Bank. On March 23, 2020, the 8th meeting of the Audit Committee of the second session of the Board has reviewed the audited financial statement for the year ended December 31, 2019. This statement was prepared pursuant to the international accounting standards and policies.

5.3 Related Party Transactions Control Committee

As of the end of the Reporting Period, the Related Party Transactions Control Committee consists of 5 Directors, being Mr. LI Hongchang (an independent non-executive Director), Mr. WANG Jiong (an executive Director), Mr. WEI Jie (an executive Director), Mr. JIA Tingyu (an independent non-executive Director) and Mr. CHAN Ngai Sang Kenny (an independent non-executive Director). Mr. LI Hongchang is the Chairman. The primary duties of the Related Party Transactions Control Committee include the following:

1. managing our related party transactions and formulating internal policies in accordance with relevant laws and regulations;
2. identifying our related parties and reporting to the Board and the Board of Supervisors according to relevant laws and regulations;
3. defining and reviewing our related party transactions in accordance with relevant laws and regulations;



Chapter 8 Corporate Governance Report

4. submitting material related party transactions to the Board for approval, and submitting related party transactions exceeding the authorization of the Board to the Shareholders' general meeting for approval;
5. reviewing disclosure of material related party transactions;
6. performing other responsibilities as authorized by the Board.

The Related Party Transactions Control Committee of the Bank is composed of executive directors and independent non-executive directors of the Bank, and the independent non-executive director serves as the Chairman, which conducts prudent reviews on the related party transactions of the Bank and examined the material related party transactions in strict accordance with the approval procedures. During the Reporting Period, the Related Party Transactions Control Committee has convened 7 meetings, at which the committee member WANG Jiong commissioned WEI Jie to vote on his behalf for twice and the remaining members have attended in person to consider 8 resolutions, including "Resolution on the Special Report of the Related Party Transactions of Zhongyuan Bank Co., Ltd. for the Year of 2018".

5.4 Risk Management Committee

As of the end of the Reporting Period, the Risk Management Committee consists of 6 Directors, namely Mr. JIA Tingyu (an independent non-executive Director), Mr. WANG Jiong (an executive Director), Mr. LI Yulin (an executive Director), Mr. WEI Jie (an executive Director), Ms. PANG Hong (an independent non-executive Director) and Mr. LI Hongchang (an independent non-executive Director). Mr. JIA Tingyu is the Chairman. The primary duties of the Risk Management Committee include the following:

1. supervising the Bank's control of credit risk, liquidity risk, market risk, operational risk, compliance risk and reputation risk;
2. studying macro-economic and financial policies, analyse market changes and put forward management proposals on industry risks;
3. conducting periodic evaluation upon our risk management policies, management status as well as risk tolerance capabilities and advising on our risk management and internal control improvement;
4. studying risk prevention solutions for significant risk events incurred in our operation and management; and
5. performing other responsibilities as authorized by the Board of Directors.



Chapter 8 Corporate Governance Report

Members of the Bank's Risk Management Committee paid close attention to macroeconomic, financial policies and market changes, and provided opinions and suggestions for the Bank's comprehensive risk management work. At the same time, members reviewed the risk management policies and regular risk reports to perform risk management and risk supervision duties in accordance with regulations. During the Reporting Period, the Risk Management Committee held two meetings. Committee member WANG Jiong commissioned LI Yulin to vote on his behalf for once, the other members have attended in person and considered 9 resolutions, including the Resolution on the Risk Preference Statement of Zhongyuan Bank Co. Ltd. (2019).

5.5 Nomination and Remuneration Committee

As of the end of the Reporting Period, the Nomination and Remuneration Committee consists of 5 Directors, namely Ms. PANG Hong (an independent non-executive Director), Mr. DOU Rongxing (an executive Director), Mr. WANG Jiong (an executive Director), Mr. JIA Tingyu (an independent non-executive Director) and Mr. LI Hongchang (an independent non-executive Director). Ms. PANG Hong is the Chairwoman. The primary duties of the Nomination and Remuneration Committee include the following:

Nomination Duties:

1. reviewing the structure, size, composition and diversity (including skills, knowledge and experience) of the Board annually, and making recommendations on any proposed changes to the Board of Directors to complement the Bank's corporate strategy;
2. formulating the criteria and procedures for selecting Directors and senior management members, and making recommendations to the Board;
3. extensively identifying qualified candidates for Directors and senior management members, and making recommendations to the Board;
4. conducting the preliminary examination of qualifications of candidates for directorships and senior management positions, and making recommendations to the Board on the selection; and
5. assessing the independence of independent non-executive Directors;
6. developing and, where appropriate, reviewing Board diversity policies;
7. performing other responsibilities as authorized by our Board of Directors.



Chapter 8 Corporate Governance Report

According to Article 131 of the Articles of Association of the Bank, the general procedures for nominating and electing a director of the Bank are as follows:

1. The Nomination and Remuneration Committee of the Board of Directors can nominate candidates for directors according to the number of directors to be elected to the extent of the number specified by the Articles of Association; Shareholders individually or jointly holding above 3% of the Bank's total shares in issue with voting rights can also nominate candidates for directors to the Board of Directors;
2. The Nomination and Remuneration Committee of the Board of Directors shall conduct preliminary verification on the qualification and conditions of appointment of the candidates for directors, and propose the qualified candidates to the Board of Directors for consideration. The Board of Directors shall propose the candidates for directors to the shareholders' general meeting by way of written proposal after they are considered and approved by the Board of Directors;
3. The candidates for directors shall, before the convening of the shareholders' general meeting, make written undertakings, expressing their consent to their nomination, confirming the truthfulness and completeness of the publicly disclosed information and undertaking that they will duly perform their duties upon being elected;
4. The Board of Directors shall, before the convening of the shareholders' general meeting, disclose the detailed information on the candidates for directors to the shareholders of the Bank in accordance with law and regulations and the Articles of Association, so as to ensure that the shareholders will have sufficient knowledge on the candidates when casting their votes;
5. Each candidate for director shall be voted for on a separate basis at the shareholders' general meeting;
6. When an additional director is temporarily nominated, the Nomination and Remuneration Committee of the Board of Directors or the shareholders satisfying the conditions for making such nomination shall propose a candidate to the Board of Directors for consideration. The shareholders' general meeting elects or replaces the Director.



Chapter 8 Corporate Governance Report

In accordance with the nomination policy adopted by the Bank, the selection and appointment of Board members will be based on a range of diversification criteria, taking into account the diversity of Board members from a variety of measurable aspects, including but not limited to gender, age, regional and industry experience, skills, knowledge and educational background to ensure Board members have the skills, experience and diverse perspectives needed to meet the banking business and maintain a balance of board views, qualifications and skills.

Remuneration and Appraisal Duties

1. contemplating the criteria for appraising Directors and senior management members, conducting the appraisal, and submitting the appraisal reports to the Board;
2. reviewing the system and policy of our remuneration management, contemplating and reviewing the policy and plan for all Directors' and senior management's remuneration and contemplating the establishment of a formal and transparent procedure for developing remuneration policy, and making recommendations to the Board which will finalize the remuneration packages;
3. reviewing and approving compensations payable to Directors and senior management members for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
4. reviewing and approving compensation arrangements relating to dismissal or removal of any Director for his misconduct to ensure that such arrangements are consistent with contractual terms and are otherwise reasonable and appropriate.

During the Reporting Period, the Nomination and Remuneration Committee has convened 1 meeting, at which the committee member WANG Jiong commissioned DOU Rongxing to vote on his behalf and the remaining members have attended in person to consider 5 resolutions, including "Resolution on the Report of the Board of Directors on the Performance Evaluation of Directors and Senior Executives in 2018", mainly to consider the performance of duties and remuneration of directors and senior management during the Reporting Period.



Chapter 8 Corporate Governance Report

5.6 The Consumer Rights Protection Committee

As of the end of the Reporting Period, the Consumer Rights Protection Committee consists of 4 Directors, being Mr. WANG Jiong (an executive Director), Mr. LI Yulin (an executive Director), Mr. LI Hongchang (an independent non-executive Director) and Mr. CHAN Ngai Sang Kenny (an independent non-executive Director). Mr. WANG Jiong is the Chairman. The primary duties of the Consumer Rights Protection Committee include the following:

1. to formulate the Bank's strategies, policies and objectives of consumer rights protection, to incorporate consumer rights protection into corporate governance and business development strategies; and to guide the senior management to reinforce the construction of a corporate culture enabling consumer rights protection in overall planning;
2. to supervise and evaluate the Bank's consumer rights protection work regarding its comprehensiveness, timeliness and effectiveness, and the senior management's performance of duties;
3. in accordance with the Bank's overall strategy, to deliberate proposals on consumer rights protection for the consideration of the Board of Directors, and make recommendations to the Board of Directors;
4. to provide periodic reports to the Board;
5. other matters as required by laws and regulations, Articles of Association of the Bank, and which authorized by the Board of Directors.

During the Reporting Period, the Consumer Rights Protection Committee has convened 1 meeting, at which all members attended in person and considered 2 resolutions, including "Resolution Regarding Report on Rectification of Problems Identified in the Assessment on Consumer Rights Protection Work of Zhongyuan Bank Co., Ltd. in 2018".



Chapter 8 Corporate Governance Report

5.7 Executive Committee

As of the end of the Reporting Period, the Executive Committee consists of 4 Directors, namely Mr. DOU Rongxing (an executive Director), Mr. WANG Jiong (an executive Director), Mr. LI Yulin (an executive Director) and Mr. WEI Jie (an executive Director), and 3 senior management members (excluding those who are also Directors), namely Mr. LIU Kai, Mr. ZHAO Weihua and Mr. ZHOU Litao. Mr. DOU Rongxing is the Chairman, and Mr. WANG Jiong is the Vice Chairman. The primary duties of the Executive Committee include the following:

1. thoroughly implementing the Board's decisions on our development strategies, business plans, investment proposals and etc.;
2. considering any single significant equity investment or disposal of less than 5% (inclusive) of our latest audited net asset value and handling relevant matters;
3. reviewing and approving annual authorization plans relating to business, personnel, and financial affairs; and reviewing our operational and management systems and code of business conduct;
4. determining establishment of internal management organizations under the Board's authorization, formulating general layout plans, and determining establishment of our branches according to the Board's decision;
5. reviewing appointment and dismissal proposals of heads of internal management institutions and branches;
6. preparing and formulating our medium and long term incentive schemes and implementation proposals, remuneration management systems and policies;
7. recommending senior executives of the Bank;
8. other responsibilities as stipulated by the Articles of Association or delegated by the Board.



Chapter 8 Corporate Governance Report

6. Board of Supervisors and its Special Committee

6.1 Composition of Board of Supervisors

As at the end of the Reporting Period, the Board of Supervisors of the Bank consists of 9 Supervisors, which shall include three employee representative Supervisors, namely Mr. HAO Jingtao, Ms. JIA Jihong and Mr. ZHANG Yixian; four external Supervisors, namely Mr. LI Xiaojian, Mr. HAN Wanghong, Mr. SUN Xuemin and Mr. PAN Xinming; and two shareholder representative Supervisors, namely Ms. LI Weizhen and Mr. LI Wanbin.

Mr. HAO Jingtao and Ms. JIA Jihong were elected to be the Chairman and Vice Chairwoman of the Board of Supervisors, respectively, on the 7th meeting of the second session of the Board of Supervisors of the Bank on March 28, 2019. Please refer to the Bank's announcements dated March 28, 2019 for details.

On January 17, 2019, Mr. ZHAO Ming, a shareholder representative Supervisor of the Bank, resigned as a shareholder representative Supervisor and member of the Supervision Committee under the Board of Supervisors of the Bank as he intended to concentrate on other business commitments. On the same day, the Bank held the sixth meeting of the second session of the Board of Supervisors, at which Mr. PAN Xinmin was elected as a candidate of external Supervisor of the Bank and was elected by our shareholders to be an external supervisor of the second session of the Board of Supervisors at the Bank's annual general meeting of 2018. For details, please refer to the announcements dated January 17, 2019 and May 20, 2019.

During the Reporting Period, the Board of Supervisors fulfilled its duties diligently, supervised the legal compliance of performance of duties by Directors and the senior management. They audited and supervised the financial activities, risk management and internal control and investigated operating activities of the Bank.

6.2 Powers of Board of Supervisors

1. to examine our financial activities;
2. to supervise the behaviors of the Directors and senior management personnel in their performance of their duties in our Bank and to propose the removal of directors and senior management personnel who have violated laws, administrative regulations, our Articles of Association or resolutions of the Shareholders' general meetings;



Chapter 8 Corporate Governance Report

3. when the acts of a Director, president or senior management personnel of the Bank are detrimental to its interests, to require the aforementioned persons to correct these acts;
4. to examine financial information such as financial reports, business reports and profit distribution plans proposed to be submitted to the Shareholders' general meeting by the Board, to conduct investigations if there are any doubts or irregularities in relation to the operation of the Bank, and to engage professionals, such as solicitors, certified public accountants and certified auditors, if necessary, to assist its duties at the expenses of the Bank;
5. to negotiate with a Director or bring actions against a Director on behalf of our Bank;
6. to propose the convening of extraordinary Shareholders' general meetings and to convene and preside over Shareholders' general meetings when the Board fails to perform the duty of convening and presiding over Shareholders' general meetings under the Company Law;
7. to propose the convening of extraordinary board meetings and to submit proposals to the Shareholders' general meetings;
8. to exercise any other authorities as authorized by our Articles of Association or the Shareholders' general meetings.

The ways in which the Bank's Board of Supervisors perform their duties mainly include: regular meetings of the Board of Supervisors and special committees; attending and listening to shareholders' meetings, meetings of the Board of Directors and their special committees; listening to various operation management meetings of senior management; reviewing all kinds of documents reported by the senior management; listening to the work reports and special reports made by the senior management, and conducting discussions; conducting surveys at various branches; conducting annual performance assessments of directors and the senior management; conducting various special inspections, and so on. By carrying out the above-mentioned work, the Board of Supervisors will conduct all-round supervision over the Bank's operation and management, risk management, internal control, and the performance of directors and the senior management, and propose constructive and targeted business management recommendations and supervision opinions.

6.3 Meetings of the Board of Supervisors and Attendance of Supervisors

During the Reporting Period, the Bank has held six meetings of the Board of Supervisors, which considered and approved 38 resolutions.



Chapter 8 Corporate Governance Report

The following are the details of meetings of the Board of Supervisors:

Session of meeting	Date of meeting	Form of meeting
The 6th meeting of the second session of the Board of Supervisors	January 17, 2019	On-site
The 7th meeting of the second session of the Board of Supervisors	March 28, 2019	On-site
The 8th meeting of the second session of the Board of Supervisors	June 25, 2019	On-site
The 9th meeting of the second session of the Board of Supervisors	August 29, 2019	On-site
The 10th meeting of the second session of the Board of Supervisors	December 6, 2019	On-site
The 11th meeting of the second session of the Board of Supervisors	December 25, 2019	On-site

The attendance of each Supervisor at the meetings of Board of Supervisors during the Reporting Period is set out below:

Members of the Board of Supervisors	Required attendance of the meeting	Attendance in Person	Attendance by proxy
Mr. HAO Jingtao	6	6	0
Ms. JIA Jihong	6	5	1
Mr. ZHANG Yixian	6	4	2
Ms. LI Weizhen	6	6	0
Mr. LI Wanbin	6	4	2
Mr. LI Xiaojian	6	5	1
Mr. HAN Wanghong	6	6	0
Mr. SUN Xuemin	6	6	0
Mr. PAN Xinmin ¹	4	4	0

Note:

1. Mr. PAN Xinmin was elected to be an external supervisor of the second session of the Board of Supervisors of the Bank on May 20, 2019.



Chapter 8 Corporate Governance Report

6.4 Attendance at general meetings during the Reporting Period

During the Reporting Period, all Supervisors attended the 2018 annual general meeting of the Bank and supervised the legal compliance of the procedures of meetings and the voting process on-site.

6.5 Attendance at the meetings of the Board during the Reporting Period

During the Reporting Period, the Board of Supervisors attended on-site meetings of the Board of Directors, and supervised legal compliance of the meetings and procedures of voting as well as the attendance, speech and voting of Directors.

7. Committees under the Board of Supervisors

7.1 Nomination Committee

As of the end of the Reporting Period, there were a total of 7 members in the Nomination Committee of the Board of Supervisors, including Mr. HAN Wanghong, Mr. HAO Jingtao, Ms. JIA Jihong, Mr. ZHANG Yixian, Mr. LI Xiaojian, Mr. SUN Xuemin and Mr. Pan Xinmin. The chairman was acted by Mr. HAN Wanghong, an external Supervisor. The major duties and responsibilities of the Nomination Committee were:

1. making recommendations to the Supervisors on the scale and composition of the Board of Supervisors;
2. studying into the standard and procedures of selection of Supervisors and making recommendations to the Supervisors;
3. identifying extensively qualified candidates for supervisors;
4. conducting preliminary review on the qualification and conditions of candidates for supervisors proposed by shareholders and making recommendations;
5. studying and formulating the remuneration policy and plans of Supervisors, and submitting to the Shareholders' general meetings for approval upon review by the Board of Supervisors;
6. any other matters authorized by the Board of Supervisors.

During the Reporting Period, the Nomination Committee convened a total of 3 meetings, at which 9 resolutions including the Proposal on Nominating Candidates for External Supervisors of the Second Session of the Board of Supervisors of Zhongyuan Bank Co., Ltd. were considered.



Chapter 8 Corporate Governance Report

The attendance of each member of the Nomination Committee of the Board of Supervisors at the meetings held by the Committee during the Reporting Period is set out below:

Members of the Nomination Committee of the Board of Supervisors	Required attendance of the meeting	Attendance in person	Attendance by proxy
Mr. HAO Jingtao	3	3	0
Ms. JIA Jihong	3	2	1
Mr. ZHANG Yixian	3	2	1
Mr. LI Xiaojian	3	2	1
Mr. HAN Wanghong	3	3	0
Mr. SUN Xuemin	3	3	0
Mr. PAN Xinmin	0	0	0

Note: After Mr. PAN Xinmin was elected as a member of the Nomination Committee of the second session of the Board of Supervisors in June 2019, no meeting was convened by the Nomination Committee.

7.2 Supervision Committee

As of the end of the Reporting Period, there were a total of 9 members in the Supervision Committee of the Board of Supervisors, namely Mr. LI Xiaojian, Mr. HAO Jingtao, Ms. JIA Jihong, Mr. ZHANG Yixian, Mr. HAN Wanghong, Mr. SUN Xuemin, Ms. LI Weizhen, Mr. LI Wanbin and Mr. Pan Xinmin. The chairman was acted by Mr. LI Xiaojian, an external supervisor. The major duties and responsibilities of the Supervision Committee are:

1. formulating plans for supervision of financial activities of the Bank and making relevant recommendations to the Board of Supervisors;
2. supervising the Board of Directors to adopt prudent business philosophy and value standards and formulating development strategies in line with the actual situation of the Bank;
3. monitoring and reviewing the operation strategy, risk management and internal control of the Bank;
4. any other matters authorized by the Board of Supervisors.

During the Reporting Period, the Supervision Committee convened a total of 4 meetings, at which 14 proposals including the 2018 Final Financial Reports of Zhongyuan Bank Co., Ltd. were considered.



Chapter 8 Corporate Governance Report

The attendance of each member of the Supervision Committee of the Board of Supervisors at the meetings held by the Committee during the Reporting Period is set out below:

Members of the Supervision Committee of the Board of Supervisors	Required attendance of the meeting	Attendance in person	Attendance by proxy
Mr. HAO Jingtao	4	4	0
Ms. JIA Jihong	4	4	0
Mr. ZHANG Yixian	4	3	1
Ms. LI Weizhen	4	4	0
Mr. LI Wanbin	4	3	1
Mr. LI Xiaojian	4	3	1
Mr. HAN Wanghong	4	4	0
Mr. SUN Xuemin	4	3	1
Mr. PAN Xinmin	2	2	0

Note: After Mr. PAN Xinmin was elected as a member of the Supervision Committee of the second session of the Board of supervisors in June 2019, 2 meetings were held by the Committee.

8. Senior Management

The senior management, as the executive body of the Bank, is accountable to the Board and supervised by the Board of Supervisors. The Bank has one president and several vice presidents and assistants to the president, who are appointed or dismissed by the Board of Directors, and are responsible for implementing the decisions of the Board of Directors and are required to report to the Board of Directors of the Bank. The senior management has the powers as delegated and authorized by our Board to manage our daily operations. The division of authority between the senior management and the Board of Directors is carried out in accordance with the corporate governance documents such as the Bank's Articles of Association.

The senior management, with the president as its representative, perform their duties in accordance with the terms of reference as stipulated in the Articles of Association of the Bank, their main duties include manage operating activities of the Bank, manage daily administration, business and finance works, and report regularly to the Board with respect to the operating matters of the Bank.



Chapter 8 Corporate Governance Report

8.1 Chairman and President

During the Reporting Period, the roles and duties of the Chairman and the President of the Bank were taken up by different individuals and there was a clear division of duties and responsibilities in compliance with the recommendations of the Hong Kong Listing Rules.

As at the end of the Reporting Period, Mr. DOU Rongxing acted as the Chairman and secretary of the party committee, and took charge of administrative work of the Bank. Mr. WANG Jiong acted as the President of the Bank, responsible for the daily operation and management of the Bank, and administered the human resources department, strategic development department, strategic transformation office, information technology department, and data bank department.

9. Financial, Business and Family Relationship among Directors, Supervisors and Senior Management

The Directors, Supervisors and senior management of the Bank do not have any relationship, including financial, business, family and other material relations.

10. Training and Research of Directors and Supervisors during the Reporting Period

10.1 Introduction to the Training and Survey of Directors

The directors of the Bank actively participated in the training and surveys organized by the Bank through various forms, and actively updated their knowledge, improved their skills and abilities to perform their duties so as to contribute to the steady, sustainable and sound development of the Bank. During the reporting period, four executive directors participated in training on strategic development, fintech development, risk and supervision, and leadership. The Board of Directors of the Bank invited well-known companies in the industry to conduct a training on the Bank's directors in corporate governance and director performance, in which all directors have participated. In addition, the Board of Directors of the Bank conducted two surveys on branches. The executive director Mr. WEI Jie, the independent non-executive directors Mr. JIA Tingyu and Mr. LI Hongchang participated in the surveys. Mr. CHAN Ngai Sang Kenny and Ms. PANG Hong, independent non-executive directors, went deeper into the head office departments and branches of the Bank to understand the Bank's overall operations, remuneration and internal audits, and guided these departments and branches based on practical issues. Besides, all directors have read relevant books on industry development and supervision.



Chapter 8 Corporate Governance Report

10.2 Introduction to the Training and Survey of Supervisors

During the Reporting Period, the Bank organized a seminar on Supervisory Board System and Practice of Commercial Banking, with the Bank's supervisors participating in it.

During the Reporting Period, the Board of Supervisors conducted surveys in Xinxiang Branch, Anyang Branch, Pingdingshan Branch and Zhengzhou Branch, with its supervisors involving in it.

11. Company Secretary under the Listing Rules

The Bank appointed Mr. Zhang Ke and Ms. LEUNG Wing Han Sharon, a vice president of SWCS Corporate Services Group (Hong Kong) Limited, as the joint company secretaries. The major associate of Ms. Leung in the Bank is Mr. Zhang Ke, the other joint company secretary. Both Ms. Leung Wing Han Sharon and Mr. Zhang Ke have been in compliance with Rule 3.29 of the Listing Rules that they received at least 15 hours of relevant professional training for the year ended December 31, 2019.

12. Communication with Shareholders

12.1 Investors Relationship

The Bank attaches importance to communication with Shareholders, for which it formulated Measures on Management of Investors Relationship of Zhongyuan Bank Co., Ltd., and seeks to improve mutual understanding and enhance communication with Shareholders through various channels including general meeting, roadshows, press conference, official website, e-mail and telephone.

For enquiries to the Board, investors may contact: The Office of Board of Directors and Supervisors of Zhongyuan Bank Co., Ltd.

Address: Room 2625, No. 23 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, PRC

Telephone no: (86)0371-85517898

Fax no.: (86)-0371-85517892

E-mail: Dongjianban@zybank.com.cn



Chapter 8 Corporate Governance Report

12.2 Information Disclosure

The Board of Directors and senior management place great importance to information disclosure. They rely on good corporate governance and internal controls to ensure investors obtain information in a timely and accurate manner.

In accordance with the requirements of the Listing Rules, Measures for the Information Disclosure of Commercial Banks and Measures for the Information Disclosure of Zhongyuan Bank Co., Ltd., the Bank continuously improved the timeliness, accuracy and completeness of the information to be disclosed. During the Reporting Period, the full version of the relevant reports is available for download on the website of the Bank. Meanwhile, the annual report and interim reports are available for review by the investors and stakeholders in The Office of Board of Directors and Supervisors and principal outlets of the Bank.

12.3 Shareholders' Rights

Procedure for Shareholders to Convene Extraordinary General Meeting

The Bank strictly complies with the applicable laws and regulations, the Hong Kong Listing Rules, the Articles of Associations of the Bank and the corporate governance system, for practically safeguarding the rights of the Shareholders. Pursuant to the requirements under the Articles of Associations of the Bank and the rules of procedures of the general meeting: the shareholders who individually or jointly hold more than 10% of the shares for at least 90 consecutive days may make a written request to the Board to convene an extraordinary general meeting or class meeting, and to illustrate the subject of the meetings. In respect of such proposal, the Board shall, in accordance with the laws, administrative regulations and the Articles of Association of the Bank, make a written response as to whether or not it agrees to convene the extraordinary general meeting or class meeting within 10 days of receiving the proposal. The shareholding of the above Shareholders is based on their shareholdings on the date of such request is proposed to the Board in writing. If the Board agrees to convene an extraordinary general meeting or a class meeting, the Board shall deliver a notice of convening a General meeting or a class meeting within five days from the adoption of the resolution of the Board. Any change to the original request contained in the notice shall be made with the consent of relevant shareholders. Where the Board disagrees to convene an extraordinary general meeting or a class meeting or fails to give any feedback within ten days after the receipt of such request, shareholders individually or jointly holding 10% or more of shares are entitled to propose to the Board of Supervisors to convene an extraordinary general meeting or a class meeting by submitting a request in writing. Where the Board of Supervisors agrees to



Chapter 8 Corporate Governance Report

convene an extraordinary general meeting or a class meeting, it shall, within five days after the receipt of such request, deliver a notice of convening an extraordinary general meeting or a class meeting. Any change to the original request in the notice shall be made with the consent of relevant shareholders. In the event that the Board of Supervisors fails to deliver such notice to convene an extraordinary general meeting or a class meeting within the specified period, the Board of Supervisors shall be deemed not to convene or preside over such aforesaid meeting. Such shareholders individually or in aggregate holding 10% or more of the Bank's voting shares for at least 90 consecutive days may at their discretion convene and preside over such aforesaid meeting. Shareholders may refer to the Articles of Association of the Bank published on the websites of the Hong Kong Stock Exchange and the Bank for further details.

Procedure of Proposing a Resolution at the General Meeting

Shareholders individually or in aggregate holding 3% or more of the Bank's voting shares may propose an interim proposal and submit it to the convener ten days before the General meeting. The convener shall review such proposal, issue a supplemental notice of the General meeting and announce the proposal if it satisfies the provisions as specified in the Articles of Association of the Bank within two days after receiving the proposal. If the Hong Kong Listing Rules specifies otherwise, the procedures of submitting a proposal to the General meeting shall follow such provisions. Except as provided in the precedent paragraph, the convener shall not alter the proposals in the notice of the General meeting or add new proposals after the issuance of the notice of the General meeting. Shareholders may refer to the Articles of Association of the Bank published on the websites of the Hong Kong Stock Exchange and the Bank for further details.

