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Guangzhou Rural Commercial Bank Co., Ltd.*

廣州農村商業銀行股份有限公司*

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

(Stock code: 1551)

(Preference Share Stock Code: 4618)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2019

The board of directors (the “**Board**”) of Guangzhou Rural Commercial Bank Co., Ltd.* (the “**Bank**”) is pleased to announce the audited consolidated annual results of the Bank and its subsidiaries (the “**Group**”) for the year ended December 31, 2019 (the “**Annual Results**”). This results announcement contains the annual report of the Group for the year ended December 31, 2019 and the contents were prepared in accordance with the relevant disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) and the International Financial Reporting Standards. The Annual Results have been reviewed by the Board and the audit committee of the Board.

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

By Order of the Board
Guangzhou Rural Commercial Bank Co., Ltd. *
Yi Xuefei
Vice Chairman

Guangzhou, the PRC, March 30, 2020

As at the date of this announcement, the Board comprises one executive director, namely Mr. Yi Xuefei; four non-executive directors, namely Mr. Li Fangjin, Mr. Su Zhigang, Mr. Liu Guojie and Mr. Zhu Kelin; and four independent non-executive directors, namely, Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui and Mr. Zheng Jianbiao.

* *Guangzhou Rural Commercial 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 and/or deposit taking business in Hong Kong.*

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COMPANY PROFILE

I. COMPANY PROFILE

(I) Official Name

1. Official Chinese Name: 廣州農村商業銀行股份有限公司
(Abbreviated as “廣州農村商業銀行”)
2. Official English Name: Guangzhou Rural Commercial Bank Co., Ltd.
(Abbreviated as “GRCB”)

(II) Registered Capital: RMB9,808,268,539.00

(III) Legal Representative: Mr. Wang Jikang

(IV) Authorized Representatives: Mr. Yi Xuefei and Mr. Ngai Wai Fung

(V) Joint Company Secretaries: Ms. Zheng Ying and Mr. Ngai Wai Fung

(VI) H-Share Listing Stock Exchange: The Stock Exchange of Hong Kong Limited

(VII) Stock Name and Code: GRCB (1551.HK)

(VIII) Offshore Preference Share Name and Code: GRCB 19USDPRF (4618.HK)

(IX) Registered Address: No. 9 Yingri Road, Huangpu District, Guangzhou, PRC

(X) Principal Place of Business in Hong Kong: 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong

(XI) Scope of Business: Monetary and financial services

(XII) Contact Address: No. 1 Huaxia Road, Pearl River New Town, Tianhe District, Guangzhou, Guangdong Province, PRC

Postal Code: 510623

Website: www.grcbank.com

(XIII) Place of Inspection of the Annual Report: Office of the Board of Directors of the Bank

(XIV) Auditor: PricewaterhouseCoopers

(XV) Legal Advisor as to PRC Law: Guangdong Qiyuan Law Office

(XVI) Legal Advisor as to Hong Kong Law: King & Wood Mallesons

(XVII) H-Share Registrar: Computershare Hong Kong Investor Services Limited

(XVIII) Non-overseas Listed Shares Depository: China Securities Depository and Clearing Corporation Limited

(XIX) Other Relevant Information of the Company

Date of Registration: 9 December 2009

Registration Authority: Guangzhou Administration for Industry and Commerce

Unified Social Credit Code: 914401017083429628

Financial License Registration No.: B1048H244010001

Customer Service and Complaint Telephone No.: +8695313

Investor Relations Telephone No.: +86(020)28019324

Email Address: ir@grcbank.com

II. BRANCHES AND SUBSIDIARIES

(I) Branches

The following table sets forth the basic information of the branches of the Bank:

No.	Name of branch	Business address	Postal code	Contact telephone number	Facsimile number	Remarks
1	Baiyun Sub-branch	1/F to 3/F, No. 466-472 Huangshi West Road, Baiyun District, Guangzhou	510425	020-86295397	NA	-
2	Conghua Sub-branch	1/F and 2/F, No. 98 Hebin North Road, Chengjiao Subdistrict, Conghua District, Guangzhou	510900	020-87999606	NA	-
3	Panyu Sub-branch	No. 239 Qinghe East Road, Shiqiao Subdistrict, Panyu District, Guangzhou	511400	020-34619802	NA	-
4	Haizhu Sub-branch	2/F, No. 173-1 Changgang Middle Road, Haizhu District, Guangzhou	510250	020-84278835	NA	-
5	Huadu Sub-branch	South Tower, No. 21 Gongyi Road, Xinhua Subdistrict, Huadu District, Guangzhou	510800	020-36911004	020-36911006	-
6	Huanan Xincheng Sub-branch	East Side of Tangxi, Village Entrance, Yingbin Road South, Tangbuxi Village, Nancun Town, Panyu District, Guangzhou	511442	020-34693625	NA	-
7	Huangpu Sub-branch	No. 138 Fengle North Road, Huangpu District, Guangzhou	510700	020-32204220	NA	-
8	Liwan Sub-branch	No. 89 Huadi Avenue Central, Liwan District, Guangzhou	510380	020-81617655	NA	-
9	Airport Economic Zone Sub-branch	Renhe Village, Renhe Town, Baiyun District, Guangzhou	510470	020-86451956	NA	-
10	Tianhe Sub-branch	1/F to 2/F, No. 335 Longkou West Road, Tianhe District, Guangzhou	510635	020-38477288	020-38478080	-
11	Zengcheng Sub-branch	No. 88-15, 16, 17, 18, 19, 20, 21 and 22 Fuyou Road, Licheng Subdistrict, Zengcheng District, Guangzhou, and Rooms 201, 202, 210 and 211, No. 55 Zuanshi Street, Heli Square, Licheng Subdistrict, Zengcheng District, Guangzhou	511300	020-32162530	NA	-
12	Nansha Sub-branch	2/F, No. 2 Jixiang Road, Dongchong Town, Panyu District, Guangzhou	511453	020-34929060	NA	-
13	Free Trade Zone Nansha Branch	No. 56 Xinxing Road, Wangqingsha Town, Nansha District, Guangzhou	511462	020-34929298	NA	Branch
14	Foshan Branch	Rooms 103 and 104 on 1/F and Room 202 on 2/F of Tower 1, Rooms 1603 to 1605 on 16/F and Rooms 1701 to 1708 on 17/F of Block 2, Tower 1, No. 26 Jihua First Road, Chancheng District, Foshan	528000	0757-82581028	0757-82581059	Branch outside Guangzhou
15	Qingyuan Branch	Shops on 1/F to 3/F, Block 1, Oriental Paris, No. 5 Fengxiang Avenue, Qingcheng District, Qingyuan, Guangdong Province	511500	0763-3910555	NA	Branch outside Guangzhou
16	Zhaoqing Branch	Shop 01 on 1/F and Shops 01-07 on 2/F, Cultural Innovation Building, No. 5 Yuelong North Road, Duanzhou District, Zhaoqing, Guangdong Province	526040	0758-2812835	0758-2812835	Branch outside Guangzhou
17	Heyuan Branch	Rooms 1601-1602 and Rooms 101-102 on 1/F, Changhong Building (Changhong Financial Center), H Road West, Yanjiang Road North, Xueqianbaxiaoqu, Xinshi District, Heyuan, Guangdong Province	517000	0762-8808225	NA	Branch outside Guangzhou
18	Guangdong Pilot Free Trade Zone Hengqin Branch	B6 to B10 Penguin Hotel Commercial Street, Chimelong International Ocean Tourist Resort, Fuxiang Bay, Hengqin New District, Zhuhai, Guangdong Province	519031	0756-2993600	NA	Branch outside Guangzhou

COMPANY PROFILE

(II) Subsidiaries

The following table sets forth the basic information of the subsidiaries of the Bank:

No.	Company name	Registered address	Postal code	Contact telephone number
1	Beijing Mentougou Zhujiang County Bank Co., Ltd.	No. 8 Shilong South Road, Yongding Town, Mentougou District, Beijing	102300	010-60865137
2	Dalian Bonded Area Zhujiang County Bank Co., Ltd.	Zone 2 on 8/F, Block E, International Trade Center, No. 205 Huanghaixi Fourth Road, Dalian Bonded Area, Liaoning Province	116600	0411-66771959
3	Laiwu Zhujiang County Bank Co., Ltd.	Yanjie Building, No. 19 Daihuayuan, Longtan East Street, Laicheng District, Laiwu, Shandong Province	271100	0634-5662720
4	Yantai Fushan Zhujiang County Bank Co., Ltd.	No. 133-216 Fuhai Road, Fushan District, Yantai, Shandong Province	265500	0535-6319002
5	Laizhou Zhujiang County Bank Co., Ltd.	No. 672 Wenhua East Street, Laizhou, Shandong Province	261400	0535-2750000
6	Qingdao Chengyang Zhujiang County Bank Co., Ltd.	No. 160-12 Zhengyang Middle Road, Chengyang District, Qingdao, Shandong Province	266109	0532-67762806
7	Haiyang Zhujiang County Bank Co., Ltd.	No. 181 Haiyang Road, Haiyang, Shandong Province	265100	0535-3107730
8	Zhengzhou Zhujiang County Bank Co., Ltd.	No. 101-1, 1/F, No. 501-2, 5/F, No. 501-3, 5/F, Expo Building, No.8 Business Outer Ring Road, Zhengzhou Area (Zhengdong), Free Trade Zone, Henan Province	450000	0371-89959016
9	Xinyang Zhujiang County Bank Co., Ltd.	Intersection of Xinqi Avenue and Xinba Street, Yangshan New District, Pingqiao District, Xinyang, Henan Province	464000	0376-6199166
10	Anyang Zhujiang County Bank Co., Ltd.	Northwest Corner of the intersection of Xingtai Road and Jian'an Street, Anyang, Henan Province	455000	0372-2223000
11	Huixian Zhujiang County Bank Co., Ltd.	No. 838 East Section of Gongcheng Avenue, Huixian, Xinxiang, Henan Province	453600	0373-6223005
12	Jiangsu Xuyi Zhujiang County Bank Co., Ltd.	5-1001, Wuzhou International Plaza Phase II, Donghu South Road, Xuyi County, Huaian, Jiangsu Province	211700	0517-88558207
13	Jiangsu Qidong Zhujiang County Bank Co., Ltd.	No. 605, 609 and 613 Jianghai Middle Road, Huilong Town, Qidong, Jiangsu Province	226200	0513-83904316
14	Suzhou Wuzhong Zhujiang County Bank Co., Ltd.	No. 51 Jinshan Road, Mudu Town, Wuzhong District, Suzhou, Jiangsu Province	215101	0512-80969696
15	Changning Zhujiang County Bank Co., Ltd.	No. 101 and 102 Qunying West Road, Changning, Hunan Province	421500	0734-7330833

COMPANY PROFILE

No.	Company name	Registered address	Postal code	Contact telephone number
16	Jizhou Zhujiang County Bank Co., Ltd.	No. 33 Yangming West Road, Jizhou District, Ji'an, Jiangxi Province	343000	0796-2066666
17	Pengshan Zhujiang County Bank Co., Ltd.	No. 223 Caishan East Road, Pengshan District, Meishan, Sichuan Province	620860	028-37666086
18	Xinjin Zhujiang County Bank Co., Ltd.	No. 4-4, 1/F of No. 5 and New No. 6 Wujin West Road, Xinjin County, Chengdu, Sichuan Province	611430	028-82580021
19	Guanghan Zhujiang County Bank Co., Ltd.	No. 188 Section 1 of Zhongshan Avenue South, Guanghan, Sichuan Province	618300	0838-5513187
20	Sanshui Zhujiang County Bank Co., Ltd.	Shops 103, 104 and 105 of 1/F and 2/F and 3/F, No. 9 Nanfeng Avenue, Yundonghai Subdistrict, Sanshui District, Foshan, Guangdong Province	528100	0757-87791698
21	Zhongshan Dongfeng Zhujiang County Bank Co., Ltd.	No. 63 Donghai Second Road, Dongfeng Town, Zhongshan, Guangdong Province	528425	0760-22787010
22	Heshan Zhujiang County Bank Co., Ltd.	Room 201 of No. 195, 187 and 185, and No. 189-193 (odd numbers only), Zhongshan Road, Shaping Town, Heshan, Guangdong Province	529700	0750-8818081
23	Shenzhen Pingshan Zhujiang County Bank Co., Ltd.	32/F and 33/F of Building H and Shops 165-166, 1st Phase of Liuhe Commercial Plaza, Pingshan Subdistrict, Pingshan District, Shenzhen, Guangdong Province	518118	0755-36669888
24	Dongguan Huangjiang Zhujiang County Bank Co., Ltd.	No. 1 Yuanwuwei Road, Yuanwuwei Village, Huangjiang Town, Dongguan, Guangdong Province	523756	0769-82183199
25	Xingning Zhujiang County Bank Co., Ltd.	No. 2 Shuguang Road, Xingning, Meizhou, Guangdong Province	514500	0753-8682651
26	Hunan Zhuzhou Zhujiang Rural Commercial Bank Co., Ltd.	No. 006 Xiangyang North Road, Lukou Town, Zhuzhou County, Hunan Province	412100	0731-27618647
27	Chaozhou Rural Commercial Bank Co., Ltd.	No. 130 Fengchun Road, Chaozhou, Guangdong Province	521000	0768-2292072
28	Guangdong Nanxiong Rural Commercial Bank Co., Ltd.	No. 147 Xiongnan Road, Nanxiong, Guangdong Province	512400	0751-3822857
29	Zhujiang Financial Leasing Co., Ltd.	11/F, Financial Building, No. 171 Haibin Road, Nansha District, Guangzhou, Guangdong Province	511455	020-29168100

COMPANY PROFILE

III. MAJOR HONORS RECEIVED IN 2019

No.	Honors	Awarding/granting authority	Obtaining time
1	Top 500 Chinese Enterprises in Credit Standing	China Enterprise Reform and Development Society, China Cooperative Trade Enterprises Association	January 2019
2	Top 10 Retail Banks of Rural Commercial Banks	Retail Bank (《零售銀行》雜誌)	January 2019
3	Ranked 29th in China Banking Industry Top 100	China Banking Association	February 2019
4	Ranked 995th in 2019 Forbes Global Enterprises 2000	Forbes	May 2019
5	Top 10 Outstanding Private Enterprises in Financial Service Innovations	The Chinese Banker (中國《銀行家》雜誌)	May 2019
6	Excellent Guangdong Enterprises	GuangDong Provincial Enterprise Confederation	May 2019
7	Top Ten Rural FinTech Products Innovation	China Corporation Times, China Finance (《中國金融》)	June 2019
8	Ranked 185th in Top 1000 World's Banks 2019	The Banker (英國《銀行家》雜誌)	July 2019
9	Tianji Prize for Rural Commercial Banks of 2019 (2019年度農商行天璣獎)	Securities Times (《證券時報》)	July 2019
10	Tianji Prize for Investment Banking Business of Small and Medium-sized Banks of 2019 (2019年度中小銀行投行業務天璣獎)	Securities Times (《證券時報》)	July 2019
11	Junding Prize for Open Net-value Wealth Management Products of Banks in China of 2019 (2019中國開放式淨值型銀行理財產品君鼎獎), Junding Prize for Exclusive Wealth Management Products of High Net Worth Customers in China of 2019 (2019中國高淨值客戶專屬理財產品君鼎獎)	Securities Times (《證券時報》)	July 2019
12	Ranked 459th in Top 500 Enterprises in China (中國企業500強)	China Enterprise Confederation, China Enterprise Directors Association	September 2019
13	Best Rural Commercial Bank in Capital Management of 2019 (2019最佳資本管理農商銀行)	The Chinese Banker (中國《銀行家》雜誌)	November 2019
14	2019 China Jinding Award – Excellent Private Bank of the Year (2019中國金鼎獎年度卓越私人銀行)	National Business Daily (《每日經濟新聞》)	November 2019
15	Best Local Bank of Gold Financial Service Brand of 2019 (2019年金質金融服務品牌最佳本土銀行)	Guangzhou Daily (《廣州日報》)	November 2019
16	Best Direct Selling Bank User Experience Award of 2019 (2019年最佳直銷銀行用戶體驗獎)	China Financial Certification Authority (CFCA)	December 2019
17	Top 10 Banks with Excellent Competitiveness of 2019 (2019卓越競爭力年度10強)	China Business Journal (《中國經營報》)	December 2019
18	Guangzhou Five-Star Charity Unit of 2019 (2019年度廣州五星慈善單位)	Civil Affairs Bureau of Guangzhou (廣州市民政局), Guangzhou Daily, Guangzhou Charity Association	December 2019
19	2019 Golden Lion Award – Best SME Financial Service Bank of the Year (2019年金獅獎年度最佳中小企業金融服務銀行)	Information Times (《信息時報》)	December 2019
20	Three rural commercial bank prizes of “2019 Excellent Rural Commercial Bank in Debt Financing Plan” (2019年度債權融資計劃優秀農商行), “Prize for Innovative Model of Debt Financing Plan of 2019” (2019年度債權融資計劃創意示範獎), “Prize for Proactive Progression of Debt Financing Plan of 2019” (2019年度債權融資計劃銳意進取獎)	Beijing Financial Assets Exchange	December 2019
21	Best Inclusive Finance Bank of 2019 (2019年度最佳普惠金融銀行)	New Express	January 2020
22	2019 Top 10 Local Banks in Private Banking (2019十佳地方銀行私人銀行獎)	Retail Bank (《零售銀行》雜誌)	January 2020

SUMMARY OF FINANCIAL DATA

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

Item (Expressed in RMB million, unless otherwise stated)	For the year ended 31 December					
	2019	2018	Comparison between 2019 and 2018	2017	2016	2015
Operating results			Rate of Change (%)			
Net interest income	18,563.65	13,271.65	39.87	11,694.53	10,670.82	11,595.89
Net fee and commission income	1,682.13	1,547.52	8.70	2,291.39	2,976.39	2,889.61
Operating income	23,657.28	20,666.67	14.47	13,478.66	15,239.79	16,213.15
Operating expenses	(6,675.70)	(5,984.34)	11.55	(5,164.19)	(5,457.19)	(5,773.14)
Impairment losses ⁽¹⁾	(7,086.46)	(5,968.94)	18.72	(787.85)	(3,259.75)	(4,010.90)
Profit before income tax	9,895.12	8,713.39	13.56	7,526.62	6,522.85	6,429.11
Net profit	7,910.71	6,832.16	15.79	5,890.99	5,106.35	5,000.34
Net profit attributable to shareholders of the Bank	7,520.35	6,526.34	15.23	5,708.72	5,025.59	5,001.02
Per share (in RMB)			Change			
Net assets per share attributable to shareholders of the Bank ⁽²⁾	5.97	5.39	0.58	4.69	4.40	4.14
Basic earnings per share	0.77	0.67	0.10	0.63	0.62	0.61

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December					
	2019	2018	Comparison between 2019 and 2018	2017	2016	2015
Scale indicators			Change			
Total assets	894,154.29	763,289.60	130,864.69	735,713.66	660,951.12	582,807.20
Among which: loans and advances to customers, net	463,051.37	364,967.97	98,083.40	285,701.70	237,934.77	216,779.76
Total liabilities	820,444.98	707,708.53	112,736.45	687,235.94	623,111.42	547,111.07
Among which: customers deposits	658,243.09	542,335.16	115,907.93	488,671.86	423,742.04	391,061.88
Equity attributable to shareholders of the Bank	68,346.69	52,861.33	15,485.36	46,044.52	35,845.24	33,777.95
Non-controlling interests	5,362.62	2,719.74	2,642.88	2,433.20	1,994.46	1,918.18
Total equity	73,709.31	55,581.07	18,128.24	48,477.72	37,839.70	35,696.13

SUMMARY OF FINANCIAL DATA

Item (Expressed in percentage)	For the year ended 31 December					
	2019	2018	Comparison between 2019 and 2018	2017	2016	2015
Profitability indicators			Change			
Return on average total assets ⁽³⁾	0.95	0.91	0.04	0.84	0.82	0.95
Return on average equity ⁽⁴⁾	13.24	13.13	0.11	13.65	13.89	14.65
Net interest spread ⁽⁵⁾	2.66	2.28	0.38	1.65	1.99	2.31
Net interest margin ⁽⁶⁾	2.61	2.12	0.49	1.70	1.98	2.50
Net fee and commission income to operating income ⁽⁷⁾	7.11	7.49	(0.38)	17.00	19.53	17.82
Cost-to-income ratio ⁽⁸⁾	27.25	28.05	(0.80)	37.11	32.77	28.37

Item (Expressed in percentage)	As at 31 December					
	2019	2018	Comparison between 2019 and 2018	2017	2016	2015
Assets quality indicators			Change			
Non-performing loan ratio ⁽⁹⁾	1.73	1.27	0.46	1.51	1.81	1.80
Provision coverage ratio ⁽¹⁰⁾	208.09	276.64	(68.55)	186.75	178.58	170.79
Allowance to total loans ⁽¹¹⁾	3.61	3.52	0.09	2.83	3.24	3.08
Capital adequacy indicators			Change			
Core Tier 1 capital adequacy ratio ⁽¹²⁾	9.96	10.50	(0.54)	10.69	9.90	10.28
Tier 1 capital adequacy ratio	11.65	10.53	1.12	10.72	9.92	10.29
Capital adequacy ratio	14.23	14.28	(0.05)	12.00	12.16	12.76

Item (Expressed in percentage)	As at 31 December					
	2019	2018	Comparison between 2019 and 2018	2017	2016	2015
Other indicators			Change			
Loan-to-deposit ratio ⁽¹³⁾	72.92	69.70	3.22	60.17	58.03	57.19

SUMMARY OF FINANCIAL DATA

Notes:

- (1) In accordance with the new accounting standards on financial instruments and the disclosure requirements related to the financial statements, impairment losses in 2018 and 2019 included credit impairment losses and impairment losses on other assets in the consolidated statement of profit or loss, while impairment losses from 2015 to 2017 were impairment losses on assets.
- (2) Calculated by dividing equity attributable to shareholders of the Bank for the period (excluding other equity instruments) by paid-in capital.
- (3) Representing the net profit for the period (including profit attributable to non-controlling interests) as a percentage of the average balance of total assets as at the beginning and end of the period.
- (4) Calculated by dividing the net profit for the period by the average balance of total equity (excluding other equity instruments) as at the beginning and end of the period.
- (5) Calculated as the difference between the average yield rate on total interest-earning assets and the average cost rate on total interest-bearing liabilities.
- (6) Calculated by dividing net interest income by the average daily balance of total interest-earning assets.
- (7) Calculated by dividing net fee and commission income by operating income.
- (8) Calculated by dividing operating expenses (excluding tax and surcharges) by operating income.
- (9) Calculated by dividing the balance of non-performing loans by the total loans and advances to customers.
- (10) Calculated by dividing the balance of allowance for loan losses by the balance of non-performing loans.
- (11) Calculated by dividing the balance of allowance for loan losses by the total loans and advances to customers.
- (12) Calculated in accordance with the "Administrative Measures for the Capital of Commercial Banks (Provisional)" promulgated by CBRC.

Core Tier 1 capital adequacy ratio = (core Tier 1 capital – reductions from respective capital)/risk-weighted assets *100%

Tier 1 capital adequacy ratio = (Tier 1 capital – reductions from respective capital)/risk-weighted assets *100%

Capital adequacy ratio = (total capital – reductions from respective capital)/risk-weighted assets *100%

- (13) Calculated by dividing total loans and advances to customers by total deposits of customers.

PRESIDENT'S STATEMENT

Time and tide wait for no man. Though the year of 2019 passed, the world is still in turmoil and economic downturn continues. "Governance in China", however, looks calmer and bears fruitful results. In the past year, Guangzhou Rural Commercial Bank continued to maintain a good development momentum. As at the end of the year, the Group's assets amounted to RMB894.154 billion, and the balance of various deposits reached RMB658.243 billion with various loan balances of RMB479.968 billion. The net profit for the year amounted to RMB7.911 billion, while the non-performing loan ratio at the end of the year was 1.73%, and provision coverage was 208.09%. All our regulatory indicators met regulatory requirements. On behalf of the management team of Guangzhou Rural Commercial Bank, I would like to pay tribute to the great age of China, and salute all employees, shareholders, customers and friends from all sectors for their constant efforts, support and love!

Looking forward to 2020 and beyond, we are determined to become a first-class bank in China and even in the world by setting it as our long-term strategic goal. No matter how difficult the future will be, we will never give up the chance to achieve our dreams and strive to become a climber, tripper and pioneer in pursuit of our dreams!

Guided by Xi Jinping "Thought on Socialism with Chinese Characteristics for a New Era", we will comprehensively strengthen the Party's leadership and building by keeping in mind our original aspiration and mission, and acting as a strong supporter and faithful contributor to the greatness of China along its journey of realizing the "Two-Centenary Goals" and the dream of the great rejuvenation of the Chinese nation.

We will adhere to the people-centered development concept, and fully believe, respect and unite the whole Bank's employees so that every employee's passion and talent can be fully demonstrated, and their efforts can receive adequate support and reward. All employees may then share the outcomes of reform and development of the whole Bank which is a solid foundation and impetus to achieve our dreams.

We will establish a healthy and progressive corporate culture and value, which may make all our employees have a common spirit and comply with the same code of conduct. Our value and philosophy consist of various basic elements such as being proactive, professional, focused, honest, trustworthy, responsible, compliant, stable, fair, just, friendly and united. All of them will provide fundamental guarantee and strong support to realize our dreams.

We will follow the principles of being market-oriented and customer-centered, and adopt customer experience and preference as the only criterion for examining and evaluating all of our performances. Besides, professionalism and focus are the sole guarantee to obtain and retain our customers, while better supporting and serving various business organizations are the sole choice for middle and back office functional departments of the whole Bank.

We will be more determined to undergo lawful operation and stable development, and emphasize clear responsibilities, actual implementation and accountability. Our policies and system must be respected, put into effect and optimized. As safety overrides everything, the Bank keeps zero tolerance and rigid attitude towards incompliance with rules and disciplines and criminal offences, and sticks to the bottom line of capital safety, operational safety and integrity safety.

We will accelerate the comprehensive digital transformation and the construction of smart banks with strategic vision, long-term strategy and systematic thinking. Exponential improvement in the financial service content and quality will be achieved by using the technology of artificial intelligence (AI), which makes financial technology become a key tool to achieve our dreams.

Despite a long way to go, the destination must be reached if we go on. Despite difficulty, it can be achieved if we work. We are not afraid of any difficulties on the way to our dreams, the more challenging the task is, the further we move forward. We believe that the light of our dreams will illuminate our future!