Raise Enquiries to the Board of Directors

Shareholders have the right to supervise the operation of the Bank, and to make suggestions or enquiries. Shareholders are entitled to access relevant information in accordance with the laws, administrative regulations, departmental rules, regulatory documents, relevant provisions stipulated by the securities regulatory authorities in the locality where the Bank's shares are listed and the requirements of the Articles of Association of the Bank, including audited accounting reports, personal information of the Directors, Supervisors, president and other senior management personnel, share capital of the Bank, etc. Where a shareholder requests to inspect and read the relevant information, this shareholder shall provide the Bank with written documents evidencing the class and number of shares of the Bank they hold, and the Bank shall provide such documentation as required by the Shareholders upon verification of their identities.



Chapter 8 Corporate Governance Report

13. External Auditors and Auditor's Remuneration

The Bank engaged KPMG and KPMG Huazhen LLP to act as international auditor and domestic auditor for the year of 2019, respectively, at the 2018 annual general meeting convened by the Bank on May 20, 2019, to carry out auditing in accordance with the Hong Kong Standards on Auditing and China Standards on Auditing for Certified Public Accountants.

In 2019, the remuneration agreed to be paid by the Bank to KPMG Huazhen LLP and KPMG for the audit of annual financial statements was RMB4.72 million in aggregate (not including non-audit expense).

The Board and the Audit Committee under the Board reached consensus on the selection and appointment of the external auditors of the Bank without any disagreement.

The accountants of the Bank have not changed in the past three years.

14. Amendments to the Articles of Association

On March 27, 2020, the Resolution on the Amendments to the Articles of Association of Zhongyuan Bank Co., Ltd. was considered and approved at the 19th meeting of the second session of the Board of the Bank and were submitted to the 2019 annual general meeting of the Bank for consideration. For details, please refer to the announcement titled "Proposed to amend the Articles of Association and Rules of Procedures of the Shareholders' General Meeting" of the Bank dated March 27, 2020.

Save for the above, as of the date of this annual report, the Articles of Association has no material amendments, texts of which are available on the websites of the Bank and the Hong Kong Stock Exchange.

15. Risk Management and Internal Control

15.1 Risk Management

Procedures for identification, assessment and management of material risks

Based on the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and its schedules issued by the CBRC, risks and relevant terminology defined by the Basel Committee, practice of the domestic and overseas peers as well as its own situation, the Bank identifies, measures and controls various overall quantitative and non-quantitative risks which may arise from the interaction between business strategies, product



Chapter 8 Corporate Governance Report

portfolios, client demands and the macroeconomic environment. Taking into account the capital occupancy based on risk types, risks of banks determined by regulators and capital regulatory requirements together with results from identifying and assessing risk events, the Bank collects and publishes risk warnings, draws up risk event examples, identifies, collects and assesses risk events and then determines material risks for the purpose of identifying its material risks, which include credit risk, market risk, operational risk, liquidity risk, interest risk in bank accounts, compliance risk, legal risk and reputation risk, and subsequently making assessment and analysis on them with risk measurement approaches and techniques.

Risk management duties of the Board of Directors

In accordance with laws and regulations including the Overall Risk Management Guidelines for Commercial Banks (《商業銀行全面風險管理指引》) and the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》) as well as relevant requirements of the Hong Kong Stock Exchange, the Board of the Bank has formulated the Policies of Overall Risk Management in Zhongyuan Bank (《中原銀行全面風險管理政策》), Measures for Credit Exposure Management in Zhongyuan Bank (《中原銀行授信集中度管理辦法》), Basic Requirements for Internal Control in Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司內部控制基本規定》). It not only established and implemented risk management and internal control system, but also is responsible for timely reviewing the effectiveness of such rules and system. The Board of the Bank is of the opinion that the risk management and internal control system established and implemented by the Bank is adequate and effective. The risk management and internal control system of the Bank is designed to manage the risk of failing to meet business targets rather than eliminating such risk, and only provides reasonable but not absolute assurance for not making material misstatement and losses. The Board shall guarantee a review of internal control and risk management system at least once a year. The Board ensures that the resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions are adequate. The Bank evaluated the overall risk situation on a quarterly basis and evaluated the quality of internal control on an annual basis. The Bank's risk management and internal control systems are scientific and effective, which provides a safeguard for the stable operation of the Bank.



Chapter 8 Corporate Governance Report

15.2 Internal Control

Based on the principles of full coverage, checks and balance, prudence and compatibility, the Bank has established a relatively scientific and standardized internal control system in accordance with relevant laws and regulations, such as the Commercial Banking Law of the PRC (《中華人民共和國商業銀行法》) and the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》), and the relevant requirements of the Hong Kong Stock Exchange, aiming to ensure the consistent compliance with relevant laws, regulations and rules of the PRC, the application of the Bank's development strategies and the accomplishment of its operating objectives, the accuracy and completeness of the Bank's financial information and other management information, and the effectiveness of the risk management of the Bank.

The Bank insists in and continues to optimize the defense mechanism comprising of three lines for internal control. The first line of defense consists of various branches and operating units, which are the owners of, and are accountable for risks and controls, and have to undertake self-risk control functions in the course of their business operation, including the formulation and implementation of policies, business examination, the reporting of control deficiencies and the organization of rectification measures. The second line of defense consists of the internal control and risk management departments at all levels, which are responsible for the overall planning, organizing and implementing, and examining and assessing of risk management and internal control. The third line of defense consists of the audit and supervision departments, which are responsible for performing internal audit on the adequacy and effectiveness of the internal control and risk management, taking disciplinary actions against staff in violation of regulations or disciplinary rules, carrying out case investigations and promoting management accountability.

During the Reporting Period, the Bank had, followed on the principle of "prudential operation with risk-based supervision", continued to improve internal control compliance and enhance the effectiveness of management tools for operational risks, optimize and upgrade the information integration system for internal control, compliance and operational risk management, and to realize the effective integration of internal control management, compliance risk management and operational risk management. The Bank continued to optimize its regulatory framework by establishing a three-tier system comprising of basic norms, administrative measures and operational rules. For the purpose of operational management and to meet the need of business development, the Bank also introduced an internal control system covering all of its businesses such as credit business, counter business, financial markets business, financial accounting, information systems and intermediate business and management lines. The Bank implements full-lifecycle management on regulatory framework to strengthen the whole-



Chapter 8 Corporate Governance Report

process management on the system from the aspects of planning, drafting, soliciting opinions, review, release and interpretation, revision and repeal, evaluation and report in a view to ensure the legitimacy, effectiveness and operability of the system, and to provide a basis and support for the Bank's operational management, business operations and effective risk prevention and control.

The Bank has continuously strengthened internal control compliance – combined with recent years' compliance practices, it formulated a unified compliance plan for the entire bank, actively carried out compliance culture construction, and continued to organize compliance training, compliance review, and compliance risk warning, compliance knowledge examination, case warning education, implemented accountability system for violations and other management measures, thereby continuing to improve the compliance awareness and operational skills of employees across the Bank. At the same time, it actively carried out multi-level compliance training and awareness promotion for newly recruited college students, new recruits from society and newly recruited executives, enabling a good compliance atmosphere for all employees to comply with relevant regulations, for the Bank to improve the long-term mechanism for compliance education and further enhance the effectiveness of internal controls.

15.3 Internal Auditing

The Bank implemented the Guidelines for Internal Auditing of Commercial Banks and Regulations of the National Audit Office on Internal Auditing, established and improved internal auditing systems, and strengthened internal auditing. First, to establish an independent and vertical internal auditing system. The Board of Directors, as the supreme leader in internal auditing, bears ultimate responsibility for the independence and effectiveness of internal auditing. The Board of Directors has an audit committee under its direct management, which is responsible to the Board of Directors, and under the authorization of the Board, to review important systems and reports such as the internal auditing charter, to approve mid-and-long term auditing plans and annual auditing plans, and to guide, assess and evaluate the internal auditing. The head office has established an Audit Department, First Regional Audit Department and Second Regional Audit Department. Each branch has also established an independent audit agency to jointly review and evaluate and urge improvement of the Bank's operating activities, risk management, internal control compliance and corporate governance. Second, to form a more mature internal audit system and audit model. Based on the Audit Charter of Zhongyuan Bank Co., Ltd., the Bank has established a relatively complete internal audit system including general standards, operating standards, and work conducts, and formed an audit model combining special audits and regular audits, on-site audit and off-site audit, audit projects and audit investigation projects, with which it carried out audit supervision



Chapter 8 Corporate Governance Report

and evaluation through the use of systematic and standardized methods in accordance with national laws and regulations, regulations of the regulatory department and the Bank's system based on the prescribed duties and procedures.

During the Reporting Period, the Bank implemented the “effectiveness” audit concept throughout the entire audit process, comprehensively evaluated the input and output of various products, businesses, and systems to promote income increase, reduce expenditures, and improve work efficiency; being risk-oriented, inform functional departments in the form of a written risk warning of the hidden risks identified by on-site audits and daily work, in order to carry out risk management in time; established data thinking, used data resources in depth, and continued to promoted the off-site audit model of “overall analysis, discovery of doubts, and verification through multiple channels”; tracked, urged, and verified the audit rectification of each audited organization to ensure that audit findings are rectified properly, forming a closed-loop management from audit findings to rectification.

15.4 Anti-Money Laundering

During the Reporting Period, the Bank met its anti-money laundering obligations in accordance with the laws, held two anti-money laundering leadership group meetings throughout the year, made arrangements on major anti-money laundering events while establishing a full-crew anti-money laundering system covering all institutions, departments and posts, effectively carried out client identification, storage of client identity information and transaction records, large-sum transactions and suspicious transaction reporting work, strengthened staff training, actively organized social promotions and consolidated the defense lines against money laundering and terrorist financing risks. During the year, 52 anti-money laundering business trainings were conducted, 1.80 million large-sum transactions and 1,603 suspicious transactions were reported to the China Anti-money Laundering Monitoring & Analysis Center, completed the risk rating work for 4.19 million customers while organizing 22 anti-money laundering social promotion activities, safeguarding the Bank's steady and compliant operation.



Chapter 8 Corporate Governance Report

16. Management of Inside Information

The Board of the Bank is responsible for disclosing information of the Bank, which includes enacting standard procedures and methods in relation thereto and reviewing information to be disclosed, and it also assumes liabilities for the truth, accuracy and completeness of the information disclosed. The information disclosure of the Bank is subject to the supervision of regulators and the Bank's Board of Supervisors. Chairman of the Board is the primary person responsible for implementing the management measures for information disclosure, while the Secretary of the Board is in charge of its execution and the Office of the Board and the Board of Supervisors deals with the daily work thereof.

To ensure confidentiality of the Bank's inside information, safeguard the fairness in information disclosure and protect the legal rights of investors, the Bank enacted the Measures for Information Disclosure Management in Zhongyuan Bank Co., Ltd. (《中原银行股份有限公司信息披露管理办法》) based on domestic and overseas laws, regulations and other regulatory documents such as the Company Law of the People's Republic of China (中華人民共和國公司法), the Securities Law of the People's Republic of China (中華人民共和國證券法), Measures for Information Disclosure Management of Commercial Banks (商業銀行信息披露管理办法), and the Listing Rules. The Bank makes information disclosure and manages inside information in strict compliance with the regulatory requirements and specifies the principles, contents, management and procedures for information disclosure in the Measures for Information Disclosure Management in Zhongyuan Bank Co., Ltd., which also provides for the coverage, insider limits and the security management of inside information as well as punishment for divulging inside information, etc. When relevant events or circumstances arise, the Bank would quickly assess the possible impact on the stock price and consciously decide whether the events or circumstances are inside information that should be disclosed and conduct the relevant disclosure accordingly. During the Reporting Period, the Bank not only stringently complied with the regulatory requirements of domestic and overseas regulators, but also intensified its management rules and enhanced the security measures of its inside information as well as disclosing relevant information timely according to requirements.



Chapter 8 Corporate Governance Report

17. Dividend Policy

Article 255 and Article 258 of the Articles of Association of the Bank specifies the requirements for profit distribution:

The Bank may make profit distribution if it has distributable profits for each year after making up for the losses, contributing to the statutory reserve, general reserve and paying dividends to the preference shareholders provided that the capital adequacy ratio of the Bank meets regulatory requirements. The Bank may distribute dividend in the form of cash or share. The profit distribution of the Bank attaches the emphasis on the reasonable return on the investment of investors. The Bank's profit distribution policy should maintain a certain continuity and stability, and the Bank shall distribute dividends in the profitable year. The total profit distributed in the form of cash dividends for the last three years shall not be less than 30% of the average annual distributable profit of the Bank of the last three years, when making profits distribution. Distribution of dividends in form of stock shall be approved by general meeting of shareholders and subject to approval by the banking regulatory authority of the State Council.

The payment of dividends on the preference shares of the Bank shall be made in accordance with the laws, regulations, departmental rules, relevant regulations of the securities regulatory authorities of the place where the shares of the Bank are listed and the preference shares are issued or listed and the requirements of the Articles of Association of the Bank. The dividend rate for the issued and outstanding preference shares of the Bank consists of the benchmark rate and the fixed spread. The dividend rate may be adjusted at different intervals. Preference shareholders shall rank in priority to ordinary shareholders in terms of dividends distributed in accordance with the agreed dividend rate and profit distribution terms. The Bank paid dividends in cash to the preference shareholders. After the relevant resolutions are approved at the general meeting, the Bank shall have the right to cancel dividends in whole or in part that have been proposed to be distributed on the interest payment date in the manner prescribed under the conditions.



Chapter 9 Report of the Board of Directors

1. Principal Business

The Bank is primarily engaged in banking and related financial services, including corporate banking, retail banking, treasury operation and other business in the PRC.

2 Business Review and Outlook

2.1 Business Review of the Bank

The business review of the Bank during the Reporting Period was set out in “Management Discussion and Analysis – 9. Business Review”.

2.2 Results

The results of the Bank for the year ended December 31, 2019 and the financial position of the Group as at that date are set out in the financial statements and notes section of this annual report.

3. Dividend

3.1 Dividends of Preference Shares

For dividends of preference shares during the Reporting Period, please refer to “Changes in Share Capital and Information on Shareholders -7.3 Profit distribution on the Offshore Preference Shares”.

3.2 Dividends of Ordinary Shares

The Board of Directors has recommended the payment of a final dividend of RMB0.45 (including tax) per ten shares for the year ended December 31, 2019 in cash. The total amount paid is RMB903,375,000. The final dividend is subject to approval by shareholders at the upcoming 2019 annual general meeting of the Bank. If approved by the 2019 annual general meeting of the Bank, the payment of the final dividend is expected to be on June 29, 2020.

4. Tax on Dividends

4.1 Holders of Domestic Shares

Pursuant to Article 3 and Article 12 of the Individual Income Tax Law of the PRC, the Bank shall withhold and pay individual income tax at the rate of 20% on behalf of the individual shareholders in the PRC in respect of interest, dividends and bonuses paid to the domestic individual shareholders.



Chapter 9 Report of the Board of Directors

4.2 Holders of H Shares

Withholding foreign non-resident enterprise's enterprise income tax

Pursuant to the applicable provisions and the implementing regulations of the Enterprise Income Tax of the PRC and the Notice of the State Administration of Taxation on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which are Overseas Non-resident Enterprises (Guoshuihan [2008] No. 897), when distributing the final dividend to non-resident enterprise holders of H Shares (including the H Shares registered in the name of HKSCC Nominees Limited), the Bank will withhold enterprise income tax at the rate of 10%. In case the relevant non-resident enterprise holders are actual beneficial-owners who meet the requirements of the tax treaty (arrangement), the Bank will follow the Notice of Tax to handle the application of the relevant tax benefits on their behalf. The qualifying holders of H Shares are required to submit the written authorization and all application materials to the H Share Registrar, Computershare Hong Kong Investor Services Limited, in a timely manner; the Bank will forward the provided documents to the competent tax authorities for review, and if approved, thereafter the Bank will assist in handling the refund of the extra withholding tax.

Withholding foreign non-resident individual shareholder's individual income tax

Pursuant to the applicable provisions and the implementing regulations of the Individual Income Tax Law of the PRC and the Circular of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-resident taxpayers under Tax Treaties (SAT Circular [2015] No. 60) (the "Tax Treaty Circular"), the Bank will withhold and pay individual income tax for holders of H Shares according to the following arrangements. For individual holder of H Shares who is a resident of Hong Kong, Macau or other country/region who are resident of a country or region that has signed a tax treaty with the PRC stipulating a dividend rate of 10%, the Bank will withhold and pay individual income tax at the rate of 10% on behalf of such H Shares individual holders when distributing the final dividend;

For individual holder of H Shares who is a resident of a country/region which has signed a tax treaty with the PRC stipulating a dividend rate of lower than 10%, the Bank will temporarily withhold and pay individual income tax at the rate of 10% on behalf of such holders of H Shares while distributing the final dividend. In case the relevant holders of H Shares is to apply for refund of the extra withholding tax, the Bank will follow the Tax Treaty Circular to handle the



Chapter 9 Report of the Board of Directors

application of the relevant tax benefits on their behalf. The qualifying holders of H Shares are required to submit the written authorization and all application materials as required in Tax Treaty Circular to the H Share Registrar, Computershare Hong Kong Investor Services Limited, in a timely manner; the Bank will forward the provided documents to the competent tax authorities for review, and if approved, thereafter the Bank will assist in handling the refund of the extra withholding tax;

For individual holder of H Shares who is a resident of a country/region who has signed a tax treaty with the PRC stipulating a dividend rate higher than 10% but lower than 20%, the Bank will withhold and pay the individual income tax at the actual rate stipulated in the relevant tax treaty while distributing the final dividend;

For individual holder of H Shares who is a resident of a country/region which has signed a tax treaty with the PRC stipulating a dividend rate of 20% or has no tax treaty with China or otherwise, the Bank will withhold and pay the individual income tax at the rate of 20% while distributing the final dividend.

The Bank will generally follow the above arrangements to withhold and pay individual income tax on behalf of holders of H Shares, but if relevant tax authorities require otherwise, the Bank will follow such requirements for arrangements.

5. Annual General Meetings

The Bank intends to convene the 2019 annual general meeting on Monday, May 18, 2020. In order to determine the shareholders who are entitled to attend and vote at the annual general meeting, the register of members of the Bank will be closed from Saturday, April 18, 2020 to Monday, May 18, 2020 (both days inclusive), during which period no transfer of shares will be effected. Shareholders whose names appear on the register of members of the Bank on Monday, May 18, 2020 are entitled to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates and other appropriate documents must be lodged for registration with the Board office of the Bank (for holders of domestic Shares) at Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province, PRC, or the H Share Registrar of the Bank (for holders of H Shares), Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4: 30 p.m. on Friday, April 17, 2020. The Bank will despatch the notice and circular for the 2019 annual general meeting in due course.



Chapter 9 Report of the Board of Directors

6. Exposure to Major Risks

Please refer to “Management Discussion and Analysis – 10. Risk Management” for the major risks the Bank had been exposed to during the Reporting Period.

7. Future Development

A review of certain aspects affecting the future development of the Bank is set out in “Management Discussion and Analysis – 1. Past Economic and Financial Environment and Future Prospects” in this annual report.

8. Relationship between the Bank and its Major Employees, Customers and Suppliers

The Bank has been promoting a market-oriented human resources system and continually strengthen its incentive assessments, training, and other complementary mechanisms, and has adopted a distinctive training system that could serve different needs of various groups of employees, which is characterized with a multiple-level training structure. As a result, it managed to cultivate a highly qualified, aggressive and efficient workforce. The Bank also believes career planning of individual employees to be of great importance and have developed a clear career development path for different roles, which is believed could further encourage its employees to endeavor to maximize his or her value. In addition, the Bank’s concept of “people-oriented, performance-oriented (以人為本,業績導向)” exemplifies its corporate culture and best practice, creating an outlook and code of conduct for all employees of the Bank to follow.

The Bank’s labor union represents the interests of the employees and works closely with its management on labor-related issues. During the Reporting Period, the Bank has not experienced any material labor disputes that have affected its operation and the Bank believes that the relationship between its management and the labor union has been satisfactory.

The Bank has established long-term strategic cooperative relationships with a number of quality enterprises and medium and small enterprises focusing on technology innovation.

9. Major Depositors and Borrowers

As at the end of the Reporting Period, the balance of the Bank’s loans to any single borrower did not exceed 10% of the Bank’s net capital. The interest income from the five largest customers of the Bank did not exceed 30% of the Bank’s total interest income. None of the Directors of the Bank and their close associates or any Shareholder which to the knowledge of the Directors own more than 5% of the number of issued Shares of the Bank had any interest in the above five largest customers.



Chapter 9 Report of the Board of Directors

10. Share Capital

For details of the Bank's share capital, please refer to "Changes in Share Capital and Information on Shareholders" in Chapter 6.

Pre-emptive rights

During the Reporting Period, pursuant to the Articles of Association of the Bank and the relevant laws, the Bank did not stipulate any requirements for granting preemptive right to shareholders.

11. Substantial Shareholders

Details of the Bank's substantial Shareholders as at the end of the Reporting Period are set out in "Changes in Share Capital and Information on Shareholders" in Chapter 6.

12. Use of Proceeds

For details of issuance and listing of the Shares conducted by the Bank during the Reporting Period and use of proceeds of the Bank, please refer to the section headed "Important Events".

13. Property and Equipment

Details of the changes in property and equipment of the Bank for the year ended December 31, 2019 are set out in the Note 25 of the financial statement in this annual report.

14. Changes in the Reserves

For the year ended December 31, 2019, the details of changes in the reserves of the Bank are set out in the Consolidated Statement of Changes in Equity in the financial statement of the Bank.

15. Purchase, Sale and Redemption of the Listed Securities of the Bank

During the Reporting Period, the Bank or any of its subsidiary had not purchased, sold or redeemed any listed securities of the Bank.

16. Retirement Benefits

Please refer to Note 35(a) in the financial statements in this annual report for details of the retirement benefits provided to employees of the Bank.



Chapter 9 Report of the Board of Directors

17. Connected and Related Party Transactions

In the ordinary and usual course of business, the Bank provides commercial banking services and products to the public in China, including certain connected persons such as Shareholders, Directors, Supervisors, President and/or their respective associates. Pursuant to the Listing Rules, such transactions, being conducted on normal commercial terms in the ordinary and usual course of the business of the Bank, shall be exempt from reporting, annual review, disclosure and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Bank has reviewed all its connected transactions and acknowledged that it had complied with the requirements under Chapter 14A of the Listing Rules.

The details of the related party transactions conducted by the Bank in the ordinary and usual course of business during the Reporting Period are set out in Note 43 to the financial statements. The definition of connected persons under Chapter 14A of the Listing Rules is different from the definition of related parties under International Accounting Standard, and its interpretations by the IASB. Certain related party transactions set out in the notes to the financial statements also constitute connected transactions or continuing connected transactions as defined under the Listing Rules, but none of them constitutes any discloseable connected transaction as defined under the Listing Rules.

18. Interests of Directors and Supervisors in Business in Competition with the Bank

As of the date of this annual report, Mr. LI Xipeng, a non-executive Director, indirectly held 9.88% of the equity interests in Fanxian Rural Commercial Bank, a rural commercial bank established in Puyang, Henan Province, the PRC, through Henan Shengrun Group, and Mr. Li has been a director of Fanxian Rural Commercial Bank since January 2017. Our Directors are of the view that, there is no competition or only minimal potential competition between Fanxian Rural Commercial Bank and our Bank arising from Mr. Li's interests and position in Fanxian Rural Commercial Bank for the following reasons: 1) Fanxian Rural Commercial Bank conducts its business within Puyang, Henan Province, whereas the business of our Bank operates across all 18 provincial cities in Henan Province. Furthermore, Fanxian Rural Commercial Bank, as compared to our Bank, is of a smaller scale, thus the potential competition between Fanxian Rural Commercial Bank and our Bank is minimal; 2) Mr. Li serves as a non-executive director in both our Bank and Fanxian Rural Commercial Bank, and is not involved in the daily management of either our Bank or Fanxian Rural Commercial Bank; and 3) our Bank has appointed four independent non-executive Directors, representing more than one-third of the members of the Board to balance any potential conflict of interest in order to safeguard the interests of our Bank and the Shareholders as a whole.

Save as those disclosed in this annual report, none of the Directors or Supervisors of the Bank holds any interest in any business which competes or is likely to compete, whether directly or indirectly, with that of the Bank.



Chapter 9 Report of the Board of Directors

19. Directors

Please see the section “Directors, Supervisors, Senior Management, Employees and Institutions” for biographies of incumbent directors, as well as information on changes of Directors during the Reporting Period.

20. Directors’ and Supervisors’ Service Contracts

During the Reporting Period, the Directors and Supervisors of the Bank did not have service contracts which are not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

21. Permitted Indemnity Provisions

According to code provision A.1.8, the Bank shall maintain appropriate insurance to cover the potential legal litigations initiated against the Directors of the Bank. In order to comply with such code provision, the Bank has purchased appropriate liability insurance for the Directors and to provide indemnity for their liabilities incurred during the operations of the Bank for the year 2019.

Save as disclosed above, at no time during the Reporting Period and as of the date of this annual report, there was or is, any permitted indemnity provision being in force for the benefit at any of the Directors or Supervisors (whether made by the Bank or otherwise) or the Directors or Supervisors of an associated corporation of the Bank (if made by the Bank).

22. Directors’ and Supervisors’ Material Interests in Transactions, Arrangements or Contracts

During the Reporting Period, the Bank or its subsidiary did not have any transaction, arrangement or contract of significance in which the Directors or Supervisors (or entities connected with the Directors or Supervisors) directly or indirectly were materially interested.

23. Arrangements to Purchase Shares or Debentures

At no time during the Reporting Period was the Bank a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

24. Management Contracts

Save for the service contracts entered into with the management of the Bank, the Bank has not entered into any other contract with any individual, company or body corporate in relation to the management or administration of the whole or any substantial part of any business of the Bank.



Chapter 9 Report of the Board of Directors

25. Directors', Supervisors' and Chief Executive's Interest in Shares of the Bank

As of the end of the Reporting Period, the Directors, Supervisors and the chief executive of the Bank and their associates had interests and short positions in the Shares, underlying Shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules (See “Directors, Supervisors and Senior Management and Employees – 6. Interests and Short Positions of Directors, Supervisors and Chief Executive Officers in Shares, Underlying Shares and Debentures” in chapter 7). Other than as disclosed above, none of the Directors, Supervisors, or chief executive of the Bank or their associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or its associated corporations as of December 31, 2019.

26. Corporate Governance

We are committed to maintaining high standards in corporate governance. Please refer to the “Corporate Governance Report” in this annual report.

27. Public Float

Based on the information available in the public and so far as our directors concerned, as of the date of this annual report, the Bank had maintained sufficient public float in compliance with the minimum requirement of the Hong Kong Listing Rules and the exemption granted by the Hong Kong Stock Exchange upon the Bank's listing.

28. Auditors

Please refer to the section “Corporate Governance Report – 13. External Auditors and Auditors' Remuneration” for the information on the auditors of the Bank.

29. Equity Linked Agreement

During the Reporting Period, the Bank did not enter into any other equity-linked agreements. Upon approvals by the CBRC Henan Office and the CSRC, the Bank issued non-cumulative perpetual Offshore Preference Shares in the amount of USD1,395 million on November 21, 2018 through an non-public offering on the overseas market. Pursuant to regulations including the Measures on Capital Management of Commercial Banks (Trial) and the Trial Administrative Measures on Preference Shares, a commercial bank shall set up the provisions of coercive



Chapter 9 Report of the Board of Directors

conversion of preference shares into ordinary shares, under which the commercial bank shall convert the preference shares into ordinary shares as contractually agreed in case of a trigger event. Such trigger event happens when the core tier-one capital adequacy ratio has decreased to 5.125% (or below) and when the China Banking and Insurance Regulatory Commission determines that the Bank will not be able to exist if shares of the Bank are not transferred or written down, or when relevant regulators determine that the Bank will not be able to exist if there is no capital injection from public sectors or supports with coordinative effects. The Bank, according to relevant regulations, has formulated provisions of trigger events under which Offshore Preference Shares shall be coercively converted into H Shares. If such trigger events happen to the Bank and all Offshore Preference Shares need to be coercively converted into H Shares in accordance with their initial conversion price, the total amount of the Offshore Preference Shares which would be converted into H Shares will not exceed 4,416,050,404 H Shares. During the Reporting Period, the Bank did not experience any trigger event in which the Offshore Preference Shares need to be coercively converted into H Shares.

30. Preference Shares Issuance

For the issuance terms and relevant details of the Offshore Preference Shares, please refer to section “Changes in Share Capital and Information on Shareholders – 7. Non-public Issuance of Offshore Preference Shares”.

31. Bond Issuance

During the Reporting Period, the Bank did not issue any bonds.

On April 25, 2018, the Bank publicly issued the first tranche of green financial bonds in the national inter-bank bond market with a size of RMB1.50 billion. The face value of the bond is RMB100 with an issuance price of RMB100 each for a term of three years at a coupon rate of 4.70%. In accordance with the approval from the regulatory authorities, the proceeds will be fully used for lending to green industry projects specified in the Green Bond Endorsed Project Catalogue prepared by the Green Finance Committee of the China Society for Finance and Banking.

On May 23, 2018, the Bank publicly issued financial bonds in the national inter-bank bond market with a size of RMB1.5 billion. The face value of the bond is RMB100 and issuance price is RMB100 each with a term of three years at a coupon rate of 4.79%. The proceeds will be used for lending to innovation and entrepreneurship enterprises(雙創企業) and innovation and entrepreneurship service enterprises (雙創服務企業) in Henan Province.



Chapter 9 Report of the Board of Directors

On September 26, 2018, the Bank issued the Qualified Tier 2 Capital Instruments in the aggregate principal amount of RMB10 billion in the national inter-bank market. The type is fixed rate bonds for a term of 10 years with the coupon rate of 5.20% and the issuer is entitled to redeem the bonds at the end of the fifth year. The proceeds from the issuance of the Qualified Tier 2 Capital Instruments will be used to replenish the tier 2 capital of the Bank in accordance with the applicable laws and the approvals of regulatory authorities.

For the issuance terms and relevant details of the bonds, please refer to the announcements made by the Bank on the website of Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.zybank.com.cn).

32. Donations

During the Reporting Period, the Bank made donations in a total amount of RMB1,988,134, which mainly used for poverty alleviation and assistance in difficulty of special groups and students.

33. Environmental Policy

During recent years, the Bank has proactively borne social responsibility in relation to environment policy. The Bank has sought to proactively develop business in green credit in line with national economic policy and regulatory trends. The Bank formulated the “Administrative Measures of Zhongyuan Bank Co., Ltd. for the Proceeds Raised by Green Financial Bonds” (《中原银行股份有限公司綠色金融債券募集資金管理辦法》) and successfully issued green financial bonds.

In addition, the Bank has strictly implemented the management policies after granting of credit and specialized environmental assessment reporting in relation to some projects to identify environmental and social risks. At the same time, the Bank has made efforts to push forward the development of electronic banking, and actively implemented national policies to save energy costs. For more details of our environmental policy and performance, please refer to the “Environmental, Social and Governance Report” that the Bank would issue after the annual report.

34. Consumer Rights Protection

The Bank has always attached great importance to the protection of consumer rights and has established and implemented the “customer-oriented” business development philosophy to protect the legitimate rights and interests of consumers. In 2019, the Bank initiated the construction of the consumer rights protection system, institutional system, financial knowledge promotion, training and education, inspection and rectification to enhance its consumer rights protection standard.



Chapter 9 Report of the Board of Directors

The Board of the Bank establishes the consumer rights protection Committee, and senior management sets up a leading group for consumer rights protection, coordinate and deploy the Bank's consumer rights protection work; A dedicated department and professional personnel for consumer rights protection were established to take charge of the protection of consumer rights of the Bank, and to continuously improve the organization and working mechanism for consumer rights protection.

The Bank has formulated and issued the Management Measures on Consumer Rights Protection of Zhongyuan Bank Co., Ltd., the Administrative Measures on Customer Complaints Handling of Zhongyuan Bank, the Administrative Measures on Disposal of Consumer Rights Protection Emergency Incident of Zhongyuan Bank, the Administrative Measures on Education of Financial Knowledge of Zhongyuan Bank and other aspects of the consumer rights protection system, which cover the organizational structure and operation mechanism of consumer rights protection, management of products and services, customer information protection, emergency plans, reporting of major events, complaints acceptance and handling procedures, education on promotion of financial knowledge, assessment and evaluation, employee behavior management, etc., to achieve the standardized management of consumer rights protection of the Bank.

The Bank continued to carry out promotion activities themed "3.15 Financial Consumer Rights Day", "Popularizing Financial Knowledge and Guarding Your Money Bag", "A Campaign for Spreading Financial Knowledge", "One-month Campaign for Spreading Financial Knowledge and Delivering Financial Knowledge to Thousands of Families", namely "Enhancement of Financial Quality and Strive to be Good Financial Netizens", anti-money laundering, prevention of telecommunication fraud, prevention of illegal fund-raising, credit investigation and information security, etc., to continuously improve consumers' awareness of financial risk prevention.

The Bank continuously conducts training on consumer rights protection to improve the protection level and skills of consumer rights of its employees.

35. Compliance with Relevant Laws and Regulations

The Bank has adopted internal control measures to monitor ongoing compliance with relevant laws and regulations, such as the Companies Ordinance (Chapter 622 of the laws of Hong Kong), the SFO, the Listing Rules and other rules and regulations implemented in relevant jurisdictions. During the year, as far as the Board is concerned, the Group has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the financial year ended December 31, 2019. The Bank has continuously endeavored to comply with all relevant laws and regulations.

36. Pledge of Significant Assets

During the Reporting Period, the Bank had not pledged any significant assets.



Chapter 9 Report of the Board of Directors

37. Distributable Reserves

The distributable reserves of the Bank as of December 31, 2019 were RMB1,758 million.

38. Important events since the end of the Reporting Period

The COVID-19 virus outbreak since early 2020 has brought about additional uncertainties in the Bank's operating environment and has impacted the Group's operations. The Bank has been closely monitoring the impact of the developments on the Bank's businesses and has put in place contingency measures. The Bank will continuously monitor the situation and evaluates the impact on the Bank's operation and financial position. Up to the reporting date, the evaluation is still in progress. Save as disclosed above, no major events that affected the Bank has occurred after the Reporting Period.

39. Other Matters

As far as the Board is aware, the Bank has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Bank. In the meantime, the Bank is committed to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Bank endeavors to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

As at the date of this report, the Bank was not aware that any Shareholders had waived or agreed to any arrangement to waive dividends.

As at the date of this report, none of the Directors waived or agreed to relevant arrangement to waive remuneration.

During the Reporting Period, the Bank has no controlling shareholders or de facto controllers, therefore the Bank does not have any controlling shareholder to pledge the Bank's shares to provide guarantee for the Bank's debts or otherwise provide support for the pledge thereof.

The Bank will publish an environmental, social and governance report for the Reporting Period, as and when appropriate, in compliance with the provisions under the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules.

On behalf of the Board of Directors
Dou Rongxing
Chairman

Zhengzhou, China
March 27, 2020



Chapter 10 Report of the Board of Supervisors

During the Reporting Period, the Board of Supervisors of the Bank performed its duties with due diligence pursuant to laws and regulations and regulatory requirements including the Company Law, the Guidelines on Corporate Governance of Commercial Bank (《商業銀行公司治理指引》), the Guidelines on the Duties of the Supervisory Board of Commercial Banks (《商業銀行監事會工作指引》) and the Articles of Association of the Bank, continuously improved the effectiveness of supervision, and played an active role in further improving corporate governance, promoting business development and strengthening risk control.

I. Major Works

1. Convened meetings of the Board of Supervisors in accordance with the laws and regulations

A total of 6 meetings of the Board of Supervisors were held during the year, at which 38 proposals were considered, 1 report was heard. 7 meetings of special committees were held, at which 23 proposals were considered. The proposals included performance evaluation, financial reports, profit distribution, financial budget and final accounts, capital adequacy ratio management, risk management, internal control evaluation, internal audit, etc. The Bank's supervisors conducted in-depth research and discussion on various proposals such as financial reporting, risk management, and regulatory rectification. By fully exerting their advantages of being independent, professional and objective, the Supervisors has actively provided suggestions, playing a key role in the Bank's key work.

2. Performed the duty of supervision conscientiously

During the Reporting Period, the Board of Supervisors further strengthened the supervision over the performance of directors and senior executives, constantly improved corporate governance. Firstly, by attending meetings of the Board of Directors and management, reviewing proposals and reports, listening to reports, conducting surveys and inspections, etc., the Board of Supervisors supervised the Board of Directors and senior management over strategy implementation, business decision-making, risk management, internal control compliance, financial management, profit distribution, related party transaction management, and put forward supervision opinions and suggestions in a timely manner. Secondly, the Board of Supervisors carried out performance evaluation based on the daily performance supervision, improved the evaluation plan according to regulatory requirements, organized the file information of performance, optimized the weight setting in evaluation, enriched the evaluation dimension, with an aim to ensure the evaluation results were objective and fair, and urge directors and senior management to be faithful and diligent.



Chapter 10 Report of the Board of Supervisors

3. Effectively strengthened financial supervision

During the reporting period, the Board of Supervisors continued to strengthen the supervision over the Bank's major financial activities, the authenticity, accuracy and completeness of its regular reports, and promoted improvement in the Bank's financial management. Firstly, providing independent and professional opinions on the contents of the Bank's 2018 annual report. Secondly, carefully reviewing regular reports, financial budgets and final accounts, profit distribution plans, capital adequacy ratio reports, and providing audit opinions on the authenticity and completeness of financial statements and profit distribution plans. Thirdly, supervising the preparation and reporting process of the 2018 annual report and the decision-making process of the profit distribution plan. Fourthly, strengthening communication with external audit institutions, listening to KPMG's audit opinions on the annual financial statements and conducting full discussions to monitor the independence and effectiveness of the audit.

4. Strengthened risk management and internal control supervision

Firstly, according to changes in the domestic and international economic situations, the Board of Supervisors has placed a greater emphasis on preventing and mitigating systemic risks, paid more attention to credit risk, market risk, operational risk, liquidity risk, and their prevention and control, deliberated risk management preferences, credit concentration management plan, Risk Exposure Management Measures on Large Amount Asset, Company Risk Combination Management Measures, reviewed comprehensive risk analysis report, internal control compliance and operational risk management report, and internal control evaluation Reports, etc., facilitating our bank to continuously improve the risk control system. Secondly, the Board of Supervisors continuously strengthened the supervision on the effectiveness of internal control and compliance operation, focused on the building and implementation of the internal control system, regularly listened to the work report of the internal control department, strengthened the review of the annual internal control evaluation report, improved the guidance on internal audit and internal control compliance, and allowed audit to play its role in improving the supervision effectiveness of risk management and of internal control.

5. Strengthened strategy implementation supervision

The Board of Supervisors always attached great importance to strategic supervision. 2019 was the year we end our first five-year plan. During the Reporting Period, the Board of Supervisors, in accordance with regulatory requirements, evaluated the implementation of the Bank's five-year strategic plan and made relevant recommendations, and based on the Bank's work arrangements for the year, participated in the supervision of the formulation of the new five-year strategic plan, thus contributing to the sustainable and sound development of the Bank.



Chapter 10 Report of the Board of Supervisors

6. Actively carried out on-site investigations

During the reporting period, the Bank's supervisors, by closely focusing on the business development and risk prevention and control, carried out various types of work surveys through in-depth on-site inspections at community level and off-site inspections to play its role in supervision and advice raising. They successively went to branch offices in Xinxiang, Anyang, Pingdingshan, Zhengzhou and other places to conduct research, exchange opinions with operating agencies on how they serve the real economy, support rural rejuvenation, and prevent and control financial risks. They also listened to reports from branches and relevant departments of the head office, organized employee discussions, and randomly inspected business outlets. Through going deep into the community level sites, they comprehensively and truly understood the practical problems and potential risks of the relevant operating units, put forward targeted opinions and suggestions, and fully reported the difficulties and problems encountered by the lower level units and suggestions to the Board of Directors and senior management.

7. Continuously strengthened self-governance

Firstly, the selection of supervisors to fill the vacancy was successfully completed. According to the needs of the work, the Bank added an external supervisor through statutory procedures to fill the vacancy of the special committee of the Board of Supervisors, thereby optimizing the staff structure of the board and provided the human resource guarantee for the full performance of the board. Secondly, participated in business training. In order to continuously improve their ability to perform their duties, supervisors participated in corporate governance practice seminars, at which industry experts gave explanations and trainings on relevant hot issues around the board of supervisors of commercial banks. These has achieved the expected results. Thirdly, the board of supervisors cooperated with a well-known consulting company, to comprehensively review the structure of the board of supervisors, and sorted out the relevant operational processes around the six supervisory functions of the board, including strategic supervision, financial supervision, and internal control supervision, etc. The board of supervisors also formulated a practical and feasible manual for its work. Fourthly, the board of supervisors organized research on certain topics. The Bank cooperated with higher education institutions to carry out the research on corporate governance issues for small and medium-sized banks, conducted research from the perspectives of the corporate governance theory and practice, internal governance structures and decision-making process of small and medium banks, and demonstrated certain special topics including the capacity building of the board of supervisors to further improve its ability to perform duties and foster a good learning atmosphere.



Chapter 10 Report of the Board of Supervisors

II. Independent Opinions of the Board of Supervisors issued on Major Issues

(I) Introduction to operation compliance

During the Reporting Period, the Bank has saw sound operations and standardized management, with its operating activities in compliance with the relevant provisions of laws, regulations, and the Articles of Association, its business decision-making procedures being legitimate and its operating results objective and true. Violations and acts that harmed the interests of the Bank and shareholders were not found in the duties performance of our directors and senior management.

(II) Introduction to the financial report

The 2019 financial report of the Bank was audited by KPMG Huazhen LLP and KPMG engaged by the Board of Directors, which has issued a standard unqualified audit report; the Board of Supervisors are in the opinion that the preparation of the financial report and the audit procedure were in compliance with laws, regulations and regulatory requirements, and its content truly, accurately and completely reflected the financial conditions and operating results of the Bank.

(III) Related party transactions

During the Reporting Period, the Board of Supervisors supervised the management on the related party transactions of the Bank and considered that the management thereof was relatively standardized, in compliance with the relevant provisions of national laws and regulations and the Articles of Association of the Company, and the interests of the Bank were not undermined.

(IV) Internal control

The Bank attached great importance to the building of the internal control system, and no major deficiencies was found in the internal control system or its implementation.

(V) Implementation of resolutions of shareholders' meetings

During the Reporting Period, the Bank held the 2018 Annual General Meeting, and the Board of Supervisors organized its members to attend the meeting. They had no objections to the reports and proposals submitted by the Board of Directors of the Bank to the General Meeting, carried out supervision on the implementation of the General Meeting's resolutions and considered that the relevant resolutions of the General Meeting can be duly implemented by the Board of Directors.

On behalf of the Board of Supervisors
HAO Jingtao
Chairman of the Board of Supervisors



Zhengzhou, China
March 27, 2020

Chapter 11 Important Events

1 Use of Proceeds

On November 21, 2018, the Bank issued non-cumulative perpetual Offshore Preference Shares of USD1,395 million. For details of the use of proceeds from this issue of preference shares, please refer to “Changes in Share Capital and Information on Shareholders – 7.1 The Issuance and Listing of Offshore Preference Shares”.

2 Profits and Dividends

The income and financial position of the Bank for 2019 are set out in the annual financial statements of this annual report. The Board has recommended the payment of a final dividend in cash of RMB0.45 (tax included) per ten shares for the year ended December 31, 2019. The total amount paid is RMB903,375,000. The final dividend is subject to approval by shareholders at the forthcoming 2019 annual general meeting of the Bank. Upon approval by the 2019 annual general meeting of the Bank, the payment of the final dividend is expected to be on June 29, 2020.

3 Material Connected Transactions

As of the end of the Reporting Period, there had not been any material connected transactions entered into between the Bank and its connected persons.

4 Material Litigations and Arbitrations

(I) Litigations against the Xinxiang branch in relation to alleged lending and borrowing

As of December 31, 2019, the Group received 49 cases filed against the Xinxiang branch for alleged lending and borrowing raised by 43 plaintiffs demanding the Xinxiang branch to repay alleged loan principal of approximately RMB219.0 million with accrued interest. Among the 49 cases, 9 cases involved a claim over RMB10.0 million with an aggregate loan principal of approximately RMB123.9 million.

As of December 31, 2019, plaintiff's claims had been rejected in 4 effective judgements, and plaintiff has withdrew the suit of 9 cases, Xinxiang branch assumes 50% responsibility in 2 effective judgements (Xinxiang branch has applied to Henan High People's Court for retrial), 24 cases had been appealed upon receipt of first judgements, while 10 cases were still pending for first judgements or under retrial.



Chapter 11 Important Events

(II) Property rights dispute of Zhoukou branch

In April 2016, the plaintiff of the case filed a lawsuit against the Zhoukou Branch for property rights dispute. Zhoukou Intermediate People's Court determined that the ownership of the buildings at issue belonged to the plaintiff and ordered the Zhoukou branch to return the property claimed by the plaintiff. In September 2016, the Zhoukou branch appealed to the Henan High People's Court. In December 2017, Henan High People's Court quashed the judgment of first instance and remitted the case to the court of first instance for retrial. In December 2018, Zhoukou Intermediate People's Court re-examined the ownership of the buildings at issue belonged to the plaintiff and ordered the Zhoukou branch to return the property claimed by the plaintiff. As of December 31, 2019, Zhoukou branch had once again appealed to the Henan High People's Court, and the trial of Henan High People's Court has been held, pending for judgements.

(III) Litigation against Lushi Zhongyuan County Bank Co., Ltd. in relation to alleged lending and borrowing

Lushi Zhongyuan County Bank was sued in April 2015 for cases regarding alleged lending and borrowing. In April 2016, Luoyang Intermediate People's Court rendered judgment of first instance, in which Lushi Zhongyuan County Bank shall repay the borrowings and the accrued interest, which later appealed to Henan High People's Court. In May 2017, Henan High People's Court quashed the judgment of first instance and remitted the case to the court of first instance for retrial. In December 2018, Luoyang Intermediate People's Court re-examined and determined that Lushi Zhongyuan County Bank shall repay the borrowings and the accrued interest. As of December 31, 2019, Lushi Zhongyuan County Bank had once again appealed to the Henan High People's Court and the trial of Henan High People's Court has been held, pending for judgements.

5 Penalties for Directors, Supervisors and Senior Management

During the Reporting Period, none of the Bank's Directors, Supervisors or senior management had been subject to any investigation, administrative penalty or public criticism by the China Securities Regulatory Commission or any public censure by any stock exchange or any punishment by any other regulatory authorities which would have a material impact on the operation of the Bank.



Chapter 11 Important Events

6 Performance of Commitments by the Bank and Shareholders with 5% or more of Shares

The Bank's major Shareholders, their related parties and persons acting in concert have issued to the Bank a statement on the conditions and requirements for investment in the Bank, a statement on the equity relationship, a statement on the tax situation, a statement on the purpose of the shareholding and the source of funds, a statement on non-occurrence of non-compliance related party transactions, a statement on non-significant violations, a statement on the authenticity of materials, a statement on compliance holdings, and a statement on equity status and shareholder performance. They have also made commitment on compliance with laws and regulations, the Bank's Articles of Association and other relevant provisions, legal exercise of rights and performance of obligations and other matters.

7 Implementation of Share Incentive Scheme during the Reporting Period

During the Reporting Period, the Bank had not implemented any share incentive scheme.

8 Material Contracts and their Performance

No material contracts (including provision of relevant services) in relation to the Bank's business to which the Bank or its subsidiaries was a party and in which any of the Directors, the Supervisors of the Bank or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

9 Material Investment, Material Acquisitions and Disposals of Assets and Business Mergers

The Bank and Henan Wansong successfully bid for 100% shares of AB Leasing through public listing-for-sale procedures conducted by Shanghai United Assets and Equity Exchange. The Bank and Henan Wansong, as an Independent Third Party, (as the Assignee) entered into the Equity Transaction Agreement in respect of the Acquisition with CDRCB and AB Life Insurance (as the Assignor) after the trading time on 19 February 2019, at a total consideration of RMB4,735 million, RMB4,261.5 million and RMB473.5 million of which borne by the Bank and Henan Wansong, respectively. Upon completion of the Acquisition, the Bank and Henan Wansong will hold 2,700,000,000 and 300,000,000 shares of AB Leasing, representing 90% and 10% of the share capital of AB Leasing, respectively. Upon the Acquisition, AB Leasing will become a non-wholly owned subsidiary of the Bank and its accounts will be consolidated into the accounts of the Bank.



Chapter 11 Important Events

Pursuant to the “Reply from the CBIRC on Change in Equity Ownership of AB Leasing Co., Ltd.” (中國銀保監會關於邦銀金融租賃股份有限公司變更股權的批覆) (Yin Bao Jian Fu [2019] No. 917) issued by the CBIRC, the CBIRC approved on the acquisition of the equity interest in AB Leasing held by CDRCB and AB Life Insurance by the Bank and Henan Wansong. Therefore, all the conditions precedent stipulated in the Equity Transaction Agreement have been fulfilled and it is expected that the Acquisition will be completed in accordance with the terms and conditions of the Equity Transaction Agreement.

For terms of equity transaction and relevant details regarding the acquisition of AB Leasing, please refer to the announcements dated February 19, 2019 and October 16, 2019 published by the Bank on the website of the Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.zybank.com.cn).

Save as disclosed above, no major events that affected the Bank has occurred after the Reporting Period. The Bank did not have any significant investment for the reporting year. During the Reporting Period, the Bank had no material acquisitions and disposals of assets or business mergers.

10. Profit Distribution during the Reporting Period

The 2018 profit distribution plan of the Bank was considered and approved at the 2018 annual general meeting of the Bank held on May 20, 2019, which decided to distribute dividends in cash of RMB0.35 (tax included) per ten shares to all of the Shareholders. The 2018 final dividends has been distributed on June 28, 2019.

11. Audit Review

The financial statements for 2019 prepared by the Bank according to the IFRSs has been audited by KPMG, and the auditor's reports were unqualified. The 2019 Annual Report of the Bank has been reviewed and approved by the Audit Committee of the Board and the Board of Directors of the Bank.



Chapter 12 Independent Auditor's Report

Independent auditor's report to the shareholders of Zhongyuan Bank Co., Ltd.

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

Opinion

We have audited the consolidated financial statements of Zhongyuan Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") set out on pages 180 to 353, which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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



Chapter 12 Independent Auditor's Report

Loss allowances of loans and financial investments measured at amortized cost

Refer to note 20 and 21 to the consolidated financial statements and the accounting policies in note 2(9)(ii).

The key audit matter

How the matter was addressed in our audit

The determination of loss allowances of loans and financial investments subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.

In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses for corporate loans and financial investments are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The expected credit losses for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors.

Our audit procedures to assess loss allowances of loans and financial investments measured at amortized cost included the following:

- understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and financial investments measured at amortized cost, the credit grading process and the measurement of provisions for impairment;

- assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments;



Chapter 12 Independent Auditor's Report

Loss allowances of loans and financial investments measured at amortized cost (Continued)

Refer to note 20 and 21 to the consolidated financial statements and the accounting policies in note 2(9)(ii). (Continued)

The key audit matter	How the matter was addressed in our audit
Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of loss allowances as at the end of the reporting period. We identified the impairment of loans and advances to customers and financial investments measured at amortized cost as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Group.	• assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loan and financial investment list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and investment information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and investment list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources; • for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and considered the consistency of judgement.



Chapter 12 Independent Auditor's Report

Loss allowances of loans and financial investments measured at amortized cost (Continued)

Refer to note 20 and 21 to the consolidated financial statements and the accounting policies in note 2(9)(ii). (Continued)

The key audit matter	How the matter was addressed in our audit
	We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development; • for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the logics and compilation of the overdue information of corporate customers for selected samples; • evaluating the validity of management's assessment on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting samples in industries more vulnerable to the current economic situation and checking the loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses;



Chapter 12 Independent Auditor's Report

Loss allowances of loans and financial investments measured at amortized cost (Continued)

Refer to note 20 and 21 to the consolidated financial statements and the accounting policies in note 2(9)(ii). (Continued)

The key audit matter	How the matter was addressed in our audit
	• for selected samples of loans and advances to customers and financial investments measured at amortized cost that are credit-impaired, evaluating management's assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, challenged the viability of the Group's recovery plans and evaluated other credit enhancements that are integral to the contract terms; and • evaluating whether the disclosures on impairment of loans and financial investments measured at amortized cost meet the disclosure requirements in prevailing accounting standards.



Chapter 12 Independent Auditor's Report

Fair value of financial instruments

Refer to note 46 to the consolidated financial statements and the accounting policies in note 2(9)(iv).

The key audit matter

How the matter was addressed in our audit

Financial instruments carried at fair value Our audit procedures to assess the fair account for a significant part of the Group's value of financial instruments included the assets. The effect of fair value adjustments following:

of financial instruments may impact either the profit or loss or other comprehensive income.

The valuation of the Group's financial instruments, carried at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from active market readily available data. For level 2 financial instruments in the fair value hierarchy, the valuation techniques use quoted market prices and observable inputs.

The Group has developed its own models to value certain financial instruments, which also involve significant management judgement.

We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation models.

understanding and assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office and back office reconciliations and model approval for financial instruments;

involving our internal valuation specialists to assist us in performing independent valuations, on a sample basis, of financial instruments and comparing our valuations with the Group's valuations. Our procedures included comparing the valuation models of the Group with our valuation methods, and developing parallel models to revalue; and

assessing whether the disclosures in the consolidated financial statements with reference to the requirements of the related financial reporting standards, and appropriately reflected the Group's exposure to financial instrument valuation risk.



Chapter 12 Independent Auditor's Report

Consolidation of structured entities

Refer to note 40 to the consolidated financial statements and the accounting policies in note 2(28).

The key audit matter

How the matter was addressed in our audit

Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to a structured entity through issuing a wealth management product, or act as an investor to a structured entity through investing in an asset management plan, a trust plan or an asset-backed security.

In determining whether a structured entity is required to be consolidated by the Group, management is required to consider the power the Group is able to exercise over the activities of the entity and the Group's exposure to and ability to influence its own returns from the entity. In certain circumstances the Group may be required to consolidate a structured entity even though it has no equity interest therein.