ENVIRONMENT AND OUTLOOK

In 2019, as influenced by the lasting effect of the stressful trade situation, we saw the continued weak recovery of the global economy. The slowing growth trend of major economies will remain. There was a sudden increase in risk in the return of economic recession in the U.S. while over-reliance on a unilateral trade rebalancing mechanism and the ongoing loose monetary policy further deepened the uncertainty of economic performance. Europe continued to suffer from a slowdown in economic growth. The progress of Brexit tore the regional cooperation as a whole. Within the region, certain countries' imbalanced policies further weakened the recovery momentum of the European Union's economy. Japan managed to have a slow economic improvement. Its tight sales tax policy and deteriorating exportation situation continuously threatened the sustainability of its economic growth. Differentiation and fluctuation of emerging economies would still remain as their tendency. Weak export, vulnerable finance and heavy debt remained to be the sources of their major risks. In 2019, China's economy was affected by a number of unfavorable factors, including intensified geopolitical risk, continuous trade friction, increasing market risk, tightened financial environment. The reform on supply side received remarkable results with stable progression of the three major battles, both the quality and effectiveness of the industrial structural adjustment improved and the open-door policy and business environment were optimized gradually. The total economic value for the year was more than RMB99 trillion, up 6.1%, basically being maintained at a steady level. Overall speaking, the development concept of innovation, coordination, green, open and sharing for the domestic economy for the year was better implemented, with an incessant improvement in the business environment and ancillary facilities. Deepening transformation of the financial market sped up, the flexibility of the monetary policy increased gradually and the increasing proactivity towards the finance policy was achieved, as well as the deepening reform and the wider opening initiative progressed well to a good stage, therefore China's economy would expect to grow under a steady and constant trend though suffering a series of impacts. During the year of 2019, Guangdong Province deeply adapted to and led the new normal of economic development, adhered to the foundation of steady work progression, and accelerated the strategic adjustments to the economic structure steadfastly. The comprehensive capability of the province has already reached a historically new stage. The annual gross regional domestic product (GDP) broke through the level of RMB10 trillion, a year-on-year increase of 6.2%, accounting for 10.8% of the country's total and ranking first in the country for 31 consecutive years. In 2019, the GDP of Guangzhou amounted to RMB2.3 trillion, an increase of 6.8% over the previous year, showing a continuous stable and promising trend in the economic operation. Looking ahead to 2020, continued uncertainty of the global economic recovery is probable, difficulty on coordination between the financial policy and trade policy of major economies will increase, and the differentiation pattern will remain. The Chinese economy has been entering a stage of high quality development. Though the adverse impact of the pandemic appeared early this year, as propelled by the ongoing expansion and upgrade of the industrial structure and domestic market demand, the stable growth is expected to be maintained and the economy will keep its great resilience and sustainability. Meanwhile, on top of well preparation for any impact on stability, it is necessary to stay alert that any long-term cumulative risks will be released too rapidly, and therefore we need to strengthen the internal power of the economy in no time.

In 2019, the Bank's overall operations and scale of assets grew steadily with stable increasing profitability. Our asset quality met all the regulatory requirements and the balanced development of scale, benefits and quality was achieved. In 2020, the Bank will continue to adhere to its market logic, existing strategic positioning and basic principle of stable growth. Our strategic objective is to "devote in developing into a first-class bank of China and then to the world". Through the steady business transformation under a new development concept, the Party's leadership as well as the development under modern governance, the Bank will reinforce the development of internal control system, strive for stable, innovative and efficient operation, and strictly implement the strategic positioning and direction established by the Board. It will come back to its basic business, stick to the initial goal of "Inclusive" and focus on improvement of quality and effectiveness. Apart from the aforesaid, the Bank will expedite the listing of A shares and continue to maintain high-quality growth and create a new phase of sustainable development.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

I. INCOME STATEMENT ANALYSIS

Item (Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2019	For the year ended 31 December 2018	Change in amount	Rate of change (%)
Interest income	35,745.36	29,445.58	6,299.78	21.39
Interest expense	(17,181.71)	(16,173.93)	(1,007.78)	6.23
Net interest income	18,563.65	13,271.65	5,292.00	39.87
Fee and commission income	1,992.83	1,813.22	179.61	9.91
Fee and commission expense	(310.70)	(265.70)	(45.00)	16.94
Net fee and commission income	1,682.13	1,547.52	134.61	8.70
Net trading gains	2,735.01	4,537.20	(1,802.19)	(39.72)
Net gains or losses on financial investments	52.59	648.94	(596.35)	(91.90)
Other operating income, net	623.90	661.36	(37.46)	(5.66)
Operating income	23,657.28	20,666.67	2,990.61	14.47
Operating expenses	(6,675.70)	(5,984.34)	(691.36)	11.55
Credit impairment losses	(7,078.30)	(5,829.92)	(1,248.38)	21.41
Impairment losses on other assets	(8.16)	(139.02)	130.86	(94.13)
Profit before income tax	9,895.12	8,713.39	1,181.73	13.56
Income tax expense	(1,984.41)	(1,881.23)	(103.18)	5.48
Net profit	7,910.71	6,832.16	1,078.55	15.79

In 2019, the Group recorded a profit before income tax of RMB9,895 million, representing a year-on-year increase of 13.56%, and a net profit of RMB7,911 million, representing a year-on-year increase of 15.79%. Profit before income tax and net profit achieved steady growth, primarily due to the adjustment to the structure of interest-earning assets and the decrease in the cost rate on interest-bearing liabilities, and therefore net interest income increased substantially as a result.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) Net Interest Income

In 2019, the net interest income of the Group amounted to RMB18,564 million, representing a year-on-year increase of RMB5,292 million, or 39.87%, and accounting for 78.47% of our total operating income. It was primarily due to, firstly, our adjustment to the structure of interest-earning assets, which led to a rise in the price and amount of loan business that drove up the interest income on a year-on-year basis; and secondly, a decrease in the proportion of interbank liabilities in interest-bearing liabilities, which resulted in a decrease in overall cost rate.

The following table sets forth interest income, interest expense and net interest income of the Group for the periods indicated:

Item (Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2019	For the year ended 31 December 2018	Change in amount	Rate of change (%)
Interest income	35,745.36	29,445.58	6,299.78	21.39
Interest expense	(17,181.71)	(16,173.93)	(1,007.78)	6.23
Net interest income	18,563.65	13,271.65	5,292.00	39.87

Item (Expressed in RMB million, unless otherwise stated)	For the twelve months ended 31 December 2019			For the twelve months ended 31 December 2018		
	Average balance	Interest income/expense	Average yield/cost rate (%)	Average balance	Interest income/expense	Average yield/cost rate (%)
Loans and advances to customers	434,708.54	25,853.83	5.95	334,438.57	19,605.08	5.86
Financial investments	135,570.74	6,497.54	4.79	144,636.55	6,187.43	4.28
Placements and deposits with banks and other financial institutions	34,177.07	1,471.88	4.31	26,953.25	963.28	3.57
Financial assets held under resale agreements	31,324.19	818.33	2.61	48,260.40	1,606.55	3.33
Deposits with central bank	75,731.58	1,103.78	1.46	71,429.65	1,083.24	1.52
Total interest-earning assets	711,512.12	35,745.36	5.02	625,718.42	29,445.58	4.71
Due to customers	586,763.13	12,016.74	2.05	497,196.73	9,159.62	1.84
Placements and deposits from banks and other financial institutions and others	42,265.57	1,792.77	4.24	63,764.34	2,618.31	4.11
Financial assets sold under repurchase agreements	7,698.22	166.28	2.16	16,725.29	449.33	2.69
Debt securities issued	85,187.95	3,046.94	3.58	84,901.15	3,895.24	4.59
Borrowing from central bank	5,005.86	158.98	3.18	1,855.97	51.43	2.77
Total interest-bearing liabilities	726,920.73	17,181.71	2.36	664,443.47	16,173.93	2.43
Net interest income		18,563.65			13,271.65	
Net interest spread			2.66			2.28
Net interest margin			2.61			2.12

MANAGEMENT DISCUSSION AND ANALYSIS

In 2019, compared with the corresponding period of last year, the overall average yield of interest-earning assets increased by 31 basis points to 5.02%, the overall average cost rate of interest-bearing liabilities decreased by 7 basis points to 2.36%, net interest spread increased by 38 basis points to 2.66%, and net interest margin increased by 49 basis points to 2.61%.

The following table sets forth changes in the Group's interest income and interest expense as compared to the corresponding period of last year due to changes in volume and interest rate. Changes in volume are measured by movement of the average balance, while changes in interest rate are measured by the movement of the average interest rate:

Item (Expressed in RMB million, unless otherwise stated)	Increase/(decrease) due to changes in the following item		Net increase/ decrease
	Volume factor	Rate factor	
Assets			
Loans and advances to customers	5,878.00	370.80	6,248.80
Financial investments	(387.80)	697.90	310.10
Placements and deposits with banks and other financial institutions	258.20	250.40	508.60
Financial assets held under resale agreements	(563.80)	(224.40)	(788.20)
Deposits with central bank	65.20	(44.70)	20.50
Changes in interest income	5,249.80	1,050.00	6,299.80
Liabilities			
Due to customers	1,650.00	1,207.10	2,857.10
Placements and deposits from banks and other financial institutions	(882.80)	57.20	(825.60)
Financial assets sold under repurchase agreements	(242.50)	(40.50)	(283.00)
Debt securities issued	13.20	(861.50)	(848.30)
Borrowing from central bank	87.30	20.30	107.60
Changes in interest expense	625.20	382.60	1,007.80

MANAGEMENT DISCUSSION AND ANALYSIS

1. Interest income

In 2019, interest income of the Group amounted to RMB35,745 million, representing an increase of RMB6,300 million or 21.39% as compared to the corresponding period of last year.

(1) INTEREST INCOME FROM LOANS AND ADVANCES TO CUSTOMERS

The average balance, interest income and average yield for each component of loans and advances to customers of the Group are set forth as follows:

Item (Expressed in RMB million, unless otherwise stated)	For the twelve months ended 31 December 2019			For the twelve months ended 31 December 2018		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	299,300.34	18,476.56	6.17	226,157.13	13,910.14	6.15
Personal loans	113,020.83	6,543.49	5.79	101,305.95	5,338.42	5.27
Discounted bills	22,387.37	833.78	3.72	6,975.49	356.52	5.11
Total loans to customers	434,708.54	25,853.83	5.95	334,438.57	19,605.08	5.86

Interest income from loans and advances to customers amounted to RMB25,854 million, representing a year-on-year increase of RMB6,249 million, or 31.87%, and the average yield increased by 9 basis points to 5.95% as compared with last year, mainly due to a rise in the price and amount of the loan business that drove up the yield on a year-on-year basis.

(2) INTEREST INCOME FROM AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The average balance, interest income and average yield for each component of amounts due from banks and other financial institutions of the Group are set forth as follows:

Item (Expressed in RMB million, unless otherwise stated)	For the twelve months ended 31 December 2019			For the twelve months ended 31 December 2018		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Placements and deposits with banks and other financial institutions	34,177.07	1,471.88	4.31	26,953.25	963.28	3.57
Financial assets held under resale agreements	31,324.19	818.33	2.61	48,260.40	1,606.55	3.33
Total amounts due from banks and other financial institutions	65,501.26	2,290.21	3.50	75,213.65	2,569.83	3.42

In 2019, the yield of amounts due from banks and other financial institutions of the Group increased year-on-year by 8 basis points to 3.50%, which was primarily due to our proactive adjustment to the structure and scale of interest-earning assets, resulting in a slight increase in the yield of amounts due from banks and other financial institutions.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Interest expense

In 2019, the Group's interest expense increased by RMB1,008 million, or 6.23%, to RMB17,182 million as compared to the corresponding period of last year.

(1) INTEREST EXPENSE ON AMOUNTS DUE TO CUSTOMERS

The average balance, interest expense and average cost rate for each component of amounts due to customers of the Group are set forth as follows:

Item (Expressed in RMB million, unless otherwise stated)	For the twelve months ended 31 December 2019			For the twelve months ended 31 December 2018		
	Average balance	Interest expense	Average cost rate (%)	Average balance	Interest expense	Average cost rate (%)
Corporate deposits						
Demand	111,592.64	517.81	0.46	98,992.20	452.89	0.46
Time	164,682.88	5,612.57	3.41	120,703.84	3,642.27	3.02
Subtotal	276,275.52	6,130.38	2.22	219,696.04	4,095.16	1.86
Personal deposits						
Demand	101,039.59	310.00	0.31	93,183.77	292.18	0.31
Time	173,031.82	4,600.11	2.66	127,603.34	2,974.80	2.33
Subtotal	274,071.41	4,910.11	1.79	220,787.11	3,266.98	1.48
Other deposits	36,416.20	976.25	2.68	56,713.59	1,797.48	3.17
Total amounts due to customers	586,763.13	12,016.74	2.05	497,196.74	9,159.62	1.84

In 2019, the Group's interest expense on amounts due to customers amounted to RMB12,017 million, representing a year-on-year increase of RMB2,857 million, or 31.19%, and the cost rate of deposits was 2.05%, representing an increase of 21 basis points year-on-year. It was because, on one hand, the proportion of time deposits with higher cost rate further increased; on the other hand, the cost rate of time deposits also increased.

(2) INTEREST EXPENSE ON AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

The average balance, interest expense and average cost rate for each component of the Group's amounts due to banks and other financial institutions are set forth as follows:

Item (Expressed in RMB million, unless otherwise stated)	For the twelve months ended 31 December 2019			For the twelve months ended 31 December 2018		
	Average balance	Interest expense	Average cost rate (%)	Average balance	Interest expense	Average cost rate (%)
Placements and deposits from banks and other financial institutions and others	42,265.57	1,792.77	4.24	63,764.34	2,618.31	4.11
Financial assets sold under repurchase agreements	7,698.22	166.28	2.16	16,725.29	449.33	2.69
Total amounts due to banks and other financial institutions	49,963.79	1,959.05	3.92	80,489.63	3,067.64	3.81

In 2019, the Group's interest expense on amounts due to banks and other financial institutions amounted to RMB1,959 million, representing a year-on-year decrease of RMB1,109 million, or 36.14%, which was primarily due to the Group's proactive adjustment to the structure of interest-bearing liabilities and, as a result, a decrease on the average daily sizes of deposits from banks and financial assets sold under repurchase agreements.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) *Non-interest Income*

1. *Net fee and commission income*

Item (Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2019	For the year ended 31 December 2018	Change in amount	Rate of change (%)
Fee income from advisory and consulting business	170.03	360.73	(190.70)	(52.87)
Fee income from settlement and electronic channel business	167.37	145.63	21.74	14.93
Fee income from agency and custodian business	405.70	284.11	121.59	42.80
Fee income from wealth management products	89.31	82.75	6.56	7.93
Fee income from bank card business	670.83	609.86	60.97	10.00
Guarantee and commitment fee income	140.05	71.25	68.80	96.56
Financial leasing fee income	87.44	82.71	4.73	5.72
Fee income from foreign exchange business	42.45	79.66	(37.21)	(46.71)
Others	219.65	96.52	123.13	127.57
Subtotal	1,992.83	1,813.22	179.61	9.91
Fee and commission expense:				
Fee expense on settlement and electronic channel business	(24.11)	(20.52)	(3.59)	17.50
Fee expense on bank card business	(70.65)	(57.38)	(13.27)	23.13
Others	(215.94)	(187.80)	(28.14)	14.98
Subtotal	(310.70)	(265.70)	(45.00)	16.94
Net fee and commission income	1,682.13	1,547.52	134.61	8.70

In 2019, the net fee and commission income of the Group amounted to RMB1,682 million, representing a year-on-year increase of RMB135 million, or 8.70%, and accounting for 7.11% of our total operating income.

2. *Net trading gains*

In 2019, the net trading gains of the Group amounted to RMB2,735 million, which were mainly interest income from financial assets at fair value through profit or loss.

3. *Net gains or losses on financial investments*

In 2019, the net gains on financial investments of the Group amounted to RMB53 million, which were mainly the bid-ask spread from financial assets at fair value through other comprehensive income.

4. *Other operating income, net*

In 2019, the net other operating income of the Group amounted to RMB624 million, which was mainly foreign exchange gains.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Operating Expenses

In 2019, the operating expenses of the Group increased by RMB691 million, or 11.55%, to RMB6,676 million as compared to the corresponding period of last year.

The following table sets forth the principal components of operating expenses of the Group for the periods indicated:

Item (Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2019	For the year ended 31 December 2018	Change in amount	Rate of change (%)
Staff costs	4,105.40	3,687.56	417.84	11.33
Tax and surcharges	229.73	187.48	42.25	22.54
Depreciation and amortization	903.92	563.69	340.23	60.36
Others	1,436.65	1,545.61	(108.96)	(7.05)
Total operating expenses	6,675.70	5,984.34	691.36	11.55

1. Staff costs

Staff costs represent the largest component of operating expenses of the Group, accounting for 61.50% and 61.62% of our operating expenses for the years ended 31 December 2019 and 2018, respectively.

The following table sets forth the principal components of staff costs of the Group for the periods indicated:

Item (Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2019	For the year ended 31 December 2018	Change in amount	Rate of change (%)
Salaries, bonuses, allowances and subsidies	3,021.50	2,660.68	360.82	13.56
Social insurance and employee benefits	912.62	845.96	66.66	7.88
Others	171.28	180.92	(9.64)	(5.33)
Total staff costs	4,105.40	3,687.56	417.84	11.33

In 2019, staff costs of the Group amounted to RMB4,105 million, representing a year-on-year increase of RMB418 million, or 11.33%, which was primarily attributable to an increase in salaries, bonuses and allowances.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Tax and surcharges*

In 2019, tax and surcharges incurred amounted to RMB230 million, representing a year-on-year increase of RMB42 million, or 22.54%.

3. *Depreciation and amortization*

In 2019, depreciation and amortization of the Group was RMB904 million, representing a year-on-year increase of RMB340 million, or 60.36%, mainly due to depreciation of right-of-use assets being included in depreciation and amortization.

4. *Others*

In 2019, other expenses amounted to RMB1,437 million, representing a year-on-year decrease of RMB109 million, or 7.05%.

(IV) *Impairment Losses on Assets*

The following table sets forth the principal components of impairment losses on assets of the Group for the periods indicated:

Item (Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2019	For the year ended 31 December 2018	Change in amount	Rate of change (%)
Credit impairment losses	7,078.30	5,829.92	1,248.38	21.41
Other assets	8.16	139.02	(130.86)	(94.13)
Total	7,086.46	5,968.94	1,117.52	18.72

In 2019, the provisions for impairment losses on assets made by the Group amounted to RMB7,086 million. Among which, provision for credit impairment losses amounted to RMB7,078 million.

(V) *Income Tax Expense*

In 2019, income tax expense amounted to RMB1,984 million, representing a year-on-year increase of RMB103 million, mainly due to an increase in total profit as compared to the corresponding period of last year. The effective income tax rate was 20.05%.

MANAGEMENT DISCUSSION AND ANALYSIS

II. ANALYSIS OF STATEMENT OF FINANCIAL POSITION

(I) Assets

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

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Total loans and advances to customers	479,968.13	53.68	377,988.91	49.52
Allowances for impairment losses	(16,916.76)	(1.89)	(13,020.94)	(1.71)
Loans and advances to customers, net	463,051.37	51.79	364,967.97	47.82
Financial investments ⁽¹⁾	237,674.38	26.58	227,853.14	29.86
Cash and deposits with the central bank	99,562.34	11.13	101,589.71	13.31
Deposits with banks and other financial institutions	30,700.32	3.43	10,866.56	1.42
Placements with banks and other financial institutions	20,604.23	2.30	15,299.11	2.00
Financial assets held under resale agreements	28,593.49	3.20	29,338.95	3.84
Others ⁽²⁾	13,968.16	1.57	13,374.16	1.75
Total assets	894,154.29	100.00	763,289.60	100.00

Notes:

- (1) Financial investments included financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortized cost.
- (2) Other assets consisted of property and equipment, goodwill, deferred income tax assets and others.

As at 31 December 2019, the Group's total assets amounted to RMB894,154 million, representing an increase of RMB130,865 million, or 17.14%, as compared to the end of last year. Among which, the total loans and advances to customers increased by RMB101,979 million, or 26.98%, as compared to the end of last year. This was primarily due to the fact that the real economy showed a stronger credit demand during the year, which led to a steady growth in the scale of loans.

Financial investments increased by RMB9,821 million, or 4.31%, as compared to the end of last year, primarily because of an increase in the investment in debt securities.

Gross amount of deposits with banks and other financial institutions and placements with banks and other financial institutions increased by RMB25,139 million as compared to the end of last year, primarily due to increased interbank borrowings and certain proceeds from preference shares being placed with overseas financial institutions.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Loans and advances to customers

DISTRIBUTION OF LOANS BY BUSINESS SEGMENT

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Corporate loans	326,135.41	67.95	266,039.08	70.38
Personal loans	124,718.88	25.98	108,354.08	28.67
Discounted bills	29,113.84	6.07	3,595.75	0.95
Total loans to customers	479,968.13	100.00	377,988.91	100.00

As at 31 December 2019, total loans and advances to customers of the Group increased by RMB101,979 million, or 26.98%, to RMB479,968 million as compared to the end of last year.

As compared to the end of last year, the Group's total corporate loans increased by RMB60,096 million, or 22.59%, to RMB326,135 million; total personal loans increased by RMB16,365 million, or 15.10%, to RMB124,719 million; and total discounted bills increased by RMB25,518 million, or 709.67%, to RMB29,114 million.

DISTRIBUTION OF LOANS BY PRODUCT TYPE

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Total corporate loans	326,135.41	67.95	266,039.08	70.38
Working capital loans	148,972.52	31.04	132,322.51	35.01
Fixed asset loans	161,442.87	33.64	121,125.14	32.04
Lease receivables	14,034.86	2.92	12,408.70	3.28
Others	1,685.16	0.35	182.73	0.05
Total personal loans	124,718.88	25.98	108,354.08	28.67
Personal mortgage loans	63,694.13	13.27	54,297.18	14.36
Personal business loans	40,502.80	8.44	31,890.38	8.44
Personal consumption loans	11,287.47	2.35	13,294.06	3.52
Balance of credit cards	9,234.48	1.92	8,872.46	2.35
Total discounted bills	29,113.84	6.07	3,595.75	0.95
Bank acceptance bills	27,478.90	5.73	599.71	0.16
Commercial acceptance bills	1,634.94	0.34	2,996.04	0.79
Total loans to customers	479,968.13	100.00	377,988.91	100.00

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2019, the Group's working capital loans, fixed asset loans and lease receivables amounted to RMB148,973 million, RMB161,443 million and RMB14,035 million, respectively, representing 45.68%, 49.50% and 4.30% of our total corporate loans, respectively. Among which, working capital loans and fixed asset loans increased by RMB16,650 million and RMB40,318 million, or 12.58% and 33.29%, as compared to the end of last year, respectively, mainly due to an increase in the demand for loans to customers during the year.

As at 31 December 2019, the Group's personal mortgage loans, personal business loans, personal consumption loans and balance of credit cards amounted to RMB63,694 million, RMB40,503 million, RMB11,287 million and RMB9,234 million, respectively, representing 51.07%, 32.48%, 9.05% and 7.40% of our total personal loans, respectively. Among which, personal mortgage loans, personal business loans and balance of credit cards increased by RMB9,397 million, RMB8,612 million and RMB362 million, or 17.31%, 27.01% and 4.08%, as compared to the end of last year, respectively, while personal consumption loans decreased by RMB2,007 million, or 15.09%, as compared to the end of last year.

As at 31 December 2019, the discounted bank acceptance bills and discounted commercial acceptance bills of the Group amounted to RMB27,479 million and RMB1,635 million, respectively. Among which, discounted bank acceptance bills increased by RMB26,879 million, as compared to the end of last year, primarily because the Group increased the investment in discounted assets based on the conditions of the notes market and the intra-group funding arrangement.

DISTRIBUTION OF LOANS BY TYPE OF COLLATERAL

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Collateralized loans	276,622.25	57.64	226,734.97	59.98
Pledged loans	37,773.66	7.87	32,867.87	8.70
Guaranteed loans	109,401.88	22.79	89,552.57	23.69
Credit loans	56,170.34	11.70	28,833.50	7.63
Total loans to customers	479,968.13	100.00	377,988.91	100.00

As at 31 December 2019, the collateralized loans, pledged loans, guaranteed loans and credit loans of the Group increased by RMB49,887 million, RMB4,906 million, RMB19,849 million and RMB27,337 million, or 22.0%, 14.93%, 22.16% and 94.81%, as compared to the end of last year, respectively. The proportion of collateralized and pledged loans to total loans remained high at 65.51%, reflecting the prudent risk management policy of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Investments

The following table sets forth the composition of investments of the Group as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Financial assets at fair value through profit or loss	85,432.18	35.95	89,797.16	39.41
Financial assets at fair value through other comprehensive income	69,706.11	29.33	57,697.75	25.32
Financial assets measured at amortized cost	82,536.09	34.72	80,358.23	35.27
Total investments	237,674.38	100.00	227,853.14	100.00

As at 31 December 2019, total investments of the Group increased by RMB9,821 million, or 4.31%, to RMB237,674 million as compared to the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Liabilities

The following table sets forth the composition of total liabilities of the Group as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Amounts due to customers	658,243.09	80.23	542,335.16	76.63
Deposits from banks and other financial institutions	41,039.19	5.00	63,215.97	8.93
Placements from banks and other financial institutions	984.92	0.12	1,553.58	0.22
Financial assets sold under repurchase agreements	9,730.36	1.19	11,817.78	1.67
Debt securities issued	79,240.06	9.66	65,875.44	9.31
Others ⁽¹⁾	31,207.36	3.80	22,910.61	3.24
Total liabilities	820,444.98	100.00	707,708.53	100.00

Note:

- (1) Mainly included tax payable, borrowings from central bank and salaries, bonuses, allowances and subsidies payable.

As at 31 December 2019, total liabilities of the Group increased by RMB112,736 million, or 15.93%, to RMB820,445 million as compared to the end of last year. The amount due to customers stably increased by RMB115,908 million, or 21.37%, as compared to the end of last year, in which its proportion to the liabilities of the Group increased by 3.60 percentage points.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Due to customers

The following table sets forth the amount due to customers of the Group by product type as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Corporate deposits⁽¹⁾				
Time	177,449.45	26.96	127,713.26	23.55
Demand	131,828.17	20.03	124,035.10	22.87
Subtotal	309,277.62	46.99	251,748.36	46.42
Personal deposits				
Time	209,169.74	31.78	140,860.91	25.97
Demand	107,750.92	16.37	99,200.46	18.29
Subtotal	316,920.66	48.15	240,061.37	44.26
Pledged deposits	12,654.10	1.92	13,216.85	2.44
Other deposits ⁽²⁾	19,390.71	2.94	37,308.58	6.88
Due to customers	658,243.09	100.00	542,335.16	100.00

Notes:

- (1) Mainly included deposits from corporate customers and government bodies.
- (2) Mainly included structured deposits, treasury time deposits and fiscal deposits raised from the launch of principal-preservation wealth management products by the Group.

As at 31 December 2019, the amount due to customers increased by RMB115,908 million, or 21.37%, to RMB658,243 million as compared to the end of last year. With respect to the customer structure of the Group, personal deposits accounted for 48.15% of our total amount due to customers, and the balance of personal deposits increased by RMB76,859 million, or 32.02%, as compared to the end of last year; corporate deposits (excluding pledged deposits) accounted for 46.99% of our total amount due to customers, and the balance of corporate deposits increased by RMB57,529 million, or 22.85%, as compared to the end of last year. With respect to the maturity structure, the balance of demand deposits accounted for 36.40% of our total amount due to customers, representing a decrease of 4.76 percentage points over the end of last year, while time deposits accounted for 58.74%, representing an increase of 9.22 percentage points over the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Composition of Shareholders' Equity

The following table sets forth the composition of shareholders' equity of the Group as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Share capital	9,808.27	13.31	9,808.27	17.65
Preference shares	9,820.73	13.32	0.00	0.00
Capital reserve	10,920.40	14.82	10,861.00	19.54
Surplus reserve	5,055.78	6.86	4,398.57	7.91
General risk reserve	11,236.83	15.24	9,448.55	17.00
Investment revaluation reserve	1,134.29	1.54	1,082.03	1.95
Remeasurement gains on defined benefit plans	(20.61)	(0.03)	(14.88)	(0.03)
Retained earnings	20,391.00	27.66	17,277.79	31.09
Non-controlling interests	5,362.62	7.28	2,719.74	4.89
Total shareholders' equity	73,709.31	100.00	55,581.07	100.00

As at 31 December 2019, the Group recorded a paid-in capital of RMB9,808 million, capital reserve of RMB10,920 million and retained earnings of RMB20,391 million. Please refer to the notes to financial statements for further details.

MANAGEMENT DISCUSSION AND ANALYSIS

III. LOAN QUALITY ANALYSIS

(I) Five-Category Classification of Loans

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

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Normal	456,703.96	95.16	363,429.72	96.15
Special mention	14,944.12	3.11	9,754.11	2.58
Substandard	523.19	0.11	1,906.80	0.50
Doubtful	7,159.26	1.49	2,343.21	0.62
Loss	637.60	0.13	555.07	0.15
Total loans to customers	479,968.13	100.00	377,988.91	100.00
Non-performing loan ratio⁽¹⁾	–	1.73	–	1.27

Note:

(1) Calculated by dividing the total amount of non-performing loans by total loans.

In 2019, faced with increasingly complicated and difficult economic and financial circumstances at home and abroad, the Group strengthened asset quality control, increased the efforts made in relation to risk investigation on credit assets, and addressed and resolved risks in advance. Through carrying out the "absolute collection" activity on non-performing loans, the Group proactively reduced the scale of non-performing loans. As at 31 December 2019, the non-performing loan ratio was 1.73%, which increased by 0.46 percentage point from the end of last year. The Group will continue to make greater efforts to collect non-performing loans, carry out specific collection of such loans and go to all lengths to mitigate non-performing loans. Meanwhile, the Group will increase the efforts made in relation to risk investigation on credit assets to strictly prevent new non-performing loans.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) *Distribution of Non-performing Corporate Loans by Industry*

The following table sets forth the distribution of the Group's non-performing corporate loans by industry as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019			As at 31 December 2018		
	Amount	Percentage of total (%)	Non-performing loan ratio (%)	Amount	Percentage of total (%)	Non-performing loan ratio (%)
Wholesale and retail	443.48	7.36	0.83	391.61	13.02	0.87
Real estate	174.98	2.90	0.26	196.87	6.55	0.35
Leasing and commercial services	1,987.63	33.01	3.18	963.23	32.04	1.97
Manufacturing	1,300.74	21.59	3.63	249.44	8.30	0.84
Construction	111.53	1.85	0.41	74.28	2.47	0.42
Water conservation, environment and public utilities management	11.52	0.19	0.16	6.99	0.23	0.14
Accommodation and catering	64.19	1.07	0.39	143.76	4.78	1.38
Transportation, storage and postal services	809.67	13.44	6.97	101.53	3.38	0.77
Agriculture, forestry, animal husbandry and fishery	1,015.11	16.85	10.89	102.15	3.40	1.17
Information transmission, software and information technology services	14.44	0.24	0.33	13.97	0.46	0.28
Education	–	–	–	1.42	0.05	0.03
Health and social services	–	–	–	–	–	–
Household, repair and other services	11.96	0.20	0.18	7.53	0.25	0.17
Production and supply of electricity, heat, gas and water	4.77	0.08	0.17	–	–	–
Others	73.44	1.22	0.81	753.90	25.07	6.76
Total non-performing corporate loans	6,023.46	100.00	1.85	3,006.68	100.00	1.13

Note:

- (1) Calculated by dividing non-performing loans (loans classified into substandard, doubtful or loss categories) of each industry by gross loans granted to such industry.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Distribution of Non-performing Loans by Product Type

The following table sets forth the distribution of the Group's non-performing loans by product type as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019			As at 31 December 2018		
	Amount	Percentage of total (%)	Non-performing loan ratio (%)	Amount	Percentage of total (%)	Non-performing loan ratio (%)
Corporate loans	6,023.46	100.00	1.85	3,006.68	100.00	1.13
Personal loans	1,547.91	100.00	1.24	1,434.85	100.00	1.32
Personal mortgage loans	243.48	15.73	0.38	132.58	9.24	0.24
Personal business loans	846.20	54.66	2.09	921.91	64.25	2.89
Personal consumption loans	197.31	12.75	1.75	127.50	8.89	0.96
Balance of credit cards	260.92	16.86	2.83	252.86	17.62	2.85
Discounted bills	748.67	100.00	2.57	363.55	100.00	10.11
Total non-performing loans	8,320.04	100.00	1.73	4,805.08	100.00	1.27

Note:

- (1) Calculated by dividing non-performing loans (loans classified into substandard, doubtful or loss categories) in each product type by gross loans in that product type.

As at 31 December 2019, non-performing ratio of corporate loans increased by 0.72 percentage point to 1.85% as compared to the end of last year, whereas the non-performing ratio of personal loans decreased by 0.08 percentage point to 1.24% as compared to the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(IV) *Overdue Loans to Customers*

The following table sets forth the aging timetable of the Group's loans by loan certificate as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Loans that were not past due	465,744.76	97.04	369,537.80	97.76
Loans that were past due	14,223.37	2.96	8,451.11	2.24
Within 3 months	8,211.00	1.71	3,987.43	1.05
3 months to 1 year	3,329.86	0.69	2,464.21	0.65
1 year to 3 years	2,233.60	0.47	934.77	0.25
Over 3 years	448.91	0.09	1,064.70	0.28
Total loans	479,968.13	100.00	377,988.91	100.00
Loans that were past due for more than 3 months	6,012.37	1.25	4,463.68	1.18

As at 31 December 2019, overdue loans amounted to RMB14.223 billion, representing an increase of RMB5.772 billion from the end of last year and accounting for 2.96% of the total loans, representing an increase of 0.72 percentage point from the end of last year.

(V) *Rescheduled Loans and Advances*

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Rescheduled loans and advances	10,808.49	2.25	4,608.81	1.22

MANAGEMENT DISCUSSION AND ANALYSIS

IV. ANALYSIS OF CAPITAL ADEQUACY RATIO

The Group adopted the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) to calculate its capital adequacy ratio, under which credit risks are measured by the weighted method, market risks are measured by standard method and operational risks are measured by basic indicator approach, and the scope of this calculation covers all branches of the Bank as well as subsidiaries which are financial institutions which comply with the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》). The following table sets forth the relevant information of the Group's capital adequacy ratio as at the dates indicated.

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019	As at 31 December 2018
Core Tier 1 capital adequacy ratio	9.96%	10.50%
Tier 1 capital adequacy ratio	11.65%	10.53%
Capital adequacy ratio	14.23%	14.28%
Portion of paid-in capital that may be included	9,808.27	9,808.27
Portion of capital reserve that may be included	10,920.40	10,860.99
Surplus reserve	5,055.78	4,398.57
General risk reserve	11,236.83	9,448.54
Retained earnings	20,391.00	17,277.80
Portion of minority interests that may be included	1,955.72	1,121.43
Others	1,113.68	1,067.15
Total core Tier 1 capital	60,481.68	53,982.75
Regulatory deductions for core Tier 1 capital		
Goodwill and other intangible assets (excluding land use rights)	(900.96)	(442.15)
Core Tier 1 capital, net	59,580.72	53,540.60
Other Tier 1 capital		
Other Tier 1 capital instruments and their premium	9,820.73	
Portion of minority interests that may be included	259.47	140.34
Net Tier 1 capital	69,660.92	53,680.94
Tier 2 capital		
Tier 2 capital instruments and related premium that may be included	9,998.74	14,096.66
Excessive loan loss allowances	4,924.20	4,741.12
Portion of minority interests that may be included	509.17	288.22
Net capital	85,093.03	72,806.95
Total risk-weighted assets	597,980.14	509,836.94

As at 31 December 2019, the capital adequacy ratio of the Group was 14.23%, representing a slight decrease of 0.05 percentage point over the end of last year, mainly due to the increase of risk-weighted assets compared with the end of last year exceeding that of net capital compared with the beginning of the year. Net capital amounted to RMB85,093 million, representing an increase of RMB12,286 million or 16.87% over the end of last year, mainly due to the replenishment of capital by retained profit and proceeds from preference shares. Risk-weighted assets amounted to RMB597,980 million, representing an increase of RMB88,143 million or 17.29%, mainly because the on and off-balance sheet business credit risk-weighted assets significantly increased compared with the end of last year, and operational risk-weighted assets also increased compared with the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

V. ANALYSIS OF LEVERAGE RATIO

As at 31 December 2019, the Group measured and disclosed the leverage ratio in accordance with the Administrative Measures for the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》) as follows:

Item (Expressed in RMB million, unless otherwise stated)	As at 31 December 2019
Net Tier 1 capital	69,660.92
The balance of assets on and off balance sheet after adjustments	955,114.90
Leverage ratio (%)	7.29%

VI. SEGMENT INFORMATION

The Group conducts its business principally in Guangdong Province, the PRC. Its major customers and non-current assets are located in Guangdong Province, the PRC.

Summary of business distribution

Operating income

Item (Expressed in RMB million, unless otherwise stated)	For the year ended 31 December			
	2019		2018	
	Amount	Percentage of total	Amount	Percentage of total
Corporate banking business	13,905.05	58.78	9,202.35	44.53
Retail banking business	6,945.90	29.36	5,678.14	27.47
Treasury business	2,447.01	10.34	5,392.38	26.09
Others	359.32	1.52	393.80	1.91
Total operating income	23,657.28	100.00	20,666.67	100.00

VII. ANALYSIS OF OFF-BALANCE-SHEET ITEMS

The Group's off-balance-sheet items mainly include loan commitments, acceptance bills, undrawn credit card limits, issuance of letters of guarantee and issuance of letters of credit in the course of ordinary business of the Group. As at 31 December 2019, the balances of loan commitments, acceptance bills, undrawn credit card limits, issuance of letters of guarantee and issuance of letters of credit were RMB98,951 million, RMB28,469 million, RMB14,563 million, RMB31,791 million and RMB1,313 million, respectively.

VIII. CONTINGENT LIABILITIES AND ASSETS PLEDGED AS SECURITY

For details of the Group's contingent liabilities or assets pledged as security as at 31 December 2019, please refer to notes 43 and 45 to the consolidated financial statements.

BUSINESS OPERATION

I. Corporate Banking Business

(I) Corporate Deposit Business

In 2019, the Bank continuously adhered to its objectives of keeping a foothold in “Sannong” and serving “Sannong”, took full advantage of corporate bank institutions in Guangzhou, continuously built a flexible and fruitful financial service system of rural revitalization, intensively cultivated the financial field of rural revitalization through sensitive market sense and reaction and greatly expanded the deposit of village communities. Meanwhile, in order to consolidate the deposit development of corporate customers, the Bank actively promoted the expansion of new customer base and the enhancement of existing customers, identified the leading enterprises or upstream and downstream parts of the industrial chain and ecosystem of the significant customers, as well as enhanced the comprehensive financial service level and financial management value-added service level by the capability of trading banks and investment banks. In addition, the Bank greatly expanded the corporate deposits and was awarded with the “Provincial Treasury Centralized Payment Agent Qualification 2019-2021” (2019-2021 年省級國庫集中支付代理資格), successfully put into operation the pre-sale of capital monitoring system in Zhuhai and Nansha and new reserve fund system in Guangzhou. With an effort to build a comprehensive product and service system combining cross-border business, supply chain finance, cash management, cloud bank, bank-and-government and bank-and-enterprise business, the Bank kept underpinning the customer base and assisted with the steady growth of corporate deposit business.

(II) Corporate Loan Business

In respect of the corporate loan business, given the Bank’s active response to the national strategic guidance, it firmly supported the real economy and the economic development of private enterprises, as well as the development of the Guangdong-Hong Kong-Macau Greater Bay Area, and the optimization of regional industry structure. Following the business principle of “providing Sannong services, serving medium, small and micro-sized businesses, as well as the local economic development”, the Bank strived to continuously improve the effectiveness of serving the real economy through product innovation and business model innovation. In 2019, the innovative product “Lian Lian Dai” (連連貸) was greatly promoted to further contribute capital into enterprises and effectively lower their financing cost. The development system of supply chain finance was improved and the innovative product “Win-win Loans” (共贏貸) was launched to achieve the breakthrough in supply chain financing innovation and effectively address the problem of difficulty in financing for small and medium enterprises. Our business model was continuously innovated, and the bulk processing of business models of “business circles, supply chains and platforms” was pushed forward which expanded the financing channels of small and medium enterprises. The activity of “visiting millions of enterprises and assisting in real economy” was continuously pushed forward. The policy measures and service system were optimized, the financial support towards private enterprises and small and medium enterprises was strengthened, thirty-six measures for supporting the economic development of private enterprises were issued and a fund of RMB30 billion for easing the difficulties of private enterprises was established. The Bank carried out those measures to support the development of private enterprises and real economy, and was awarded “Top 10 Outstanding Private Enterprises in Financial Service Innovation”.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Trading Bank Business

The Bank insisted on serving entities and people's livelihood and continued to optimize the product system of the trading bank business by relying on product innovation as its internally driven force, thereby further improving the brand influence of the Bank's trading bank business. In 2019, a number of innovative products were launched successively such as the first product of "Hui Trade" (慧交易) among banks, in an effort to provide more comprehensive, closed and safer supply chain and payment settlement services for Internet customers of the industry chain. The Bank also responded to the "three old" redevelopment policy by promoting the "fund supervision platform for urban renewal and redevelopment", such product was named as the "Top Ten Technological Innovative Products of Rural Finance in China" by the 9th Value List of Rural Finance Brands of China. With a view to actively responding to the rural revitalization strategy, the Bank launched the product of "Bidding Easy" (招標易) which provided "tailor-made" rural collective asset transactions. In support of the development of the Guangdong-Hong Kong-Macau Greater Bay Area, the Bank launched its overseas loan business of "International Tax Transfer" (國際匯稅通) and "Global Loan" (環球貸), in order to facilitate cross-border investment and financing as well as services for enterprises in the Greater Bay Area, thereby improving its comprehensive service capability there. The Bank completed the development of trading bank business systems, such as "new corporate Internet banking" and "comprehensive financial service platform for corporate customers", it also created a new international settlement system and Sun e-financing chain, to enhance its comprehensive service capability, making financial services easily accessible and developing the layout for the market in the future.

While the Bank achieved sustained growth in its results by empowering its businesses with the help of financial technology integrating domestic and overseas resources online and offline, it also accelerated the development of the functions of the business supporting system and strengthened internal control management, etc. The Bank ensured the compliant operation of the trading bank business and won the Comprehensive and Outstanding Member Award for the Self-Regulatory Mechanism of Guangdong Provincial Banks' Foreign Exchange and Cross-border RMB Business Development (廣東省銀行外匯和跨境人民幣業務展業自律機制綜合優秀成員獎) and the Outstanding Member Award in Guangzhou's Interbank Foreign Exchange Market under the China Foreign Exchange Trading System (中國外匯交易中心廣州轄區銀行間外匯市場優秀會員獎).

II. Personal Banking Business

(I) Personal Deposit Business

In 2019, the Bank's savings deposits continued to show a relatively rapid growth, ranking the first in terms of increase among banks in Guangzhou and the second (up one place) in terms of market share compared to last year. Centering on the concept of "deposit-based banking" and with the implementation of the personal deposit business, the Bank greatly promoted the deposit business to reach a new high through various measures, such as optimizing and innovating of products, caring and protecting the customer groups, linking the business sectors, as well as differentiating the pricing in a flexible way, etc.. A number of series of innovative products with sound sales were launched such as large-denomination certificates of deposit, "Happiness Deposits" (幸福存款), "Dream Deposits" (夢想存款), "Zhi Huijin" (智匯金) and "Yummy Deposit" (美味儲蓄). The Bank continuously enriched the forms for rewarding customer service, and various customer activities such as "Sun New Stars Training Camp" (太陽新星訓練營), "Golden Pigs for Blessing (金豬送福)", "Value-added Benefits Flash Sales" (增值權益秒殺) were favorable to our customers.

(II) Personal Loan Business

To enhance customer experience, the Bank, while ensuring compliance and risk being manageable, strived to source for high quality customers, enhance user experience for them, and successfully interconnect tax data and expand the service scope of online consumer loans from Guangzhou to Guangdong Province (excluding Shenzhen) which provide customers with efficient and convenient financial services, and satisfy the gradual increase of consumer demand arising from the enlarging customer base.

(III) Bank Card Business

In 2019, the Bank continuously enriched its debit card products and incentivized the issuance of debit card products. More featured card products such as "Sun • Military Personnel Preferential Card (太陽•擁軍優撫卡)", "Sun • Leading Yue Card (太陽•領粵卡)" and "Sun • Tenth Anniversary Card (太陽•十周年紀念卡)" were issued during the year. Meanwhile, through a series of marketing activities, such as "Sun Card, inviting you to travel around the world (太陽卡·邀您環遊世界)", the Bank endeavored to promote the "Sun" debit cards and enhance card-using experience for its customers, which was welcomed by the market. As of the end of 2019, the Bank issued an accumulation of 1,148.6 thousand new personal debit cards, and had 7,320.7 thousand existing personal debit cards. The cumulative deposit balance of existing personal debit cards amounted to RMB117,478 million, representing a year-on-year increase of RMB22,475 million. In 2019, the cumulative spending related to the debit cards of the Bank amounted to RMB84,403 million, and the various fee income arising from personal debit cards reached RMB63 million.

MANAGEMENT DISCUSSION AND ANALYSIS

The corporate settlement card refers to the payment and settlement tool issued by the Bank as the issuing bank to the Bank's corporate customers and is associated with the corporate banking settlement account. The corporate settlement card provides customers with financial services such as account inquiry, transfer and remittance, cash deposit and withdrawal, POS consumption and public goods contract, etc.. As of 31 December 2019, the number of the Bank's corporate settlement card validated users was over 13 thousand, and 483.3 thousand financial transactions occurred with the settled transaction amount of RMB1.815 billion.

With respect to the credit card business, the Bank enhanced product innovation, and developed and launched the "Sun • Colourful Card" (太陽•繽紛卡) for Sannong customer groups, coupled with the urban renewal projects of Guangzhou, and developed and launched the "Sun • Car Owner Card" (太陽•車主卡) for the car owner groups. Moreover, the Bank developed and launched "Sun • Unitoll Cards" (太陽•粵通卡), keeping abreast of the heated policies. Meanwhile, with stronger promotion and support for mobile payment, such as UnionPay cloud flash payment and all kinds of e-pay, the Bank proactively promoted the brand building of credit cards, which enhanced customers' loyalty. Closely keeping up with the pace of consumption upgrades, the Bank maintained sound operation based on the customer groups and interest rates of different products for existing customers, improved the professionalism, scientificity and systematicness of data application, with an aim to provide quality financial services for customers. As of the end of December 2019, the total number of credit cards in issue reached 1.5923 million. In 2019, the Bank's intermediate income from credit card business amounted to RMB561 million, representing a year-on-year increase of 8.68%. In 2019, the operating income generated from the credit card business of the Bank reached RMB843 million, representing a year-on-year increase of 17.55% with a stable and healthy growth rate.

III. Financial Market Business

The Bank's financial market business mainly covered fund operation business, investment business, bill rediscounting business, asset custody business and wealth management business. In 2019, given the stringent financial regulation environment and unabated deleveraging trend in the PRC market, the financial market business was confronted with limited investment scope. In order to promote the steady development of financial market business, the Bank adjusted its investment strategy in a timely manner and promoted the transformation of financial business on a multi-dimensional basis from business development model, profitability model, investment decision-making mechanism, risk control, etc. Firstly, the Bank put its focus back on financial market business, focusing on the development of intermediate business and low-risk business with the adoption of the strategy of small profit but quick turnover, and supplementing price with quantity. Secondly, in respect of wealth management business, the Bank focused on accelerating the transformation of products to net-value ones and actively promoting product innovation so as to vigorously improve investment research capability and active management capability. Thirdly, the construction of Zhujiang financial institutions cooperation platform was promoted continuously to accelerate the progress of system development and to facilitate interbank business transformation.

In 2019, the Bank received a number of prizes in the financial market, including the "Outstanding Trading Institution in Interbank Local Currency Market 2019 (2019年度銀行間本幣市場活躍交易商)" and "2019 Top 300 for Interbank Local Currency Trading (2019年度銀行間本幣市場交易300強)" awarded by the National Interbank Funding Centre, "2019 Top 100 Settlement Companies – Excellent Dealers (2019年度結算100強 – 優秀自營商)" awarded by the China Central Depository & Clearing Co., Ltd., and "Best Rural Commercial Bank in Financial Bonds of 2019 (2019年度金融債券最佳農商行獎)" and "Excellent Underwriter in Financial Bonds

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of 2019 (2019年度金融債券優秀承銷商獎)” awarded by the Agricultural Development Bank of China. With respect to the wealth management, the Bank won the “2018 Golden Bull Wealth Management Bank Award (2018年度金牛理財銀行獎)”, “2018 Outstanding National Banking Organization for Registration and Real-time Command of Financial Investors (2018全國銀行業理財投資者登記暨直連工作優秀組織獎)” and “2018 Outstanding National Banking Organization for Registration of Financial Investors (2018全國銀行業理財投資者登記工作傑出單位)”, and ranked first in terms of comprehensive wealth management capabilities among rural financial institutions under PY Standard for four consecutive seasons in 2019. The Sun Wealth Management products of the Bank won “2019 Junding Award for Chinese Open Net-value Wealth Management Products of Banks (2019中國開放式淨值型銀行理財產品君鼎獎)”, “2019 Junding Award for Wealth Management Products Exclusively for High-net-worth Customers in China (2019年中國高淨值客戶專屬理財產品君鼎獎)”, while two products, namely Sun Great Wealth (太陽嘉富) No. 3 and Enjoy Wealth (私享嘉富) No. 2 received a 5-star rating by jnlc.com (金牛理財).

(I) Fund Operation Business

The fund operation business of the Bank mainly comprised the interbank placements, bond repurchase business, open market business and issuance of interbank deposit certificates. The fund trading business of the Bank was relatively active, and its counterparty base basically covered member institutions in the interbank market including banks, securities companies, fund companies and insurance companies, which continuously enhanced the Bank's influence in the interbank market.

(II) Investment Business

The Bank invested in various types of debt securities, as well as debt instruments issued by financial institutions, including asset management plans, trust fund plans, wealth management products issued by other financial institutions, money market funds and non-standard assets permitted by regulatory authorities. The debt securities invested by the Bank mainly included treasury bonds, financial bonds, local government bonds, short-term financing bills, medium-term notes, corporate bonds and asset-backed securities. The Bank continuously strengthened its investment and development capability and improved its market research and judgement ability. For the purpose of higher profits, the investment approach was adjusted based on the changes in market conditions. The Bank also enhanced its sensitivity to macroeconomy and regulatory policies in order to capture opportunity of phased transactions for treasury business and cash bond business.

Based on the business models and contractual cashflow characteristics of the investments, the Bank classified its investment business into financial assets measured at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

(III) Bill Rediscounting Business

The Bank conducted commercial bill rediscounting business with financial institutions to obtain liquidity or earn interest margin income. The Bank engaged in bill buy-outs, bill sell-outs, bill repurchases and reverse-repurchases. With the implementation of its strategy of developing “comprehensive interbank banking” (“大同業”) business, the Bank cooperated with financial institutions, including commercial banks, fund companies and securities companies. In 2019, the trading volume of the Bank's bill rediscounting business amounted to RMB106.031 billion.

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(IV) Asset Custody Business

The Bank continued to promote the steady development of asset custody business by making greater efforts in expanding to various interbank custody customers. In 2019, the Bank's average daily scale of custody assets amounted to RMB408.469 billion, with a cumulative settlement amount of RMB2,736.2 billion and 84 thousand settlements made. The Bank continued to put in place the safekeeping of custody assets by providing efficient and quality services on settlement, accounting and investment supervision, etc., as such, the custody operation was safe and no risk events occurred.

(V) Comprehensive Interbank Banking Platform

The comprehensive interbank banking platform of the Bank is an important measure of the Bank for the achievement of transformation and upgrade of its interbank business by combining its own positioning as a regional bank, with domestic small and medium-sized financial institutions in China as the main customer group. By bringing traditional interbank business online, it carried out interbank deposit, interbank loan, fund consignment and other products and services, and expanded the non-interest income channels such as custody, settlement, and consignment.

As of the end of 2019, the interbank platform signed 71 customers in total, including 35 banking institutions and 36 non-banking institutions. In the first stage of platform construction, the functional requirements had been put into operation, basically realizing the functions of business inquiry, transaction matching, information interaction, etc..