We identified the consolidation of structured entities as a key audit matter because it involves significant management judgement to determine whether a structured entity is required to be consolidated by the Group or not and because the impact of consolidating a structured entity on the consolidated statement of financial position and relevant regulatory capital requirements could be significant.

Our audit procedures to assess the consolidation of structured entities included the following:

- making enquiries of management and inspecting documents relating to the judgement process over whether a structured entity is consolidated or not to assess whether the Group has a robust process in this regard;
- selecting significant structured entities of each key product type and performing the following procedures for each entity selected:
 - inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;



Chapter 12 Independent Auditor's Report

Consolidation of structured entities (Continued)

Refer to note 40 to the consolidated financial statements and the accounting policies in note 2(28). (Continued)

The key audit matter	How the matter was addressed in our audit
	– reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity; – reviewing management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity; – assessing management's judgement over whether the structured entity should be consolidated or not; • assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.



Chapter 12 Independent Auditor's Report

Information other than the consolidated financial statements and our auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.



Chapter 12 Independent Auditor's Report

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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



Chapter 12 Independent Auditor's Report

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Lok Man.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
March 27, 2020



Consolidated statement of profit or loss and other comprehensive income

for the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2019	2018
Interest income		29,254,326	25,241,459
Interest expense		(13,644,728)	(11,497,271)
Net interest income	4	15,609,598	13,744,188
Fee and commission income		2,207,691	1,479,439
Fee and commission expense		(342,119)	(199,206)
Net fee and commission income	5	1,865,572	1,280,233
Net trading gains	6	283,579	365,206
Net gains arising from investment securities	7	1,111,564	1,303,532
Other operating income	8	151,532	90,451
Operating income		19,021,845	16,783,610
Operating expenses	9	(7,486,345)	(6,957,515)
Impairment losses on assets	12	(7,148,283)	(6,851,545)
Share of losses of joint venture		(26,581)	—
Profit before tax		4,360,636	2,974,550
Income tax	13	(1,154,651)	(609,292)
Net profit for the year		3,205,985	2,365,258
Net profit attributable to:			
Equity shareholders of the Bank		3,163,849	2,414,576
Non-controlling interests		42,136	(49,318)
		3,205,985	2,365,258
Basic and diluted earnings per share (in RMB)	14	0.13	0.12



The notes on pages 189 to 353 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2019	2018
Net profit for the year		3,205,985	2,365,258
Other comprehensive income			
<i>Other comprehensive income net of tax attributable to equity shareholders of the Bank</i>			
Items that may be reclassified subsequently to profit or loss:			
– Financial assets at fair value through other comprehensive income: net movement in the fair value reserve	37(a)(i)	5,499	488,339
– Financial assets at fair value through other comprehensive income: net movement in impairment losses	37(a)(ii)	28,255	285,908
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability	37(a)(iii)	112	(597)
Other comprehensive income net of tax attributable to non-controlling interests		303	1,398
Other comprehensive income, net of tax		34,169	775,048
Total comprehensive income		3,240,154	3,140,306
Total comprehensive income attributable to:			
Equity shareholders of the Bank		3,197,715	3,188,226
Non-controlling interests		42,439	(47,920)
		3,240,154	3,140,306

The notes on pages 189 to 353 form part of these financial statements.



Consolidated statement of financial position

as at December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2019	2018
Assets			
Cash and deposits with the central bank	15	72,118,641	64,544,522
Deposits with banks and other financial institutions	16	10,873,899	15,863,539
Placements with banks and other financial institutions	17	20,038,963	10,032,008
Derivative financial assets	18	15,138	43,096
Financial assets held under resale agreements	19	16,838,550	16,345,184
Loans and advances to customers	20	291,230,110	246,551,689
Financial investments:	21		
Financial investments at fair value through profit or loss		42,185,454	43,869,291
Financial investments at fair value through other comprehensive income		53,475,148	43,693,209
Financial investments at amortised cost		156,407,156	165,083,362
Finance lease receivables	22	27,859,022	—
Interest in joint venture	23	1,095,567	—
Property and equipment	25	4,317,284	4,115,409
Deferred tax assets	26	3,650,761	3,502,648
Goodwill	27	970,780	468,397
Other assets	28	8,808,556	6,331,915
Total assets		709,885,029	620,444,269
Liabilities and equity			
Liabilities			
Borrowing from the central bank		16,644,752	9,247,544
Deposits from banks and other financial institutions	30	61,578,074	60,801,955
Placements from banks and other financial institutions	31	28,058,729	12,729,210
Financial liabilities at fair value through profit or loss		20,437	—
Derivative financial liabilities	18	295,741	228,084
Financial assets sold under repurchase agreements	32	66,544,904	33,527,896
Deposits from customers	33	389,731,529	349,386,955
Income tax payable		799,904	1,054,847
Debt securities issued	34	79,720,418	93,277,576
Other liabilities	35	8,659,477	4,512,446
Total liabilities		652,053,965	564,766,513



The notes on pages 189 to 353 form part of these financial statements.

Consolidated statement of financial position

as at December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2019	2018
Equity			
Share capital	36	20,075,000	20,075,000
Other equity instruments			
– Preference shares	39	9,632,791	9,632,791
Capital reserve	37(a)	15,022,418	14,981,317
Surplus reserve	37(b)	1,818,292	1,500,620
General reserve	37(c)	8,934,907	7,884,326
Retained earnings	38	1,261,325	783,400
Total equity attributable to equity shareholders of the Bank		56,744,733	54,857,454
Non-controlling interests		1,086,331	820,302
Total equity		57,831,064	55,677,756
Total liabilities and equity		709,885,029	620,444,269

Approved and authorised for issue by the board of directors on March 27, 2020.

Dou Rongxing

Chairman of the Board of Directors

Executive Director

Wang Jiong

President

Executive Director

Li Yulin

Vice President in charge of accounting affairs

Zhang Yi

General Manager of the Planning and Finance Department

(Company chop)

The notes on pages 189 to 353 form part of these financial statements.



Consolidated statement of changes in equity

for the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank							Non-controlling interests	Total
		Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Subtotal		
Balance at January 1, 2019		20,075,000	9,632,791	14,981,317	1,500,620	7,884,326	783,400	54,857,454	820,302	55,677,756
Changes in equity for the year:										
Net profit for the year		-	-	-	-	-	3,163,849	3,163,849	42,136	3,205,985
Other comprehensive income		-	-	33,866	-	-	-	33,866	303	34,169
Total comprehensive income		-	-	33,866	-	-	3,163,849	3,197,715	42,439	3,240,154
Loss of control over subsidiary	23(a)(x)	-	-	7,235	(1,265)	-	1,265	7,235	(195,939)	(188,704)
Acquisition of subsidiary	24	-	-	-	-	-	-	-	446,980	446,980
Appropriation to surplus reserve	38	-	-	-	318,937	-	(318,937)	-	-	-
Appropriation to general reserve	38	-	-	-	-	1,050,581	(1,050,581)	-	-	-
Cash dividends on common shares	38	-	-	-	-	-	(702,625)	(702,625)	(27,451)	(730,076)
Cash dividends on preference shares	38	-	-	-	-	-	(615,046)	(615,046)	-	(615,046)
Balance at December 31, 2019		20,075,000	9,632,791	15,022,418	1,818,292	8,934,907	1,261,325	56,744,733	1,086,331	57,831,064



The notes on pages 189 to 353 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank						Non-controlling interests	Total
Note	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Subtotal		
Balance at January 1, 2018	20,075,000	–	14,371,546	1,258,065	6,386,313	1,534,717	43,625,641	821,691	44,447,332
Changes in equity for the year:									
Net profit for the year	–	–	–	–	–	2,414,576	2,414,576	(49,318)	2,365,258
Other comprehensive income	–	–	773,650	–	–	–	773,650	1,398	775,048
Total comprehensive income	–	–	773,650	–	–	2,414,576	3,188,226	(47,920)	3,140,306
Capital invested by other equity instrument holders	39	–	9,632,791	–	–	–	9,632,791	–	9,632,791
Capital contributed to subsidiary		–	–	(7,235)	–	–	(7,235)	7,235	–
Purchase of non-controlling interests		–	–	(156,644)	–	–	(156,644)	65,144	(91,500)
Appropriation to surplus reserve	38	–	–	–	242,555	–	(242,555)	–	–
Appropriation to general reserve	38	–	–	–	–	1,498,013	(1,498,013)	–	–
Appropriation to shareholders	38	–	–	–	–	–	(1,425,325)	(1,425,325)	(25,848)
Balance at December 31, 2018	20,075,000	9,632,791	14,981,317	1,500,620	7,884,326	783,400	54,857,454	820,302	55,677,756

The notes on pages 189 to 353 form part of these financial statements.



Consolidated cash flow statement

for the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	2019	2018
Cash flows from operating activities		
Profit before tax	4,360,636	2,974,550
Adjustments for:		
– Impairment losses on assets	7,148,283	6,851,545
– Depreciation and amortization	1,136,045	845,271
– Depreciation of investment properties	4,076	7,470
– Unrealized foreign exchange gains	(384,589)	(49,912)
– Net gains on disposal of property and equipment	(22,891)	(2,147)
– Net trading gains	(137,658)	(176,764)
– Net losses arising from fair value of derivatives	95,615	573
– Net gains on disposal of investment securities	(1,111,564)	(1,303,532)
– Share of losses of joint venture	26,581	–
– Interest expense on debts securities issued	3,062,299	3,153,731
– Interest expense on lease liabilities	34,011	–
	14,210,844	12,300,785
<i>Changes in operating assets</i>		
Net decrease in deposits with the central bank	4,953,041	3,140,315
Net decrease/(increase) in deposits and placements with banks and other financial institutions	1,960,648	(9,381,327)
Net (increase)/decrease in financial assets held for trading	(2,394,898)	6,221,409
Net increase in loans and advances to customers	(48,267,057)	(59,860,670)
Net decrease in finance lease receivables	287,592	–
Net increase in other operating assets	(3,481,342)	(1,213,297)
	(46,942,016)	(61,093,570)



The notes on pages 189 to 353 form part of these financial statements.

Consolidated cash flow statement

for the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	2019	2018
Cash flows from operating activities		
<i>Changes in operating liabilities</i>		
Net increase in borrowing from central bank	7,380,742	7,837,009
Net increase in deposits from banks and other financial institutions	985,960	20,736,652
Net (decrease)/increase in placements from banks and other financial institutions	(5,247,925)	6,931,073
Net increase in financial liabilities at fair value through profit or loss	20,437	–
Net increase/(decrease) in financial assets sold under repurchase agreements	33,006,446	(7,301,680)
Net increase in deposits from customers	38,856,745	39,480,711
Net increase in other operating liabilities	2,103,280	836,204
	77,105,685	68,519,969
Net cash flows generated from operating activities before income tax paid	44,374,513	19,727,184
Income tax paid	(1,540,839)	(1,398,495)
Net cash flows generated from operating activities	42,833,674	18,328,689
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	1,475,037,270	321,263,315
Proceeds from disposal of property and equipment, intangible assets and other assets	168,478	270,004
Payments on acquisition of investments	(1,471,040,558)	(351,009,240)
Payments on acquisition of subsidiary	(4,261,500)	–
Payments on capital injection to joint venture	(414,000)	–
Payments on acquisition of property and equipment, intangible assets and other assets	(1,123,166)	(766,497)
Net cash flows used in investing activities	(1,633,476)	(30,242,418)

The notes on pages 189 to 353 form part of these financial statements.



Consolidated cash flow statement

for the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2019	2018
Cash flows from financing activities			
Proceeds received from issuance of preference shares		–	9,632,791
Proceeds from issued debt securities		113,494,761	133,825,208
Acquisition of non-controlling interests		–	(91,500)
Repayment of debts securities issued		(131,190,186)	(114,855,345)
Interest paid on debts securities issued		(2,111,456)	(2,974,649)
Dividends paid		(1,524,852)	(1,148,997)
Capital element of lease liabilities paid		(292,882)	–
Interest element of lease liabilities paid		(44,594)	–
Net cash flows (used)/generated from financing activities		(21,669,209)	24,387,508
Effect of foreign exchange rate changes on cash and cash equivalents		81,735	158,583
Net increase in cash and cash equivalents	42(a)	19,612,724	12,632,362
Cash and cash equivalents as at January 1		55,712,428	43,080,066
Cash and cash equivalents as at December 31	42(b)	75,325,152	55,712,428
Interest received		28,069,588	24,828,628
Interest paid (excluding interest expense on debts securities issued)		(9,364,731)	(7,277,866)



The notes on pages 189 to 353 form part of these financial statements.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 Background information

The Bank was established in Zhengzhou, Henan Province, the People's Republic of China (the "PRC") on December 23, 2014 with the approval of the former China Banking Regulatory Commission (the former "CBRC"). Prior to its establishment, the banking business (the "Business") was carried out by thirteen city commercial banks (the "Predecessor Entities"), each being located in Henan Province.

Pursuant to the reorganization initiated by the People's Government of Henan Province (the "Henan Government"), the Bank was established through the merger and reorganization of the Predecessor Entities.

The Bank obtained its financial institution license No. B0615H241010001 from the former CBRC, and obtained its business license with unified social credit code 9141000031741675X6 from the State Administration for Industry and Commerce of the PRC. The Bank is regulated by China Banking Insurance Regulatory Commission (the "CBIRC") authorized by the State Council.

In July 2017, the Bank's H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 01216).

As at December 31, 2019, the Bank has one head office and 18 branches across Henan Province, 10 subsidiaries including 9 county banks and 1 financial leasing company and 1 joint venture which is consumer finance company. The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, financial market business, financial leasing and other financial services as approved by the former CBRC.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies

(1) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (the “IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the disclosure requirement of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(3) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(2) Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2019 comprise the Bank and its subsidiaries and the Group’s interest in a joint venture.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(2) Basis of preparation of the financial statements (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future years if the revision affects both current and future years.

Judgments made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2(28).

The measurement basis used in the preparation of the financial statements is the historical basis, except that the financial instruments classified as fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL) and derivative financial instruments (see Note 2(9)(iii)) are stated at their fair value as explained in the accounting policies.

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of the Group.

(3) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(3) Changes in accounting policies (Continued)

IFRS 16 “Leases”

The Group has initially adopted IFRS 16 from January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting mode for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4, *Determining Whether an Agreement contains a Lease* (“IFRIC 4”). The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange of consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

For a contract that contains a lease component, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(3) Changes in accounting policies (Continued)

IFRS 16 “Leases” (Continued)

As a lessee

The Group leases many assets, including properties, transportation, electronic equipment, and other office equipment.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

(i) Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The Group presents the right-of-use asset in other assets.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment or whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The Group presents the lease liability in other liabilities.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(3) Changes in accounting policies (Continued)

IFRS 16 “Leases” (Continued)

As a lessee (Continued)

(ii) Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminated the lease.
- The Group relied on the previous assessment for onerous contract provisions as at December 31, 2018 as an alternative to performing an impairment review.

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(3) Changes in accounting policies (Continued)

IFRS 16 “Leases” (Continued)

As a lessor

The Group lease out its investment property. The Group has classified these leases as operating leases.

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. However, when the Group is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. However, the Group has applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

Impacts on financial statements

(i) Impacts on transition

The Group elected to use the modified retrospective approach for the adoption of IFRS 16 and recognised right-of-use assets based on lease liabilities. Therefore, there was no adjustment to the opening balance of equity at January 1, 2019 and did not restate the comparative information.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(3) Changes in accounting policies (Continued)

IFRS 16 “Leases” (Continued)

Impacts on financial statements (Continued)

(i) Impacts on transition (Continued)

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 4.66%.

	Impacts on financial statements
Operating lease commitments at December 31, 2018 as disclosed in the Group's consolidated financial statements	1,124,625
Discounted using the incremental borrowing rate at January 1, 2019	941,085
Lease liabilities recognised at January 1, 2019	941,085
Right-of-use assets recognised at January 1, 2019	941,085

(ii) Impacts for the year

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised RMB968.63 million of right-of-use assets and RMB973.88 million of lease liabilities as at December 31, 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the year, the Group recognised RMB283.73 million depreciation charges and RMB34.01 million of interest costs from these leases.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(4) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income between non-controlling interests and the equity shareholders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(4) Subsidiaries and non-controlling interests (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(5)).

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(18)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(5) Associates and joint ventures

An associate is an entity in which the Group or the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Bank and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(18)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(5) Associates and joint ventures (Continued)

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(9)).

In the Bank's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(6) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase. Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(18)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(7) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

A spot exchange rate is quoted by the PBOC, the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(7) Translation of foreign currencies (Continued)

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of each reporting period. The resulting exchange differences are recognized in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognized in profit or loss, except for the exchange differences arising from the translation of non-monetary financial investments at fair value through other comprehensive income which are recognized in capital reserve.

(8) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, financial assets held under resale agreements and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(9)(ii).

(9) Financial instruments

(i) **Recognition and measurement of financial assets and liabilities**

A financial asset or financial liability is recognized in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument. The financial instruments are initially stated at fair value plus directly attributable transaction costs, except for those financial instruments measured at FVTPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 46. These financial instruments are subsequently accounted for as follows, depending on their classification.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(i) **Recognition and measurement of financial assets and liabilities (Continued)**

Financial instruments other than equity investments

Non-equity financial instruments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the financial instrument is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the financial instrument is calculated using the effective interest method (see note 2(23)(a)).
- fair value through other comprehensive income (FVOCI) (recycling), if the contractual cash flows of the financial instrument comprise solely payments of principal and interest and the financial instrument is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial instrument is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value through profit or loss (FVTPL), if the financial instrument does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial instrument (including interest) are recognised in profit or loss.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(i) **Recognition and measurement of financial assets and liabilities (Continued)**

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI, are recognised in profit or loss.

(ii) **Credit losses and impairment of financial assets**

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, loans and advances to customers, and financial investments at amortised cost);
- debt securities measured at FVOCI (recycling);
- loan commitments issued, which are not measured at FVTPL.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVTPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

Measurement of ECLs (Continued)

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

Significant increases in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

Significant increases in credit risk (Continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 2(23)(a) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

Basis of calculation of interest income (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(iii) *Derivative financial instruments*

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value through profit or loss.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognised directly in profit or loss.

For less complex derivative products, the fair values are principally determined by valuation models which are commonly used by market participants. Inputs to valuation models are determined from observable market data wherever possible, including foreign exchange spot and forward rates and interest rate yield curves. For more complex derivative products, the fair values are mainly determined by quoted prices from dealers.

(iv) *Fair value measurement principles*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(iv) Fair value measurement principles (Continued)

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, it is the current asking price. The quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each reporting period. Where other pricing models are used, inputs are based on market data at the end of each reporting period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(v) *Derecognition of financial assets and financial liabilities*

Financial assets (or a part of a financial asset or group of financial assets) are derecognized when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognized only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in profit or loss.

(vi) *Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(10) Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortized cost. Financial assets held under resale agreements are assessed for ECLs in accordance with the policy set out in note 2(9)(ii).

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortized cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognized respectively as interest income and interest expense over the life of each agreement using the effective interest method.

(11) Preference share

Preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms and the economic substance combined with the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy as accounting for the convertible bonds only with liability component.

For the issued preference shares that should be classified as equity instruments, will be recognised as equity in actual amount received. Interest and dividends payables are recognised as distribution of profits. Redemption before maturity will write down equity as redemption price.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(12) Investment in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(4).

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognized at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note 2(18)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognizes its share of the cash dividends or profit distribution declared by the investees as investment income.

(13) Investment property

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(18)). Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	3%	4.85%



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(14) Property and equipment and construction in progress

Property and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(18)). Construction in progress is stated in the statements of financial position at cost less impairment loss (Note 2(18)).

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. Construction in progress is transferred to property and equipment when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognized as a separate property and equipment.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(14) Property and equipment and construction in progress (Continued)

Property and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	3%	4.85%
Motor vehicles	4 years	3%	24.25%
Others	3 – 10 years	3%	9.70% – 32.33%

Useful lives, residual values and depreciation methods are reviewed at least at each year-end.

(15) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(15) Leases (Continued)

(i) As a lessee (Continued)

(A) Policy applicable from 1 January 2019 (Continued)

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability. Lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses (Note 2(18)), if any, and adjusted for certain remeasurements of the lease liability.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(15) Leases (Continued)

(i) As a lessee (Continued)

(A) Policy applicable from 1 January 2019 (Continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset. Impairment losses were accounted for in accordance with the accounting policy as set out in Note 2(18). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(15) Leases (Continued)

(i) As a lessee (Continued)

(B) Policy applicable prior to 1 January 2019 (Continued)

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset irrespective of whether the legal title to the asset is eventually transferred. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis.

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease.

Under a finance lease, at the commencement date, the Group recognises the finance lease receivable and derecognises the finance lease asset. The finance lease receivable is initially measured at an amount equal to the net investment in the lease. The net investment in the lease is measured at the aggregate of the unguaranteed residual value and the present value of the lease receivable that are not received at the commencement date, discounted using the interest rate implicit in the lease.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(15) Leases (Continued)

(ii) As a lessor (Continued)

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return. The derecognition and impairment of the finance lease receivable are recognised in accordance with the accounting policy in Note 2(9). Variable lease payments not included in the measurement of net investment in the lease are recognised as income as they are earned.

Lease receipts from operating leases is recognised as income using the straight-line method over the lease term. The initial direct costs incurred in respect of the operating lease are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Variable lease payments not included in lease receipts are recognised as income as they are earned.

(16) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss (Note 2(18)). The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Land use rights	30 – 50 years
Computer software	5 years

(17) Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(18) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of each reporting period based on the internal and external sources of information to determine whether there is any indication of impairment:

- property and equipment;
- construction in progress;
- right-of-use asset;
- intangible assets;
- investment property measured using a cost model;
- investments in subsidiaries and joint ventures; and
- goodwill.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A cash-generating unit (“CGU”) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group’s operations and how management makes decisions about continuing or disposing of the Group’s assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called “asset”) is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(18) Provision for impairment losses on non-financial assets (Continued)

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognized in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognized accordingly.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognized, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior periods.

(19) Employee benefits

(i) **Short – term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of the Group include the social pension schemes.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(19) Employee benefits (Continued)

(i) **Short – term employee benefits and contributions to defined contribution retirement plans (Continued)**

Social pension schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for the employees arranged by local government labour and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Housing fund and other social insurances

In addition to the retirement benefits above, the Group has joined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.

(ii) **Supplementary retirement benefits**

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the projected unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(19) Employee benefits (Continued)

(ii) **Supplementary retirement benefits (Continued)**

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees. The Group's obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that the Group is committed to pay to the employees after their retirement. The calculation is performed by a qualified actuary using the projected unit credit method. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date. The related service cost and net interest from the retirement plan are recognised in profit or loss, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits". Except for the above mentioned, the Group has no significant responsibilities to pay any other retirement benefits to employees.

(20) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(20) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(20) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(21) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (“holder”) for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognized as deferred income in other liabilities. The deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognized in the statements of financial position as stated in Note 2(21)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(ii) Other provisions and contingent liabilities

A provision is recognized for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(22) Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

(23) Income recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(a) Interest income

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income 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, where appropriate, to the book value of the financial asset, or the amortised cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) 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 expected credit losses.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(23) Income recognition (Continued)

(a) Interest income (Continued)

Interest income is calculated by applying the effective interest rate to the book value of financial assets and is included in interest income, except for:

- (i) For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost; and
- (ii) Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their book value.

(b) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by the Group reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(23) Income recognition (Continued)

(b) Fee and commission income (Continued)

- (i) The Group recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:
 - The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
 - The customer controls the service provided by the Group in the course of performance; or
 - The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.
- (ii) In other cases, the Group recognises revenue at a point in time at which a customer obtains control of the promised services.

(c) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(d) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities that are held for trading.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(23) Income recognition (Continued)

(e) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(24) Expenses recognition

(i) Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognized on an accrual basis.

(25) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of each reporting period are not recognized as a liability at the end of each reporting period but disclosed separately in the notes to the financial statements.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

(26) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(27) Segment reporting

Operating segments are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(28) Significant accounting estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Except for accounting estimates relating to depreciation and amortisation of assets such as property and equipment and intangible assets (see Notes 25 and 28(b)) and provision for impairment of various types of assets (see Notes 16, 17, 19, 20, 21(b), 21(c), 22, 25, 27 and 28). Other significant accounting estimates and judgements are as follows:

- Note 26: Recognition of deferred tax assets;
- Note 35(a): Supplementary retirement benefits payable;
- Note 40: Equity in a structured entity not included in the consolidation scope; and
- Note 46: Fair value measurements of financial instruments.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Taxes

The Group's main applicable taxes and tax rates are as follows:

Tax type	Tax basis	Tax rate
Value-added tax (VAT)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period	3% – 6%
City maintenance and construction tax	Based on VAT paid	5% – 7%
Corporate income tax	Based on taxable profits	25%



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Net interest income

	2019	2018
Interest income arising from		
Deposits with the central bank	643,755	690,109
Deposits with banks and other financial institutions	218,842	291,115
Placements with banks and other financial institutions	705,949	215,151
Loans and advances to customers		
– Corporate loans and advances	8,317,826	7,590,385
– Personal loans and advances	8,243,116	5,603,589
– Discounted bills	1,020,012	552,685
Financial assets held under resale agreements	482,559	392,752
Financial investments	9,257,880	9,905,673
Finance lease receivables	364,387	–
Sub-total	29,254,326	25,241,459
Interest expenses arising from		
Borrowing from the central bank	(304,142)	(135,408)
Deposits from banks and other financial institutions	(1,278,889)	(1,964,766)
Placements from banks and other financial institutions	(723,961)	(377,505)
Deposits from customers	(7,354,723)	(5,283,759)
Financial assets sold under repurchase agreements	(920,714)	(582,102)
Debts securities issued	(3,062,299)	(3,153,731)
Sub-total	(13,644,728)	(11,497,271)
Net interest income	15,609,598	13,744,188

The interest income and expenses are related to financial instruments which are not measured at fair value through profit or loss.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

5 Net fee and commission income

	2019	2018
Fee and commission income		
Custodial services fees	448,978	421,780
Settlement and clearing services fees	385,415	205,475
Bank card services fees	376,572	105,491
Wealth management business fees	365,996	240,228
Underwriting fees	299,720	205,725
Advisory and consulting fees	123,917	98,522
Agency services fees	108,628	103,196
Acceptance and guarantee services fees	98,465	99,022
Sub-total	2,207,691	1,479,439
Fee and commission expense	(342,119)	(199,206)
Net fee and commission income	1,865,572	1,280,233

6 Net trading gains

	Note	2019	2018
Net gains from debt securities	(a)	244,607	316,307
Net foreign exchange gains	(b)	40,412	49,912
Net losses from interest rate swaps		(1,440)	(1,013)
Total		283,579	365,206

- (a) Net gains from debt securities include gains arising from the buying and selling of, and changes in the fair value of debt securities held for trading.
- (b) Net foreign exchange gains mainly included gains from foreign currency derivatives, the purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into Renminbi.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

7 Net gains arising from investment securities

	Note	2019	2018
Net gains of financial investments at fair value through profit or loss	(a)	1,001,942	1,241,703
Net gains of financial investments at fair value through other comprehensive income		110,008	63,775
Net losses on disposal of financial investments at amortised cost		(387)	(1,947)
Others		1	1
Total		1,111,564	1,303,532

(a) Net gains of financial investments at fair value through profit or loss include the investment income and fair value changes of financial investments at fair value through profit or loss except for debt securities held for trading.