(VI) Wealth Management Business

The Bank revised the wealth management business portfolio proactively to diminish the portion of interbank wealth management and boost the retail wealth management business. As of the end of 2019, the balance of wealth management products was RMB92.631 billion.

From the perspective of product operation mode, we constantly increased our marketing effort for open wealth management products and optimized the customer experience on products. As of the end of 2019, the balance of open wealth management products amounted to RMB35.517 billion, accounting for 38.34%. In terms of product innovation, the Bank continuously promoted the transformation to net-value products and newly launched open net-value wealth management products of cyclical net-value and long-term hybrid. As of the end of 2019, the balance of net-value wealth management products was RMB18.638 billion, accounting for 20.12%. As to business channels, in 2019, the Bank comprehensively commenced its entrusted agents-selling business of Renminbi wealth management products. As of the end of 2019, the Bank reached preliminary intentions of cooperation with nearly 40 financial institutions and established agents-selling cooperative relationship with 28 financial institutions. The Bank also created the brands of a series of agents-selling wealth management products named "Sun Mutual Benefit" (太陽同盈) and "Sun Suying" (太陽蘇盈). As of the end of 2019, 137 phases of wealth management products were entrusted for agents-selling and the balance of products amounted to RMB10.427 billion.

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The Bank's wealth management investment focused on money market instruments, debt securities and enhanced bond fund. As of the end of 2019, the investment in debt securities and money market instruments accounted for 69.25% of the total, the investment in enhanced bond fund accounted for 8.15% of the total, and other investments accounted for 22.60%.

IV. Inclusive and SME Businesses

(I) Team Building

The Bank optimized the professional inclusive and SME business management system, and established 12 inclusive and SME business centers in Guangzhou, under which 33 inclusive and SME marketing teams were set up; and 5 inclusive and SME marketing teams were set up in the branches in Guangdong Province. Meanwhile, with reference to the benchmark bank model of SME financial services in China, the Bank set up a SME specialized institution (Zhujiang sub-branch) to embed and localize the "Taizhou" model by adhering to the principle of "piloting first before spreading out", with a view to striving to solve the financing difficulties of small and micro enterprises, and promoting the implementation of business model with SME characteristics.

(II) Product Innovation

The Bank vigorously developed the "Sun Inclusive" (太陽普惠) brand series based on the categories of villagers and non-villagers and online and offline, with inclusive and small and micro-sized business financial products such as "Sun • SME Loans" (太陽•小微貸), "Sun • Housing Loans" (太陽•房易貸), "Sun • Business Loans for Villagers" (太陽•村民致富貸), "Sun • Micro E-loan" (太陽•微e貸) and "Sun • Villager E-loan" (太陽•村民e貸) being the focus of development.

(III) Financial Technology

The Bank performed precise profiling on customers of more fields through access to third-party data such as taxation, industry and commerce, online property valuation, etc., coupled with updated risk control model, direct and fully automatic approval of small credit loans by system was realized. On the other hand, the Bank proactively connected with the businesses of well-known third-party platform which were strong and technologically advanced, to cooperate in areas such as inclusive and SME business customers diversion.

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(IV) Construction of Foundation

Adhering to the principle of localized development, the Bank penetrated into the village communities, communities and specialized markets to actively expand localized business, thereby reinforcing the differentiation of local inclusive, small and micro-sized enterprises and consumption customer groups, enhancing service capability and efficiency, while strengthening ability on risk control and post-loan management level. Relying on the core enterprises of the supply chain, the Bank customized a comprehensive service plan regarding the business model based on the characteristics of the supply chain and the financing needs of each transaction process, in a bid to expand the financing needs of small and micro enterprises of the core enterprises in the upstream and downstream parts of the supply chain in batches.

V. Distribution Channels

(I) Physical Outlets

As of 31 December 2019, the Bank had 635 operating outlets, of which 619 were located in the Guangzhou region and 16 were non-local outlets in the Guangdong province. The number of outlets of the Bank in the Guangzhou region accounted for approximately 23% of the total number of outlets of banks in the Guangzhou region, ranking first. The Bank operated five non-local branches in Foshan, Qingyuan, Heyuan, Zhaoqing and Zhuhai, ten sub-branches (of which four sub-branches were newly established in 2019) and one sub-office.

(II) Self-service Banking

As of 31 December 2019, the Bank established 121 24-hour self-service banking facilities. The number of ATMs, self-service inquiry terminals and smart service terminals of the Bank amounted to 2,799, among which 1,904 were ATMs, 742 were self-service inquiry terminals and 153 were smart service terminals.

(III) Smart Banking

As of 31 December 2019, the Bank had a total of 108 smart banking outlets and smart facilities installed including VTM and STM. Financial transactions worth RMB6,552 million have been settled in 2019.

(IV) Internet Finance

The Bank has always adhered to the concept of “opening up innovation and cooperation for a win-win situation”. With this in mind, it constantly explored new modes of internet finance development, and strived to build an “Internet + Inclusive” integrated financial platform. Through the core platforms and functions such as mobile banking, online banking, direct banking, WeChat banking and online mall, the Bank provided online and offline integrated financial services to more customers.

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1. *Mobile banking*

As the Bank's important electronic channel, mobile banking continued to develop its business based on intelligence, scenarios and convenience by adopting fingerprint log-in, fingerprint pay and facial authentication and other new technologies. In this respect, we continuously upgraded its functions and optimized the workflow. Its business covered not only the traditional financial services, but also convenient value-added services such as living consumption, transportation, etc.. As of 31 December 2019, the number of the Bank's mobile banking individual customers was approximately 4.31 million, while the number of corporate customers was approximately 16.4 thousand. In 2019, the Bank's mobile banking made 13.6534 million accounting transactions with the monetary amount of RMB348.299 billion, of which there were 445.5 thousand corporate customers' financial transactions with the monetary amount of RMB17.375 billion.

2. *Internet banking*

The Bank continued to enrich its internet banking product system to improve customer experience, and launched mobile phone number-based payment, corporate internet banking customer APP and other functions based on customer payment needs, thereby providing customers with more stable, safer, more efficient and convenient electronic financial services. As of 31 December 2019, the number of the Bank's internet banking individual customers was approximately 2.24 million, while the number of corporate customers reached 24.2 thousand. In 2019, individual customers made 7.005 million accounting transactions with the monetary amount of RMB276.083 billion, while corporate customers made 1.58 million financial transactions with the monetary amount of RMB919.978 billion.

3. *Direct banking*

With the aim of establishing an open, shared, and inclusive financial ecosystem, the Bank's direct banking focused on high-frequency and convenient scenarios to provide online services on financial ecosystem for customers by relying on electronic accounts and independent gateway applications. Customers could open online accounts, handle deposit and loan business, purchase wealth management products, and enjoy value-added services such as paying for living expenses, transportation and entertainment without leaving home. Meanwhile, the Bank actively explored further integration of financial services and convenient scenarios, and successfully built the Internet scenario-based finance such as "smart campus", "smart and wealthy business circle (智富商圈)", etc. integrating daily payment, back-office management and other functions, bringing convenient one-stop financial service experience for users. As of 31 December 2019, the number of the Bank's direct banking customers was approximately 1.07 million and the transaction amount was approximately RMB46.425 billion.

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4. *WeChat banking*

WeChat banking is an open service portal established based on the official WeChat account of the Bank, which integrates publicity, customer service and financial tools. It provides customers with quality services such as wealth management and purchase, financial information, credit card, living service, latest offer, account enquiry, and appointment for corporate account opening. Moreover, 7×24 intelligent online customer service is offered to accept enquiries and complaints, through which the products of the Bank are promoted in a casual manner, and thus enhancing both brand awareness and customer stickiness. As of 31 December 2019, the Bank's customers of WeChat banking reached 706 thousand.

5. *Online mall (Sun Market (太陽集市))*

In light of its active response to the rural revitalization strategy of the provincial Party Committee and the provincial government, the Sun Market online mall platform strived to integrate the advantageous agricultural service resources to achieve the disintermediation of the agricultural industry chain, thereby establishing a new golden age for the transformation and upgrade of modern agricultural enterprises and farmers. A new mode of poverty alleviation through "Internet + Agriculture Industry Leader + Base + Farmer" was explored proactively, by which Sun Market could fully exert its new leading function of helping to alleviate poverty. In addition to the pioneer exploration of lightweight multi-level offline activity scenarios, the Bank created diversified service channels via outlets. The Bank made a breakthrough regarding the single B2C business model and successfully launched the B2B business module, providing enterprises with an online integrated trading platform for production, supply and sale. In 2019, sales generated from the whole Sun Market platform amounted to RMB68.611 million, an increase of 137% year-on-year; the cumulative number of trading orders was 508 thousand, an increase of 161% year-on-year; the number of goods sold was 801 thousand units, an increase of 218% year-on-year; and the number of active customers reached 163 thousand, an increase of 104% year-on-year.

(V) **Cash Management**

Through cash management services, the Bank provided customers with real-time capital flow, which allowed customers to obtain financial information easily, improved the efficiency of customer capital use and reduced customer capital cost, thereby creating financial value effectively. In 2019, the accumulated transaction amount of the Bank's cash management corporate users reached RMB85.216 billion.

VI. Principal Subsidiaries

Zhujiang County Bank is a general name for the village and township banks established by the Bank as a major promoter. The establishment of village and township banks is of great significance for performing social responsibility by the Bank, increasing the breadth and depth of the service to new rural construction, expanding the space for business growth and establishing a sustainable model for the growth of profit of the Bank. During the Reporting Period, the Bank put more efforts in the assistance to the village and township banks and steadily improved the operations of the village and township banks. As of 31 December 2019, the Bank established 25 Zhujiang County Banks in 9 provinces and cities of China.

The Bank promoted and established Zhujiang Financial Leasing Co., Ltd., a wholly-owned subsidiary, which was incorporated and commenced operation in December 2014, with a registered capital of RMB1 billion. It is mainly engaged in financial leasing related business.

The Bank established three rural commercial banks by investment, of which, Hunan Zhuzhou Zhujiang Rural Commercial Bank Co., Ltd. was incorporated and commenced operation in December 2017, with a registered capital of RMB600 million. It is mainly engaged in monetary financial business. Chaozhou Rural Commercial Bank Co., Ltd. was incorporated and commenced operation in June 2019, with a registered capital of RMB2.63 billion. It is mainly engaged in monetary financial business. Guangdong Nanxiong Rural Commercial Bank Co., Ltd. completed its restructuring and was commenced operation in July 2019, with a registered capital of RMB430 million. It is mainly engaged in monetary financial business.

VII. Information Technology

In 2019, the Bank proactively propelled the establishment of information system and constantly intensified the supporting role of information technology in the development of banking business. The Bank continuously increased its investment in technological innovation and application with the annual investment in information technology amounting to RMB380 million and 198 information technology technicians were hired, accounting for 2.79% of the total number of employees of the Bank. In 2019, all important information systems of the Bank maintained a stable operation, no unplanned system outages occurred and the network operation was stable.

(1) Technology Governance

The Board of Directors and the senior management performed their responsibilities in respect of technology governance earnestly. The Board of Directors regularly received important work reports on information technology and reviewed the important technology construction plans. It established a top-down information technology management framework, established the innovation and technology construction committee, business continuity management committee and other decision-making authorities, thereby forming the “three lines of defense” for information technology risk management. In 2019, the Bank improved and enriched the content of technology planning and made greater efforts to promote the implementation thereof. The Bank also built a professional and agile research and development team and optimized the number and structure of the information technology team in order to effectively enhance its technology governance capability.

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(2) Information Security Guarantee

The Bank continued to strengthen its capability of information security guarantee by strictly protecting the data center and important information infrastructure, timely updating the host security patch and security baseline configuration. It also actively introduced new technologies to upgrade network security protection and continuously carried out the application security access review and penetration tests. With the data security control strategy being strictly implemented, desktop terminal security and anti-virus management were fully in force. By carrying out the systematic information security management, the Bank effectively enhanced the level of information security guarantee and achieved the goal of no major information security incidents occurred throughout the year.

(3) Business Continuity Management

The Bank continued to push forward the construction of core local high availability projects, successfully completed the dual storage migration of important systems and achieved dual data writing, hence, the risk of single storage failure affecting the application system access was effectively reduced and the local high availability protection capability was enhanced. The Bank carried out important business continuity drills and completed the disaster recovery backup switch drills and local availability drills of real business undertaking of important information systems. Since 2018, the coverage of important business continuity drills and important information system disaster recovery backup switch drills has reached 100%. The Bank also carried out fire drills in the head office, main and backup machine rooms and other places to prevent fire hazards in important places. Drills were carried out using backup locations in centralized operation sites and customer service centers, which effectively tested the capacity of important disaster recovery backup business sites when undertaking production in practice.

(4) Development of Information Technology

The Bank continued to increase the investment in technology resources, and promoted the construction of information system throughout the Bank by adhering to its “customer-centered” business philosophy. The Bank deepened the in-depth integration of technology and business with a view to enhancing product research and development in the real economy, inclusive small and micro-sized businesses, and Sannong business. Through the application of emerging technologies such as big data, artificial intelligence, cloud computing, etc., the Bank promoted financial product innovation and business model reform with a total of 33 information technology projects commencing operation during the year.

The Bank steadily promoted the implementation of big-data technology and strived to push forward its exploration and practice, so as to provide better big-data support for business development by optimizing the data service structure and establishing a unified data platform. Through continuously improving the data governance system of integrating “system, process and assessment”, continuous and steady improvement of the Bank’s data quality was promoted.

VIII. Human Resources

(1) *Basic Information of Employees*

As of 31 December 2019, the Group had 12,668 regular employees in total, representing an increase of 2,220 employees or 21% as compared to the end of last year. Of which 11,934 employees entered into labor contracts with the Group, an increase of 2,288 employees as compared to the end of last year; and 734 employees were dispatched workers, a decrease of 68 employees as compared to the end of last year.

(2) *Human Resources Management*

In 2019, centering on its bank-wide strategic deployment, the Human Resources Department continuously optimized the Bank's human resources structure. With the view of the current situation and demand for human resources, the Bank underpinned the basic management work, enhanced the information management level, built a reserve of talent team in the Bank, focused on improving the organizational effectiveness and human resources effectiveness, created a highly competitive, cohesive, professional and united staff's team in the modern commercial bank which formed a solid talent base for the rapid business development of the Bank through expanding channels to attract external talents and optimizing the internal selection mechanism to facilitate the rational flow and allocation of personnel.

(3) *Training*

The Bank stayed committed to the improvement of the professional level and occupational quality of staff. The Bank went on perfecting our internal corporate university "Zhujiang Business School". By adhering to the learning philosophy of the "unity of knowledge and action" and based on the working requirements of the Bank for 2019, the Bank continued to strengthen business drive, highlight its leading role in management and market-oriented function, link the front, middle and back office departments, innovate online and offline learning methods, integrate resources inside and outside the Bank, and promote staff education and training throughout the Bank in a planned way. In the year of 2019, more than 450 training programs were organized and launched, which covered a total of over 40 thousand attendees across all levels of employees. Meanwhile, by fully leveraging the mobile learning system platform, 160-hour key business courses were provided for all employees in the system and 54 hours of online learning per individual was recorded.

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PROTECTION OF THE INTERESTS OF FINANCIAL CONSUMERS

I. Improving the Development of System for Protecting the Interests of Financial Consumers

According to the regulatory requirements and business development needs, on the basis of the original 32 systems for protecting the interests of consumers, the Bank formulated 8 systems in 2019, which included the "Administrative Measures for On-site Complaints of Business Outlets of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行營業網點現場投訴管理辦法》), the "Operating Procedures for Prompt Insurance Claims in Cases of Stolen Direct-selling Banking Transaction Funds of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行直銷銀行交易資金被盜案件保險快速理賠操作規程》), the "Opinions on Consumer Protection Works for 2019" (《2019年度消保工作意見》), the "Measures for Prompt Claims in Cases of Online Credit Card Frauds of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行網絡盜刷案件快速理賠辦法》) and "Certain Opinions on Reducing the Complaint Rate of Credit Card Consumers" (《關於降低信用卡消費者投訴率的若干意見》), as such, the Bank's system for protecting the interests of consumers was further optimized.

II. Strengthening Product and Service Management

Firstly, the review work on protection of consumers' interests was strengthened. The Bank established prior review and management mechanisms for new products and services. Through effective implementation of regulatory requirements, the requirements of consumer protection works were fully implemented in products and services at the product design and development stage. The Bank issued 25 audit opinions in 2019.

Secondly, financial products and services were optimized. The Bank determined the risk level of each fund product after re-evaluating the risk of 428 fund products on sale, and published the result on its official website. The Bank improved the cognitive ability and self-protection ability of financial consumers by optimizing and reforming the fund sales system, as well as supplementing relevant investment information.

Thirdly, service certification on the first group of outlets was carried out. According to the requirements of the Guangzhou branch of the People's Bank of China, in order to examine the implementation of two national standards, namely the "Basic Service Requirements for Bank Outlets" (《銀行營業網點服務基本要求》) and "Service Evaluation Criteria for Bank Outlets" (《銀行營業網點服務評價準則》), 13 business outlets including Qinghe East Road sub-branch of the Bank carried out service certification on the first group of outlets and passed the on-site certification review. Through creating the standardized demonstration outlets, the Bank provided consumers with a better service environment.

Fourthly, supporting service facilities were increased. In 2019, the Bank added 246 barrier-free pathways to provide barrier-free access for the special groups in the outlets. The Bank also set up "Sun Warm Depots" ("太陽暖心驛站") in 19 outlets where full of outdoor workers, in order to provide convenient and beneficial services to the public.

III. Strengthening protection of customers' information and capital security

Firstly, the Bank conducted system security tests. We appointed external security service companies to conduct security tests on 26 systems, such as online banking, mobile banking, direct banking, WeChat banking, etc., to explore and repair the security loopholes in business systems, further improve the system security, and ensure the security of customers' funds and information. Secondly, the Bank optimized the content of SMS reminders. When a customer created a direct banking account, the Bank would send a reminder message to the account holder so as to remind the account holder not to rent and lend his account to others and to keep the personal account information properly, which improved customers' awareness on protecting the security of personal information. Thirdly, the Bank carried out network security emergency drill for 2019. The drill simulated the scenarios of network intrusion and leakage of sensitive information and our response measures, so our network security emergency response capability was further improved. Fourthly, the Bank successfully blocked 8 new illegal and criminal cases regarding telecommunication network in 2019, thereby recovering customers' capital loss of RMB216 thousand.

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IV. Enhancing initiative on promotion and education

The Bank organized a number of promotional and educational activities on special topics targeting financial consumers, such as the “3 • 15 Week for Promoting Education of Consumer Rights Protection (3•15消費者權益保護教育宣傳周)”, “Delivering Financial Knowledge to Schools (金融知識進課堂)”, “Promotion of Payment and Settlement (支付結算宣傳)”, “Month for Promoting the Theme of Prevention of Illegal Fund-raising (防範非法集資主題宣傳月)”, “Promoting Financial Knowledge, Guarding Your Money Bag (普及金融知識·守住‘錢袋子’)”, as such, consumers’ financial knowledge was greatly enhanced and awareness of financial risk management was boosted.

V. Carrying out internal staff training

Targeting outlet basic personnel who has broader contacts with the consumers, the Bank organized business trainings in respect of wealth management and insurance sales compliance, skills for dealing with outlet service complaints, the handling of special business at the counters, etc., thereby infusing the concept of customer rights protection into the daily work of basic personnel and enhancing the customer service experience.

RISK MANAGEMENT

I. Credit Risk Management

Credit risk refers to the risk of economic losses of the Bank arising from failure of the borrower or the counterparty to fulfil relevant obligations as per the contract for various reasons.

The Bank established a comprehensive risk management structure of independent functions, balance of risks, and three lines of defense performing their respective duties, and established a risk management model consisting of “delegation-based risk management and matrix area dual reporting”. The Risk Management Department, Credit Approval Department and Asset Monitoring Department at the head office are responsible for credit risk management. The Bank continued to pursue the balanced development of scale, efficiency and quality, emphasize the matching between business revenue and risk-bearing. By adhering to the core principle of steady and progressing risk management, the Bank improved the comprehensive process of credit risk management, and effectively enhanced its credit risk management level.

1. The Bank pushed forward the optimization of asset structure, and issued annual basic credit policies and credit sub-policies in key industries based on the Bank’s risk preference and asset portfolio allocation plan, in an effort to guide the credit resources focus towards local enterprises and further increase the support for private enterprises, inclusive and small and micro-sized businesses, and Sannong. The Bank supported the construction and rural revitalization of the Guangdong-Hong Kong-Macau Greater Bay Area, and continued to promote the optimization of credit risk and asset portfolio structure.

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2. The Bank continued to optimize its authorization management system. By combining with the risk management status, the Bank optimized the differentiated management of operating organization authorization, while the head office strengthened the supervision and management after the operating organization's exercise of the authorities.
3. The Bank strengthened the management of the lending procedures by revising the credit management measures and operating procedures. It enhanced its centralized and unified management and control of the implementation of credit conditions regarding the lending procedures. The Bank also formulated the credit resources allocation plan, released plans and satisfaction models to guide the allocation of credit resources in accordance with the strategic intention of the Bank.
4. The Bank strengthened the asset quality control by effectively integrating all kinds of risk information inside and outside the Bank, established and continuously improved the automatic alert system based on big data, to ensure early detection and early disposal of the risks. The Bank revised post-loan management measures so as to specify the required post-loan actions and strengthen the post-loan management. Through organizing risk prevention campaigns, the head office established and dynamically adjusted the credit list for risk prevention, in a bid to promote the supervision on operating organizations' efforts in risk mitigation.
5. The Bank strengthened the disposal of non-performing assets by continuously carrying out the absolute collection campaign on non-performing assets and accelerated the disposal of non-performing assets through formulating the objectives and tasks of the collection, strengthening the process supervision, broadening the collection channels, improving the incentive assessment mechanism and other measures.

During the Reporting Period, through the above key measures, the Bank's overall credit risk asset quality was effectively controlled, which matched with the expected control objectives of the Bank.

II. Market Risk Management

Market risk refers to the risk of losses in on- and off-balance sheet businesses from adverse changes in market prices (interest rate, exchange rate, stock prices and commodity prices). Interest rate risk is the major market risk of bank accounts. The Group calculates interest rate sensitivity gap on a regular basis, and evaluates, through gap analysis, the interest rate risk that it undertakes, and further evaluates the impacts of changes in interest rate on net interest income and enterprises' net worth under different interest rates.

MANAGEMENT DISCUSSION AND ANALYSIS

The Bank established an effective market risk governance structure and division of management responsibilities. The Board of Directors is the highest decision-making body of market risk management and assumes the ultimate responsibility thereof. The senior management and its subordinate committees are responsible for examining and approving the major issues of market risk management within the authorization scope of the Board of Directors and regularly receiving reports on the implementation of market risk management. The head office's risk management department is the leading management and specific implementation department for the market risk of the Bank. The Bank established a more comprehensive process for market risk management. During the Reporting Period, in order to enhance the market risk management capability effectively, the Bank took the following measures:

Firstly, the Bank issued the annual basic investment policy which specified the management regulations on admission, concentration, leverage, duration, warning and stop-loss, further optimizing the market management limit system to ensure the risk was under control. Secondly, the Bank enhanced the development of investment research capability by actively cultivating investment research talents. Thirdly, according to the business nature, scale and risk characteristics of the Bank, it established an appropriate market risk monitoring plan, as such, the market business risk monitoring mechanism was effectively implemented and timely response was made and investment policies were optimized based on the risk profile. Fourthly, the Bank carried out stress tests towards market risk business quarterly, and enhanced proactive and active management of investment business.

III. Liquidity Risk Management

Liquidity risk refers to the risk that sufficient funds cannot be obtained at a reasonable cost in time to meet debts falling due, perform other payment obligations and meet other capital needs of normal business.

The objective of liquidity risk management of the Bank is to meet the liquidity needs arising from assets, liabilities and off-balance sheet businesses and fulfil payment obligations to external parties in a timely manner under the normal operating environment of the Bank or at a highly stressed condition through the establishment of a scientific and comprehensive liquidity risk management mechanism and effective identification, measurement, monitoring and reporting of liquidity risks, so as to maintain the balance between effectiveness and security of funds.

The Board of Directors of the Bank assumes the ultimate responsibility for liquidity risk management, while the Asset/Liability Management Committee under the senior management is responsible for formulating policies and strategies related to the overall liquidity risk management of the Bank, and the Asset/Liability Management Department is responsible for the daily liquidity risk management of the Bank under the guidance of the Asset/Liability Management Committee.

MANAGEMENT DISCUSSION AND ANALYSIS

The Bank continued to optimize its liquidity risk management framework and management strategies, and established a comprehensive liquidity risk management system. The specific measures included: firstly, the Bank ensured the management of daily capital positions in order to achieve centralized management of funds of the Bank, and conduct timely monitoring and proper supplementation to guarantee the safety of provisions. Secondly, the Bank included the requirements for liquidity risk management into its business plan to ensure limiting the existing quality liquidity assets within a safe range. Thirdly, based on the risk preference in liquidity risk approved by the Board of Directors, the Bank formulated limits on liquidity risk every quarter, and monitored the execution of the risk limit every month and assessed the execution every quarter to ensure liquidity risk is under control. Fourthly, the Bank monitored liquidity indicators monthly and made forward-looking predictions of liquidity indicators and gaps, and timely identified risks, and made reasonable capital arrangement. Fifthly, the Bank carried out stress testing for liquidity risk quarterly to timely assess the Bank's liquidity risk tolerance and risk mitigating capability, and added special stress testing during the important sensitive period to enhance the monitoring and prevention of liquidity risk on a timely basis. Sixthly, the Bank regularly carried out liquidity risk emergency drills to timely assess the rationality and effectiveness of the Bank's emergency plan. Seventhly, the Bank strengthened the guidance on liquidity risk management of subsidiary banks, which further enhanced the capability of preventing and controlling liquidity risk of the Group.

During the Reporting Period, the overall liquidity risks of the Bank were under control, without any significant liquidity risk incidents, all key liquidity risk indicators of each month were able to meet the standards, and results of the stress test also showed that the Bank had adequate risk mitigating capability to deal with the crises under pressure.

IV. Operational Risk Management

Operational risk refers to the risk of losses caused by imperfections or faults of internal procedures, staff and system, or external events. Operational risks of the Bank are classified mainly into internal risks and external risks. Internal risks mainly include risks arising from human factors, inappropriate procedures and operational processes, and failure of IT system. External risks mainly include risks caused by external emergencies.

In order to actively push forward the implementation and improvement of its operational risk management system, the Bank continued to strengthen the standardization and management of business procedures, and promoted a normalized, standardized and scientific operational risk management mechanism. Firstly, the Bank continued to improve the delegation authorization system by enhancing the management thereof and formulating the exercise process of various businesses. Secondly, the Bank further improved the level of business continuity management through specifying the important business recovery indicators of the Bank, formulating the annual key work plan of the Bank and supervising the successful implementation thereof, rationalizing the business continuity emergency plan and inspecting of its implementation throughout the Bank, as well as organizing business continuity management training of the Bank. Thirdly, in order to enhance the training and promotion regarding operational risks, the Bank issued the "Compliance Legal Manual 2019 (《2019年度合規法律手冊》)", in which typical cases of illegal operations were compiled. Fourthly, the Bank pushed forward its information technology risk management and made good use of and properly maintained the questionable standing books regarding the information technology risk. It also carried out multiple risk assessments so as to optimize the quantitative monitoring indicators of information technology risk, and strengthen the management before, during and after the risks had arisen. Fifthly, the Bank supervised the rectification of various issues by carrying out the impact analysis on changes of regulatory policies, strengthening outsourcing compliance management and implementing on-site inspection of important outsourcers. During the Reporting Period, the Bank's operational risk management capability improved steadily.

V. Anti-money Laundering Conditions

During the Reporting Period, the Bank comprehensively sorted out and revised the internal control system concerning anti-money laundering according to the Guidelines for the Management of Money Laundering and Terrorist Financing Risks of Corporate Financial Institutions (for Trial Implementation), as such, the standardization and management level of the Bank's anti-money laundering work was further improved. The Bank also continued to carry out customer identification and classification and management of money laundering risk, and reported large amount and suspicious transaction reports in a timely manner, with an effort to enhance the development of anti-money laundering system regarding technology protection, so as to improve the ability of preventing money laundering risk of the Bank, and earnestly perform the duties and obligations of anti-money laundering.

Through organizing system promotion and specialized training, the Bank effectively raised the anti-money laundering awareness of the staff, and facilitated the development of the ability to perform duties of the anti-money laundering personnel and implementation of internal control system. The Bank actively carried out anti-money laundering publicity activities to popularize anti-money laundering knowledge to the public by distribution of leaflets, promotion on campus, promotion in enterprises, and posts on official WeChat public account, as such, its social responsibility of anti-money laundering was properly fulfilled.

INTERNAL AUDIT

The Bank has established an independent and vertical internal audit management system. The independent internal audit department was established under the Board of Directors. Under the leadership and guidance of the Bank's Party committee and the Board of Directors and the supervision and guidance of the Board of Supervisors, the internal audit department is responsible for the overall management of the Bank's internal audit work. The internal audit department regularly reports to the Party committee and the Board of Directors, and submits major audit matters to the Bank's Party committee for pre-study and consideration before submitting to the Board of Directors for consideration.

The internal audit department fully performed the audit supervisory function of the third risk defence, and established a beneficial cooperation mechanism with various business management departments such as business management department, risk management department, discipline inspection and supervision department, etc. Through audit and evaluation, the internal audit department continued to improve the Bank's operation management, risk management, internal control and corporate governance, so as to help the Bank to enhance operation management and curb irregularities.

During the Reporting Period, the internal audit department fully implemented the work requirements of the superior management organizations and the work arrangements of the Bank's Party committee and the Board of Directors. It also accepted the supervision of the Board of Supervisors in a bid to improve its political position and promote the reform of the internal audit supervision system, with the commitment to build a centralized, full-coverage, authoritative and efficient internal audit supervision system. Systematic and standardized audit methods were utilized to conduct various audit projects in order to strengthen the management of audit quality and audit process control, promote the continuous improvement of the Bank's internal control level, and facilitate stable business development. The internal audit department was risk-oriented and carried out special audits in credit business, performance appraisal, information technology, business continuity, anti-money laundering, related party transactions, market risk management and other fields, performed internal control evaluation audits in the head office and non-local branches, dynamically tracked on the rectification of the audited units, and then performed follow-up audits. It also upgraded and transformed the audit information system based on audit management. A normalized and specialized construction of audit team was developed to continuously improve the comprehensive quality of audit staff members.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

Unit: Share, %

	As at 31 December 2018		Change during the Reporting Period	As at 31 December 2019	
	Quantity	Proportion	Amount of change	Quantity	Proportion
Total share capital	9,808,268,539	100	–	9,808,268,539	100
Non-overseas listed shares held by legal persons	5,584,950,888	56.94	(83,003,000)	5,501,947,888	56.09
Including: Shares held by state-owned legal person shareholders	1,796,589,712	18.32	–	1,796,589,712	18.32
Non-overseas listed shares held by natural persons	2,402,982,651	24.50	83,003,000	2,485,985,651	25.35
Including: Shares held by internal staff members	370,778,208	3.78	–	370,778,208	3.78
Overseas listed foreign shares (H shares)	1,820,335,000	18.56	–	1,820,335,000	18.56

Notes:

- (1) As of the end of the Reporting Period, the total number of shareholders of the Bank's non-overseas listed shares was 29,146, and all the non-overseas listed shares were deposited in China Securities Depository and Clearing Corporation Limited. The total number of shareholders of H Shares was 96 (of which HKSCC Nominees Limited, as a nominee, acted on behalf of several shareholders).
- (2) The shares held by state-owned legal persons represent the non-overseas listed shares of the Bank held by 14 state-owned legal person shareholders, including Guangzhou Finance Holdings Group Co., Ltd., Guangzhou Pearl River Enterprises Group Co., Ltd., etc.
- (3) As of the end of the Reporting Period, 0 non-overseas listed share of the Bank was involved in judicial freezing, representing 0% of the total share capital of the Bank.

II. ISSUE, PURCHASE, SALE AND REDEMPTION OF SECURITIES

During the Reporting Period, the Bank did not issue any ordinary shares or convertible bonds. For the issuance of preference shares by the Bank, please refer to the section titled "Issuance of Offshore Preference Shares through a Private Offering" in this annual report.

The Bank issued tier two capital bonds in an amount of RMB4.1 billion in the domestic interbank bond market from 11 September 2014 to 15 September 2014. According to the relevant provisions of the prospectus, the Bank redeemed the abovementioned bonds in full on 16 September 2019.

Save as disclosed above, during the Reporting Period, the Bank and its subsidiaries did not purchase, sell and redeem any securities of the Bank.

III. SHAREHOLDINGS OF SHAREHOLDERS

(I) Total Number of Shareholders

As of 31 December 2019, the Bank had a total share capital of 9,808 million shares, comprising 7,988 million non-overseas listed shares and 1,820 million overseas listed shares. There were 715 legal person shareholders in possession of 5,502 million non-overseas listed shares, accounting for 56.09% of the total share capital. Among which, 14 were state-owned shareholders in possession of 1,797 million shares, accounting for 18.32% of the total share capital, while 28,431 were natural person shareholders in possession of 2,486 million non-overseas listed shares, accounting for 25.35% of the total share capital.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(II) Top Ten Shareholders as of the End of the Reporting Period

As of the end of the Reporting Period, the top ten shareholders of the Bank together held 41.56% of the Bank's total share capital, with no single holder of non-overseas listed shares having control of more than 5% of the total share capital, marking a dispersed shareholding structure. Among the top ten shareholders, the largest shareholder of non-overseas listed shares was Guangzhou Finance Holdings Group Co., Ltd., which held 3.73% of the total share capital. The second largest shareholder was Guangzhou Pearl River Enterprises Group Co., Ltd. with 3.45% of the total share capital, and the third largest was Guangzhou Vanlead Group Co., Ltd. with 3.26% of the total share capital. All of these top three shareholders of non-overseas listed shares are enterprises solely-owned by the state.

The top ten shareholders are as follows:

No.	Name	Class of Shareholder	Nature of Shareholder	Number of Shares (Share)	Shareholding Proportion (%) ⁽²⁾
1	HKSCC Nominees Limited ⁽¹⁾	H Shares	Other	1,819,976,950	18.56
2	Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司)	Non-overseas listed shares	State-owned legal person	366,099,589	3.73
3	Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司)	Non-overseas listed shares	State-owned legal person	338,185,193	3.45
4	Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司)	Non-overseas listed shares	State-owned legal person	319,880,672	3.26
5	Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司)	Non-overseas listed shares	State-owned legal person	310,728,411	3.17
6	Shanghai Dazhan Investment Management Co., Ltd. (上海大展投資管理有限公司)	Non-overseas listed shares	Non-state-owned legal person	250,000,000	2.55
7	Guangzhou General Merchandise Group Co., Ltd. (廣州百貨企業集團有限公司)	Non-overseas listed shares	State-owned legal person	191,749,019	1.95
8	Nanjing Gaoke Co., Ltd. (南京高科股份有限公司)	Non-overseas listed shares	Non-state-owned legal person	180,000,000	1.84
9	Guangdong Zhujiang Roads & Bridges Investment Co., Ltd. (廣東珠江公路橋梁投資有限公司)	Non-overseas listed shares	Non-state-owned legal person	160,020,000	1.63
10	Shenzhen Weiluo Investment Holding Co., Ltd. (深圳市偉祿投資控股有限公司)	Non-overseas listed shares	Non-state-owned legal person	140,010,000	1.43
Total				4,076,649,834	41.56

Notes:

- (1) HKSCC Nominees Limited, as a nominee, held 1,819,976,950 H Shares in aggregate in the Bank on behalf of several clients, representing approximately 18.56% of the issued share capital of the Bank. As a member of CCASS, HKSCC Nominees Limited conducts registration and custodian business for clients.
- (2) Calculated on the basis of the total share capital of the Bank of 9,808,268,539 shares.

(III) Internal Staff Members' Shareholdings

As of 31 December 2019, the Bank had a total of 5,688 internal staff member shareholders, holding 370 million shares, which accounted for 3.78% of the total share capital of the Bank.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(IV) Interests and Short Positions of Substantial Shareholders and Other Persons in Shares and Underlying Shares under the Regulations of Hong Kong

Based on the knowledge of the directors or chief executives of the Bank, as at 31 December 2019, the following persons (other than the directors, chief executives and supervisors of the Bank) had, or were deemed or taken to have interests and short positions in the shares and underlying shares of the Bank which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO. The details are as follows:

Name of shareholder	Nature of interest	Class of shares	Long/short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interest in the Bank	Approximate percentage of the relevant class of shares of the Bank
Guangzhou Municipal People's Government ⁽¹⁾	Interest of a controlled corporation	Non-overseas listed shares	Long	1,786,589,712	18.22%	22.37%
Aeon Life Insurance Company Limited	Beneficial owner	H Shares	Long	295,229,000	3.01%	16.22%
Guangzhou HongHui Investment Co., Ltd ⁽²⁾	Beneficial owner	H Shares	Long	200,991,000	2.05%	11.04%
Zeng Weipeng ⁽²⁾	Interest of a controlled corporation	H Shares	Long	114,558,840	1.17%	6.29%
Liu Feng ⁽³⁾	Interest of a controlled corporation	H Shares	Long	294,530,203	3.00%	16.18%
Good Prospect Corporation Limited ⁽³⁾	Beneficial owner	H Shares	Long	294,530,203	3.00%	16.18%
Deng Geng ⁽⁴⁾	Interest of a controlled corporation	H Shares	Long	294,554,000	3.00%	16.18%
East Lake Technology Limited ⁽⁴⁾	Beneficial owner	H Shares	Long	294,554,000	3.00%	16.18%
Su Jiaohua ⁽⁵⁾	Interest of spouse	H Shares	Long	221,424,797	2.26%	12.16%
Lin Xiaohui ⁽⁵⁾	Interest of a controlled corporation	H Shares	Long	221,424,797	2.26%	12.16%
Manureen Investment Limited ⁽⁵⁾	Beneficial owner	H Shares	Long	221,424,797	2.26%	12.16%
Lead Straight Limited ⁽⁶⁾	Beneficial owner	H Shares	Long	195,229,000	1.99%	10.72%
Grandbuy International Trade (HK) Limited ⁽⁶⁾	Interest of a controlled corporation	H Shares	Long	195,229,000	1.99%	10.72%
Guangzhou General Merchandise Group Co., Ltd. ⁽⁶⁾	Interest of a controlled corporation	H Shares	Long	195,229,000	1.99%	10.72%
Guang Rong Finance Company Limited ⁽⁷⁾	Beneficial owner	H Shares	Long	104,347,000	1.06%	5.73%
GuangZhou Finance Holdings (HK) Co., Ltd. ⁽⁷⁾	Interest of a controlled corporation	H Shares	Long	104,347,000	1.06%	5.73%
GuangZhou Finance Holdings Group Co., Ltd. ⁽⁷⁾	Interest of a controlled corporation	H Shares	Long	104,347,000	1.06%	5.73%

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Notes:

- (1) These 1,786,589,712 shares include 366,099,589 shares directly held by Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), 338,185,193 shares directly held by Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), 319,880,672 shares directly held by Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), 310,728,411 shares directly held by Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司), 191,749,019 shares directly held by Guangzhou General Merchandise Group Co., Ltd. (廣州百貨企業集團有限公司), 137,283,914 shares directly held by Guangzhou Light Industry & Trade Group Co., Ltd. (廣州輕工貿集團有限公司), 45,312,844 shares directly held by Guangzhou Jinjun Investments Holding Co., Ltd. (廣州金駿投資控股有限公司), 33,405,752 shares directly held by Guangzhou Lingnan International Enterprise Group Co., Ltd. (廣州嶺南國際企業集團有限公司), 18,304,522 shares directly held by Guangzhou Guangyong State-owned Assets Management Co., Ltd. (廣州市廣永國有資產經營有限公司), 9,152,261 shares directly held by Guangzhou Textiles Industry & Trade Holdings Ltd. (廣州紡織工貿企業集團有限公司), 7,052,469 shares directly held by Guangzhou Port Group Co., Ltd. (廣州港集團有限公司), 9,152,261 shares directly held by Guangzhou Development Zone Industrial Development Group Co., Ltd. (廣州開發區工業發展集團有限公司), and 282,805 shares directly held by Guangzhou Yunpu Industrial Zone Baiyun Enterprises Development Company (廣州市雲埔工業區白雲實業發展總公司).

By virtue of the SFO, Guangzhou Municipal People's Government is deemed to be interested in the shares held by Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司), Guangzhou General Merchandise Group Co., Ltd. (廣州百貨企業集團有限公司), Guangzhou Light Industry & Trade Group Co., Ltd. (廣州輕工貿集團有限公司), Guangzhou Jinjun Investments Holding Co., Ltd. (廣州金駿投資控股有限公司), Guangzhou Lingnan International Enterprise Group Co., Ltd. (廣州嶺南國際企業集團有限公司), Guangzhou Guangyong State-owned Assets Management Co., Ltd. (廣州市廣永國有資產經營有限公司), Guangzhou Textiles Industry & Trade Holdings Ltd. (廣州紡織工貿企業集團有限公司) and Guangzhou Port Group Co., Ltd. (廣州港集團有限公司), which are directly or indirectly wholly-owned by Guangzhou Municipal People's Government, and in the shares held by Guangzhou Development Zone Industrial Development Group Co., Ltd. (廣州開發區工業發展集團有限公司) and Guangzhou Yunpu Industrial Zone Baiyun Enterprises Development Company (廣州市雲埔工業區白雲實業發展總公司), which are controlled by Guangzhou Municipal People's Government.

- (2) Guangzhou HongHe Investment Co., Ltd. is owned as to 90% by Zeng Weipeng, and Guangzhou HongHe Investment Co., Ltd. owns Guangzhou HongHui Investment Co., Ltd. Therefore, Zeng Weipeng is deemed to be interested in the 200,991,000 shares by virtue of the SFO.
- (3) Liu Feng wholly owns Good Prospect Corporation Limited. Therefore, Liu Feng is deemed to be interested in the 294,530,203 shares by virtue of the SFO.
- (4) Deng Geng wholly owns East Lake Technology Limited. Therefore, Deng Geng is deemed to be interested in the 294,554,000 shares by virtue of the SFO.
- (5) Manureen Investment Limited is owned as to 70% by Lin Xiaohui. Therefore, Lin Xiaohui is deemed to be interested in the 221,424,797 shares by virtue of the SFO. Su Jiaohua is the spouse of Lin Xiaohui. Therefore, Su Jiaohua is deemed to be interested in the 221,424,797 shares by virtue of the SFO.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

- (6) Guangzhou General Merchandise Group Co., Ltd. wholly owns Grandbuy International Trade (HK) Limited, which in turn wholly owns Lead Straight Limited. Therefore, Guangzhou General Merchandise Group Co., Ltd. and Grandbuy International Trade (HK) Limited Co., Ltd. are deemed to be interested in the 195,229,000 shares by virtue of the SFO.
- (7) Guangzhou Finance Holdings (HK) Co., Ltd. is owned as to 62.49% by Guangzhou Finance Holdings Group Co., Ltd., and Guang Rong Finance Company Limited is wholly owned by Guangzhou Finance Holdings (HK) Co., Ltd.. Therefore, Guangzhou Finance Holdings Group Co., Ltd. and Guangzhou Finance Holdings (HK) Co., Ltd. are deemed to be interested in the 104,347,000 shares by virtue of the SFO.

Save as disclosed above, the Bank was not aware of any other person (other than the directors, chief executives and supervisors of the Bank) having any interests or short positions in the shares or underlying shares of the Bank as at 31 December 2019 which should be recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

(V) Major Shareholders under “Interim Measures for Equity Management of Commercial Banks” (《商業銀行股權管理暫行辦法》)

Pursuant to the requirements concerning major shareholders under “Interim Measures for Equity Management of Commercial Banks”, the shareholders listed in the table below were the major shareholders of the Bank as at the end of the Reporting Period:

No.	Name of shareholder	Number of shares held (share)	Reason for being major shareholder	Whether over 50% of the shares held were pledged	Controlling shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners	Related parties
1	Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司)	366,099,589.00	Delegated director Mr. Li Fangjin	No	Guangzhou Municipal People's Government	Guangzhou Municipal People's Government	–	Guangzhou Finance Holdings Group Co., Ltd.	18 related natural persons and 66 related legal persons
2	Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司)	319,880,672.00	Delegated supervisor Mr. Huang Yong	No	Guangzhou Industrial Investment Holding Group Co., Ltd. (廣州工業投資控股集團有限公司)	Guangzhou Municipal People's Government	–	Guangzhou Vanlead Group Co., Ltd.	6 related natural persons and 76 related legal persons
3	Guangdong Zhujiang Roads & Bridges Investment Co., Ltd. (廣東珠江公路橋梁投資有限公司)	160,020,000.00	Delegated director Mr. Zhu Kelin	Yes	Guangdong Pearl River Investment Management Group Co., Ltd. (廣東珠江投資管理集團有限公司)	Zhu Yihang (朱一航)	–	Zhu Yihang	4 related natural persons and 607 related legal persons

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

No.	Name of shareholder	Number of shares held (share)	Reason for being major shareholder	Whether over 50% of the shares held were pledged	Controlling shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners	Related parties
4	Guangzhou Chimelong Group Co., Ltd. (廣州長隆集團有限公司)	60,020,000.00	Delegated director Mr. Su Zhigang	No	Guangzhou Chimelong Group Co., Ltd. (廣州長隆集團有限公司)	Su Zhigang, Zhang Liushen (張柳深)	–	Guangzhou Chimelong Group Co., Ltd.	3 related natural persons and 42 related legal persons
5	Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司)	20,000,000.00	Delegated director Mr. Liu Guojie	No	Liu Guojie	Liu Guojie	–	Guangzhou Haojin Motorcycle Co., Ltd.	2 related natural persons and 15 related legal persons
6	Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司)	5,000,000.00	Delegated supervisor Mr. Zhang Dalin	Yes	Guangzhou Fengle Group Co., Ltd. (廣東豐樂集團有限公司)	Zhang Dalin	–	Guangzhou Fengle Fuel Co., Ltd.	2 related natural persons and 15 related legal persons

Note: For the definition of major shareholders, controlling shareholders, de facto controllers, related parties, parties acting in concert and ultimate beneficial owners, please see the relevant requirements of the Interim Measures for Equity Management of Commercial Banks. The major shareholders of the Bank have submitted their lists of related parties, and the Bank regularly maintains and updates the list of related parties to continuously lift the level of management of related party transactions. The Bank has disclosed the related party transactions for 2019 in this annual report. Due to limitations on space, it does not provide the list of related parties of major shareholders.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(VI) Issuance of Offshore Preference Shares through a Private Offering

1. Issuance and listing of offshore preference shares

To supplement the capital of the Bank in a diversified way, further enhance the capital strength of the Bank and enhance its ability to resist risks, upon approval by Guangdong Bureau of China Banking and Insurance Regulatory Commission (Guangdong Bureau of CBIRC) (Yue Yin Bao Jian (Chou) Fu [2018] No. 27) and China Securities Regulatory Commission (CSRC) (Zheng Jian Xu Ke [2019] No. 355), the Bank issued the Non-cumulative Perpetual Offshore Preference Shares in the amount of USD1,430 million on 20 June 2019. The Offshore Preference Shares (abbreviated as GRCB 19USDPRF with code of 04618) were listed on the Hong Kong Stock Exchange on 21 June 2019 with a nominal value of RMB100 per share at an offering price of USD20 per share. The total number of shares issued was 71,500,000, all of which were issued and fully paid in US dollars.

Based on the Renminbi central parity rate published by the China Foreign Exchange Trade System on 20 June 2019, the gross proceeds from the offering of the Offshore Preference Shares were approximately RMB9.839 billion. The proceeds raised from the issuance of the Offshore Preference Shares, after deduction of the issuance expenses, as of the end of the Reporting Period, have been fully used to replenish the additional tier 1 capital of the Bank, increase the tier 1 capital adequacy ratio of the Bank and optimize the capital structure, which is consistent with the specific use disclosed beforehand.

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

2. Number of offshore preference shareholders and shareholdings

As of the end of the Reporting Period, the Bank had one offshore preference shareholder.

Shareholdings of the offshore preference shareholders (or their nominees) of the Bank are as follows (the following data are based on the register of offshore preference shareholders as at 31 December 2019):

Name of shareholder	Nature of shareholder	Class of shares	Increase or decrease during the reporting period (share)	Shareholding ratio (%)	Total number of shares held	Number of shares subject to selling restrictions (share)	Number of shares pledged or frozen (share)
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore preference shares	71,500,000	100	71,500,000	–	Unknown

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Notes:

- (1) Shareholdings of offshore preference shareholders are based on the information listed in the register of offshore preference shareholders of the Bank.
- (2) As the Offshore Preference Shares were offered through a private offering, the register of offshore preference shareholders presented the information on nominees of the allotted investors.

3. Profit distribution of the Offshore Preference Shares

Dividends will be paid in cash by the Bank to offshore preference shareholders. Each dividend will be payable annually in arrears on the dividend payment date. The first dividend payment date will be 20 June 2020. During the Reporting Period, the Offshore Preference Shares issued by the Bank were not yet due for dividend distribution, and no dividends for Offshore Preference Shares have been distributed. An announcement on payment of dividends for the Offshore Preference Shares will be published by the Bank separately as and when appropriate.

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 experience of any trigger event in which the Offshore Preference Shares need to be coercively converted 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 Distinguishing between Financial Liabilities and Equity Instruments and Relevant Accounting Treatment promulgated by the Ministry of Finance of the PRC, as well as International Accounting Standards No. 39 – Financial Instruments: Recognition and Measurement and International Accounting Standards No. 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, the issued and existing Offshore Preference Shares are eligible to be classified as equity instruments, and will be accounted for as equity instruments.

IV. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN THE COMPANY

As of 31 December 2019, based on the information available to the Bank and as far as the directors are aware, the interests and short positions of the directors, chief executives and supervisors of the Bank in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which he/she was deemed or taken to have under such provisions of the SFO), or the interests or short positions which have to be 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 were as follows:

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Directors', chief executives' and supervisors' interests in the Bank							
Name	Capacity	Nature of Interest	Class of shares	Long/short position	Number of shares held directly or indirectly (share)	Approximate percentage of interest in the Bank	Approximate percentage of the relevant class of shares of the Bank
Wang Jikang (resigned on 19 July 2019)	Director	Beneficial owner	Non-overseas listed shares	Long	500,000	0.005%	0.006%
Yi Xuefei	Director	Beneficial owner	Non-overseas listed shares	Long	500,000	0.005%	0.006%
Su Zhigang	Director	Interest of a controlled corporation ⁽¹⁾	Non-overseas listed shares	Long	60,020,000	0.612%	0.751%
Zhu Kelin	Director	Interest of spouse	Non-overseas listed shares	Long	1,201,000	0.012%	0.015%
Shao Jianming (resigned on 14 August 2019)	Director	Beneficial owner/	Non-overseas listed shares	Long	405,800	0.004%	0.005%
		Interest of a controlled corporation ⁽²⁾	Non-overseas listed shares	Long	14,060,000	0.143%	0.176%
Zhang Yongming (resigned on 27 November 2019)	Director	Beneficial owner/	Non-overseas listed shares	Long	11,067,400	0.113%	0.139%
		Interest of a controlled corporation ⁽³⁾	Non-overseas listed shares	Long	49,010,000	0.500%	0.614%
Liu Guojie	Director	Interest of a controlled corporation ⁽⁴⁾	Non-overseas listed shares	Long	20,000,000	0.204%	0.250%
Zhang Dalin (resigned on 10 March 2020)	Supervisor	Beneficial owner/	Non-overseas listed shares	Long	1,201,000	0.012%	0.015%
		Interest of a controlled corporation ⁽⁵⁾	Non-overseas listed shares	Long	5,000,000	0.051%	0.063%
Mao Yunshi	Supervisor	Interest of spouse	Non-overseas listed shares	Long	1,201,000	0.012%	0.015%
Shao Baohua	Supervisor	Beneficial owner/	Non-overseas listed shares	Long	1,201,000	0.012%	0.015%
		Interest of spouse/	Non-overseas listed shares	Long	2,407,000	0.025%	0.030%
		Interest of a controlled corporation ⁽⁶⁾	Non-overseas listed shares	Long	42,010,000	0.428%	0.526%
Lai Jiaxiong	Supervisor	Beneficial owner	Non-overseas listed shares	Long	452,224	0.005%	0.006%

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Notes:

- (1) These shares were held by Guangzhou Chimelong Group Co., Ltd., which was owned as to 87.14% by Su Zhigang. Therefore, by virtue of the SFO, Su Zhigang, a director of the Bank, is deemed or taken to be interested in all the shares held by Guangzhou Chimelong Group Co., Ltd.
- (2) These shares were held by Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司), which was owned as to 65% by Shao Jianming. Therefore, by virtue of the SFO, Shao Jianming is deemed or taken to be interested in all the shares held by Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司).
- (3) These shares were held by Beijing Tianyou Investment Co., Ltd. (北京天佑投資有限公司), which was owned as to 50% by Zhang Yongming. Therefore, by virtue of the SFO, Zhang Yongming is deemed or taken to be interested in all the shares held by Beijing Tianyou Investment Co., Ltd. (北京天佑投資有限公司).
- (4) These shares were held by Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司), which was owned as to 99% by Liu Guojie. Therefore, by virtue of the SFO, Liu Guojie, a director of the Bank, is deemed or taken to be interested in all the shares held by Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司).
- (5) These shares were held by Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司), which was owned as to 84% by Zhang Dalin. Therefore, by virtue of the SFO, Zhang Dalin is deemed or taken to be interested in all the shares held by Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司).
- (6) These shares were held by Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司), which was owned as to 45.4% by Shao Baohua. Therefore, by virtue of the SFO, Shao Baohua, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司).