8 Other operating income

	2019	2018
Government grants	19,244	32,169
Rental income	33,430	30,044
Net gains on disposal of property and equipment	22,891	2,147
Others	75,967	26,091
Total	151,532	90,451



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 Operating expenses

	2019	2018
Staff costs		
– Salaries, bonuses and allowances	3,055,051	2,736,777
– Social insurance and annuity	510,659	516,937
– Staff welfares	299,152	241,690
– Housing allowances	191,496	159,902
– Employee education expenses and labor union expenses	108,944	94,222
– Supplementary retirement benefits	(3,006)	14,078
– Others	51,108	78,278
Sub-total	4,213,404	3,841,884
Office expenses	1,282,279	1,297,535
Depreciation and amortization	852,316	845,271
Depreciation charge for the right-of-use assets	283,729	–
Taxes and surcharges	171,662	144,296
Interest expense on lease liabilities	34,011	–
Rental and property management expenses	30,612	329,399
Other general and administrative expenses	618,332	499,130
Total	7,486,345	6,957,515



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Directors' and supervisors' emoluments

Directors' and supervisors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Note	2019						
		Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which payment deferred	Actual amount of remuneration paid (pre-tax)
Executive directors								
Dou Rongxing	(1)	–	363	1,655	157	2,175	1,277	898
Wang Jiong		–	1,300	3,354	151	4,805	1,609	3,196
Wei Jie		–	730	1,683	145	2,558	735	1,823
Li Yulin		–	990	2,489	145	3,624	1,189	2,435
Non-executive directors								
Li Xipeng		30	–	–	–	30	–	30
Mi Hongjun		40	–	–	–	40	–	40
Li Qiaocheng		45	–	–	–	45	–	45
Independent non-executive directors								
Pang Hong		400	–	–	–	400	–	400
Li Hongchang		440	–	–	–	440	–	440
Jia Tingyu		440	–	–	–	440	–	440
Chan Ngai Sang		400	–	–	–	400	–	400
Supervisors								
Hao Jingtao		–	990	2,148	145	3,283	894	2,389
Jia Jihong		–	620	1,525	133	2,278	639	1,639
Zhang Yixian		–	353	1,257	134	1,744	432	1,312
Li Weizhen		60	–	–	–	60	–	60
Li Wanbin		35	–	–	–	35	–	35
Li Xiaojian		235	–	–	–	235	–	235
Han Wanghong		240	–	–	–	240	–	240
Sun Xuemin		225	–	–	–	225	–	225
Pan Xinmin	(3)	137	–	–	–	137	–	137
Total		2,727	5,346	14,112	1,010	23,195	6,775	16,420



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Directors' and supervisors' emoluments (Continued)

		2018						
	Note	Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which payment deferred	Actual amount of remuneration paid (pre-tax)
Executive directors								
Dou Rongxing		–	375	1,631	307	2,313	1,290	1,023
Hu Xiangyun	(2)	–	201	44	81	326	–	326
Wang Jiong		–	1,275	2,968	290	4,533	1,484	3,049
Wei Jie		–	735	1,290	273	2,298	645	1,653
Li Yulin		–	940	2,193	273	3,406	1,097	2,309
Non-executive directors								
Li Xipeng		65	–	–	–	65	–	65
Mi Hongjun		33	–	–	–	33	–	33
Li Qiaocheng		62	–	–	–	62	–	62
Independent non-executive directors								
Pang Hong		413	–	–	–	413	–	413
Li Hongchang		447	–	–	–	447	–	447
Jia Tingyu		447	–	–	–	447	–	447
Chan Ngai Sang		408	–	–	–	408	–	408
Supervisors								
Ma Guoliang	(2)	–	181	51	65	297	–	297
Hao Jingtao		–	940	1,724	273	2,937	862	2,075
Jia Jihong		–	630	1,056	239	1,925	528	1,397
Si Qun	(2)	–	130	145	61	336	–	336
Zhang Yixian		–	353	1,087	220	1,660	435	1,225
Zhao Ming	(2)	70	–	–	–	70	–	70
Li Weizhen		70	–	–	–	70	–	70
Li Wanbin		65	–	–	–	65	–	65
Li Xiaojian		250	–	–	–	250	–	250
Han Wanghong		250	–	–	–	250	–	250
Sun Xuemin		235	–	–	–	235	–	235
Total		2,815	5,760	12,189	2,082	22,846	6,341	16,505



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Directors' and supervisors' emoluments (Continued)

Notes:

- (1) The final remunerations for Dou Rongxing, the Chairperson of the Bank, are still undergoing final confirmation.
- (2) Hu Xiangyun resigned as executive director of the Bank from March 16, 2018. Ma Guoliang resigned as deputy supervisor of the Bank from March 16, 2018. Si Qun resigned as deputy supervisor of the Bank from March 16, 2018. Zhao Ming resigned as deputy supervisor of the Bank from January 17, 2019.
- (3) At the shareholders' general meeting held on May 20, 2019, Pan Xinmin were elected as deputy supervisors of the Bank.

There was no amount paid during the years ended December 31, 2019 and 2018 to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join the Group. There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the years ended December 31, 2019 and 2018.

11 Individuals with highest emoluments

For the year ended December 31, 2019, the five individuals with highest emoluments included 2 directors and 1 supervisor of the Bank (2018: 2 directors and 1 supervisor). Their emoluments are disclosed in Note 10. The emoluments for the other highest paid individuals is as follows:

	2019	2018
Salaries and other emoluments	1,980	1,880
Discretionary bonuses	5,178	4,287
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	265	381
Total	7,423	6,548



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

11 Individuals with highest emoluments (Continued)

The individual's emoluments before individual income tax is within the following bands:

	2019	2018
RMB3,000,001 – 3,500,000	–	2
RMB3,500,001 – 4,000,000	2	–
Total	2	2

12 Impairment losses on assets

	2019	2018
Loans and advances to customers	3,714,284	6,082,741
Financial investments	2,631,067	584,444
Credit commitments	(18,920)	33,177
Deposits with banks and other financial institutions	223	560
Placements with banks and other financial institutions	1,936	2,108
Financial assets held under resale agreements	673	(445)
Finance lease receivables	193,872	–
Others	625,148	148,960
Total	7,148,283	6,851,545



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

13 Income tax

(a) Income tax:

	Note	2019	2018
Current tax		1,266,964	1,631,809
Deferred tax	26(b)	(112,313)	(1,022,517)
Total		1,154,651	609,292

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2019	2018
Profit before tax		4,360,636	2,974,550
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		1,090,159	743,638
Non-deductible expenses			
– Staff welfare expenses		6,668	4,829
– Unauthorized write-offs		326,757	–
– Others		22,079	14,511
Non-taxable income	(i)	(291,012)	(190,779)
Changes in deductible temporary differences or deductible losses for which no deferred tax assets was recognized		–	37,093
Income tax		1,154,651	609,292

- (i) The non-taxable income mainly represents the interest income from the PRC government bonds.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

14 Basic and diluted earnings per share

	Note	2019	2018
Net profit attributable to ordinary shareholders of the Bank		2,548,803	2,414,576
Weighted average number of ordinary shares (in thousands)	(i)	20,075,000	20,075,000
Basic and diluted earnings per share attributable to ordinary shareholders of the Bank (in RMB)		0.13	0.12

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year.

(i) Weighted average number of ordinary shares (in thousands)

	2019	2018
Number of ordinary shares as at January 1	20,075,000	20,075,000
New added weighted average number of ordinary shares	—	—
Weighted average number of ordinary shares	20,075,000	20,075,000



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

15 Cash and deposits with the central bank

	Note	2019	2018
Cash on hand		1,426,013	1,473,473
Deposits with the central bank			
– Statutory deposit reserves	(a)	33,010,179	37,215,816
– Surplus deposit reserves	(b)	36,900,408	24,455,110
– Fiscal deposits		763,373	1,378,128
Sub-total		70,673,960	63,049,054
Accrued interest		18,668	21,995
Total		72,118,641	64,544,522

- (a) The Group places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at December 31, the statutory deposit reserve ratios applicable to the Bank were as follows:

	2019	2018
Reserve ratio for RMB deposits	8.50%	11.00%
Reserve ratio for foreign currency deposits	5.00%	5.00%

The statutory deposit reserves are not available for the Bank's daily business. The subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

16 Deposits with banks and other financial institutions

Analyzed by type and location of counterparty

	2019	2018
Deposits in mainland China		
– Banks	7,521,518	10,057,066
– Other financial institutions	457,473	263,541
Sub-total	7,978,991	10,320,607
Deposits outside mainland China		
– Banks	2,878,613	5,484,680
Total	10,857,604	15,805,287
Accrued interest	17,972	59,706
Less: Provision for impairment losses	(1,677)	(1,454)
Net carrying amount	10,873,899	15,863,539

17 Placements with banks and other financial institutions

Analyzed by type and location of counterparty

	2019	2018
Placements in mainland China		
– Banks	2,705,643	1,370,266
– Other financial institutions	17,083,221	8,507,675
Total	19,788,864	9,877,941
Accrued interest	273,589	175,621
Less: Provision for impairment losses	(23,490)	(21,554)
Net carrying amount	20,038,963	10,032,008



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Derivative financial instruments

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instruments mainly including forwards and swaps.

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 Group but does not reflect the risk.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in any orderly transaction between market participants at measured date.

	Notional amount	2019 Fair value	
		Assets	Liabilities
Interest rate swaps	25,340,000	15,136	15,504
Foreign exchange forwards	8,453,529	–	279,084
Currency swaps	1,565,032	2	1,153
Total		15,138	295,741

	Notional amount	2018 Fair value	
		Assets	Liabilities
Interest rate swaps	29,238,000	43,096	43,669
Foreign exchange forwards	3,437,750	–	184,415
Total		43,096	228,084



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial assets held under resale agreements

(a) Analyzed by type and location of counterparty

	2019	2018
In mainland China		
– Banks	8,288,174	11,327,164
– Other financial institutions	8,540,736	5,009,446
Total	16,828,910	16,336,610
Accrued interest	11,170	9,431
Less: Provision for impairment losses	(1,530)	(857)
Net carrying amount	16,838,550	16,345,184

(b) Analyzed by type of security held

	2019	2018
Debt securities	16,828,910	16,336,610
Accrued interest	11,170	9,431
Less: Provision for impairment losses	(1,530)	(857)
Net carrying amount	16,838,550	16,345,184



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers

(a) Analyzed by nature

	2019	2018
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	141,798,952	130,175,627
Personal loans and advances		
– Residential mortgage	69,705,223	50,865,672
– Personal consumption loans	25,209,888	29,032,224
– Personal business loans	27,311,686	20,905,941
– Others	9,197,924	4,366,661
Sub-total	131,424,721	105,170,498
Accrued interest	1,796,820	1,495,535
Less: Provision for loans and advances to customers measured at amortised cost	(9,771,416)	(9,313,961)
Sub-total	265,249,077	227,527,699
Loans and advances to customers measured at fair value through other comprehensive income		
Corporate loans and advances	9,766	105,230
Discounted bills	25,971,267	18,918,760
Sub-total	25,981,033	19,023,990
Net loans and advances to customers	291,230,110	246,551,689



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(b) Analyzed by economic sector

	2019		Loans and advances secured by collaterals
	Amount	Percentage	
Renting and business activities	33,807,955	11.30%	15,851,618
Manufacturing	26,563,655	8.88%	9,656,899
Real estate	20,485,388	6.85%	16,325,217
Wholesale and retail trade	16,748,101	5.60%	8,047,350
Construction	11,638,608	3.89%	5,621,160
Water, environment and public utility	7,672,265	2.56%	2,890,940
Production and supply of electric power, gas and water	4,537,692	1.52%	929,998
Agriculture, forestry, animal husbandry and fishery	3,765,138	1.26%	933,438
Education	3,186,381	1.06%	1,464,844
Accommodation and catering	3,081,157	1.03%	1,748,247
Transportation, storage and postal services	2,602,926	0.87%	1,033,553
Mining	2,178,506	0.73%	689,547
Others	5,540,946	1.85%	1,854,044
Sub-total of corporate loans and advances	141,808,718	47.40%	67,046,855
Personal loans and advances	131,424,721	43.92%	112,235,118
Discounted bills	25,971,267	8.68%	22,594,057
Gross loans and advances to customers	299,204,706	100.00%	201,876,030



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(b) Analyzed by economic sector (Continued)

	2018		Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing	29,135,108	11.45%	8,423,643
Renting and business activities	25,941,014	10.20%	11,763,228
Wholesale and retail trade	18,001,407	7.08%	7,734,830
Real estate	16,958,760	6.67%	13,764,111
Construction	9,885,250	3.89%	3,864,271
Water, environment and public utility	7,473,606	2.94%	2,804,550
Production and supply of electric power, gas and water	4,367,632	1.72%	1,082,464
Agriculture, forestry, animal husbandry and fishery	4,103,726	1.61%	963,814
Accommodation and catering	3,271,273	1.29%	1,807,094
Education	2,920,534	1.15%	1,349,180
Mining	2,157,823	0.85%	262,491
Transportation, storage and postal services	2,122,313	0.83%	1,029,095
Others	3,942,411	1.54%	1,166,488
Sub-total of corporate loans and advances	130,280,857	51.22%	56,015,259
Personal loans and advances	105,170,498	41.35%	81,387,437
Discounted bills	18,918,760	7.43%	13,265,203
Gross loans and advances to customers	254,370,115	100.00%	150,667,899



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(c) Analysed by type of collateral

	2019	2018
Unsecured loans	22,520,387	22,309,757
Guaranteed loans	74,808,289	81,392,459
Collateralised	151,601,062	115,649,217
Pledged	50,274,968	35,018,682
Gross loans and advances to customers	299,204,706	254,370,115
Accrued interest	1,796,820	1,495,535
Less: Provision for loans and advances to customers measured at amortised cost	(9,771,416)	(9,313,961)
Net loans and advances to customers	291,230,110	246,551,689



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(d) Overdue loans analyzed by overdue period

	2019				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	76,848	64,250	16,402	1,044	158,544
Guaranteed loans	2,536,835	1,567,259	939,284	149,585	5,192,963
Collateralised	394,873	1,186,649	864,780	283,125	2,729,427
Pledged	1,125,741	23,145	227,090	485,306	1,861,282
Total	4,134,297	2,841,303	2,047,556	919,060	9,942,216
As a percentage of gross loans and advances to customers	1.38%	0.95%	0.68%	0.31%	3.32%

	2018				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	341,175	145,091	5,280	1,656	493,202
Guaranteed loans	2,516,079	1,625,290	1,312,993	183,809	5,638,171
Collateralised	1,670,363	906,866	1,296,242	115,397	3,988,868
Pledged	271,262	25,300	14,356	483,616	794,534
Total	4,798,879	2,702,547	2,628,871	784,478	10,914,775
As a percentage of gross loans and advances to customers	1.89%	1.06%	1.03%	0.31%	4.29%

Overdue loans represented loan, of which the whole or part of the principal or interest were overdue for one day or more.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(e) Loans and advances and provision for impairment losses

	2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
Total loans and advances to customers measured at amortised cost	256,508,329	9,241,145	7,474,199	273,223,673
Accrued interest	1,796,820	–	–	1,796,820
Less: Provision for impairment losses	(3,141,812)	(1,938,267)	(4,691,337)	(9,771,416)
Carrying amount of loans and advances to customers measured at amortised cost	255,163,337	7,302,878	2,782,862	265,249,077
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	25,506,802	250	473,981	25,981,033
Total carrying amount of loans and advances to customers	280,670,139	7,303,128	3,256,843	291,230,110



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(e) Loans and advances and provision for impairment losses (Continued)

	2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	219,650,701	9,933,139	5,762,285	235,346,125
Accrued interest	1,495,535	–	–	1,495,535
Less: Provision for impairment losses	(3,198,320)	(2,267,952)	(3,847,689)	(9,313,961)
Carrying amount of loans and advances to customers measured at amortised cost	217,947,916	7,665,187	1,914,596	227,527,699
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	18,548,918	1,091	473,981	19,023,990
Total carrying amount of loans and advances to customers	236,496,834	7,666,278	2,388,577	246,551,689



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(f) Movements of provision for impairment losses

- (i) Movements of provision for impairment of loans and advances to customers measured at amortised cost:

	2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	3,198,320	2,267,952	3,847,689	9,313,961
Transferred:				
– to expected credit losses over the next 12 months	483,381	(220,301)	(263,080)	–
– to lifetime expected credit losses: not credit-impaired loans	(230,294)	599,175	(368,881)	–
– to lifetime expected credit losses: credit-impaired loans	(121,085)	(567,094)	688,179	–
(Release)/Charge for the year	(145,167)	28,643	3,841,822	3,725,298
Recoveries	–	–	330,371	330,371
Write-offs	–	–	(3,216,629)	(3,216,629)
Loss of control over subsidiary	(43,343)	(170,108)	(168,134)	(381,585)
As at December 31	3,141,812	1,938,267	4,691,337	9,771,416



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(f) Movements of provision for impairment losses (Continued)

- (i) Movements of provision for impairment of loans and advances to customers measured at amortised cost: (Continued)

	2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	1,774,462	1,004,139	4,886,086	7,664,687
Transferred:				
– to expected credit losses over the next 12 months	306,800	(63,528)	(243,272)	–
– to lifetime expected credit losses: not credit-impaired loans	(194,699)	378,318	(183,619)	–
– to lifetime expected credit losses: credit-impaired loans	(47,604)	(160,947)	208,551	–
Charge for the year	1,359,361	1,109,970	3,388,437	5,857,768
Transfer out	–	–	(15,412)	(15,412)
Recoveries	–	–	105,357	105,357
Write-offs	–	–	(4,298,439)	(4,298,439)
As at December 31	3,198,320	2,267,952	3,847,689	9,313,961



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(f) Movements of provision for impairment losses (Continued)

- (ii) Movements of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:

	2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	20,003	–	355,486	375,489
Release for the year	(11,014)	–	–	(11,014)
As at December 31	8,989	–	355,486	364,475

	2018			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	8,321	1	142,194	150,516
Charge/(release) for the year	11,682	(1)	213,292	224,973
As at December 31	20,003	–	355,486	375,489



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(g) Disposal of loans and advances to customers

In 2016, the Group disposed certain loans having credit enhancement support from the Henan Government as part of the Reorganization with gross amount of RMB8,623.80 million to asset management companies and institutional investors at a consideration of RMB8,270.01 million. As at December 31, 2019, the Group has received cash of RMB7,045.14 million, and the remaining consideration was recorded as other assets after discounting based on the repayment schedule.

21 Financial investments

	Note	2019	2018
Financial investments at fair value through profit or loss	(a)	42,185,454	43,869,291
Financial investments at fair value through other comprehensive income	(b)	53,475,148	43,693,209
Financial investments at amortised cost	(c)	156,407,156	165,083,362
Total		252,067,758	252,645,862



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(a) Financial investments at fair value through profit or loss

	Note	2019	2018
Debt securities	(i)		
– Government		246,640	52,813
– Policy banks		121,332	420,676
– Banks and other financial institutions		8,631,819	6,236,589
– Corporate		–	4,153
Sub-total		8,999,791	6,714,231
Listed		31,914	56,968
Unlisted		8,967,877	6,657,263
Sub-total		8,999,791	6,714,231
Wealth management products issued by financial institutions		11,147,729	28,455,054
Investment management products managed by securities companies		4,107,510	5,998,555
Investment fund managed by public fund manager		17,337,105	2,701,451
Sub-total		32,592,344	37,155,060
Equity investments		593,319	–
Total		42,185,454	43,869,291

- (i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 29(a)). No other investment was subject to material restrictions in the realization.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(b) Financial investments at fair value through other comprehensive income

	Note	2019	2018
Debt securities	(i)		
– Government		19,940,934	8,752,046
– Policy banks		22,416,047	14,634,462
– Banks and other financial institutions		7,585,729	10,148,454
– Corporate		2,400,054	5,321,131
Sub-total		52,342,764	38,856,093
Listed		13,005,332	9,046,714
Unlisted		39,337,432	29,809,379
Sub-total		52,342,764	38,856,093
Investment portfolio managed by financial institutions		305,593	4,115,759
Investment management products managed by trust plans		–	154,564
Sub-total		305,593	4,270,323
Accrued interest		802,895	542,897
Equity investments	(ii)	23,896	23,896
Total		53,475,148	43,693,209

(i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 29(a)). No other investment was subject to material restrictions in the realization.

(ii) The Group designates non-trading equity investments as financial investments at fair value through other comprehensive income. The Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earnings during the reporting period.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(b) Financial investments at fair value through other comprehensive income (Continued)

- (iii) Movements of provision for impairment of financial investments at fair value through other comprehensive income are as follows:

	2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	6,916	–	75,491	82,407
Charge for the year	3,984	–	35,285	39,269
Balance at December 31	10,900	–	110,776	121,676

	2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	21,472	–	–	21,472
Transfers:				
– to lifetime expected credit losses credit-impaired	(125)	–	125	–
(Release)/charge for the year	(14,431)	–	75,366	60,935
Balance at December 31	6,916	–	75,491	82,407



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(c) Financial investments at amortised cost

	Note	2019	2018
Debt securities	(i)		
– Government		26,472,872	19,818,153
– Policy banks		23,042,280	13,018,795
– Banks and other financial institutions		8,650,440	3,971,656
– Corporate		10,997,397	8,903,860
Sub-total		69,162,989	45,712,464
Listed		12,016,058	19,448,305
Unlisted		57,146,931	26,264,159
Sub-total		69,162,989	45,712,464
Investment management products managed by trust plans		58,160,616	90,128,796
Investment fund managed by private fund manager		12,088,200	18,321,803
Investment management products managed by securities companies		4,361,702	5,444,414
Debt investment plans		11,761,843	5,685,000
Investment fund managed by financial institutions		1,116,192	2,306,021
Sub-total		87,488,553	121,886,034
Accrued interest		1,716,573	1,486,487
Less: Provision for impairment losses	(ii)	(1,960,959)	(4,001,623)
Total		156,407,156	165,083,362

- (i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 29(a)). No other investment was subject to material restrictions in the realization.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(c) Financial investments at amortised cost (Continued)

- (ii) Movements of provision for impairment of financial investments at amortised cost are as follows:

	2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	247,138	91,295	3,663,190	4,001,623
Transfers:				
– to expected credit losses over the next 12 months	43,197	(43,197)	–	–
– to lifetime expected credit losses credit-impaired	(2,403)	(48,098)	50,501	–
(Release)/charge for the year	(147,986)	27,019	2,712,765	2,591,798
Recoveries	–	–	176,032	176,032
Write-offs	–	–	(4,808,494)	(4,808,494)
Balance at December 31	139,946	27,019	1,793,994	1,960,959

	2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	260,342	95,627	3,876,780	4,232,749
Transfers:				
– to lifetime expected credit losses not credit-impaired	(2,415)	2,415	–	–
– to lifetime expected credit losses credit-impaired	(2,953)	(63,742)	66,695	–
(Release)/charge for the year	(7,836)	56,995	474,350	523,509
Write-offs	–	–	(754,635)	(754,635)
Balance at December 31	247,138	91,295	3,663,190	4,001,623



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Finance lease receivables

	Note	2019
Minimum finance lease receivables	(i)	32,514,168
Less: unearned finance lease income	(i)	(3,848,657)
Present value of finance lease receivables	(i)	28,665,511
Less: provision for impairment losses	(ii)	(806,489)
Total		27,859,022

- (i) Finance lease receivables, unearned finance leases income and minimum finance lease receivables analysed by remaining period are listed as follows:

	2019		
	Minimum finance lease receivables	Unearned finance leases income	Present value of finance lease receivables
Less than 1 year	1,607,605	(103,201)	1,504,404
1 year to 2 year	3,581,642	(264,815)	3,316,827
2 year to 3 year	12,119,611	(1,173,027)	10,946,584
3 year to 5 year	15,205,310	(2,307,614)	12,897,696
Total	32,514,168	(3,848,657)	28,665,511



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Finance lease receivables (Continued)

(ii) Movements of provision for impairment losses:

	For the period from acquisition date to December 31, 2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Acquisition of subsidiary (Note 24)	457,195	83,582	71,840	612,617
Transfers:				
– to lifetime expected credit losses: not credit-impaired	(10,416)	38,756	(28,340)	–
– to lifetime expected credit losses: credit-impaired	–	(7,570)	7,570	–
Charge for the period	75,197	51,977	66,698	193,872
Balance at December 31	521,976	166,745	117,768	806,489



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Investments in subsidiaries and interest in joint venture

(a) Investment in subsidiaries

The Group's subsidiaries as at the end of the reporting period are as follows:

	Note	2019	2018
Xiping Fortune County Bank Co., Ltd. ("西平財富村鎮銀行股份有限公司")	(i)	176,686	176,686
Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. ("信陽平橋中原村鎮銀行股份有限公司")	(ii)	38,341	38,341
Qixian Zhongyuan County Bank Co., Ltd. ("淇縣中原村鎮銀行股份有限公司")	(iii)	41,531	41,531
Xinxiang Zhongyuan County Bank Co., Ltd. ("新鄉中原村鎮銀行股份有限公司")	(iv)	150,306	150,306
Linzhou Zhongyuan County Bank Co., Ltd. ("林州中原村鎮銀行股份有限公司")	(v)	29,771	29,771
Puyang Zhongyuan County Bank Co., Ltd. ("濮陽中原村鎮銀行股份有限公司")	(vi)	30,736	30,736
Lushi Zhongyuan County Bank Co., Ltd. ("盧氏中原村鎮銀行股份有限公司")	(vii)	32,497	32,497
Xiangcheng Huipu County Bank Co., Ltd. ("襄城匯浦村鎮銀行股份有限公司")	(viii)	28,250	28,250
Suiping Zhongyuan County Bank Co., Ltd. ("遂平中原村鎮銀行股份有限公司")	(ix)	35,084	35,084
Henan Zhongyuan Consumer Finance Corp., Ltd. ("河南中原消費金融股份有限公司")	(x)	—	625,000
AB Leasing Co., Ltd. ("邦銀金融租賃股份有限公司")	(xi)	4,525,199	—
Total		5,088,401	1,188,202



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Investments in subsidiaries and interest in joint venture (Continued)

(a) Investment in subsidiaries (Continued)

Notes:

- (i) Xiping Fortune County Bank Co., Ltd. ("Xiping Fortune") was incorporated on December 17, 2009 at Zhumadian, Henan Province, with registered capital of RMB208.52 million. The principal activities of Xiping Fortune are the provision of corporate and retail banking services. The Bank holds 43.69% of equity interest of Xiping Fortune as at December 31, 2019 (2018: 43.69%). According to the acting in concert arrangement between the Bank and certain other shareholders with 23.95% equity interest of Xiping, Xiping Fortune was deemed to be controlled by the Bank and was a subsidiary of the Bank since 2014.
- (ii) Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. ("Xinyang Pingqiao", formerly known as Xinyang Pingqiao Hengfeng County Bank Co., Ltd.) was incorporated on December 13, 2010 at Xinyang, Henan Province, with registered capital of RMB83.52 million. The principal activities of Xinyang Pingqiao are the provision of corporate and retail banking services. The Bank holds 51.72% of equity interest and voting rights of Xinyang Pingqiao as at December 31, 2019 (2018: 51.72%).
- (iii) Qixian Zhongyuan County Bank Co., Ltd. ("Qixian Zhongyuan", formerly known as Qixian Heyin County Bank Co., Ltd.) was incorporated on December 23, 2010 at Hebi, Henan Province, with registered capital of RMB50.00 million. The principal activities of Qixian Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Qixian Zhongyuan as at December 31, 2019 (2018: 51%).
- (iv) Xinxiang Zhongyuan County Bank Co., Ltd. ("Xinxiang Zhongyuan", formerly known as Henan Xinxiang Xinxing County Bank Co., Ltd.) was incorporated on March 23, 2010 at Xinxiang, Henan Province, with registered capital of RMB130.00 million. The principal activities of Xinxiang Zhongyuan are the provision of corporate and retail banking services. After purchased a portion of minority shareholders' right and interest amounting to RMB91.50 million in November 26, 2018, the Bank holds 78.46% of equity interest and voting rights of Xinxiang Zhongyuan as at December 31, 2019 (2018: 78.46%). According to the acting in concert arrangement between the Bank and certain other shareholders with 21.92% equity interest of Xinxiang Zhongyuan, Xinxiang Zhongyuan was deemed to be controlled by the Bank and was a subsidiary of the Bank since 2014, prior to the purchase of minority interests in 2018.
- (v) Linzhou Zhongyuan County Bank Co., Ltd. ("Linzhou Zhongyuan", formerly known as Linzhou Defeng County Bank Co., Ltd.) was incorporated on September 30, 2011 at Linzhou, Henan Province, with registered capital of RMB75.00 million. The principal activities of Linzhou Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Linzhou Zhongyuan as at December 31, 2019 (2018: 51%).