Save as disclosed above, as at 31 December 2019, none of the directors, chief executives and supervisors of the Bank had any interests or short positions in any shares, underlying shares and debentures of the Bank or 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 pursuant to Section 352 of the SFO, or otherwise have to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

V. DIVIDENDS

For details of dividends, please see "Report of the Board of Directors" in this report.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The basic information on the current directors, supervisors and senior management of the Bank is as follows:

Name	Gender	Month and Year of Birth	Position in the Bank	Duration of Appointment ¹	Total amount of remuneration before tax received from the Bank during the Reporting Period (RMB) ²
Yi Xuefei	Male	1967.11	Deputy Secretary of the Party Committee, Vice Chairman and President	2014.05 to present	1,371,855.72
Liu Shaobo	Male	1960.9	Independent Non-executive Director	2014.05 to present	231,302.52
Liu Heng	Male	1964.1	Independent Non-executive Director	2014.05 to present	260,714.28
Song Guanghui	Male	1961.3	Independent Non-executive Director	2014.05 to present	393,067.22
Zheng Jianbiao	Male	1964.4	Independent Non-executive Director	2014.05 to present	219,467.78
Li Fangjin	Male	1962.1	Non-executive Director	2014.05 to present	75,140.05
Su Zhigang	Male	1958.6	Non-executive Director	2009.12 to present	63,235.29
Liu Guojie	Male	1970.12	Non-executive Director	2016.09 to present	63,235.29
Zhu Kelin	Male	1962.10	Non-executive Director	2009.12 to present	122,478.99
Wang Xigui	Female	1966.8	Chairman of the Board of Supervisors, Employee Supervisor	2018.12 to present	1,072,576.45
He Heng	Female	1970.4	Employee Supervisor	2016.08 to present	1,843,470.74
Lai Jiaxiong	Male	1975.10	Employee Supervisor	2018.12 to present	1,746,086.22
Mao Yunshi	Male	1945.12	External Supervisor	2016.09 to present	128,291.31
Chen Dan	Male	1966.10	External Supervisor	2016.09 to present	64,536.34
Shao Baohua	Male	1969.5	External Supervisor	2014.05 to present	101,750.70
Huang Yong	Male	1964.11	Shareholders' Supervisor	2014.05 to present	101,750.70
Zhang Jian ³	Male	1962.6	Deputy Secretary of the Party Committee, Executive Director	2019.12 to present	0
Zhao Wei	Male	1964.9	Stationed Chief of the Discipline Inspection Team	2019.10 to present	195,646.34
Chen Jianming	Male	1961.11	Vice President	2009.12 to present	1,300,285.58
Lin Ripeng ³	Male	1970.1	Vice President	2019.12 to present	0
Chen Linjun	Female	1972.11	Business director	2014.01 to present	3,024,417.71
Yang Xuan	Female	1976.12	Business director	2015.08 to present	3,019,118.92
Cai Huiran	Male	1972.6	Chief Information Officer	2019.02 to present	2,446,634.66
Zheng Ying	Female	1972.5	Secretary of the Board of Directors , Company Secretary	2019.03 to present	1,772,233.44

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Notes:

- (1) The commencement date was the date of approval by the general meeting or board meeting or staff representative assembly of the Bank (as the case may be). The term of office of the second session of directors and supervisors of the Bank expired. As the candidates for directors and supervisors were still in the process of selection, the Bank was not able to complete the change of office before the expiration. The current Directors and Supervisors shall continue to perform their respective responsibilities until the change of office is completed.
- (2) The Bank provides remuneration for non-executive directors, independent non-executive directors, shareholder supervisors and external supervisors based on the Implementation Measures for Remuneration Standard of Directors and Supervisors of Guangzhou Rural Commercial Bank Co., Ltd. (《廣州農村商業銀行股份有限公司董事、監事薪酬標準實施辦法》), Measures for the Assessment of Performance of Board of Directors and its Members of Guangzhou Rural Commercial Bank Co., Ltd. (《廣州農村商業銀行股份有限公司董事會及其成員履職評價辦法》) and Measures for the Assessment of Performance of Supervisors of Guangzhou Rural Commercial Bank Co., Ltd. (《廣州農村商業銀行股份有限公司監事履職評價辦法》). All remunerations are defined as remunerations before income tax, which include two parts, namely basic remuneration and allowances. Of which, the basic remuneration is required to be finalized according to the final results of the performance assessment of the Board of Supervisors.

The Bank provides remuneration for executive directors, employee supervisors and senior management personnel based on the Administrative Measures for Remuneration of Guangzhou Rural Commercial Bank Co., Ltd. (《廣州農村商業銀行股份有限公司薪酬管理辦法》), etc. Of which, appointments made by the organization department of the party committee shall be implemented in accordance with the relevant measures of the State. All remunerations are defined as remunerations before income tax, which include fixed salary, performance-based salary (including undistributed deferred performance-based salary), allowances, social security premium, housing fund, and corporate contribution of annuity for 2019. Total amount of the final remuneration for 2019 as mentioned above has not been finalized, and, once finalized, will be disclosed separately.

- (3) The appointment of Mr. Zhang Jian as a director of the Bank is subject to approval of qualification by the regulatory authority after it is submitted to the general meeting for approval. The qualification of Mr. Lin Ripeng as a vice president of the Bank is subject to approval of qualification by the regulatory authority.

II. CHANGES

In July 2019, Mr. Wang Jikang resigned from his positions as the Bank's chairman and other positions held in the Bank due to his personal reasons; in August 2019, Mr. Shao Jianming resigned from his positions as the Bank's non-executive director and other positions held in the Bank due to his personal reasons; in November 2019, Mr. Zhang Yongming resigned from his positions as the Bank's non-executive director and other positions held in the Bank due to his personal reasons; and in January 2020, Mr. Yung Hin Man Raymond resigned from his positions as the Bank's independent non-executive director and other positions held in the Bank due to his plan to immigrate overseas. They tendered their written resignations to the Board of Directors of the Bank.

In March 2020, Mr. Zhang Dalin resigned from his positions as a shareholder supervisor and a member of the Audit and Supervision Committee as he needs to devote more efforts to the operation and management of his other companies, and he tendered his written resignation to the Board of Supervisors of the Bank.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

In 2019, Mr. Zuo Yi resigned from the positions as Deputy Secretary of the Party Committee and Secretary to Commission for Discipline Inspection of the Bank due to his personal reasons; Mr. Zhang Dong resigned from the position as Vice President of the Bank due to his personal reasons; Mr. Peng Zhijun resigned from the position as Vice President of the Bank due to his personal reasons; Mr. Chen Qianhong resigned from the position as business director of the Bank due to his personal reasons.

In February 2019, Mr. Cai Huiran was appointed as Chief Information Officer of the Bank. In March 2019, Ms. Zheng Ying was appointed as Secretary of the Board of Directors of the Bank. In October 2019, Mr. Zhao Wei was appointed as the Chief of the Discipline Inspection Team of the Commission for Discipline Inspection and the National Supervision Commission of Guangzhou stationed in the Bank. In December 2019, Mr. Zhang Jian was appointed as Deputy Secretary of the Party Committee of the Bank, and was selected as a director candidate, whose qualification of directorship is subject to approval of qualification by the regulatory authority after it is submitted to the general meeting for approval. In December 2019, Mr. Lin Ripeng was appointed as Vice President of the Bank, whose qualification is subject to approval of qualification by the regulatory authority.

III. BIOGRAPHIES

Yi Xuefei, male, was born in November 1967. He graduated from Jiangxi University of Finance and Economics and obtained a master's degree in international economics and trade. He also obtained a master's degree in executive business administration from Sun Yat-sen University and is qualified as an economist. He now serves as Deputy Secretary of the Party Committee, Vice Chairman and President of Guangzhou Rural Commercial Bank. He once served as staff of Jiangxi Sanbo Electric Machinery Group, staff member of accounting division of Second Sub-branch of Guangzhou Branch of Construction Bank, staff member, principal staff member, deputy section chief, section chief, assistant to director, deputy director and deputy chief of Guangzhou Branch of Construction Bank, vice president of Foshan Branch of Construction Bank and concurrently president of Nanhai Sub-branch, deputy secretary of the Party Committee and vice president of Dongguan Branch of Construction Bank, deputy general manager (in charge of overall works) and general manager of financial planning department of Guangdong Branch of Construction Bank, director of assets and liabilities management department and director of restructuring office of Guangdong Branch of Construction Bank, secretary of the Party Committee and president of Shantou Branch of Construction Bank, member of the Party Committee and deputy director of Guangzhou Rural Credit Cooperative Union, member of the Party Committee and Vice President of Guangzhou Rural Commercial Bank.

Liu Shaobo, male, was born in September 1960. He graduated from Sun Yat-sen University and obtained a doctor's degree in management. He now serves as professor and doctoral tutor of Department of Finance of School of Economics and director of the Institute of Finance of Jinan University, an Independent Non-executive Director of Guangzhou Rural Commercial Bank, decision-making consultant expert of Guangzhou Municipal People's Government, vice president of Guangdong Economic Association and vice president of Tertiary Industry Research Association of Guangdong.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Liu Heng, male, was born in January 1964. He is a Doctor of Economics with a Postdoctoral Degree in Law. He now serves as professor and doctoral tutor of Law School of Sun Yat-sen University, Director of the Institute of Administrative Law of Sun Yat-sen University, and an Independent Non-executive Director of Guangzhou Rural Commercial Bank.

Song Guanghui, male, was born in March 1961. He graduated from Renmin University of China and obtained a doctor's degree in statistics. He now serves as professor and doctoral tutor of School of Business Administration of South China University of Technology, and an Independent Non-executive Director of Guangzhou Rural Commercial Bank. He once served as teaching assistant, tutor, associate professor and acting director of foreign affairs office of Henan University of Economics and Finance, vice general manager of investment banking department and general manager of research and development department of China Southern Securities Co., Ltd. (Guangzhou Branch).

Zheng Jianbiao, male, was born in April 1964. He graduated from Research Institute for Fiscal Science of the MOF and obtained a master's degree in economics. He now serves as a partner of Partner Management Committee of Grant Thornton China, and an Independent Non-executive Director of Guangzhou Rural Commercial Bank. He also serves as the vice president of China Mergers & Acquisitions Association (全聯併購公會(中國併購公會)) and the vice president of Beijing Institute of Certified Public Accountants. He once served as a cadre of the Beijing Municipal Bureau of Finance, a manager of Shenzhen Shekou Zhonghua Certified Public Accountants, a deputy director of Beijing Jingdu Public Accounting Firm, an assessment expert for the First Corporate Annuity Management Agency of Ministry of Labor and Social Security, an expert member of the 9th Stock Issuance Review Committee of CSRC and a member of the 1st to 3rd Sessions of Expert Consultancy Committee of Merger and Restructuring of Listed Companies of CSRC.

Li Fangjin, male, was born in January 1962. He graduated from Capital University of Economics and Business and obtained a master's degree in finance. He now serves as secretary of the Party Committee and chairman of Guangzhou Finance Holdings Group Co., Ltd., non-executive director of Guangzhou Rural Commercial Bank, chairman of Wanlian Securities Co., Ltd., chairman of Guangdong Equity Exchange Company Limited (廣東股權交易中心股份有限公司) and president of Guangzhou Finance Association. He once served as political counselor, secretary of student work, acting deputy secretary of the General Party Committee, deputy secretary of the General Party Committee and commissary in charge of organization, secretary of the General Party Committee (Leading roles of divisions or equivalents) and department deputy director of South China Normal University, minister of international department of Guangdong Securities Regulatory Commission, minister of international department, head and secretary of the Party Committee Branch of the first office of agency supervision, head and secretary of the Party Committee Branch of the first office of case investigation of Guangzhou Securities Regulatory Office of CSRC, director of Guangdong Finance Institute, chairman of Guangzhou Guangyong State-owned Assets Management Co., Ltd., member of the Party Committee, general manager and vice chairman of Guangzhou Financial Holdings Group Co., Ltd., vice chairman of Bank of Guangzhou Co., Ltd., chairman of Legend Financial Leasing Co., Ltd., chairman of Guangzhou Finance Holdings Capital Management Co., Ltd., chairman of Guangdong Green Finance Investment Holding Group Co., Ltd., chairman of Guangzhou Equity Exchange Limited (廣州股權交易中心有限公司), chairman of Guangzhou Legend Reloan Co., Ltd., independent director of Guangzhou Automobile Group Co., Ltd. and supervisor of E Fund Funds Management Co., Ltd..

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Su Zhigang, male, was born in June 1958. He now serves as chairman of Guangdong Chimelong Group Co., Ltd., Non-executive Director of Guangzhou Rural Commercial Bank, member of National Committee of the Political Consultative Conference, vice chairman of All-China Federation of Industry and Commerce ("ACFIC") (全國工商聯(中國民間商會)) and chairman of Guangdong Federation of Industry and Commerce. He once served as the vice chairman of the 11th Session of ACFIC, a member of the 9th and the 10th Congress of National People's Congress, vice chairman of the 10th and the 11th Session of Chinese People's Political Consultative Conference Guangzhou Committee and president of the 12th and the 13th Session of Guangzhou Federation of Industry and Commerce Executive Committee. He founded Chimelong Xiangjiang Seafood Restaurant, Chimelong Xiangjiang Hotel, Guangzhou Chimelong Safari Park, Guangzhou Chimelong Group, Chimelong Night Animal World, Guangzhou Chimelong Hotel, Guangzhou Chimelong Happy World, Guangzhou Chimelong Water Park, Zhuhai Chimelong Investment & Development Co., Ltd., Zhuhai Hengqin Chimelong Ocean Kingdom, Zhuhai Hengqin Chimelong Hengqin Bay Hotel, Zhuhai Hengqin Chimelong Circus City, Zhuhai Hengqin Chimelong Penguin Hotel, Circus Hotel, Qingyuan Chimelong Investment Co., Ltd., Qingyuan Chimelong International Forest Tourist Resort (under construction) and Guangzhou Chimelong Panda Hotel.

Liu Guojie, male, was born in December 1970. He graduated from Guangdong Academy of Social Sciences and obtained an on-job postgraduate degree in economic management. He now serves as chairman and president of Guangzhou Haojin Group Co., Ltd., chairman of Guangzhou Haojin Motorcycle Co., Ltd., chairman of Guangzhou Zengcheng Xinyue Small Loan Co., Ltd. and Non-executive Director of Guangzhou Rural Commercial Bank. He once served as chairman and general manager of Zengcheng Haojin Trading Co., Ltd..

Zhu Kelin, male, was born in October 1962. He graduated from Western Sydney University (Australia) and obtained a master's degree in business administration. He now serves as Non-executive Director of Guangzhou Rural Commercial Bank. He once served as director of GF Securities Co., Ltd., director of Pearl River Life Insurance Co., Ltd., vice chairman and chairman of Guangdong Pearl River Investment Holdings Group Co., Ltd and chairman of Guangdong Pearl River Investment Co., Ltd..

Wang Xigui, female, was born in August 1966. She graduated from Zhongnan University of Finance and Economics and obtained a bachelor's degree in economics and the qualification of accountant. She now serves as employee supervisor and chairman of the Board of Supervisors of Guangzhou Rural Commercial Bank. She once served as teacher of Hubei School of Finance of Zhongnan University of Finance and Economics, clerk of the finance division of the freight insurance department, vice section chief, section chief and assistant to chief director of the accounting division of the Guangzhou Branch of PICC, deputy general manager of the finance department, deputy general manager (responsible for the operations) and general manager of the information technology department/channel management department (now known as the information technology department/sales management department) of Guangzhou Branch of PICC Property and Casualty Company Limited, researcher of the accounting department and the general office of the Bureau of Finance of Guangzhou, and chairman of the board of supervisors of Guangzhou City Construction Investment Group and Guangzhou Water Investment Group assigned by Guangzhou SASAC.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

He Heng, female, was born in April 1970. She graduated from Hunan Institute of Finance and Economics and obtained a master's degree in economics and the qualification of economist. She now serves as employee supervisor, general manager of office of Board of Supervisors and general manager of rural financial restructuring office of Guangzhou Rural Commercial Bank. She once served as teacher of information management department of Xiangtan University, staff member and deputy principal staff member of operation supervision division of PBOC Guangzhou Branch, principal staff member of foreign bank and other financial institutions supervision department of PBOC Guangzhou Branch, principal staff member, assistant consultant and deputy chief of policy and regulation section, deputy chief of business innovation supervision and cooperation section (responsible for the overall works) of CBRC Guangdong Office, deputy general manager of risk management department and credit management department (secondment position) of Guangdong Branch of Industrial and Commercial Bank of China, assistant to president of Zhujiang Financial Leasing Co., Ltd., general manager of performance management department and chief senior manager of investment and institution management department of Guangzhou Rural Commercial Bank.

Lai Jiaxiong, male, was born in October 1975. He graduated from Jinan University and obtained a master's degree in laws. He now serves as employee supervisor and general manager of the Compliance and Legal Affairs Department (Anti-money Laundering Center, Consumer Rights Protection Center) of Guangzhou Rural Commercial Bank. He once served as clerk of the planning and credit department, section-level member of the loan approval committee and deputy general manager of the loan approval department of Guangzhou Rural Credit Cooperative Union, deputy director of director office of Huangpu Credit Cooperative (黃埔信用社), chairman of the president's office of Huixian Zhujiang Rural Bank, deputy general manager of the credit approval department, chief senior manager of the rural banking division (institutional development department), chief senior manager of the risk management department, general manager of the credit management center and deputy general manager of the compliance and risk management department and deputy general manager of the compliance and legal affairs department of Guangzhou Rural Commercial Bank.

Huang Yong, male, was born in November 1964. He graduated from Beijing Jiaotong University and obtained a doctor's degree in transportation and management. He now serves as vice chairman and general manager of Guangzhou Inspection and Certification Group Co., Ltd. (廣州檢驗檢測認證集團有限公司) and shareholder supervisor of Guangzhou Rural Commercial Bank. He once served as cadre, deputy chief staff member and assistant to director of the safety and quality department of Guangzhou Port Authority, assistant to general manager of Hainan Port Group Corporation, secretary of the general Party branch's committee, deputy general manager (responsible for administrative work) and general manager of Guangzhou Port Freight Corporation, manager and general manager of Guangzhou Port Xinsha Stevedoring Co., Ltd., assistant to general manager and deputy general manager of Guangzhou Port Group Co., Ltd., deputy secretary of the Party Committee, vice chairman and general manager of Guangzhou International Group Co., Ltd., and deputy secretary of the Party Committee, vice chairman and general manager of Guangzhou Vanlead Group Co., Ltd..

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mao Yunshi, male, was born in December 1945. He obtained a doctor's degree in world economics from Wuhan University and a master's degree in business administration (MBA) from Catholic University of Leuven (Belgium). He now serves as professor and doctoral tutor of School of Management of Sun Yat-sen University and director of Enterprise and Market Research Center of Sun Yat-sen University, DBA tutor of Grenoble Graduate School of Business, independent director of Guangxi Beibu Gulf Bank, external supervisor of Guangzhou Rural Commercial Bank, external director of Foshan Public Utilities Holding Co., Ltd., independent director of Huizhou Huayang Group Co., Ltd. (惠州市華陽集團股份有限公司), independent director of Guangdong Zhongke Baiyun Emerging Industry Venture Capital Fund Co., Ltd. (廣東中科白雲新興產業創業投資基金有限公司), and editor of Journal of Management Science, Academic Research and Sun Yat-Sen Management Review of Taiwan. He once served as associate professor of department of economics and management, director of the teaching and research office, department deputy director, professor and deputy dean of the School of Management of Wuhan University, dean of the School of Management of Sun Yat-sen University, independent director of China Resources Sanjiu Medical & Pharmaceutical Co., Ltd. (華潤三九醫藥股份有限公司), external director of Guangzhou Construction Group, member of the Guangdong Provincial Degree Committee, member of the Discipline Review Group on Business Administration of Academic Degrees Committee of the State Council, member of Discipline Review Group on Management of National Natural Science Foundation of China, member of the Standing Committee of the Guangdong Provincial People's Political Consultative Conference, and Counsellor of Guangdong Provincial People's Government.

Chen Dan, male, was born in October 1966. He graduated from National University of Singapore and obtained a master's degree in business administration. He now serves as chairman of Guangdong Evergreen Conglomerate Co., Ltd., chairman of Guangdong Evergreen Feed Industry Co., Ltd., honorary president of Guangdong Provincial Chamber of Commerce, vice chairman of the 13th Session of Chinese People's Political Consultative Conference Zhanjiang Committee and external supervisor of Guangzhou Rural Commercial Bank. He once served as member of the 10th, 11th and 12th Congress of National People's Congress, member of the Standing Committee of the 11th and 12th Congress of Guangdong Provincial People's Congress, standing member of All-China Federation of Industry and Commerce, member of the 9th Session of Chinese People's Political Consultative Conference Zhanjiang Committee and vice chairman of the 10th, 11th and 12th Session of Chinese People's Political Consultative Conference Zhanjiang Committee.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Shao Baohua, male, was born in May 1969. He graduated from Jinan University and obtained a doctor's degree in international relations. He now serves as chairman of Guangzhou College of Technology and Business, external supervisor of Guangzhou Rural Commercial Bank, chairman of Guangzhou Huadu Huanyang Trading Co., Ltd., member of the 9th Session of Chinese People's Political Consultative Conference Guangzhou Huadu District Committee, member of the 15th Congress of People's Congress of Guangzhou Huadu District, member of the standing committee of Guangzhou Youth Federation, vice president and council member of the Guangzhou Branch of the Alumni Association of School of International Studies, Peking University, and member of the 14th Congress of People's Congress of Guangzhou. He once served as teacher of Huadu Xinhua Songbai Primary School of Guangzhou, executive director of Guangzhou Huadu Huanyang Trading Co., Ltd., and principal of Guangzhou Huadu Huanyang School of Commerce.

Zhang Jian, male, was born in June 1962. He graduated from Jilin University, and obtained a master's degree in executive business administration from Sun Yat-sen University and the qualification of economist. He now serves as Deputy Secretary of the Party Committee of Guangzhou Rural Commercial Bank. He once served as a staff member and deputy section chief of Agricultural Bank of China, Taobei Sub-branch of Baicheng, Jilin Province; a member, deputy chief and chief of comprehensive planning division of statistics department of Jilin Branch of Bank of China; deputy chief of capital planning department of Jilin Branch of Bank of China; deputy general manager and general manager of office of Bank of Guangzhou; assistant to the president, secretary of the board of directors, deputy secretary and vice president of Commission for Discipline Inspection, and president of Zhujiang sub-branch of Bank of Guangzhou; and deputy secretary of the Party Committee and director of Guangzhou State-owned Capital Operation Holdings Co., Ltd. (廣州國資發展控股有限公司).

Zhao Wei, male, was born in September 1964. He graduated from Jinan University and obtained a master's degree in management and the qualification of intermediate accountant. He now serves as the Chief of the Discipline Inspection Team of the Commission for Discipline Inspection and the National Supervision Commission of Guangzhou stationed in Guangzhou Rural Commercial Bank. He once served as a key officer and director of the quality office (at department level) of the finance department of Guizhou Rubber Parts Factory (貴州橡膠配件廠); key accountant and chief of finance department of Shunde Zhujiang Packaging Company in Guangdong Province (廣東省順德珠江包裝公司); cadre, principal staff member and deputy director (responsible of the operations) of the audit office of foreign capital administration in the Guangzhou Resident Office of the Audit Commission; deputy director (responsible of the operations) of the first division of the financial audit department in the Guangzhou Resident Office of the Audit Commission; director of Fixed Assets Investment Audit Office, director of Social Security Audit Office and director of Foreign Funds Utilization Audit Office; dispatched chairman of the board of supervisors of Guangzhou state-owned enterprises, namely Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司) and Guangzhou Public Transportation Group (廣州市公共交通集團有限公司); dispatched chairman of the board of supervisors of Guangzhou Flagship Development Group Co., Ltd. (a Guangzhou state-owned enterprise), and chairman of the board of supervisors and secretary of Commission for Discipline Inspection of Flagship Development Group.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Chen Jianming, male, was born in November 1961. He graduated from the Open University of China (formerly China Central Radio and TV University) and obtained a master's degree in executive business administration from Sun Yat-sen University and the qualification of economist. He now serves as Vice President of Guangzhou Rural Commercial Bank. He once served as deputy sector chief and sector chief of PBOC Panyu Subbranch; chief (secondment position) of Panyu Urban Credit Union; vice president of PBOC Panyu Sub-branch and vice president of SAFE Panyu Sub-branch; deputy director of Guangzhou Panyu Rural Credit Cooperative; director of Guangzhou Panyu Rural Credit Cooperative; assistant to director of Guangzhou Rural Credit Cooperative Union and secretary of the Party Committee and director of Panyu Credit Cooperative; assistant to director of Guangzhou Rural Credit Cooperative Union and secretary of the Party Committee of Panyu Credit Cooperative; member of the Party Committee and deputy director of Guangzhou Rural Credit Cooperative Union.

Lin Ripeng, male, was born in January 1970. He graduated from Guangdong Academy of Social Sciences, and obtained a master's degree in advanced business administration from the Management School of Sun Yat-sen University and the qualification of political engineer and human resources professional. He now serves as Vice President of Guangzhou Rural Commercial Bank. He once served as staff member of Shijing Credit Cooperative of Guangzhou Rural Credit Cooperative Union, assistant to section chief and deputy section chief of personnel and political engineering section of Guangzhou Baiyun Sub-branch of Agricultural Bank of China, deputy manager and manager of personnel department of Baiyun Credit Cooperative of Guangzhou Rural Credit Cooperative Union, deputy general manager and general manager of personnel and education department (human resources department) of Guangzhou Rural Credit Cooperative Union cum deputy secretary of commission for discipline inspection and director of supervision office of Guangzhou Rural Credit Cooperative Union, general manager of human resources department, office general manager and general manager of property management center of Guangzhou Rural Commercial Bank, president of Henan Xinyang Zhujiang Rural Bank, and chairman of board of supervisors of Bank of Guangzhou.

Chen Linjun, female, was born in November 1972. She graduated from the Open University of China (formerly China Central Radio and TV University) and obtained the qualification of assistant economist. She now serves as business director of Guangzhou Rural Commercial Bank. She once served as system administrator of computer management department and deputy section chief (responsible of the operations) of accounting department of Huangpu Sub-branch of Guangzhou Branch of China Construction Bank Corporation; assistant to general manager of business operations center of Guangdong Branch of China Construction Bank Corporation; assistant to general manager of personal banking department and general manager of e-banking center of Guangdong Branch of China Construction Bank Corporation; deputy general manager (responsible of the operations) of accounting management department of Guangzhou Rural Credit Cooperative Union; general manager of Operational Management Department of Guangzhou Rural Commercial Bank, general manager of E-banking Department and general manager of Operation management Department, person-in-charge of E-commerce and Process Bank Project Team, president of Retail Financial Business Group and general manager of Retail Financial Business Management Department of Guangzhou Rural Commercial Bank.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Yang Xuan, female, was born in December 1976. She graduated from Shanghai University of Finance and Economics and obtained a master's degree in business administration, a master's degree in law in Jinan University and the qualification of economist. She now serves as business director of Guangzhou Rural Commercial Bank, president of Sun Financial Business Department and general manager of Corporate Financial Business Management Department of Guangzhou Rural Commercial Bank; and chairman of board of supervisors of Zhujiang Financial Leasing Co., Ltd. She once served as credit staff of credit planning department, deputy manager of legal office, deputy manager of asset security department and manager of marketing department of operation center of Guangzhou Tianhe Rural Credit Cooperative Union; deputy general manager of corporate business department and general manager of compliance and risk department of Guangzhou Rural Credit Cooperative Union; general manager of Corporate Financial Department, general manager of International Business Department of Guangzhou Rural Commercial Bank and general manager of Corporate Financial Department of the Bank, deputy general manager of Guangzhou Region Business Management Department, vice president and executive president of Corporate Financial Management Department and general manager of Guangzhou Region Business Management Department, and president of Free Trade Zone Nansha Branch of Guangzhou Rural Commercial Bank.

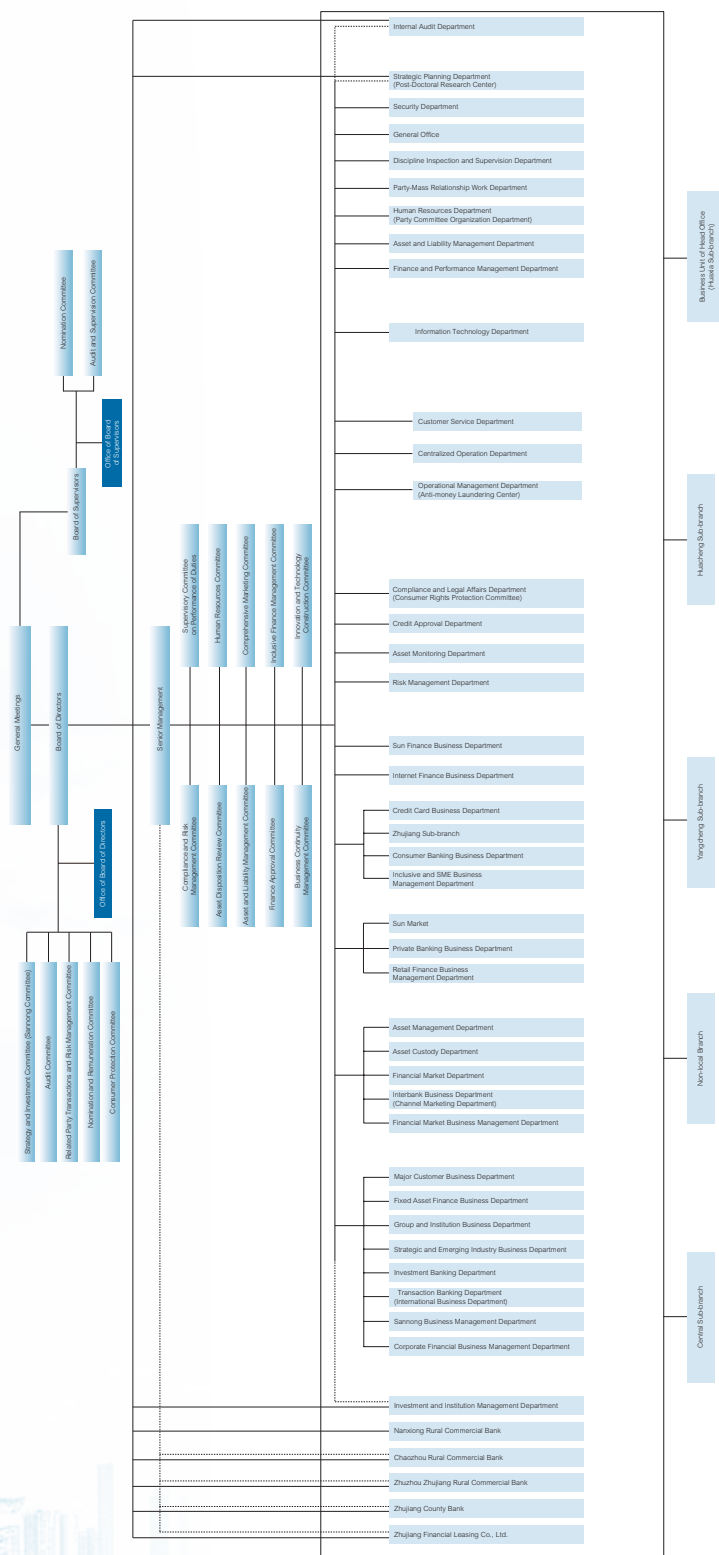
Cai Huiran, male, was born in June 1972. He graduated from Jinan University and obtained a bachelor's degree in engineering. He now serves as Chief Information Officer of Guangzhou Rural Commercial Bank and general manager of Inclusive and SME Business Management Department. He once served as a programmer of technology department of Guangzhou Branch of Guangdong Development Bank; member, manager, deputy general manager and general manager of development division of technology department of Guangzhou Bank; president of Lianxin Road Sub-branch of Guangzhou Bank; deputy general manager (responsible of the operations) of information technology department of Guangzhou Rural Credit Cooperative Union; general manager of Information Technology Department, general manager of Technology and Network Financial Management Head Office, general manager of Operation Management Department and general manager of Credit Card Business Department of Guangzhou Rural Commercial Bank.

Zheng Ying, female, was born in May 1972. She graduated from Central South University (formerly Changsha Railway College (長沙鐵道學院)) and obtained a bachelor's degree in engineering and the qualification of intermediate economist. She now serves as Secretary of the Board of Directors, Company Secretary and General Manager of Office of the Board of Directors of Guangzhou Rural Commercial Bank. She once served as an engineer of engineering department of Guangzhou Xingchen Group Co., Ltd. (廣州星晨集團有限公司); manager of comprehensive business department of Beijing management head office of Xiangcai Securities; secretary of the board of directors of Hunan Tianyi Science and Technology Co., Ltd. (湖南天一科技股份有限公司); deputy general manager of human resources department and general manager of capital business department of Guangzhou Rural Credit Cooperative Union; general manager, office general manager and Board office general manager of Capital Management Department (Listing Office) of Guangzhou Rural Commercial Bank.

CORPORATE GOVERNANCE REPORT

I. CORPORATE STRUCTURE

The corporate structure of the Group as at the end of the Reporting Period is as follows:



II. CORPORATE GOVERNANCE OVERVIEW

The Bank continued to improve the standardization of corporate governance to ensure that it meets the corporate governance standards of listed companies. This aims to safeguard the interests of stakeholders and enhance corporate value.

The Bank had strictly complied with the code provisions under the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules, and had also followed most of the recommended best practices contained therein. The Bank has also strictly complied with the relevant laws and regulations and the Hong Kong Listing Rules in respect of management of insider information. There was no significant difference between the corporate governance of the Bank and the Company Law as well as the relevant requirements of CSRC and the Hong Kong Stock Exchange.

To the best of knowledge of the directors of the Bank, there is no reasonable statistics indicating that the Bank was in violation of the Corporate Governance Code during the year ended 31 December 2019.

The Bank will continue to review and enhance its corporate governance to ensure that it will continue to meet the requirements of the Corporate Governance Code and the rising expectations of shareholders and investors.

III. GENERAL MEETING

The Bank convened three general meetings during 2019, namely, the 2019 First Extraordinary General Meeting, the 2018 Annual General Meeting and the 2019 Second Extraordinary General Meeting. The details are as follows:

On 28 January 2019, the Bank convened the 2019 First Extraordinary General Meeting, which mainly reviewed and passed 1 resolution, namely, the change regarding the Bank's equity investment in Chaozhou Rural Commercial Bank. The convening of this general meeting fulfilled the corresponding legal procedures in accordance with laws and regulations. During the Reporting Period, three of the then Directors, namely, Mr. Wang Jikang, executive Director of the Bank, Mr. Liu Heng and Mr. Song Guanghui, independent non-executive Directors, attended the 2019 First Extraordinary General Meeting.

On 24 May 2019, the Bank convened the 2018 Annual General Meeting, which mainly reviewed and passed 11 resolutions, namely, the 2018 Work Report of the Board of Directors, the 2018 Work Report of the Board of Supervisors, the 2018 Report on Final Accounts, the 2018 Profit Distribution Proposals, the 2018 Annual Report and the 2019 Financial Budgets. The convening of this general meeting fulfilled the corresponding legal procedures in accordance with laws and regulations. During the Reporting Period, five of the then Directors, namely, Mr. Yi Yuefei, executive Director of the Bank, Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui and Mr. Yung Hin Man Raymond, independent non-executive Directors, attended the 2018 Annual General Meeting.

On 22 August 2019, the Bank convened the 2019 Second Extraordinary General Meeting, which mainly reviewed and passed 3 resolutions, including the Status Report on Previously Raised Funds, the issuance of financial bonds and the amendments to the Rules of Procedure of the Board of Supervisors. The convening of this general meeting fulfilled the corresponding legal procedures in accordance with laws and regulations. During the Reporting Period, three of the then Directors, namely, Mr. Yi Yuefei, executive Director, Mr. Liu Shaobo and Mr. Song Guanghui, independent non-executive Directors, attended the 2019 Second Extraordinary General Meeting.

CORPORATE GOVERNANCE REPORT

IV. BOARD OF DIRECTORS

(I) Implementation of the Resolutions of the General Meetings by the Board of Directors

During 2019, the Board of Directors strictly implemented the resolutions passed at the 2018 Annual General Meeting and conscientiously implemented various proposals reviewed and passed at the general meetings.

(II) Board Composition

As at the end of the Reporting Period, the Board of Directors comprised a total of 10 Directors, including one executive Director, namely Mr. Yi Xuefei (Vice Chairman and President); four non-executive Directors, namely Mr. Li Fangjin, Mr. Su Zhigang, Mr. Liu Guojie and Mr. Zhu Kelin; and five independent non-executive Directors, namely Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui, Mr. Zheng Jianbiao and Mr. Yung Hin Man Raymond.

Each term of office of a Director (including non-executive Directors) is three years and he/she may serve consecutive terms if re-elected. Upon expiry of the office term of three years, an independent non-executive Director shall be eligible for re-election and reappointment as independent non-executive Director of the Bank. An independent non-executive Director shall serve in the Bank for no more than a cumulative period of six years.

The list of Directors (by category of Directors) is disclosed in all corporate communications issued by the Bank in accordance with the Hong Kong Listing Rules.

(III) Diversification Policies of the Board of Directors

The Bank believes that a diversified Board of Directors will be beneficial to enhance the Bank's performance. The Bank considers the increasing diversification at the level of Board of Directors as a key factor in achieving sustainable development, supporting its achievement of strategic objectives and maintaining good corporate governance.

In setting the composition of the Board of Directors, the Bank will consider the diversification of members of the Board of Directors from various aspects, including but not limited to, gender, aspect and industry experience, skills, knowledge and educational background. All appointments to the Board of Directors shall follow the principle of meritocracy, taking into account objectively the benefits of diversification of members of the Board of Directors when considering the candidates.

The Nomination and Remuneration Committee will review the policy in due time to ensure its effectiveness in performance. The Nomination and Remuneration Committee will discuss any possible amendments needed, and offer the advice on amendments to the Board of Directors for its consideration and approval.

(IV) Changes of Board Members

For details of changes of the Directors, please refer to the section headed "Directors, Supervisors and Senior Management" of this annual report.

(V) Chairman and President

Mr. Yi Xuefei, as the vice chairman and president of the Bank, performs the following duties: to manage the business operation of the Bank; and to report to the Board of Directors, etc.. Since July 2019 when Mr. Wang Jikang resigned as the chairman of the Bank, Mr. Yi Xuefei has temporarily chaired the Board of Directors and performed the following duties: to preside over general meetings; to convene and preside over board meetings; and to supervise and examine the implementation of resolutions of the Board of Directors, etc..

(VI) Operation of the Board of Directors

The Board of Directors convenes regular meetings, generally no fewer than four times a year; extraordinary meetings are convened if and when necessary. Board meetings may be convened by means of on-site conference or written resolutions. The agenda for board meetings is drafted upon regular consultation with each director. Regular meeting papers and relevant materials are usually circulated to all directors and supervisors at least 14 days in advance of board meetings. All directors keep contact with the office of Board of Directors, to ensure compliance with board procedures and all applicable rules and regulations.

Detailed minutes of meetings of the Board of Directors are maintained and are available to all Directors for their review and comments after the conclusion of such meeting. The finalized minutes of meetings of the Board of Directors will be sent to all directors as soon as possible. The minutes of meetings of the Board of Directors are kept according to the file management regulations of the Bank and are available for inspection by directors at any time.

A good communication and reporting mechanism has been established among the Board of Directors, directors and senior management of the Bank. The president and chief executives report regularly to and are supervised by the Board of Directors. Relevant members of senior management are invited to participate in meetings of the Board of Directors from time to time to provide explanations and answers to inquiries.

Directors can express their opinions freely at meetings of the Board of Directors, and major decisions are made after detailed discussions. A director shall abstain from discussion and voting at a meeting of the Board of Directors on any proposal in which he is materially interested, and shall not be counted in the quorum for such proposal.

The Board of Directors has set up an office as its working body, which is responsible for preparation of general meetings, meetings of the Board of Directors and meetings of the special committees under the Board of Directors, information disclosure and other routine matters.

(VII) Duties of the Board of Directors

The Board of Directors is responsible for formulating the corporate governance system and monitoring the Group's business and financial strategy decisions and performance and reporting to the shareholders at the general meeting. The Board of Directors has conferred the rights and duties of the Group's governance to the management. In addition, the Board of Directors has assigned the respective responsibilities to the Strategy and Investment Committee (Sannong Committee), Related Party Transactions and Risk Management Committee, Nomination and Remuneration Committee, Audit Committee, and Consumer Protection Committee. The details of the above committees are set out in this Report.

CORPORATE GOVERNANCE REPORT

The Board of Directors is also responsible for performing corporate governance functions. During the year ended 31 December 2019, the Board of Directors has fulfilled its corporate governance functions as set out in Code D.3.1 of the Corporate Governance Code.

According to the Articles of Association, the Board of Directors assumes the ultimate responsibility for the Bank's operations and management and exercises the following duties and powers according to law:

- To convene shareholders' general meetings and report its work to the shareholders' general meetings;
- To implement the resolutions of the shareholders' general meetings;
- To formulate the development strategy of the Bank and its specific development strategies in green credit, financial innovation and protection of consumers' interests, and supervise the implementation of the said strategies, and decide on the business plans and investment plans of the Bank;
- To prepare the annual financial budgets and final accounts of the Bank;
- To prepare the venture capital distribution plan, profit distribution plan and the plan for making up the losses of the Bank;
- To formulate the capital planning and take ultimate responsibility for capital management, and formulate plans for increase or reduction of the registered capital, issue of corporate bonds or other securities and listing;
- To prepare plans for the Bank's material acquisitions, acquisitions of the Bank's shares, or merger, division, dissolution and alteration of corporate form of the Bank;
- To approve, other than daily operation of the Bank, the external investments, purchase or disposal of assets, pledge of assets, external guarantees, entrustments of others to manage the Bank's funds or other assets of the Bank, except for material matters regulated in the Articles of Association, which shall be decided by the shareholders' general meeting;
- To approve material related party transactions of the Bank, unless otherwise regulated in the Articles of Association;
- To decide on the establishment of internal management structure of the Bank;
- As proposed by the Nomination and Remuneration Committee, to decide on the appointment or removal of the President, the chief officer and the secretary to the Board of Directors and their remuneration based on the proposals of the Chairman; to decide on the appointment or removal of the vice president, the assistant to the president, the business director and other senior management and their remuneration based on the proposals of the President;

CORPORATE GOVERNANCE REPORT

- To formulate the basic management system of the Bank;
- To take the ultimate responsibility for specific risk management of the Bank such as the comprehensive risk management and compliant operation, liquidity risk management, reputation risk management and management of consolidated financial statements, and certain material responsibilities such as protection of consumers' interests;
- To develop risk management culture, formulate the comprehensive risk management policy of the Bank, formulate relevant risk management systems for risk tolerance, risk preference, internal control, reputation risk, financial innovation risk management and fraud risk management as the main contents of the risk management of the Bank;
- To prepare any amendment proposals to the Articles of Association;
- To be responsible for information disclosure of the Bank and take the ultimate responsibilities for the truthfulness, accuracy, completeness and timeliness of accounting and financial reports of the Bank;
- To determine the job responsibilities for any manager, including the President, the Vice President, the chief officer, the assistant to president, the secretary to the Board of Directors and the business directors;
- To monitor the performance of senior management and ensure their effective performance;
- To receive the work report from the President and inspect the work of the President;
- The Board of Directors shall establish a supervisory system for the management to formulate the code of conduct and terms of reference for the management and business officers and that the normative documents shall specifically require employees at all levels to report any potential conflict of interests in a timely manner, provide particular rules and establish corresponding measures;
- The Board of Directors shall establish a reporting system and require the senior management to report to the Board of Directors and Directors the operation and management issues of the Bank, and the reporting system shall cover provisions for the matters below;
 1. the content of the information reported to the Board and Directors and the minimum reporting standards;
 2. the reporting frequency;
 3. the reporting method;
 4. the responsible body and liabilities arising from postponed or incomplete reporting;
 5. the confidentiality obligations.

CORPORATE GOVERNANCE REPORT

- To evaluate and refine the corporate governance of the Bank on a regular basis;
- To protect the legitimate interests of depositors and other interested parties;
- To establish the mechanism for identification, verification and management of the conflict of interest between the Bank and shareholders, in particular Substantial Shareholders; and
- To exercise any other duties and power conferred by laws, regulations, regulatory requirements and the Articles of Association.

(VIII) Board Meetings

During the Reporting Period, the Bank convened 21 board meetings (including communication meetings) in total (including six on-site meetings and 15 communication meetings), at which 99 proposals were considered and approved on the matters mainly including the 2018 Annual Report and the 2019 Interim Report.

The list of directors participating in the meetings is as follows:

Attendance/ meetings convened	Director	Board meetings ¹	Meetings of Strategy and Investment Committee (Sannong Committee) ¹	Meetings of Related Party Transactions and Risk Management Committee ¹	Meetings of Audit Committee ¹	Meetings of Consumer Protection Committee ¹	Meetings of Nomination and Remuneration Committee ¹
Executive Director	Yi Xuefei	21/21	5/5	–	–	–	–
Independent non-executive Directors	Song Guanghui	21/21	5/5	12/12	–	1/1 ²	4/4
	Zheng Jianbiao	21/21	5/5	–	5/5	–	4/4
	Liu Heng	21/21	5/5	12/12	5/5	4/4	–
	Liu Shaobo	21/21	5/5	–	–	4/4	4/4
	Yung Hin Man Raymond	21/21	5/5	–	5/5	–	4/4
Non-executive Directors	Li Fangjin	21/21	–	12/12	3/5 ³	–	1/1 ⁴
	Su Zhigang	21/21	5/5	–	–	4/4	–
	Liu Guojie	21/21	–	12/12	–	4/4	–
	Zhu Kelin	21/21	–	12/12	5/5	–	–

Notes:

- (1) Directors who did not attend in person but appointed other directors to attend the meetings on their behalf, and Directors who abstained from voting on related party transactions, were deemed to attend the meetings.
- (2) Independent non-executive Director, Song Guanghui, became an additional member of the Consumer Protection Committee on 28 August 2019, therefore, he participated in one meeting of the Consumer Protection Committee during the Reporting Period.

- (3) During the Reporting Period, the Audit Committee convened three decision-making meetings and two non-decision-making meetings. Non-executive Director Li Fangjin was absent from two non-decision-making meetings.
- (4) Non-executive Director Li Fangjin became an additional member of the Nomination and Remuneration Committee on 13 December 2019, therefore, he participated in one meeting of the Nomination and Remuneration Committee during the Reporting Period.

(IX) Continuous Professional Development Program for Directors

During the Reporting Period, the Strategy and Investment Committee (Sannong Committee) of the Board of Directors held seminars on the topics of agriculture, farmer and rural in Nansha and Chaozhou, in order to understand the traditional village community services and the development of modern agriculture, and listen to customers' opinions and suggestions in relation to the credit granting for village community, recruitment of villagers and upgrading of traditional credit concepts. In addition, independent and objective professional advice on the operation management were provided.

The Bank pays attention to the continuous training of the Directors to ensure that all Directors have a proper understanding of the Bank's operations and businesses and ensure that they understand their duties and responsibilities conferred by the relevant laws and regulations of the CBIRC, the CSRC, the Hong Kong Stock Exchange and the Articles of Association. During the Reporting Period, the members of the Board of Directors participated in the training on the "Notice on Further Strengthening the Related Work of Financial Service Private Enterprises" (《關於進一步加強金融服務民營企業有關工作的通知》), "Disposal and Management of Non-performing Loans of Commercial Banks" (《商業銀行不良貸款處置管理》) and "Deepening of Understanding and Improvement, Strengthening of Anti-money Laundering Work under New Situation" (《深化認識·拾級而上 夯實新形勢下反洗錢工作》), and participated in the advanced seminar in corporate governance for Directors, supervisors and senior management held by the Bank, which broadened the Board of Directors' visions of macro-level decision-making, enhanced their ability to comprehend major policies and consolidated the intellectual capital of the Board of Directors.

(X) Performance of Independent Non-executive Directors

During the Reporting Period, the Company had five independent non-executive directors, the number and proportion of which were in compliance with the relevant requirements of the CBIRC, the CSRC and the Listing Rules. The Related Party Transactions and Risk Management Committee, Nomination and Remuneration Committee, Audit Committee and Consumer Protection Committee of the Bank are all chaired by independent non-executive Directors. During the Reporting Period, the independent non-executive Directors actively participated in the Board meetings and meetings of the respective special committees, provided advice and suggestions, played their due role effectively, and continued to effectively communicate with the Bank through various ways such as participating in field trips, special investigations and attending training.

The independent non-executive Directors issued written independent opinions on major issues such as the profit distribution plan, senior management appointments, engagement of auditors, and major related party transactions. In addition, the independent non-executive Directors of the Bank also took full advantages of their professional advantages in the special committees of the Board of Directors and provided professional and independent opinions on the corporate governance and operation management, which has provided a powerful guarantee for the scientific decision-making process of the Board of Directors.

CORPORATE GOVERNANCE REPORT

(XI) Directors' duties in preparing financial statements

The Directors acknowledge that they are responsible for the preparation of the financial statements of the Bank for the year ended 31 December 2019.

The Directors are responsible for reviewing and confirming the financial statements for each accounting period so that the financial statements give a true and fair view of the financial position, operating results and cash flows of the Bank.

In preparing the financial statements for the year ended 31 December 2019, the Directors have selected and applied applicable accounting policies consistently and have made prudent and reasonable judgments.

(XII) Special committees of the Board of Directors

The Board of Directors established five special committees in accordance with relevant laws and regulations, the Articles of Association and the Listing Rules, namely, the Strategy and Investment Committee (Sannong Committee), Related Party Transactions and Risk Management Committee, Nomination and Remuneration Committee, Audit Committee and Consumer Protection Committee.

During the Reporting Period, the special committees of the Board of Directors exercised their duties in an independent, regulated and effective manner in accordance with the law, which effectively enhanced the corporate governance of the Board of Directors, improved the working efficiency and ensured the stable and healthy development of various businesses of the Bank.

1. Strategy and Investment Committee (Sannong Committee)

As at the end of the Reporting Period, the Strategy and Investment Committee (Sannong Committee) of the Bank consisted of 7 Directors. Its chairman was Mr. Yi Xuefei, vice chairman and executive Director. The members included Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui, Mr. Zheng Jianbiao and Mr. Yung Hin Man Raymond, independent non-executive Directors, and Mr. Su Zhigang, non-executive Director.

The key terms of reference of the Strategy and Investment Committee (Sannong Committee) during the Reporting Period included:

- Formulating the long-term development strategy and medium and long-term development objective of the Bank, and making recommendations to the Board of Directors;
- Formulating the development strategies of Sannong financial services, green credit and financial innovation, and promoting the establishment of the relevant work mechanisms;
- Making recommendations on the adjustments of strategies in response to the change in the operation environment, supervising and assessing the implementation of strategies and making relevant recommendations;

- Conducting research on and formulating relevant systems for external investment, making recommendations on and formulating plans for the major investment decisions of the Bank (including fixed asset investment and equity investment) and implementing group management on our subsidiaries;
- Conducting research on and formulating relevant system for external mergers and acquisitions, conducting research on the strategy for mergers and acquisitions and making recommendations on the implementation plan, including acquisition target, acquisition method, reorganization and consolidation;
- Conducting research on and planning diversified operation and development models, conducting research on and formulating organization models and management methods of finance group companies;
- Conducting research on the implementation of other major issues concerning the strategic development of the Bank.