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Investments in subsidiaries and interest in joint venture (Continued)

(a) Investment in subsidiaries (Continued)

Notes: (Continued)

- (vi) Puyang Zhongyuan County Bank Co., Ltd. ("Puyang Zhongyuan", formerly known as Puyang Heyin County Bank Co., Ltd.) was incorporated on March 16, 2012 at Puyang, Henan Province, with registered capital of RMB58.75 million. The principal activities of Puyang Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Puyang Zhongyuan as at December 31, 2019 (2018: 51%).
- (vii) Lushi Zhongyuan County Bank Co., Ltd. ("Lushi Zhongyuan", formerly known as Lushi Defeng County Bank Co., Ltd.) was incorporated on May 15, 2012 at Sanmenxia, Henan Province, with registered capital of RMB60.00 million. The principal activities of Lushi Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Lushi Zhongyuan as at December 31, 2019 (2018: 51%).
- (viii) Xiangcheng Huipu County Bank Co., Ltd. ("Xiangcheng Huipu") was incorporated on October 27, 2011 at Xuchang, Henan Province, with registered capital of RMB61.00 million. The principal activities of Xiangcheng Huipu are the provision of corporate and retail banking services. The Bank holds 41% of equity interest of Xiangcheng Huipu as at December 31, 2019 (2018: 41%). According to the acting in concert arrangement between the Bank and certain other shareholders with 10% equity interest of Xiangcheng Huipu, Xiangcheng Huipu was deemed to be controlled by the Bank and became a subsidiary of the Bank since 2015.
- (ix) Suiping Zhongyuan County Bank Co., Ltd. ("Suiping Zhongyuan", formerly known as Suiping Hengsheng County Bank Co., Ltd.) was incorporated on March 12, 2012 at Zhumadian, Henan Province, with registered capital of RMB56.15 million. The principal activities of Suiping Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51.02% of equity interest of Suiping Zhongyuan as at December 31, 2019 (2018: 51.02%).
- (x) Henan Zhongyuan Consumer Finance Corp., Ltd. ("Consumer Finance") was incorporated on December 29, 2016 at Zhengzhou, Henan Province, with registered capital of RMB500.00 million. After the capital injection of RMB414.00 million by the Bank and RMB966.00 million by WP Asia Financial Investment Limited on November 22, 2019, the registered capital of Consumer Finance increases to RMB2,000.00 million, and the Bank holds 49.25% of equity interest and voting rights of Consumer Finance as at December 31, 2019 (2018: 78.13%), and lose control over it on the same day.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Investments in subsidiaries and interest in joint venture (Continued)

(a) Investment in subsidiaries (Continued)

Notes: (Continued)

- (xi) AB Leasing Co., Ltd. ("AB Leasing") was incorporated on August 16, 2013 at Tianjin City, with registered capital of RMB3,000.00 million. The Bank acquired equity interest in AB Leasing for a consideration of RMB4,261.50 million on February 21, 2019. Pursuant to the Equity Transaction Agreement, the Bank has agreed to pay the selling shareholders an additional consideration of RMB263.70 million. The above acquisition was completed on October 12, 2019 (the "acquisition date") with the approval of the CBIRC, and the Bank holds 90% of equity interest and voting rights of AB Leasing as at December 31, 2019.

(b) Interest in joint venture

	Note	2019
Interest in joint venture	(i)	1,095,567

Note:

- (i) Consumer Finance is a joint venture in which the Bank has joint control and a 49.25% ownership interest. Consumer Finance is not publicly listed.

Name	Percentages of equity/voting rights%	Place of incorporation/ registration	Business sector
Consumer Finance	49.25%	Zhengzhou, China	Consumer credit

The following table illustrates the aggregate information of the Bank's joint venture:

	2019
Aggregate carrying amount of the joint venture in the consolidated statements of financial position of the Bank	1,095,567
Aggregate amounts of the Bank's share of results of the joint venture	
– Profit from continuing operations	(26,581)
– Other comprehensive income	–
– Total comprehensive income	(26,581)

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Acquisition of subsidiary

On February 19, 2019, the Bank and Henan Wansong Construction Engineering Co., Ltd., as an Independent Third Party, entered into the Equity Transaction Agreement in respect of the acquisition of AB Leasing with Chengdu Rural Commercial Bank Co., Ltd. and Anbang Life Insurance Co., Ltd. The above acquisition was completed on October 12, 2019. Upon the completion of the acquisition, the Bank acquired 90% of the shares and voting interest in AB Leasing, and obtained the control of AB Leasing. Pursuant to the Equity Transaction Agreement mentioned above, the Bank has agreed to pay the selling shareholders at consideration of RMB4,261.50 million and an additional consideration of RMB263.70 million. As at December 31, 2019, the Bank has paid the consideration of RMB4,261.50 million. The remaining additional consideration of RMB263.70 million has not been paid and was recognized as a liability in its financial statements.

From the acquisition date to December 31, 2019, AB Leasing contributed net interest income of RMB199.71 million and net losses of RMB30.27 million to the Group's results. If the acquisition had occurred on January 1, 2019, management estimates that the Group's consolidated net interest income would have been RMB16,463.40 million, and consolidated net profit for the year would have been RMB3,615.30 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2019.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Acquisition of subsidiary (Continued)

(a) Identifiable assets acquired and liabilities assumed

	Note	
Cash and deposits with central bank		143,999
Deposits with banks and other financial institutions		1,861,390
Placements with banks and other financial institutions		200,000
Financial investments at fair value through profit or loss		8,979
Finance lease receivables		28,146,614
Property and equipment	25	42,621
Intangible assets	24(a)(1)	174,725
Deferred tax assets	26(b)	97,064
Other assets		76,594
Placements from banks and other financial institutions		(20,385,830)
Accrued staff costs		(71,296)
Debt securities issued		(3,100,898)
Other liabilities		(2,724,166)
Total identifiable net assets acquired		4,469,796

- (1) The intangible assets contain the leasing license amounting to RMB173.31 million, identified from the acquisition (Note(28(b))).



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Acquisition of subsidiary (Continued)

(b) Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	Note	
Consideration		4,525,199
Non-controlling interests, based on the proportionate interest in the recognised amounts of the assets and liabilities of AB Leasing		446,980
Fair value of the identifiable net assets acquired	24(a)	(4,469,796)
Goodwill	27	502,383

The goodwill is attributable mainly to the skills and business relationships with clients of AB Leasing's work force, and the Bank has a license so can engage in financial leasing business. None of the goodwill recognised is expected to be deductible for tax purposes.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Property and equipment

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
Cost							
At January 1, 2018	5,353,158	124,071	1,094,776	29,793	413,019	549,394	7,564,211
Additions	8,280	–	136,838	1,458	67,422	168,133	382,131
Disposals	(424,075)	(51,181)	(56,104)	(6,579)	(32,267)	–	(570,206)
Transfers out of construction in progress	–	–	–	–	–	(97,454)	(97,454)
As at December 31, 2018	4,937,363	72,890	1,175,510	24,672	448,174	620,073	7,278,682
Acquisition of subsidiary (Note 24)	–	–	678	–	2,098	40,865	43,641
Additions	203,777	–	153,443	146	32,346	454,649	844,361
Disposals	(164,955)	(62,795)	(25,579)	(5,042)	(6,707)	–	(265,078)
Transfers out of construction in progress	–	–	–	–	–	(93,813)	(93,813)
Loss of control over subsidiary (Note 23(a)(x))	–	–	(29,676)	–	(5,034)	–	(34,710)
As at December 31, 2019	4,976,185	10,095	1,274,376	19,776	470,877	1,021,774	7,773,083
Accumulated depreciation							
At January 1, 2018	(1,832,654)	(59,208)	(779,051)	(26,259)	(247,371)	–	(2,944,543)
Additions	(288,492)	(7,470)	(172,908)	(1,611)	(41,667)	–	(512,148)
Disposals	187,623	27,183	53,872	6,422	29,550	–	304,650
As at December 31, 2018	(1,933,523)	(39,495)	(898,087)	(21,448)	(259,488)	–	(3,152,041)
Acquisition of subsidiary (Note 24)	–	–	(583)	–	(437)	–	(1,020)
Additions	(277,144)	(4,076)	(167,025)	(1,880)	(44,465)	–	(494,590)
Disposals	121,174	37,030	25,346	5,037	4,040	–	192,627
Loss of control over subsidiary (Note 23(a)(x))	–	–	9,278	–	1,096	–	10,374
As at December 31, 2019	(2,089,493)	(6,541)	(1,031,071)	(18,291)	(299,254)	–	(3,444,650)
Impairment							
At January 1, 2018	(8,384)	–	(2,403)	(229)	(2,030)	–	(13,046)
Disposals	1,714	–	3	–	97	–	1,814
As at December 31, 2018	(6,670)	–	(2,400)	(229)	(1,933)	–	(11,232)
Disposals	–	–	10	–	73	–	83
As at December 31, 2019	(6,670)	–	(2,390)	(229)	(1,860)	–	(11,149)
Net book value							
As at December 31, 2018	2,997,170	33,395	275,023	2,995	186,753	620,073	4,115,409
As at December 31, 2019	2,880,022	3,554	240,915	1,256	169,763	1,021,774	4,317,284



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Property and equipment (Continued)

The carrying amount of the premises with incomplete title deeds as December 31, 2019 was RMB834.79million (2018: RMB919.58 million). The Group is still in the progress of application for the outstanding title deeds for the above premises. The directors of the Group are of the opinion that there would be no significant cost in obtaining the title deeds.

The net book values of premises as at December 31 are analyzed by the remaining terms of the leases as follows:

	2019	2018
Held in mainland China		
– Long-term leases (over 50 years)	779,955	772,547
– Medium-term leases (10 – 50 years)	1,539,297	1,581,666
– Short-term leases (less than 10 years)	560,770	642,957
Total	2,880,022	2,997,170

The net book value of investment properties as at December 31 are analyzed by the remaining terms of the leases as follows:

	2019	2018
Held in mainland China		
– Medium-term leases (10 – 50 years)	3,554	33,395



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Deferred tax assets

(a) Analyzed by nature

	2019		2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets/ (liabilities):				
Allowance for impairment losses	13,715,876	3,428,969	14,402,760	3,600,690
Accrued staff cost payable	1,451,668	362,917	1,060,780	265,195
Supplemental retirement benefits	88,376	22,094	112,208	28,052
Fair value changes of financial assets	21,312	5,328	(613,856)	(153,464)
Deferred income	549,004	137,251	589,376	147,344
Assets appraisal and related depreciation	(1,569,604)	(392,401)	(1,776,440)	(444,110)
Others	346,412	86,603	235,764	58,941
Net balances	14,603,044	3,650,761	14,010,592	3,502,648



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Deferred tax assets (Continued)

(b) Movements of deferred tax assets

	Allowance for impairment losses	Staff cost payable	Supplemental retirement benefits	Change in fair value	Deferred income	Assets appraisal and related depreciation	Others	Net balance of deferred tax assets
January 1, 2018	2,628,036	212,321	30,754	137,765	107,458	(511,057)	38,099	2,643,376
Recognized in profit or loss	972,654	52,874	(2,702)	(127,984)	39,886	66,947	20,842	1,022,517
Recognized in other comprehensive income	-	-	-	(163,245)	-	-	-	(163,245)
December 31, 2018 and January 1, 2019	3,600,690	265,195	28,052	(153,464)	147,344	(444,110)	58,941	3,502,648
Loss of control over subsidiary (Note 23(a)(x))	(59,330)	-	-	-	-	-	-	(59,330)
Acquisition of subsidiary (Note 24)	80,150	17,011	-	(97)	-	-	-	97,064
Recognized in profit or loss	(192,541)	80,711	(5,958)	160,823	(10,093)	51,709	27,662	112,313
Recognized in other comprehensive income	-	-	-	(1,934)	-	-	-	(1,934)
December 31, 2019	3,428,969	362,917	22,094	5,328	137,251	(392,401)	86,603	3,650,761

27 Goodwill

Goodwill

Cost:

At January 1, 2019	468,397
Addition through acquisition of a subsidiary	502,383

At December 31, 2019	970,780

Accumulated impairment losses:

At December 31, 2019	-

Carrying amount:

At December 31, 2019	970,780

The Bank acquired 90% equity interest in AB Leasing for a consideration of RMB4,525.20 million on October 12, 2019. The excess of the acquisition costs over the net fair value of AB Leasing's identifiable net assets of RMB502.38 million was recorded as goodwill and allocated to the finance lease operation of AB Leasing.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Goodwill (Continued)

Impairment testing on goodwill

For the purpose of impairment testing, goodwill has been allocated to three individual cash generating units (CGUs), including corporate banking, retail banking and financial markets business. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	2019	2018
Corporate banking	811,602	309,219
Retail banking	97,029	97,029
Financial markets business	62,149	62,149
Total	970,780	468,397

The recoverable amounts of corporate banking unit, retail banking unit and financial markets business unit have been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 9.17% at December 31, 2019 (2018: 9.92%). Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the forecasts included in industry reports. The cash flows are discounted using a discount rate which is used are pre-tax and reflect specific risks relating to the CGUs.

At the end of the reporting period, the directors of the Bank determine that there is no impairment of any of its CGUs containing goodwill.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of each of these CGUs to exceed its recoverable amount.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Other assets

	Note	2019	2018
Receivables from disposal of loans	20(g)	974,542	1,200,317
Intangible assets	(b)	1,459,178	1,258,659
Reposessed assets		1,765,038	1,771,214
Advances for fiscal payments		1,422,505	–
Right-of-use assets	(c)	968,634	–
Interests receivable	(a)	592,025	363,811
Leasehold improvements		520,288	569,133
Other receivables		1,106,346	1,168,781
Total		8,808,556	6,331,915

(a) Interests receivable

	2019	2018
Interests receivable arising from:		
Investments	127,331	138,629
Loans and advances to customers	532,869	293,357
Total	660,200	431,986
Less: Provision for impairment losses	(68,175)	(68,175)
Net carrying amount	592,025	363,811

Interest receivable only includes interest that has been due for the relevant financial instruments but not yet received at the balance sheet date. Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Other assets (Continued)

(b) Intangible assets

	Land use rights	Computer software	Leasing license	Total
Cost				
As at January 1, 2018	1,195,906	506,130	–	1,702,036
Additions	19	186,021	–	186,040
Disposals	(3,896)	(44,654)	–	(48,550)
As at December 31, 2018 and January 1, 2019	1,192,029	647,497	–	1,839,526
Acquisition of subsidiary (Note 24)	–	2,749	173,305	176,054
Additions	64	288,052	–	288,116
Disposals	(2,306)	(42)	–	(2,348)
Loss of control over subsidiary (Note 23(a)(x))	–	(61,333)	–	(61,333)
As at December 31, 2019	1,189,787	876,923	173,305	2,240,015
Accumulated amortization				
As at January 1, 2018	(130,519)	(296,940)	–	(427,459)
Additions	(35,443)	(151,993)	–	(187,436)
Disposals	884	43,551	–	44,435
As at December 31, 2018 and January 1, 2019	(165,078)	(405,382)	–	(570,460)
Acquisition of subsidiary (Note 24)	–	(1,329)	–	(1,329)
Additions	(32,796)	(180,643)	–	(213,439)
Disposals	2,295	37	–	2,332
Loss of control over subsidiary (Note 23(a)(x))	–	12,466	–	12,466
As at December 31, 2019	(195,579)	(574,851)	–	(770,430)
Impairment				
As at January 1, 2018	(9,097)	(1,310)	–	(10,407)
As at December 31, 2018	(9,097)	(1,310)	–	(10,407)
As at December 31, 2019	(9,097)	(1,310)	–	(10,407)
Net book value				
As at December 31, 2019	985,111	300,762	173,305	1,459,178
As at December 31, 2018	1,017,854	240,805	–	1,258,659



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Other assets (Continued)

(c) Right-of-use assets

	Leased properties and buildings	Leased other equipments	Total
Cost			
As at January 1, 2019	925,273	15,812	941,085
Additions	268,323	3,881	272,204
Acquisition of subsidiary (Note 24)	59,978	1,262	61,240
Loss of control over subsidiary (Note 23(a)(x))	(25,638)	–	(25,638)
As at December 31, 2019	1,227,936	20,955	1,248,891
Accumulated depreciation			
As at January 1, 2019	–	–	–
Additions	(277,967)	(5,762)	(283,729)
Loss of control over subsidiary (Note 23(a)(x))	3,472	–	3,472
As at December 31, 2019	(274,495)	(5,762)	(280,257)
Net book value			
As at January 1, 2019	925,273	15,812	941,085
As at December 31, 2019	953,441	15,193	968,634



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

29 Pledged assets

(a) Assets pledged as collateral

	Note	2019	2018
For repurchase agreements			
– Discounted bills		8,737,305	2,892,287
– Financial investments at fair value through profit or loss	21(a)	4,327,415	4,766,872
– Financial investments at fair value through other comprehensive income	21(b)	25,612,807	8,124,400
– Financial investments at amortised cost	21(c)	30,176,778	18,832,927
Total		68,854,305	34,616,486

Financial assets pledged by the Group as collaterals for liabilities which are for repurchase agreements.

(b) Received pledged assets

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at December 31, 2019, the carrying amounts of the received pledged assets is RMB16,857.41 million (2018: RMB16,336.61 million).



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

30 Deposits from banks and other financial institutions

Analyzed by type and location of counterparty

	2019	2018
In mainland China		
– Banks	12,001,665	10,838,827
– Other financial institutions	49,371,779	49,548,657
Sub-total	61,373,444	60,387,484
Accrued interest	204,630	414,471
Total	61,578,074	60,801,955

31 Placements from banks and other financial institutions

	2019	2018
In mainland China		
– Banks	25,686,083	12,177,156
– Other financial institutions	2,100,000	200,000
Sub-total	27,786,083	12,377,156
Outside mainland China		
– Banks	–	271,022
Sub-total	27,786,083	12,648,178
Accrued interest	272,646	81,032
Total	28,058,729	12,729,210



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Financial assets sold under repurchase agreements

(a) Analyzed by type and location of counterparty

	2019	2018
In mainland China		
– Banks	59,283,554	32,593,388
– Other financial institutions	7,231,060	914,780
Sub-total	66,514,614	33,508,168
Accrued interest	30,290	19,728
Total	66,544,904	33,527,896

(b) Analyzed by collateral

	2019	2018
Debt securities	57,793,759	30,617,816
Discounted bills	8,720,855	2,890,352
Sub-total	66,514,614	33,508,168
Accrued interest	30,290	19,728
Total	66,544,904	33,527,896



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Deposits from customers

	2019	2018
Demand deposits		
– Corporate customers	126,729,178	127,739,658
– Individual customers	49,447,126	40,566,809
Sub-total	176,176,304	168,306,467
Time deposits		
– Corporate customers	48,550,580	38,988,002
– Individual customers	124,512,347	107,070,420
Sub-total	173,062,927	146,058,422
Pledged deposits	35,710,667	31,633,015
Inward and outward remittances	95,842	191,091
Sub-total	385,045,740	346,188,995
Accrued interest	4,685,789	3,197,960
Total	389,731,529	349,386,955



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Debt securities issued

	Note	2019	2018
Interbank deposits issued	(a)	63,329,611	80,048,236
Financial bonds	(b)	5,999,351	2,999,102
Tier-two capital bonds	(c)	9,999,491	9,999,668
Trust plan	(d)	53,457	–
Sub-total		79,381,910	93,047,006
Accrued interest		338,508	230,570
Total		79,720,418	93,277,576

Notes:

- (a) In 2019, the Bank issued a number of certificates of interbank deposits with total nominal amount of RMB115,440.00 million and duration between 1-12 months. The coupon rates ranged from 2.4% to 3.45% per annum.

In 2018, the Bank issued a number of certificates of interbank deposits with total nominal amount of RMB123,570.00 million and duration between 1-12 months. The coupon rates ranged from 2.4% to 5.15% per annum.

As at December 31, 2019, the fair value of interbank deposits issued was RMB63,370.00 million (2018: RMB80,163.67 million).

- (b) Fixed rate financial bonds of RMB1.5 billion with a term of three years was issued by the Bank in May 2018. The coupon rate is 4.79% per annum.

Fixed rate green financial bonds of RMB1.5 billion with a term of three years was issued by the Bank in April 2018. The coupon rate is 4.70% per annum.

Fixed rate financial bonds of RMB3 billion with a term of three years was issued by AB Leasing in March 2017. The coupon rate is 4.40% per annum.

As at December 31, 2019, the fair value of financial bonds issued was RMB6,066.18 million (2018: RMB3,054.75 million).

- (c) Fixed rate tier-two capital bonds of RMB10 billion with a term of 10 years was issued by the Bank in September 2018. The coupon rate is 5.20% per annum.

As at December 31, 2019, the fair value of tier-two capital bonds issued was RMB10,351.30 million (2018: RMB10,148.39 million).



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Debt securities issued (Continued)

Notes: (Continued)

(d) Trust plan

In 2017, AB Leasing transferred credit assets amounting to RMB1,627.52 million to a trust plan which issued shares of trust beneficiary rights to investors. Since AB Leasing acquires all subordinated tranche and part of priority tranche of the trust beneficiary rights shares, it retains almost all the risks and rewards of the transferred credit assets. AB Leasing determined not to derecognise the associated credit assets, and the consideration received from the priority tranche investors except for AB Leasing were recorded as a financial liability. As at December 31, 2019, the carrying amount of underlying credit assets and financial liability amounted to RMB481.31 million and RMB53.46 million respectively. The coupon rate of the remaining financing from priority tranche is 6.50% per annum.

35 Other liabilities

	Note	2019	2018
Payment and collection clearance accounts		710,683	708,069
Accrued staff cost	(a)	2,444,125	2,029,884
Other tax payable		531,996	393,461
Dividend payable		312,356	492,074
Provisions	(b)	79,210	112,104
Finance lease deposits payable		2,199,651	–
Lease liabilities		973,877	–
Other payable		1,407,579	776,854
Total		8,659,477	4,512,446

(a) Accrued staff cost

	Note	2019	2018
Salary, bonuses and allowances payable		2,202,856	1,764,394
Social insurance payable		60,239	57,746
Housing allowances payable		1,173	1,013
Labor union fee, staff and workers' education fee		88,109	91,256
Supplementary retirement benefits payable	(1)	91,748	115,475
Total		2,444,125	2,029,884



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Other liabilities (Continued)

(a) Accrued staff cost (Continued)

(1) Supplementary retirement benefits

The supplementary retirement benefits of the Bank include early retirement plan and supplementary retirement plan. The early retirement benefits is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to the Bank's eligible employees.

(i) The balances of supplementary retirement benefits of the Group are as follows:

	2019	2018
Present value of early retirement plan	82,886	106,702
Supplementary retirement plan	8,862	8,773
Total	91,748	115,475

(ii) The movements of supplementary retirement benefits of the Group are as follows:

	2019	2018
As at January 1	115,475	125,687
Benefits paid during the year	(20,609)	(24,887)
Defined benefit cost recognized in profit or loss	(3,006)	14,078
Defined benefit cost recognized in other comprehensive income	(112)	597
As at December 31	91,748	115,475



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Other liabilities (Continued)

(a) Accrued staff cost (Continued)

(1) Supplementary retirement benefits (Continued)

(iii) Principal actuarial assumptions of the Group are as follows:

Early retirement plan	2019	2018
Discount rate	3.00%	3.00%
Annual increase rate of internal salary	4.50%	4.50%

Supplementary retirement plan	2019	2018
Discount rate	3.75%	3.75%

(iv) Sensitivity analysis:

Early retirement plan	2019		2018	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(3,064)	3,311	(4,102)	4,446

Supplementary retirement plan	2019		2018	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(1,566)	2,055	(1,595)	2,109

Although the analysis does not take account of the full distribution of cash flows expected under the supplementary retirement benefits, it does provide an approximation of the sensitivity of the assumptions shown.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Other liabilities (Continued)

(b) Provisions

	Note	2019	2018
Litigations and disputes provision		11,992	25,966
Credit commitments provision	(i)	67,218	86,138
Total		79,210	112,104

(i) movements of credit commitments provision is as follows:

	2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at January 1	85,798	187	153	86,138
Transfers:				
– to expected credit losses over the next 12 months	223	(86)	(137)	–
– to lifetime expected credit losses not credit-impaired loans	(13)	13	–	–
– to lifetime expected credit losses credit-impaired	(32)	(2)	34	–
(Release)/charge for the year	(20,416)	454	1,042	(18,920)
Balance at December 31	65,560	566	1,092	67,218



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Other liabilities (Continued)

(b) Provisions (Continued)

(i) movements of credit commitments provision is as follows: (Continued)

	Expected credit losses over the next 12 months	2018 Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at January 1	51,149	1,806	6	52,961
Transfers:				
– to expected credit losses over the next 12 months	54	(49)	(5)	–
– to lifetime expected credit losses credit-impaired	–	(4)	4	–
Charge/(release) for the year	34,595	(1,566)	148	33,177
Balance at December 31	85,798	187	153	86,138

36 Share capital

Share capital of the Group as at December 31, 2019 and 2018 represented share capital of the Bank, which is fully paid.

	Note	2019	2018
Ordinary shares in Mainland China		16,280,000	16,280,000
Ordinary shares listed in Hong Kong (H-share)	(a)	3,795,000	3,795,000
Total		20,075,000	20,075,000



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Share capital (Continued)

Note:

- (a) On July 19, 2017, the Bank issued 3,000.00 million H-shares with a par value of RMB1 at an offering price of HKD2.45 per share (the "H-share offering"). On August 15, 2017, the Bank exercised the over-allotment option and issued 450.00 million H-shares with a nominal value of RMB1.00 at HKD2.45 per share. The capital contribution was verified by KPMG Huazhen LLP.

Immediately following the H-share offering, 345 million ordinary shares in Mainland China shares held by the National Council and Social Security Fund were converted to H-shares pursuant to the relevant PRC regulations relating to the reduction of state-owned shares.

All the above H-shares have been listed on the Stock Exchange of Hong Kong Limited. The H-shares rank pari passu in all respects with the existing ordinary shares in Mainland China including the right to receive all dividends and distributions declared or made.

37 Reserves

(a) Capital reserve

	Note	2019	2018
Share premium		14,477,471	14,477,471
Changes in fair value recognized in other comprehensive income	(i)	218,956	213,457
Impairment losses recognized in other comprehensive income	(ii)	486,151	457,896
Changes on remeasurement of defined benefit liabilities	(iii)	(3,155)	(3,267)
Changes in ownership in subsidiaries without changes in control		(157,005)	(164,240)
Total		15,022,418	14,981,317



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Reserves (Continued)

(a) Capital reserve (Continued)

(i) Investment revaluation reserve

	2019	2018
As at January 1	213,457	(274,882)
Changes in fair value recognised in other comprehensive income	151,528	421,745
Transfer to profit or loss upon disposal	(144,196)	229,373
Less: deferred income tax	(1,833)	(162,779)
Total	218,956	213,457

(ii) Impairment reserve

	2019	2018
As at January 1	457,896	171,988
Impairment losses recognized in other comprehensive income	28,255	285,908
Total	486,151	457,896

(iii) Deficit on remeasurement of net defined benefit liability

Deficit on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

	2019	2018
As at January 1	(3,267)	(2,670)
Changes in fair value recognised in other comprehensive income	112	(597)
Total	(3,155)	(3,267)



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Reserves (Continued)

(b) Surplus reserve

The surplus reserve at the end of reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund. Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

The Bank appropriated an amount of RMB318.94 million to the statutory surplus reserve fund for the year of 2019 (2018: RMB242.56 million).

The Bank may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

(c) General reserve

Pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The balance of the general reserve amounted to RMB8,404.85 million as at December 31, 2019 (2018: RMB7,801.55 million).

38 Retained earnings

(a) Appropriation of profits

In accordance with the resolution of the Bank's board of directors meeting held on March 27, 2020, the proposed profit appropriations for the year ended December 31, 2019 is listed as follows:

- Appropriation of statutory surplus reserve amounted to RMB318.94 million;
- Appropriation of general reserve amounted to RMB603.31 million; and
- Declaration of cash dividend of RMB0.45 per 10 shares before tax and in aggregation amount of RMB903.38 million to common shareholders.

The profit appropriation resolution mentioned above has yet to be approved by the Bank's shareholders.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Retained earnings (Continued)

(a) Appropriation of profits (Continued)

In accordance with the resolution of the Bank's Annual General Meeting held on May 20, 2019, the shareholders approved the profit distribution plan for the year ended December 31, 2018:

- Appropriation of statutory surplus reserve amounted to RMB242.56 million;
- Appropriation of general reserve amounted to RMB1,480.80 million; and
- Declaration of cash dividend of RMB0.35 per 10 shares before tax and in aggregation amount of RMB702.63 million to common shareholders.

According to the resolution on the distribution of dividends for overseas preference shares passed at the Board of Directors' meeting held on August 29, 2019:

- Dividend to be distributed amounts to USD86.80 million (including tax), aggregating to RMB615.05 million at the rate on dividend declared date.

The surplus reserve represented statutory surplus reserve fund.

As at December 31, 2019, the consolidated retained profits attributable to equity shareholders of the Bank included an appropriation of RMB130.71 million of surplus reserve made by subsidiaries (2018: RMB44.03 million).



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Retained earnings (Continued)

(b) Movements in components of equity

Details of the changes in the Bank's individual components of equity for the year 2019 and 2018 are set out below.

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at January 1, 2019	20,075,000	9,632,791	15,144,471	1,500,620	7,801,548	820,077	54,974,507
Changes in equity for the year:							
Net profit for the year	-	-	-	-	3,189,377	3,189,377	
Other comprehensive income	-	-	33,446	-	-	-	33,446
Total comprehensive income	-	-	33,446	-	-	3,189,377	3,222,823
Loss of control over subsidiary (Note 23(a)(x))	-	-	-	(1,265)	-	(11,391)	(12,656)
Appropriation to surplus reserve	-	-	-	318,937	-	(318,937)	-
Appropriation to general reserve	-	-	-	-	603,305	(603,305)	-
Cash dividends on common shares	-	-	-	-	-	(702,625)	(702,625)
Cash dividends on preference shares	-	-	-	-	-	(615,046)	(615,046)
Balance at December 31, 2019	20,075,000	9,632,791	15,177,917	1,818,292	8,404,853	1,758,150	56,867,003



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Retained earnings (Continued)

(b) Movements in components of equity (Continued)

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at January 1, 2018	20,075,000	–	14,371,907	1,258,065	6,320,746	1,543,212	43,568,930
Changes in equity for the year:							
Net profit for the year	–	–	–	–	–	2,425,547	2,425,547
Other comprehensive income	–	–	772,564	–	–	–	772,564
Total comprehensive income	–	–	772,564	–	–	2,425,547	3,198,111
Capital invested by other equity instrument holders	–	9,632,791	–	–	–	–	9,632,791
Appropriation to surplus reserve	–	–	–	242,555	–	(242,555)	–
Appropriation to general reserve	–	–	–	–	1,480,802	(1,480,802)	–
Appropriation to shareholders	–	–	–	–	–	(1,425,325)	(1,425,325)
Balance at December 31, 2018	20,075,000	9,632,791	15,144,471	1,500,620	7,801,548	820,077	54,974,507



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Other equity instruments

(a) Preference shares outstanding at the end of the year:

Financial instrument outstanding	Time issued	Classifications	Dividend yield ratio/ Interest rate	Issue price	Quantities	In original currency million	In RMB million	Maturity	Conversion conditions
Offshore preference shares	21/11/2018	Equity	5.60%	USD20/ share	69,750,000	1,395	9,688	None	Mandatory conversion trigger events
Less: issuing cost							(55)		
Book value							9,633		

(b) Main clause

(i) Dividend

Fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. The fixed spread will be equal to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares. Dividends will be paid annually.

If the Bank has distributable after-tax profit after making up for previous years' losses and contributing to the statutory reserve and general reserve, the Bank may pay dividends to the offshore preference shareholders in accordance with the articles of association of the Bank, provided that the capital adequacy ratio of the Bank meets regulatory requirements. The offshore preference shareholders shall rank in priority to the ordinary shareholders in terms of dividend distribution.

Any declaration and payment of all of the dividends on the offshore preference shares by the Bank will be determined by the board in accordance with the authorisation given by the general meeting. Any cancellation of all or part of the dividends on the offshore preference shares shall be subject to the consideration and approval by the general meeting. If the Bank cancels all or part of the distribution of dividends on the offshore preference shares, the Bank shall not distribute any dividends to the ordinary shareholders from the next day following the resolution being approved at the general meeting until the resumption of payment of dividends in full.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Other equity instruments (Continued)

(b) Main clause (Continued)

(ii) *Dividend accumulation*

The dividends on the offshore preference shares will be non-cumulative (namely, in the event of any cancellation by the Bank of all or part of the dividends on the offshore preference shares, any amount of dividends not paid to the offshore preference shareholders in full in the current period will not be accumulated to the following dividend periods).

(iii) *Distribution of residual profits*

After receiving the dividends at the prescribed dividend rate, the offshore preference shareholders shall not be entitled to any distribution of residual profits of the Bank together with the ordinary shareholders.

(iv) *Mandatory conversion trigger events*

Upon the occurrence of an additional tier 1 capital trigger event (namely, the core tier 1 capital adequacy ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all or part of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares in order to restore the core tier 1 capital adequacy ratio of the Bank to above 5.125%. In case of partial conversion, the offshore preference shares shall be converted ratably and on the same conditions. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances.

Upon the occurrence of a tier 2 capital trigger event, the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances. A tier 2 capital trigger event means the earlier of the following events: (1) the former CBRC having concluded that without a conversion or write-off of the Bank's capital, the Bank would become non-viable, and (2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Other equity instruments (Continued)

(b) Main clause (Continued)

(v) Conditional redemption

From the fifth year following the date of issuance of the offshore preference shares, and subject to obtaining the approval of the former CBRC or its affiliates and the compliance with the relevant requirements, the Bank shall have the right to redeem all or part of the offshore preference shares. The redemption price of the offshore preference shares will be an amount equal to the issue price plus the amount of dividend declared but unpaid for the current period.

40 Involvement with unconsolidated structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statements of financial position in which relevant assets are recognized as at December 31:

	2019	
	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	32,592,344	32,592,344
Financial investments at amortised cost	86,240,190	86,240,190
Total	118,832,534	118,832,534



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Involvement with unconsolidated structured entities (Continued)

(a) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)

	2018 Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	37,155,060	37,155,060
Financial investments at fair value through other comprehensive income	154,564	154,564
Financial investments at amortised cost	118,708,580	118,708,580
Total	156,018,204	156,018,204

As at December 31, 2019 and 2018, the carrying amounts of the unconsolidated structural entities are equal to the maximum exposures.

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at December 31, 2019 and 2018, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at December 31, 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB56,623.70 million (2018: RMB42,090.83 million).



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Involvement with unconsolidated structured entities (Continued)

(c) Unconsolidated structure entities sponsored by the Group during the years which the Group does not consolidate but have an interest in as at December 31

For the year ended December 31, 2019, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before December 31 amounted to RMB39,524.25 million (2018: RMB48,248.86 million).

41 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of the Group is divided into core tier-one capital, other tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

The Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the former CBRC.

The former CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Capital management (Continued)

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Capital management (Continued)

The Group's capital adequacy ratios as at December 31 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

	2019	2018
Total core tier-one capital		
– Share capital	20,075,000	20,075,000
– Qualifying portion of capital reserve	14,657,943	14,605,828
– Surplus reserve	1,818,292	1,500,620
– General reserve	8,934,907	7,884,326
– Retained earnings	1,261,325	783,400
– Qualifying portions of non-controlling interests	523,036	373,274
Core tier-one capital deductions		
– Goodwill	(970,780)	(468,397)
– Other intangible assets other than land use rights	(474,067)	(240,805)
Net core tier-one capital	45,825,656	44,513,246
Other tier-one capital	9,702,529	9,682,561
Net tier-one capital	55,528,185	54,195,807
Tier-two capital		
– Instruments issued and share premium	9,999,491	9,999,668
– Surplus provision for loan impairment	4,453,133	3,482,673
– Qualifying portions of non-controlling interests	139,475	99,540
Net capital base	70,120,284	67,777,688
Total risk weighted assets	538,420,776	471,778,961
Core tier-one capital adequacy ratio	8.51%	9.44%
Tier-one capital adequacy ratio	10.31%	11.49%
Capital adequacy ratio	13.02%	14.37%



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Notes to the consolidated cash flow statement

(a) Net increase/(decrease) in cash and cash equivalents

	2019	2018
Cash and cash equivalents as at December 31	75,325,152	55,712,428
Less: Cash and cash equivalents as at January 1	55,712,428	43,080,066
Net increase in cash and cash equivalents	19,612,724	12,632,362

(b) Cash and cash equivalents

	2019	2018
Cash on hand	1,426,013	1,473,473
Deposits with the central bank	36,900,408	24,455,110
Deposits with banks and other financial institutions	10,447,605	12,163,833
Financial assets held under resale agreements	16,828,910	16,335,753
Placements with banks and other financial institutions	9,722,216	1,284,259
Total	75,325,152	55,712,428



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Related party relationships and transactions

(a) Relationship of related parties:

(i) Major shareholders

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director in the Bank.

Shareholding in the Bank:

	2019	2018
Henan Investment Group Co., Ltd.	7.01%	7.01%
Henan Energy and Chemical Engineering Group Co., Ltd. (*)	6.48%	6.48%
Yongcheng Coal and Electricity Holdings Group Co., Ltd.	5.76%	5.76%
Tian Kun Investment Co., Ltd.	3.62%	4.99%
Henan Shengrun Holdings Co., Ltd.	3.75%	3.75%

* As at December 31, 2019, the interest in the Bank owned by Henan Energy and Chemical Engineering Group Co., Ltd. includes interests owned by Yongcheng Coal and Electricity Holdings Group Co., Ltd., Henan Guolong Mineral Construction Co., Ltd., Yongcheng Jingchuang Industry Co., Ltd., Shangqiu Tianlong Investment Co., Ltd., Anyang Chemical Engineering Group Co., Ltd., Henan Energy and Chemical Engineering Group Finance Co., Ltd., and Kaifeng Tieta Rubber (Group) Co., Ltd..

(ii) Subsidiaries and joint venture of the Bank

The detailed information of the Bank's subsidiaries and joint venture are set out in Note 23.

(iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 43 (a) or their controlling shareholders.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Related party relationships and transactions (Continued)

(b) Related party transactions and balances:

(i) Transactions between the Bank and major shareholders:

	2019	2018
Transactions during the year:		
Interest income	46,958	77,587
Interest expense	660	852

	2019	2018
Balances at end of the year:		
Financial investments	849,946	847,704
Loans and advances to customers	—	300,596
Deposits from customers	102,915	86,753
Deposits from banks and other financial institutions	5,274	—

	2019	2018
Balances of item off the consolidated statement of financial position outstanding at the end of the year:		
Letters of credit	300,000	—

(ii) Transactions between the Bank and subsidiaries:

The subsidiaries of the Bank are its related parties. The transactions between the Bank and its subsidiaries and among the subsidiaries are eliminated on combination and therefore are not disclosed in this note.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Related party relationships and transactions (Continued)

(b) Related party transactions and balances: (Continued)

(iii) Transactions between the Bank and other related parties and joint venture:

	2019	2018
Transactions during the year:		
Interest income	278,744	258,241
Interest expense	94,700	117,469
Operating expense	11,911	9,538

	2019	2018
Balances at end of the year:		
Loans and advances to customers	1,066,832	3,694,991
Financial investments	3,052,588	2,483,920
Deposits with banks and other financial institutions	204,123	—
Placements with banks and other financial institutions	1,727,364	—
Right-of-use assets	40,683	—
Deposits from customers	2,439,256	4,354,197
Deposits from banks and other financial institutions	1,639,612	1,849,884
Lease liabilities	42,039	—

	2019	2018
Balances of items off the consolidated statement of financial position outstanding at the end of the year:		
Letters of credit	—	3,610,000
Bank acceptances	2,948,695	3,254,728
Letters of guarantees	11,500	1,500



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Related party relationships and transactions (Continued)

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Bank and key management personnel

	2019	2018
Transactions during the year:		
Interest income	760	499
Interest expense	206	128

	2019	2018
Balances at end of the year:		
Loans and advances to customers	12,282	17,815
Deposits from customers	15,037	11,166

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	2019	2018
Salaries and other emoluments	13,303	13,542
Discretionary bonuses	28,391	23,620
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	1,923	3,621
Total	43,617	40,783



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Related party relationships and transactions (Continued)

(d) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	2019	2018
Aggregate amount of relevant loans outstanding at the end of the year	12,262	17,788
Maximum aggregate amount of relevant loans outstanding during the year	12,262	17,788

There were no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at December 31, 2019 and 2018.

44 Segment reporting

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, consulting and advisory services, remittance and settlement services and guarantee services.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Segment reporting (Continued)

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services and remittance services.

Financial markets business

This segment covers the Group's financial markets business operations. The financial markets business enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The financial markets business segment also covers management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the year 2019 and 2018 to acquire property and equipment, intangible assets and other long-term assets.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Segment reporting (Continued)

	2019				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income	10,468,811	4,316,122	824,665	–	15,609,598
Internal net interest (expense)/ income	(1,061,026)	1,575,404	(514,378)	–	–
Net interest income	9,407,785	5,891,526	310,287	–	15,609,598
Net fee and commission income	1,207,297	441,322	216,953	–	1,865,572
Net trading gains	11,196	–	272,383	–	283,579
Net (loss)/gains arising from investment securities	(368,271)	–	1,479,835	–	1,111,564
Other operating income	40,594	6,510	3,264	101,164	151,532
Operating income	10,298,601	6,339,358	2,282,722	101,164	19,021,845
Operating expenses	(3,291,111)	(3,133,924)	(652,467)	(408,843)	(7,486,345)
Impairment losses on assets	(5,099,634)	(1,549,562)	(369,329)	(129,758)	(7,148,283)
share of profits of joint venture	–	–	(26,581)	–	(26,581)
Profit/(loss) before tax	1,907,856	1,655,872	1,234,345	(437,437)	4,360,636
Segment assets	356,178,854	175,115,899	172,538,886	2,400,629	706,234,268
Deferred tax assets	–	–	–	3,650,761	3,650,761
Total assets	356,178,854	175,115,899	172,538,886	6,051,390	709,885,029
Segment liabilities	214,334,597	203,617,982	229,711,478	4,389,908	652,053,965
Total liabilities	214,334,597	203,617,982	229,711,478	4,389,908	652,053,965
Other segment information					
– Depreciation and amortization	644,592	323,091	162,000	6,362	1,136,045
– Capital expenditure	637,285	319,428	160,163	6,290	1,123,166



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Segment reporting (Continued)

	2018				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income	10,508,427	2,773,755	462,006	–	13,744,188
Internal net interest (expense)/ income	(1,747,008)	2,060,075	(313,067)	–	–
Net interest income	8,761,419	4,833,830	148,939	–	13,744,188
Net fee and commission income	945,360	192,596	142,277	–	1,280,233
Net trading gains	14,139	–	351,067	–	365,206
Net gains arising from investment securities	8,700	–	1,294,832	–	1,303,532
Other operating income	3,488	543	296	86,124	90,451
Operating income	9,733,106	5,026,969	1,937,411	86,124	16,783,610
Operating expenses	(3,289,683)	(2,713,970)	(635,911)	(317,951)	(6,957,515)
Impairment losses on assets	(5,050,789)	(1,530,120)	(200,627)	(70,009)	(6,851,545)
Profit/(loss) before tax	1,392,634	782,879	1,100,873	(301,836)	2,974,550
Segment assets	249,607,938	139,949,449	226,119,365	1,264,869	616,941,621
Deferred tax assets	–	–	–	3,502,648	3,502,648
Total assets	249,607,938	139,949,449	226,119,365	4,767,517	620,444,269
Segment liabilities	200,695,973	152,124,134	210,359,239	1,587,167	564,766,513
Total liabilities	200,695,973	152,124,134	210,359,239	1,587,167	564,766,513
Other segment information					
– Depreciation and amortization	511,642	213,685	116,478	3,466	845,271
– Capital expenditure	463,961	193,770	105,623	3,143	766,497

In 2019, the Group adjusted the internal management way for some investments between Corporate banking and Financial markets business. In order to ensure the comparability of the information disclosure, the comparative figures of the segment reporting for the year 2018 are restated accordingly.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyze the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The responsible departments for credit risk management include the Credit Approval Department, Credit Management Department, and Risk Management Department. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments of branches carry out credit businesses according to the Group's risk management policies and procedures.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(a) Credit risk (Continued)

Credit business (Continued)

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(a) Credit risk (Continued)

Financial markets business

The Group sets credit limits for financial markets business operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

Credit risk management

After adopting IFRS 9 at January 1, 2018, the financial assets are categorised by the Group into the following stages to manage its financial assets' credit risk:

Stage 1

Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

Stage 2

Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3

Financial assets that are in default and considered credit-impaired.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

- The credit spread increases significantly;
- Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status;
- Application of a grace period or debt-restructuring;
- Significant changes with an adverse effect in the borrower's business conditions;
- Less value of the collaterals (for the collateral loans and pledged loans only);
- Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans;
- The borrower is more than 30 days past due.

The Group uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at December 31, 2019, the Group has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

Definition of “default” and “credit-impaired assets”

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- the disappearance of an active market for a security because of financial difficulties of the issuer; or
- overdue more than 90 days.

The above criteria apply to all financial assets of the Group and they are consistent with the definition of “default” adopted by the internal management of credit risk.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

Measurement of expected credit losses ("ECL")

The Group adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;
- EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;
- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, the Group can calculate the ECL for the future months. The results of calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

Measurement of expected credit losses ("ECL") (Continued)

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

The Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

Both the assessment of the significant increase in credit risk and the measurement of ECL involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and ECL of all asset portfolios, including GDP, industrial added value, CPI, etc.

There has been no significant change in the valuation techniques and key assumptions during the reporting period.

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each reporting period.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows:

	2019				
	Loans and advances to customers	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments (*)	Finance lease receivables
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Neither overdue nor credit-impaired	282,015,131	30,627,441	16,828,910	205,431,367	25,909,393
Sub-total	282,015,131	30,627,441	16,828,910	205,431,367	25,909,393
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	3,237,576	–	–	–	991,324
– Neither overdue nor credit-impaired	6,003,819	–	–	150,000	1,555,564
Sub-total	9,241,395	–	–	150,000	2,546,888
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	6,704,640	19,027	–	3,718,532	209,230
– Credit-impaired but not overdue	1,243,540	–	–	–	–
Sub-total	7,948,180	19,027	–	3,718,532	209,230
Accrued interest	1,796,820	291,561	11,170	2,519,468	–
Less: Provision for impairment losses	(9,771,416)	(25,167)	(1,530)	(1,960,959)	(806,489)
Net value	291,230,110	30,912,862	16,838,550	209,858,408	27,859,022



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (Continued)

	2018			
	Loans and advances to customers	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments (*)
Balance of financial assets that are assessed for expected credit losses over the next 12 months				
– Overdue but not credit-impaired	27,136	–	–	–
– Neither overdue nor credit-impaired	238,172,483	25,664,201	16,336,610	201,605,544
Sub-total	238,199,619	25,664,201	16,336,610	201,605,544
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses				
– Overdue but not credit-impaired	4,651,373	–	–	479,900
– Neither overdue nor credit-impaired	5,282,857	–	–	114,500
Sub-total	9,934,230	–	–	594,400
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses				
– Overdue and credit-impaired	6,236,266	19,027	–	8,524,970
– Credit-impaired but not overdue	–	–	–	–
Sub-total	6,236,266	19,027	–	8,524,970
Accrued interest	1,495,535	235,327	9,431	2,029,384
Less: Provision for impairment losses	(9,313,961)	(23,008)	(857)	(4,001,623)
Net value	246,551,689	25,895,547	16,345,184	208,752,675

* Financial investments don't include financial investments at fair value through profit or loss and non-trading equity investments designated as financial investments at fair value through other comprehensive income.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (Continued)

As at December 31, 2019, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB4,426.53 million. The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB1,682.97 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals was estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

As at December 31, 2018, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB4,858.49 million. The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB1,175.66 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals was estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(iii) Rescheduled loans and advances to customers

The Group has none of rescheduled loans and advances to customers at December 31, 2019 and 2018.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(a) Credit risk (Continued)

(iv) Amounts due from banks and other financial institutions

The amounts due from banks and non-bank financial institutions including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions. Neither overdue nor impaired amounts due from banks and non-bank financial institutions are rated with reference to major rating agencies accepted by the People's Bank of China.

	2019	2018
Neither overdue nor impaired		
Ratings		
– A to AAA	39,224,592	31,364,424
– unrated	8,526,820	10,876,307
Total	47,751,412	42,240,731

(v) Debt securities

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by the rating agency designations as at December 31 are as follows:

	2019	2018
Neither overdue nor impaired		
Ratings		
– AAA	4,145,301	3,622,616
– AA- to AA+	3,126,600	3,213,453
– A- to A+	10,106	–
– unrated	124,956,299	85,577,823
Total	132,238,306	92,413,892



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk and Internal Control Management Committee monitors the market risk management process within the scope authorized by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its financial markets business. The Financial Market Department is responsible for carrying out capital investments and transactions, as well as monitoring and managing the foreign exchange risk on a daily basis. The Planning and Finance Department is responsible for monitoring and managing the interest rate risk in bank account. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorizing each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(b) Market risk (Continued)

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest Rate Risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Finance Management Department is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk

Trading interest rate risk mainly arises from the financial markets business' investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(b) Market risk (Continued)

Interest Rate Risk (Continued)

(i) The following tables indicate the assets and liabilities as at December 31 by the expected next repricing dates or by maturity dates, depending on which is earlier:

	2019					Total
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	
Assets						
Cash and deposits with the central bank	70,673,960	-	-	-	1,444,681	72,118,641
Deposits with banks and other financial institutions	10,445,927	410,000	-	-	17,972	10,873,899
Placement with banks and other financial institutions	9,726,974	10,038,400	-	-	273,589	20,038,963
Derivative financial assets	-	-	-	-	15,138	15,138
Financial assets held under resale agreements	16,827,380	-	-	-	11,170	16,838,550
Loans and advances to customers (Note (1))	208,767,847	43,015,516	23,916,141	13,733,786	1,796,820	291,230,110
Financial investments	25,089,847	40,298,436	104,586,439	37,364,218	44,728,818	252,067,758
Finance lease receivables	26,882,536	153,296	823,190	-	-	27,859,022
Others	-	-	-	-	18,842,948	18,842,948
Total assets	368,414,471	93,915,648	129,325,770	51,098,004	67,131,136	709,885,029
Liabilities						
Borrowing from the central bank	3,624,288	12,916,351	-	-	104,113	16,644,752
Deposits from banks and other financial institutions	61,373,444	-	-	-	204,630	61,578,074
Placement from banks and other financial institutions	15,846,563	11,939,520	-	-	272,646	28,058,729
Financial liabilities at fair value through profit or loss	-	-	-	-	20,437	20,437
Derivative financial liabilities	-	-	-	-	295,741	295,741
Financial assets sold under repurchase agreements	66,514,614	-	-	-	30,290	66,544,904
Deposits from customers	222,202,532	69,542,216	92,404,576	97,792	5,484,413	389,731,529
Debt securities issued	26,504,105	39,878,712	2,999,602	9,999,491	338,508	79,720,418
Others	-	-	-	-	9,459,381	9,459,381
Total liabilities	396,065,546	134,276,799	95,404,178	10,097,283	16,210,159	652,053,965
Asset-liability gap	(27,651,075)	(40,361,151)	33,921,592	41,000,721	50,920,977	57,831,064



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(b) Market risk (Continued)

Interest Rate Risk (Continued)

(i) The following tables indicate the assets and liabilities as at December 31 by the expected next repricing dates or by maturity dates, depending on which is earlier: (Continued)

	2018					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
Assets						
Cash and deposits with the central bank	63,049,054	–	–	–	1,495,468	64,544,522
Deposits with banks and other financial institutions	12,163,833	3,640,000	–	–	59,706	15,863,539
Placement with banks and other financial institutions	1,284,259	8,572,128	–	–	175,621	10,032,008
Derivative financial assets	–	–	–	–	43,096	43,096
Financial assets held under resale agreements	16,335,753	–	–	–	9,431	16,345,184
Loans and advances to customers (Note (1))	189,569,543	41,484,016	12,045,207	1,957,388	1,495,535	246,551,689
Financial investments	27,299,327	51,472,113	104,468,466	23,483,385	45,922,571	252,645,862
Others	–	–	–	–	14,418,369	14,418,369
Total assets	309,701,769	105,168,257	116,513,673	25,440,773	63,619,797	620,444,269
Liabilities						
Borrowing from the central bank	2,075,026	7,084,870	–	–	87,648	9,247,544
Deposits from banks and other financial institutions	44,766,471	15,621,013	–	–	414,471	60,801,955
Placement from banks and other financial institutions	6,915,574	5,732,604	–	–	81,032	12,729,210
Derivative financial liabilities	–	–	–	–	228,084	228,084
Financial assets sold under repurchase agreements	33,508,168	–	–	–	19,728	33,527,896
Deposits from customers	208,323,343	77,870,839	59,426,076	6,712	3,759,985	349,386,955
Debt securities issued	29,891,305	50,156,931	2,999,102	9,999,668	230,570	93,277,576
Others	–	–	–	–	5,567,293	5,567,293
Total liabilities	325,479,887	156,466,257	62,425,178	10,006,380	10,388,811	564,766,513
Asset-liability gap	(15,778,118)	(51,298,000)	54,088,495	15,434,393	53,230,986	55,677,756

Note:

(1) As at December 31, 2019, for loans and advances to customers, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB5,228.06 million (2018: RMB5,990.55 million).



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(b) Market risk (Continued)

Interest Rate Risk (Continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at December 31, 2019, assuming other variables remain unchanged, an increase in estimated interest rate of 100 basis points will cause the Group's net profit to decrease by RMB434.47 million (2018: decrease by RMB408.93 million), and the Group's equity to decrease by RMB1,668.68 million (2018: decrease by RMB1,176.28 million); a decrease in estimated interest rate of 100 basis points will cause the Group's net profit to increase by RMB434.47 million (2018: increase by RMB408.93 million), and the Group's equity to increase by RMB1,668.68 million (2018: increase by RMB1,176.28 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of each of the reporting period apply to non-derivative financial instruments of the Group;
- At the end of each of the reporting period, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(b) Market risk (Continued)

Interest Rate Risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

Foreign currency risk

The Group's currency risk mainly arises from foreign currency deposits with banks and other financial institutions. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

The Group's currency exposures as at the end of the reporting period are as follows:

	2019				
	USD RMB (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)	
Assets					
Cash and deposits with the central bank	71,951,437	165,558	211	1,435	72,118,641
Deposits with banks and other financial institutions	6,696,978	2,804,196	1,351,895	20,830	10,873,899
Placement with banks and other financial institutions	17,939,750	2,099,213	–	–	20,038,963
Financial assets held under resale agreements	16,838,550	–	–	–	16,838,550
Loans and advances to customers	287,491,441	3,738,669	–	–	291,230,110
Financial investments	239,172,269	9,761,192	3,134,297	–	252,067,758
Finance lease receivables	27,859,022	–	–	–	27,859,022
Derivative financial assets	15,138	–	–	–	15,138
Others	18,529,568	313,380	–	–	18,842,948
Total assets	686,494,153	18,882,208	4,486,403	22,265	709,885,029
Liabilities					
Borrowing from the central bank	16,644,752	–	–	–	16,644,752
Deposits from banks and other financial institutions	58,290,130	3,276,091	140	11,713	61,578,074
Placement from banks and other financial institutions	27,031,865	1,026,864	–	–	28,058,729
Financial assets sold under repurchase agreements	66,544,904	–	–	–	66,544,904
Deposits from customers	389,731,529	–	–	–	389,731,529
Debt securities issued	79,720,418	–	–	–	79,720,418
Derivative financial liabilities	295,741	–	–	–	295,741
Financial liabilities at fair value through profit or loss	20,437	–	–	–	20,437
Others	9,239,183	208,964	11,087	147	9,459,381
Total liabilities	647,518,959	4,511,919	11,227	11,860	652,053,965
Asset-liability gap	38,975,194	14,370,289	4,475,176	10,405	57,831,064



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

	2018				
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets					
Cash and deposits with the central bank	64,460,865	82,122	259	1,276	64,544,522
Deposits with banks and other financial institutions	9,132,037	5,224,801	1,493,346	13,355	15,863,539
Placement with banks and other financial institutions	8,673,094	1,358,914	–	–	10,032,008
Financial assets held under resale agreements	16,345,184	–	–	–	16,345,184
Loans and advances to customers	244,394,350	2,157,339	–	–	246,551,689
Financial investments	241,605,981	9,375,101	1,664,780	–	252,645,862
Derivative financial assets	43,096	–	–	–	43,096
Others	14,197,891	217,853	2,625	–	14,418,369
Total assets	598,852,498	18,416,130	3,161,010	14,631	620,444,269
Liabilities					
Borrowing from the central bank	9,247,544	–	–	–	9,247,544
Deposits from banks and other financial institutions	59,773,200	1,022,624	53	6,078	60,801,955
Placement from banks and other financial institutions	11,292,933	1,436,277	–	–	12,729,210
Financial assets sold under repurchase agreements	33,527,896	–	–	–	33,527,896
Deposits from customers	349,386,955	–	–	–	349,386,955
Debt securities issued	93,277,576	–	–	–	93,277,576
Derivative financial liabilities	228,084	–	–	–	228,084
Others	5,500,411	36,291	30,444	147	5,567,293
Total liabilities	562,234,599	2,495,192	30,497	6,225	564,766,513
Asset-liability gap	36,617,899	15,920,938	3,130,513	8,406	55,677,756



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

	2019 Increase/ (decrease)	2018 Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	53,330	44,518
Down 100 bps change of foreign exchange rate	(53,330)	(44,518)

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions as set out below:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB based on the closing rate of reporting date;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously;
- All the position will be held and keep unchanged after maturity; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the assumptions adopted, actual changes in the Group's net profit and equity resulting from the increase or decrease in foreign exchange rates may vary from the estimated results of this sensitivity analysis.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximization and cost minimization to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Finance Management Department takes the lead to execute liquidity management policies and is responsible for formulating and revising the liquidity management strategies, and for identifying, measuring, monitoring and releasing the liquidity risk of the Bank. It is also responsible for managing and forecasting the working capital on a regular basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies. The Finance Market Department is responsible for performing the operation following the instructions of the Finance Management Department. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(c) Liquidity risk (Continued)

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment as at December 31:



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(c) Liquidity risk (Continued)

	2019							Total
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	33,773,552	38,326,421	18,668	-	-	-	-	72,118,641
Deposits with banks and other financial institutions	-	6,825,010	3,086,240	552,649	410,000	-	-	10,873,899
Placements with banks and other financial institutions	-	-	3,624,757	6,102,216	10,311,990	-	-	20,038,963
Derivative financial assets	-	-	655	2,949	11,534	-	-	15,138
Financial assets held under resale agreements	-	-	16,838,550	-	-	-	-	16,838,550
Loans and advances to customers	3,850,759	1,377,298	20,514,051	24,067,583	90,692,288	54,933,538	95,794,593	291,230,110
Financial investments	2,541,754	15,848,816	7,735,254	26,410,748	50,437,563	106,351,631	42,741,992	252,067,758
Finance lease receivables	788,730	207,871	25,661	-	1,274,182	25,562,578	-	27,859,022
Others	15,192,187	-	-	362,917	229,182	3,058,662	-	18,842,948
Total assets	56,146,982	62,585,416	51,843,836	57,499,062	153,366,739	189,906,409	138,536,585	709,885,029
Liabilities								
Borrowing from the central bank	-	-	1,303,302	2,320,986	13,020,464	-	-	16,644,752
Deposits from banks and other financial institutions	-	4,303,195	9,837,433	23,703,135	23,633,047	101,264	-	61,578,074
Placements from banks and other financial institutions	-	-	10,193,980	5,791,431	12,073,318	-	-	28,058,729
Financial liabilities at fair value through profit or loss	-	-	20,437	-	-	-	-	20,437
Derivative financial liabilities	-	-	24,488	223,961	47,292	-	-	295,741
Financial assets sold under repurchase agreements	-	-	62,911,698	3,633,206	-	-	-	66,544,904
Deposits from customers	-	187,959,185	13,188,292	24,659,817	70,355,065	93,470,279	98,891	389,731,529
Debt securities issued	-	-	4,833,147	21,778,897	39,878,712	3,091,980	10,137,682	79,720,418
Others	-	3,908,810	526,330	865,106	2,897,082	1,177,618	84,435	9,459,381
Total liabilities	-	196,171,190	102,839,107	82,976,539	161,904,980	97,841,141	10,321,008	652,053,965
Long/(short) position	56,146,982	(133,585,774)	(50,995,271)	(25,477,477)	(8,538,241)	92,065,268	128,215,577	57,831,064



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(c) Liquidity risk (Continued)

	2018							
	Indefinite Note (f)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	38,593,944	25,928,583	21,995	–	–	–	–	64,544,522
Deposits with banks and other financial institutions	–	3,841,430	5,882,109	2,500,000	3,640,000	–	–	15,863,539
Placements with banks and other financial institutions	–	–	1,439,292	20,588	8,572,128	–	–	10,032,008
Derivative financial assets	–	–	715	4,195	38,186	–	–	43,096
Financial assets held under resale agreements	–	–	16,345,184	–	–	–	–	16,345,184
Loans and advances to customers	4,473,907	1,516,639	15,526,554	17,273,307	91,874,945	47,876,693	68,009,644	246,551,689
Financial investments	5,284,704	–	4,865,093	39,146,250	70,620,864	106,161,325	26,567,626	252,645,862
Others	10,915,721	–	–	265,195	52,821	3,184,632	–	14,418,369
Total assets	59,268,276	31,286,652	44,080,942	59,209,535	174,798,944	157,222,650	94,577,270	620,444,269
Liabilities								
Borrowing from the central bank	–	–	1,124,607	1,038,067	7,084,870	–	–	9,247,544
Deposits from banks and other financial institutions	–	2,013,414	7,045,794	24,982,826	26,759,921	–	–	60,801,955
Placements from banks and other financial institutions	–	–	–	6,959,891	5,769,319	–	–	12,729,210
Derivative financial liabilities	–	–	66,660	122,716	38,708	–	–	228,084
Financial assets sold under repurchase agreements	–	–	33,527,896	–	–	–	–	33,527,896
Deposits from customers	–	176,913,402	13,934,004	19,983,040	78,604,284	59,945,510	6,715	349,386,955
Debt securities issued	–	–	5,609,396	24,281,909	50,387,501	2,999,102	9,999,668	93,277,576
Others	–	1,146,029	479,732	1,060,473	2,095,605	769,075	16,379	5,567,293
Total liabilities	–	180,072,845	61,788,089	78,428,922	170,740,208	63,713,687	10,022,762	564,766,513
Long/(short) position	59,268,276	(148,786,193)	(17,707,147)	(19,219,387)	4,058,736	93,508,963	84,554,508	55,677,756



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(c) Liquidity risk (Continued)

Note:

- (i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers and finance lease receivables includes all the credit-impaired loans and finance lease receivables, as well as those overdue more than one month. Loans and advances to customers and finance lease receivables with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents credit-impaired investments or those overdue more than one month. Equity investments is listed in the category of indefinite.

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and loan commitments as at December 31:

	2019							
	Carrying amount Note (i)	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	16,644,752	16,959,549	–	1,312,492	2,337,353	13,309,704	–	–
Deposits from banks and other financial institutions	61,578,074	62,613,051	4,431,939	9,846,441	23,986,766	24,235,565	112,340	–
Placements from banks and other financial institutions	28,058,729	28,453,097	–	10,202,681	5,843,185	12,407,231	–	–
Financial liabilities at fair value through profit or loss	20,437	20,442	–	20,442	–	–	–	–
Financial assets sold under repurchase agreements	66,544,904	66,572,805	–	62,927,340	3,645,465	–	–	–
Deposits from customers	389,731,529	398,303,951	188,079,105	13,213,635	24,777,529	71,272,335	100,832,895	128,452
Debt securities issued	79,720,418	86,147,023	–	5,502,393	21,854,110	40,591,494	6,116,686	12,082,340
Lease liabilities	973,877	1,079,451	–	23,262	87,029	251,726	650,370	67,064
Total non-derivative financial liabilities	643,272,720	660,149,369	192,511,044	103,048,686	82,531,437	162,068,055	107,712,291	12,277,856
Loan commitments	–	20,392,315	–	20,392,315	–	–	–	–



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(c) Liquidity risk (Continued)

	2018							
	Carrying amount <i>Note (i)</i>	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	9,247,544	9,307,853	–	1,129,519	1,044,874	7,133,460	–	–
Deposits from banks and other financial institutions	60,801,955	61,523,914	2,013,979	7,054,740	25,146,959	27,308,236	–	–
Placements from banks and other financial institutions	12,729,210	12,934,961	–	–	6,970,094	5,964,867	–	–
Financial assets sold under repurchase agreements	33,527,896	33,538,131	–	33,538,131	–	–	–	–
Deposits from customers	349,386,955	354,817,239	176,937,370	13,975,186	20,078,559	79,584,678	64,234,657	6,789
Debt securities issued	93,277,576	99,910,484	–	5,620,000	24,440,000	51,882,350	5,502,384	12,465,750
Total non-derivative financial liabilities	558,971,136	572,032,582	178,951,349	61,317,576	77,680,486	171,873,591	69,737,041	12,472,539
Loan commitments	–	9,342,671	–	9,342,671	–	–	–	–

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(c) Liquidity risk (Continued)

The following tables analyse the Group's contractual undiscounted cash flows of derivative financial instruments to be settled on a net and gross basis as at the end of the reporting period:

	2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Derivatives settled on net basis								
Foreign exchange forwards	(279,084)	(288,371)	–	(24,060)	(226,502)	(37,809)	–	–
Currency swaps	(1,151)	(24,384)	–	(3,911)	(13,774)	(6,699)	–	–
Derivatives settled on gross basis								
Interest rate swaps								
– cash outflow	(15,504)	(15,727)	–	(666)	(3,050)	(12,011)	–	–
– cash inflow	15,136	15,353	–	656	2,965	11,732	–	–
Total	(280,603)	(313,129)	–	(27,981)	(240,361)	(44,787)	–	–
						</		

The Group's derivatives include foreign exchange forwards and currency swaps which will be settled on a net basis, and interest rate swaps which will be settled on a gross basis.

This analysis of the derivative financial instruments by contractual undiscounted cash flow might diverge from actual results.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) **Debt securities and equity investments**

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of each reporting period.

(ii) **Investments and other non-derivative financial assets**

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(iii) **Debt securities issued and other non-derivative financial liabilities**

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period. The Group has established policies and internal controls with respect to the measurement of fair values, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

(iv) **Derivative financial liabilities**

The fair values of foreign currency forward and swaps contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the reporting period, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value (Continued)

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values. The fair values of Loans and advances to customers measured at fair value through other comprehensive income, are based on valuation techniques.

Financial investments at fair value through other comprehensive income and financial investments at fair value through profit or loss are stated at fair value. The carrying amount of financial investments at amortised cost is the reasonable approximations of its fair values because, for example, it is short-term in nature or repriced at current market rates frequently.

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and subordinated debt securities issued.

Financial liabilities designated at fair value through profit or loss is presented with fair value. The book value and fair value of debt securities issued is presented in Note 34. The carrying amounts of other financial liabilities approximate their fair value.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value (Continued)

(c) Fair value hierarchy

The following table presents the fair value of the Bank's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1:	Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
Level 2:	Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
Level 3:	Fair value measured using significant unobservable inputs

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, and credit spreads. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	2019			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	42,185,454	–	42,185,454
Derivative financial assets	–	15,138	–	15,138
Financial investments at fair value through other comprehensive income	–	53,475,148	–	53,475,148
Loans and advances to customers measured at fair value through other comprehensive income	–	25,981,033	–	25,981,033
Total	–	121,656,773	–	121,656,773
Liabilities				
Financial liabilities at fair value through profit or loss	–	20,437	–	20,437
Derivative financial liabilities	–	295,741	–	295,741
Total	–	316,178	–	316,178



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	2018			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	43,869,291	–	43,869,291
Derivative financial assets	–	43,096	–	43,096
Financial investments at fair value through other comprehensive income	–	43,693,209	–	43,693,209
Loans and advances to customers measured at fair value through other comprehensive income	–	19,023,990	–	19,023,990
Total	–	106,629,586	–	106,629,586
Liabilities				
Derivative financial liabilities	–	228,084	–	228,084

During the reporting period, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

47 Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognized in the statement of financial position. Surplus funding is accounted for as deposits from customers.

	2019	2018
Entrusted loans	22,588,712	29,033,871
Entrusted funds	22,588,712	29,033,871

48 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	2019	2018
Bank acceptances	45,126,569	36,986,944
Letters of credit	13,298,001	11,444,126
Loan commitments	20,392,315	9,342,671
Letters of guarantees	3,983,305	2,902,950
Total	82,800,190	60,676,691

The Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Commitments and contingent liabilities (Continued)

(b) Credit risk-weighted amount

	2019	2018
Credit risk-weighted amount	37,643,903	29,522,574

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the former CBRC.

(c) Operating lease commitments

As at December 31, 2018, the future minimum lease payments under non-cancellable operating leases for properties of the Group are as follows:

	2018
Within one year (inclusive)	238,730
After one year but within five years (inclusive)	634,664
After five years	251,231
Total	1,124,625

The Group is the lessee in respect of a number of properties, transport equipment, electronic equipment, and other office equipment held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach as at January 1, 2019, and recognised the present value of outstanding lease payments as lease liabilities (Refer to Note 2(3)). From January 1, 2019 onwards, the present value of outstanding lease payments are recognised as lease liabilities in accordance with the requirement of IFRS 16 (Refer to Note 2(3) and Note 35).



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Commitments and contingent liabilities (Continued)

(d) Capital commitments

As at December 31, the Group's authorized capital commitments are as follows:

	2019	2018
Contracted but not paid for	231,697	434,240
Approved but not contracted for	11,825	16,994
Total	243,522	451,234

(e) Outstanding litigations and disputes

As at December 31, 2019, the Group was the defendant in certain pending litigation and disputes with an estimated gross amounts of RMB717.02 million (2018: RMB842.30 million). The Group recognised the related litigation provision, which they believed to be reasonable and sufficient.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

49 Company-level statement of financial position

	Note	2019	2018
Assets			
Cash and deposits with the central bank		70,872,293	63,496,853
Deposits with banks and other financial institutions		6,712,491	16,336,149
Placements with banks and other financial institutions		21,976,611	10,082,011
Derivative financial assets		15,138	43,096
Financial assets held under resale agreements		16,838,550	16,095,184
Loans and advances to customers		283,688,087	231,672,644
Financial investments:			
Financial investments at fair value through profit or loss		42,176,421	43,535,087
Financial investments at fair value through other comprehensive income		52,735,645	43,419,177
Financial investments at amortised cost		156,407,156	165,083,362
Investments in subsidiaries and joint venture	23	6,183,968	1,188,202
Property and equipment		4,147,089	3,995,797
Deferred tax assets		3,438,586	3,422,037
Goodwill		468,397	468,397
Other assets		8,382,831	6,105,079
Total assets		674,043,263	604,943,075



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

49 Company-level statement of financial position (Continued)

	2019	2018
Liabilities and equity		
Liabilities		
Borrowing from central bank	16,386,752	8,508,836
Deposits from banks and other financial institutions	62,714,963	61,519,557
Placements from banks and other financial institutions	8,532,085	7,038,791
Financial liabilities at fair value through profit or loss	20,437	–
Derivative financial liabilities	295,741	228,084
Financial assets sold under repurchase agreements	66,544,904	33,527,896
Deposits from customers	379,211,878	340,434,351
Income tax payable	673,224	1,044,812
Debt securities issued	76,559,274	93,277,576
Other liabilities	6,237,002	4,388,665
Total liabilities	617,176,260	549,968,568
Equity		
Share capital	20,075,000	20,075,000
Other equity instruments		
– Preference shares	9,632,791	9,632,791
Capital reserve	15,177,917	15,144,471
Surplus reserve	1,818,292	1,500,620
General reserve	8,404,853	7,801,548
Retained earnings	1,758,150	820,077
Total equity	56,867,003	54,974,507
Total liabilities and equity	674,043,263	604,943,075



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Subsequent events

The COVID-19 virus outbreak since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations. The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures.

To some extent, the COVID-19 virus will impact the operation of entities and the economic environment of China, thereby impacting the quality and profit of credit assets of the Group. The severity of the impact depends on situation of epidemic prevention, duration and implementation of preventive measures.

The Group will continuously monitor the situation and evaluates the impact on the Group's operation and financial position. Up to the reporting date, the evaluation is still in progress.

51 Comparative figurers

The Group has initially applied IFRS 16 at January 1, 2019. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(3).

52 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2019

Up to the date of issue of these financial statements, a number of amendments, new standards and interpretations are issued which are not yet effective for the year ended December 31, 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting period beginning on or after
IFRS 3, Amendments Definition of a Business	January 1, 2020
IAS 1 and IAS 8, Amendments Definition of Material	January 1, 2020
IFRS 17, Insurance contracts	January 1, 2021
IFRS 10 and IAS 28, Amendments Sale or contribution of assets between an investor and its associate or joint venture	To be determined



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

52 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2019 (Continued)

IFRS 3, Amendments Definition of a Business

The IASB has issued amendments to IFRS 3 that seek to clarify the definition of business. The amendments include an election to use a concentration test. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The effect of these changes is that the new definition of a business is narrower, which could result in fewer business combinations being recognised. The amendments may require a complex assessment to decide whether a transaction is a business combination or an asset acquisition.

The Group is currently assessing the impact of the amendments on its financial position and financial performance.

IAS 1 and IAS 8, Amendments Definition of Material

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved and the amendments ensure that the definition of material is consistent across all IFRS Standards.

The Group is currently assessing the impact of the amendments on its financial position and financial performance.

IFRS 17, Insurance contracts

IFRS 17 is issued to resolve the comparison problems created by IFRS 4 by setting out a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

The Group is currently assessing the impact of the standard on its financial position and financial performance.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

52 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2019 (Continued)

IFRS 10 and IAS 28, Amendments Sale or contribution of assets between an investor and its associate or joint venture

The amendments introduce new requirements on loss of control over assets in a transaction with an associate or joint venture. These requirements require the full gain to be recognised when the assets transferred meet the definition of a “business” under IFRS 3, Business combination.

The Group is currently assessing the impact of the amendments on its financial position and financial performance.



UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial report, and is included herein for information purpose only.

1 Liquidity coverage ratio and leverage ratio

	2019	Average for 2019
Liquidity coverage ratio (RMB and foreign currency)	158.83%	130.97%
	2018	Average for 2018
Liquidity coverage ratio (RMB and foreign currency)	124.73%	140.35%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

Leverage ratio

	December 31, 2019	December 31, 2018
Leverage ratio	7.23%	8.05%

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the former CBRC and was effective since April 1, 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.



UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Net stable funding ratio

	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Available stable funding	373,261,485	375,032,676	370,756,491	360,615,768	338,494,967
Required stable funding	340,227,052	342,548,691	349,604,632	322,461,449	313,264,357
Net stable funding ratio	109.71%	109.48%	106.05%	111.83%	108.05%

3 Currency concentrations

	December 31, 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	18,882,208	4,486,403	22,265	23,390,876
Spot liabilities	(4,511,919)	(11,227)	(11,860)	(4,535,006)
Net position	14,370,289	4,475,176	10,405	18,855,870

	December 31, 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	18,416,130	3,161,010	14,631	21,591,771
Spot liabilities	(2,495,192)	(30,497)	(6,225)	(2,531,914)
Net position	15,920,938	3,130,513	8,406	19,059,857

The Group has no structural position at the end of reporting periods.



UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

4 International claims

The Bank is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include amounts due from banks and other financial institutions and financial investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	December 31, 2019			Total
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	
Asia Pacific	18,855,870	—	8,941,321	13,394,069
North America	4,450	—	—	4,450
Others	4,023	—	—	4,023
	4,461,221	—	8,941,321	13,402,542

	December 31, 2018			Total
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	
Asia Pacific	7,640,569	—	8,388,540	16,029,109
North America	132,922	—	—	132,922
Others	9,027	—	—	9,027
	7,782,518	—	8,388,540	16,171,058



UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

5 Gross amount of overdue loans and advances

	December 31, 2019	December 31, 2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	1,266,448	720,577
– between 6 months and 1 year (inclusive)	1,574,855	1,981,970
– over 1 year	2,966,616	3,413,349
Total	5,807,919	6,115,896
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.42%	0.28%
– between 6 months and 1 year (inclusive)	0.53%	0.78%
– over 1 year	0.99%	1.34%
Total	1.94%	2.40%



DEFINITIONS

“Articles of Association”	The articles of association of the Bank as may be amended, supplemented or otherwise modified from time to time
“Bank”, “Our Bank”, “we”, “us”, or “Zhongyuan Bank”	Zhongyuan Bank Co., Ltd. (中原銀行股份有限公司), a joint stock company established on December 23, 2014 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches and all subsidiaries
“Board” or “Board of Directors”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“CBIRC”	China Banking and Insurance Regulatory Commission
“CBRC”	China Banking Regulatory Commission, the predecessor of China Banking and Insurance Regulatory Commission
“CIRC”	China Insurance Regulatory Commission, the predecessor of China Banking and Insurance Regulatory Commission
“CSRC”	China Securities Regulatory Commission
“CBIRC Henan Office”	China Banking and Insurance Regulatory Commission Henan Office
“China” or “PRC”	the People’s Republic of China, but for the purpose of this annual report only, excluding Hong Kong, Taiwan and Macau Special Administrative Region of the PRC
“Consumer Finance Company”	Henan Zhongyuan Consumer Finance Co., Ltd. (河南中原消費金融股份有限公司), a joint stock company established in the PRC on December 29, 2016 and a subsidiary of our Bank
“Corporate Governance Code”	the Code on Corporate Governance and the Report on Corporate Governance under Appendix 14 to the Hong Kong Listing Rules
“Directors”	directors of the Bank



DEFINITIONS

“Domestic Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, which are subscribed for or credited as paid up in Renminbi
“H Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, which are listed on the Hong Kong Stock Exchange
“Preference Shares” or “Offshore Preference Shares”	69,750,000 shares of non-cumulative perpetual Offshore Preference Shares with a nominal value of RMB100 each issued by the Bank and listed on the Hong Kong Stock Exchange
“HK\$”	the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Date”	July 19, 2017, the date on which dealings in the H Shares commence on the Main Board of Hong Kong Stock Exchange
“Lushi Zhongyuan County Bank”	Lushi Zhongyuan County Bank Co., Ltd. (盧氏中原村鎮銀行股份有限公司), a joint stock company established in the PRC on May 15, 2012 and a subsidiary of our Bank
“Main Board”	the stock market operated by the Hong Kong Stock Exchange (excluding the option market), independent of and to be operated in parallel with the GEM Board of the Hong Kong Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules



DEFINITIONS

“Nine County Banks”	Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司), Linzhou Zhongyuan County Bank Co., Ltd., (林州中原村鎮銀行股份有限公司), Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行股份有限公司), Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行股份有限公司), Xiping Caifu County Bank Co., Ltd. (西平財富村鎮銀行股份有限公司), Suiping Zhongyuan County Bank Co., Ltd. (遂平中原村鎮銀行股份有限公司), Lushi Zhongyuan County Bank Co., Ltd. (盧氏中原村鎮銀行股份有限公司), Xiangcheng Huipu County Bank Co., Ltd. (襄城匯浦村鎮銀行股份有限公司) and Xinxiang Zhongyuan County Bank Co., Ltd. (新鄉中原村鎮銀行股份有限公司)
“PBoC” or “Central Bank”	The People’s Bank of China (中國人民銀行), the central bank of the PRC
“Reporting Period”	the 12 months ended December 31, 2019
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as may be amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	shares in the share capital of RMB1.00 each of the Bank, including Domestic Shares and H Shares
“Supervisors”	the supervisors of the Bank
“AB Leasing”	AB Leasing Co., Ltd. (邦銀金融租賃股份有限公司), a joint stock company incorporated in the PRC with limited liability
“AB Life Insurance”	Anbang Life Insurance Co., Ltd. (安邦人壽保險股份有限公司), a joint stock company incorporated in the PRC with limited liability
“CDRCB”	Chengdu Rural Commercial Bank Co., Ltd. (成都農村商業銀行股份有限公司), a joint stock company incorporated in the PRC with limited liability
“Henan Wansong”	Henan Wansong Construction Engineering Co., Ltd. (河南萬松建設工程有限公司), a company incorporated in the PRC with limited liability