In 2019, the Strategy and Investment Committee (Sannong Committee) held a total of five meetings, at which it reviewed and approved 27 resolutions such as the 2018 Report on the Implementation of Strategic Implementation Plan of Guangzhou Rural Commercial Bank Co., Ltd., the 2018 Final Accounts of Guangzhou Rural Commercial Bank Co., Ltd. and the 2018 Profit Distribution Plan of Guangzhou Rural Commercial Bank Co., Ltd.. It also held two Sannong forums.

2. *Related Party Transactions and Risk Management Committee*

As at the end of the Reporting Period, the Related Party Transactions and Risk Management Committee of the Bank consisted of five Directors. Its chairman was Mr. Song Guanghui, independent non-executive Director. The members included Mr. Liu Heng, independent non-executive Director, and Mr. Li Fangjin, Mr. Liu Guojie and Mr. Zhu Kelin, non-executive Directors.

The key terms of reference of the Related Party Transactions and Risk Management Committee during the Reporting Period included:

- Supervising senior management's risk control in terms of credit risk, market risk and operational risk, regularly assessing the Bank's risk and management status, risk tolerance and level and fraud prevention work, and advising on the improvement of risk management and internal control of the Bank;
- Making suggestions on improving the Bank's economic capital management and implementing the new capital agreement;
- Managing and examining related party transactions of the Bank in a timely manner and providing opinions thereon in order to control the risks arising from related party transactions.

CORPORATE GOVERNANCE REPORT

During 2019, the Related Party Transactions and Risk Management Committee held a total of 12 meetings, at which it reviewed and approved 27 resolutions such as the 2018 Work Report and the 2019 Work Plan on Comprehensive Risk Management of Guangzhou Rural Commercial Bank Co., Ltd., the 2018 Work Report and the 2019 Work Plan on Compliance Risk Management of Guangzhou Rural Commercial Bank Co., Ltd. and the 2018 Work Report and the 2019 Work Plan on Information Technology Risk and Business Continuity Management of Guangzhou Rural Commercial Bank Co., Ltd..

3. ***Nomination and Remuneration Committee***

As at the end of the Reporting Period, the Nomination and Remuneration Committee of the Bank consisted of five Directors. Its chairman was Mr. Liu Shaobo, independent non-executive Director. The members included Mr. Song Guanghui, Mr. Zheng Jianbiao, Mr. Yung Hin Man Raymond, independent non-executive Directors, and Mr. Li Fangjin, non-executive Director.

The key terms of reference of the Nomination and Remuneration Committee during the Reporting Period included:

- setting up the selection procedures and criteria for directors and senior management, conducting preliminary review on the qualifications and credentials of candidates for directors and senior management and making recommendations to the Board of Directors;
- considering the compensation management system and policy of the Bank;
- formulating the remuneration plan for directors, supervisors and senior management, making recommendations on the remuneration plan to the Board of Directors and supervising the implementation of the plan;
- dealing with other matters conferred by the laws, regulations, regulatory requirements and the Board of Directors.

During 2019, the Nomination and Remuneration Committee held a total of four meetings, at which it reviewed and approved nine resolutions such as the 2018 Performance Report of Directors of Guangzhou Rural Commercial Bank Co., Ltd., the election of Mr. Zhang Jian as director candidate of Guangzhou Rural Commercial Bank, and the appointment of Mr. Lin Ripeng as vice president of Guangzhou Rural Commercial Bank.

4. **Audit Committee**

As at the end of the Reporting Period, the Audit Committee of the Bank consisted of five directors. Its chairman was Mr. Zheng Jianbiao, independent non-executive Director. The members included Mr. Liu Heng and Mr. Yung Hin Man Raymond, independent non-executive Directors, and Mr. Li Fangjin and Mr. Zhu Kelin, non-executive Directors.

The key terms of reference of the Audit Committee during the Reporting Period included:

- reviewing the accounting policies, financial position and financial reporting procedures of the Bank, and reviewing the risk and compliance conditions of the Bank;
- conducting the annual audit work of the Bank, preparing analytical report on the authenticity, completeness and accuracy of the information set out in audited financial reports and submitting the same to the Board of Directors for review and consideration.

During 2019, the Audit Committee held a total of five meetings, at which it reviewed and approved nine resolutions such as the 2018 Annual Audit Report on Financial Statements of Guangzhou Rural Commercial Bank Co., Ltd. (Draft), the 2018 Work Report and 2019 Work Plan on Internal Audit of Guangzhou Rural Commercial Bank Co., Ltd. and the Audit Report for a Three-year Period of Guangzhou Rural Commercial Bank Co., Ltd..

5. **Consumer Protection Committee**

As at the end of the Reporting Period, the Consumer Protection Committee of the Bank consisted of five Directors. Its chairman was Mr. Liu Heng, independent non-executive Director. The members included Mr. Liu Shaobo and Mr. Song Guanghui, independent non-executive Director, and Mr. Su Zhigang and Mr. Liu Guojie, non-executive Directors.

The duties of the Consumer Protection Committee included: formulating the strategies, policies and objectives of the Bank's protection of consumer rights and interests, assisting the Board of Directors to urge the senior management to effectively conduct and implement relevant work, and supervising and assessing the consumer protection work regarding its comprehensiveness, timeliness and effectiveness, and the senior management's performance of duties.

During 2019, the Consumer Protection Committee held a total of four meetings, at which it reviewed and approved six resolutions such as "2018 Work Summary and 2019 Work Plan on Protection of Consumers' Interests of Guangzhou Rural Commercial Bank (《廣州農村商業銀行消費者權益保護2018年工作總結及2019年工作計劃》)" and "Resolution Regarding Approving Director Song Guanghui as an Additional Member of the Consumer Protection Committee of the 2nd Session of the Board of Directors" (《關於審議補充宋光輝董事為第二屆董事會消費者權益保護委員會委員》).

CORPORATE GOVERNANCE REPORT

(XIII) The election process of Board members

According to the provisions of the Articles of Association, Directors shall be elected or replaced at a shareholders' general meeting. The term of office of the directors shall be 3 years, and a Director may be re-elected and re-appointed upon expiry of his/her term of office. The term of office of a Director shall commence from the date on which directorship of the said Director was confirmed by the banking insurance regulatory authority of the PRC to the expiry of the current term of the Board of Directors. Before the expiry of the director's term of office, the shareholders' general meeting shall not dismiss any Director without any reason.

Where re-election is not carried out promptly after a Director's term of office expires, the Director shall continue to perform the duties owed by a director before a new Director is elected to take up the office, subject to the laws, regulations, regulatory requirements and the Articles of Association.

The president or other senior management personnel may concurrently serve as a Director, provided that the aggregate number of the Directors who concurrently serve as senior management and employee representative Directors shall not exceed one half of the total number of Directors, and the number of the Directors in the Board of Directors who serve as senior management shall be no less than two.

The Board of Directors may comprise employee representative(s) of the Bank. Employee representatives who serve as Directors shall become members of the Board of Directors after elected by employee representatives at the staff representative assembly of the Bank, which shall be reported by the Board of Directors to the shareholders' general meeting.

The Board of Directors may duly increase the proportion of Directors and independent non-executive Directors with international exposure and management experience as well as professional knowledge in areas such as finance, accounting, risk management, financial management and financial technology.

After a Director is elected and his/her directorship is approved by the banking insurance regulatory authority of the PRC, the Bank shall enter into an employment contract with such Director in a timely manner, which shall specify, among others, rights and duties between the Bank and the Director, term of office of the Director, liability of the Director due to violation of laws, regulations and the Articles of Association, and compensation on early termination of the said employment contract for any reason by the Bank, in compliance with the laws, regulations and provisions of the Articles of Association.

V. BOARD OF SUPERVISORS

(I) Composition of Board of Supervisors

As at the end of the Reporting Period, the Board of Supervisors of the Bank consisted of eight Supervisors, comprising three employee representative Supervisors (being Ms. Wang Xigui, Ms. He Heng and Mr. Lai Jiaxiong); three external Supervisors (being Mr. Mao Yunshi, Mr. Chen Dan and Mr. Shao Baohua); and two shareholder Supervisors (being Mr. Huang Yong and Mr. Zhang Dalin).

The Supervisors are elected for a term of three years and are eligible for re-election upon the expiration of such term. External Supervisors are elected for a term of three years and are eligible for re-election, provided that the term of office may not exceed six consecutive years.

(II) Duties of Board of Supervisors

According to the Articles of Association of the Bank, the Board of Supervisors assumes supervisory responsibility and exercises the following duties and powers according to law:

- To supervise the Board of Directors in establishing sound business philosophy, value standard and formulating development strategies according to the actual situation of the Bank;
- To make periodical assessments on the scientificity, reasonableness and effectiveness of the development strategies formulated by the Board of Directors and form the assessment reports;
- To conduct supervision and assessment over the performance of duties by the Board of Directors and senior management in respect of the key responsibilities including strategic management, operation decisions, financial management, remuneration management, capital management, internal control, comprehensive risk management, liquidity risk management, compliance management, fraud prevention, Sannong financial services and related party transactions and to report the same to the general meetings in accordance with the requirements, to consider relevant audit reports in accordance with the requirements, and to provide guidance with respect to the work of internal audit department of the Bank;
- To inspect and supervise the business decision, risk management and internal control of the Bank and supervise rectifications;
- To examine and supervise the Bank's financial affairs and the management of consolidated financial statements;
- To examine the regular reports of the Bank compiled by the Board of Directors and submit its opinion of examination in writing;
- To review the financial reports, operation reports, profit distribution plans and other financial information to be submitted by the Board of Directors to the general meetings; if any queries arise, to engage, in the name of the Bank, certified accountants and practicing auditors for assistance in the review;

CORPORATE GOVERNANCE REPORT

- To supervise on the scientificity and reasonableness of the remuneration management system and policy of the Bank and the remuneration plan of the senior management officers, and to propose the remuneration (allowance) arrangement of supervisors;
- To conduct investigation if any abnormality is found in the operations of the Bank; and when necessary, to engage professional organizations such as accounting firms and law firms for assistance in its work at the expense of the Bank;
- To supervise the selection and appointment of directors;
- To make comprehensive assessment and conduct inquiries to the directors, supervisors and senior management on their performance of duties, to report the assessment results of the performance of duties to the general meetings, and to file the same to regulatory authorities;
- To organize audits on economic responsibilities of the directors and senior management upon resignation;
- To require corrections by directors and senior management where the behaviors of such directors and senior management harm the Bank's interests;
- To supervise the performance of duties of the directors and senior management, and to propose dismissal of directors and senior management who violate the laws, rules, Articles of Association or resolutions of the general meetings;
- To represent the Bank to negotiate with the directors and senior management, or to bring the lawsuits against the directors and senior management according to the Company Law;
- To submit proposals to the general meetings;
- To propose the convening of extraordinary general meetings, to convene and preside over the general meetings when the Board of Directors fails to perform its responsibility of convening and presiding over the general meeting as required by the Company Law;
- To communicate with the banking regulatory authorities of the State Council regularly in relation to the condition of the Bank;
- To exercise other duties and powers which should be exercised by the Board of Supervisors as provided by laws, regulations, regulatory requirements and the Articles of Association.

(III) Meetings of Board of Supervisors

During the Reporting Period, the Board of Supervisors convened a total of six meetings, at which 27 resolutions were considered and approved, including the 2018 work report of the Board of Supervisors, the 2018 performance assessment report of directors, supervisors and senior management, the 2018 annual report of the Bank, the 2019 interim result report, the 2018 profit distribution plan, the rules of procedure of the Board of Supervisors, the Administrative Measures for the Supervision of the Board of Supervisors (《監事會監督管理辦法》) and the Implementation Opinions of the Board of Supervisors on the Improvement and Strengthening of the Bank-wide Supervision System (《監事會關於健全和強化全行監督體系的實施意見》).

The following table set out the attendance of Supervisors in 2019 at the meetings of the Board of Supervisors and the special committees thereof:

Supervisors	Meetings of Board of Supervisors ¹	Meetings of Nomination Committee ¹	Meetings of Audit and Supervision Committee ¹
Wang Xigui	6/6	2/2	–
He Heng	6/6	2/2	–
Lai Jiaxiong	6/6	–	2/2
Mao Yunshi	6/6	2/2	–
Chen Dan	6/6	–	1/2
Shao Baohua	6/6	2/2	2/2
Huang Yong	6/6	–	2/2
Zhang Dalin	6/6	–	2/2

Note: Supervisors who did not attend in person but appointed other supervisors to attend the meetings on their behalf were deemed to attend the meetings.

(IV) Special Committees of the Board of Supervisors

The Board of Supervisors established the Nomination Committee and the Audit and Supervision Committee. The Nomination Committee consist of four Supervisors, whereas the Audit and Supervision Committee consist of five Supervisors, and the chairmen are all served by external supervisors.

1. Nomination Committee

As at the end of the Reporting Period, the Nomination Committee of the Bank consisted of four Supervisors. The chairman was Mr. Mao Yunshi and the members included Ms. Wang Xiqui, Mr. Shao Baohua and Ms. He Heng.

The key terms of reference of the Nomination Committee during the Reporting Period included:

- Studying the selection and appointment criteria and procedures for supervisors;
- Conducting preliminary review on the qualifications of supervisor candidates;
- Advising the Board of Supervisors on the number and composition of the Board of Supervisors;

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- Conducting comprehensive evaluation of the performance of directors, supervisors and senior management and reporting to the Board of Supervisors;
- Conducting extensive search for qualified candidates of supervisors;
- Supervising the procedure of selection and appointment of the directors;
- Supervising on the scientificity and reasonableness of the remuneration management system and policy of the Bank and the remuneration plan of the senior management;
- Performing other duties as authorized by the Board of Supervisors.

In 2019, the Nomination Committee held two meetings, at which five resolutions were considered and approved, including the 2018 Work Report of the Nomination Committee of the Second Session of the Board of Supervisors, the 2018 Performance Assessment Report of Supervisors, the 2018 Performance Assessment Report of Directors, the 2018 Performance Assessment Report of Senior Management and the Rules of Procedure of the Nomination Committee of the Board of Supervisors.

During the Reporting Period, the Nomination Committee of the Bank continued to deepen its performance supervision and assessment work, improved its performance assessment mechanism, conducted annual performance evaluation, and assisted the Board of Supervisors in revising and improving the Measures for the Assessment of Performance of Supervisors (《監事履職評價辦法》), the Measures for the Assessment of Performance of the Board of Directors and Its Members (《董事會及其成員履職評價辦法》) and the Measures for the Assessment of Performance of Senior Management and Its Members (《高級管理層及其成員履職評價辦法》). Meanwhile, the 2018 performance assessment of the Board of Directors and senior management and their members was carried out, and a performance assessment report was prepared and submitted to the Board of Supervisors for review as required.

2. **Audit and Supervision Committee**

As at the end of the Reporting Period, the Audit and Supervision Committee of the Bank consisted of five Supervisors. The chairman was Mr. Shao Baohua and the members included Mr. Chen Dan, Mr. Huang Yong, Mr. Zhang Dalin and Mr. Lai Jiaxiong.

The key terms of reference of the Audit and Supervision Committee during the Reporting Period included:

- Supervising the performance of duties of the Board of Directors and its members and senior management;
- Conducting mid-term economic liability audit and off-office audit for the economic liability of directors and senior management by the Board of Supervisors;
- Formulating supervision programs for financial activities of the Bank and conducting related inspections;

CORPORATE GOVERNANCE REPORT

- Supervising, examining or reviewing business decisions, risk management, internal control and fraud prevention of the Bank, as well as providing guidance for the internal audit department of the Bank;
- Conducting supervision and assessment over the performance of duties by the Board of Directors and senior management in respect of the key responsibilities including strategic planning, operation decisions, financial management, remuneration management, capital management, internal control, comprehensive risk management, liquidity risk management, compliance management, fraud prevention, Sannong financial services, related party transactions and anti-money laundering and reporting the same to the general meetings in accordance with the requirements, considering relevant audit reports in accordance with the requirements, and providing guidance for the internal audit department of the Bank;
- Supervising the Board of Directors in establishing sound business philosophy, value standard and formulating development strategies according to the actual situation of the Bank;
- Making periodical assessments on the scientificity, reasonableness and effectiveness of the development strategies formulated by the Board of Directors and forming the assessment reports;
- Performing other duties authorized by the Board of Supervisors.

In 2019, the Audit and Supervision Committee held two meetings, at which four resolutions were considered and approved, including the 2018 Work Report of the Audit and Supervision Committee of the Second Session of the Board of Supervisors (《第二屆監事會審計與監督委員會2018年度工作報告》), the 2018 Special Audit Report on Related Party Transactions (《2018年度關聯交易的專項審計報告》), the 2018 Special Audit Report on Comprehensive Risk Management (《2018年度全面風險管理的專項審計報告》) and the Rules of Procedure of the Audit and Supervision Committee of the Board of Supervisors (《監事會審計與監督委員會會議事規則》). Three matters were reported, including the 2018 work report and 2019 work plan on internal audit, the review of material related party transactions and the reporting of general related party transactions in 2018, and the regulatory opinions and rectifications of the regulatory authorities in 2018.

During the Reporting Period, in accordance with the working plan of the Board of Supervisors, the regulatory requirements and the key working plan of the Bank, the Bank's Audit and Supervision Committee focused on supervising the performance of duties of the Bank's Board of Directors and senior management and their members, corporate governance, financial activities, internal control and risk management. Also, it organized and conducted a number of supervision activities such as special inspections, special researches and special supervisions, strengthened the communication with supervisory departments and external audit institutions, and facilitated the improvement of the Bank's internal control compliance and the prevention of risk incidents. At the same time, it strengthened the process supervision of key part, key procedures and key risk points in the operation management process of the Bank, and reviewed information such as periodic reports, board meeting materials and special audit reports regularly. By listening to the report from the relevant officers of internal audit department, compliance risk control department and financial department, it assessed and guided the internal audit work, and provided management recommendations regarding the identified problems to the Board of Directors and senior management.

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(V) Continuous Professional Development Program for Board of Supervisors

Through research and study, the Board of Supervisors strengthened the innovation and supervision work and comprehensively improved the ability to perform duties. During the Reporting Period, the Board of Supervisors organized field research in various places where it gained in-depth insights into the pioneer supervisory experience of the board of supervisors of other banks, and through which the Board of Supervisors was able to improve its system of supervision and enhance the Supervisors' performance of duties.

The Bank pays attention to the continuous training of the Supervisors. During the Reporting Period, the members of the Board of Supervisors participated in the advanced seminar in corporate governance for directors, supervisors and senior management, and some special trainings, including the "Further Strengthening of the Related Work of Financial Service Private Enterprises" (《進一步加強金融服務民營企業有關工作》), "Management of Non-performing Loans of Commercial Banks" (《商業銀行不良貸款管理》) and "Deepening of Understanding and Improvement, Strengthening of Anti-money Laundering Work under the New Situation" (《深化認識·拾級而上夯實新形勢下反洗錢工作》), which effectively enhanced the performing duties ability of the Supervisors.

(VI) Work of External Supervisors

During the Reporting Period, the external Supervisors performed their supervisory duties in strict accordance with the Bank's Articles of Association and relevant requirements for the performance of duties of supervisors. They performed their duties diligently by taking part in the meetings of the Board of Supervisors on time, carefully studying and reviewing every proposals and special reports, participating in the general meetings, attending the meetings of the Board of Directors and its special committees, and expressing their opinions independently and impartially. Also, they focused on strengthening theoretical studies and summarizing fulfillments, held forums with the board of supervisors of a number of financial institutions, communicated with supervisory departments and external auditors, and devoted sufficient time and effort to participate in relevant supervision and inspections, investigation and research and training, which played a proactive role in facilitating the optimization of the Bank's corporate governance and the improvement of its operation management level.

VI. SENIOR MANAGEMENT

The Bank has one president who shall be appointed or dismissed by the Board of Directors. The Bank has vice presidents, assistants to the president, business directors, certain chief officers and one board secretary. The vice presidents, assistants to the president, business directors are appointed or dismissed by the Board of Directors according to the president's nomination. The chief officers and board secretary are appointed or dismissed by the Board of Directors according to the chairman's nomination. The senior management members are in compliance with the laws and regulations and the qualifications as required by the banking regulatory institutions.

The president takes charge of the operation and management of the Bank, organize the implementation of the resolutions of the Board of Directors and report the work to the Board of Directors; organize the implementation of the Bank's annual business plans and investment proposals; draft proposals on the establishment of the Bank's internal management entities; draft the Bank's basic management system; formulate the Bank's specific regulations; propose to the Board of Directors to appoint or dismiss the vice presidents, assistants to the president, finance chief, internal auditor and compliance officer; and determine to appoint or dismiss management personnel other than those to be appointed or dismissed by the Board of Directors in accordance with laws and regulations, the Articles of Association and powers authorized by the Board of Directors.

As of the end of the Reporting Period, the senior management of the Bank established the compliance and risk management committee, asset disposition review committee, asset and liability committee, finance approval committee, business continuity management committee, supervisory committee on performance of duties, human resources committee, comprehensive marketing committee, inclusive finance management committee and innovation and technology construction committee.

The Bank further improved the assessment and evaluation mechanism for the senior management and strengthened the performance of the senior management, thereby promoting the steady and rapid development of the Bank. The Bank formulated the System of Senior Management Reporting to the Board of Directors (《高級管理層向董事會述職制度》), under which, the senior management reported on the work situation during the previous year and the Board of Directors evaluated the performance of their duties and work effectiveness. Meanwhile, the Bank also formulated the Evaluation Measures for the Performance of the Senior Management and its Members (《高級管理層及其成員履職評價辦法》), pursuant to which, the Board of Supervisors evaluated the performance of the senior management and its members, and formed the final performance evaluation results.

VII. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Bank has adopted, in respect of securities transactions by Directors, Supervisors and relevant employees, the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules. Having made specific enquiries, all Directors and Supervisors confirmed that they have complied with the Model Code during the year ended 31 December 2019.

VIII. RELATIONSHIP BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no financial, business, family or other material affiliated relationship between the Directors, Supervisors and senior management of the Bank.

IX. AMENDMENT TO ARTICLES OF ASSOCIATION

On 20 June 2019, the Bank successfully issued the offshore preference shares, and the Articles of Association of Guangzhou Rural Commercial Bank Co., Ltd. (Applicable after the Issuance of Offshore Preference Shares) were applied.

Save as disclosed above, no amendment to the Articles of Association was made by the Bank during the Reporting Period.

X. COMPANY SECRETARIES

Ms. Zheng Ying and Mr. Ngai Wai Fung are the joint company secretaries of the Bank. Each of the Directors can discuss with the company secretaries for seeking opinions and obtaining information. Ms. Zheng and Mr. Ngai have confirmed that they attended no less than 15 hours of relevant professional training during the Reporting Period.

XI. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The Bank engaged PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) as the auditor to audit the financial statements for 2019 (Chinese accounting standards), and engaged PricewaterhouseCoopers as the auditor to review the interim financial statements for 2019 (International Financial Reporting Standards) and audit the financial statements for 2019 (International Financial Reporting Standards). In 2019, the remunerations as agreed to be paid by the Bank to the above auditors for the audit and review of the financial statements were RMB8.68 million in total.

XII. RISK MANAGEMENT, INTERNAL CONTROL AND INSIDE INFORMATION MANAGEMENT

For the Group's risk management and internal controls, please refer to section headed "Management Discussion and Analysis".

During the Reporting Period, in line with regulatory requirements and the actual situation of the Bank, the Bank established the daily working mechanism of inside information, strengthened the Bank's confidential information management and registration management of inside information through various means, established a record system at all levels of the Bank, and strengthened the management of inside information.

XIII. SHAREHOLDER'S RIGHTS

(1) Convening Extraordinary General Meetings

The Shareholders shall enjoy the following rights in accordance with the Articles of Association:

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If the Board of Directors is unable or fails to perform its duties of convening the shareholders' general meeting, the Board of Supervisors shall convene the meeting in due course; if the Board of Supervisors does not convene the meeting, the shareholders who individually or jointly hold more than 10% of the Bank's shares for more than 90 consecutive days may convene such meetings on their own initiative. The Board of Directors shall provide a written response as to whether or not it agrees to convene the extraordinary general meeting within ten days upon receipt of the proposal in accordance with the requirements of the laws, regulations, regulatory requirements and the Articles of Association;

If the Board of Directors agrees to convene the extraordinary general meeting, a notice convening such meeting shall be issued within five days after the resolution of the Board of Directors is passed. If the Board of Directors does not agree to convene the extraordinary general meeting, it shall provide reasons;

In case the Board of Directors refuses to convene the extraordinary general meeting or class meeting, or does not give any response within 10 days upon receipt of the request, the shareholders who individually or jointly hold more than 10% of the voting shares at such proposed meeting shall have the right to propose to the Board of Supervisors for the convening of the extraordinary general meeting or class meeting, and shall make such request to the Board of Supervisors in the form of writing;

If the Board of Supervisors agrees to convene the extraordinary general meeting or class meeting, a notice convening the general meeting or class meeting shall be issued within five days upon receipt of the request. Changes made to the original request in the notice shall be approved by relevant shareholders; and

If the Board of Supervisors fails to give the notice of a general meeting or class meeting within the specified time limit, it shall be deemed to have failed to convene and preside over the meeting, in which case, the shareholders who individually or jointly hold more than 10% of the Bank's shares (such shares shall have voting rights at such proposed meeting) for more than 90 consecutive days may convene and preside over the meeting by themselves.

(2) Proposals to Shareholders' General Meetings

When the Bank convenes shareholders' general meetings, the Board of Directors, the Board of Supervisors and the shareholders who individually or jointly hold more than 3% of the total number of the Bank's shares carrying the right to vote shall be entitled to submit their proposals in writing to the Bank. The Bank shall include matters in the proposal which are within the scope of responsibilities of the shareholders' general meeting into the agenda.

Shareholders who individually or jointly hold more than 3% of the total number of the Bank's shares carrying the right to vote shall be entitled to submit temporary proposal 10 days prior to the convening of the shareholders' general meeting, and such proposal shall be made to the convener in writing. The convener shall, within 2 days upon receipt of the proposal, issue a supplementary notice of the shareholders' general meeting, and announce the contents of the temporary proposal. If otherwise specified in the listing rules of the stock exchange where the securities of the Bank are listed, such requirements shall be fulfilled at the same time.

(3) Enquires from Shareholders

If shareholders have any enquiries on matters relating to the H Shares held, such as share transfer, change of address, reporting for loss of share certificates and dividend warrants, etc., please send the enquiries in writing to the following address:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre, No. 183 Queen's Road East, Wanchai, Hong Kong
Tel.: (852)28622863
Fax: (852)28650990/(852)25296087

If shareholders have any enquiries on matters relating to the non-overseas listed shares held, such as share transfer, change of address, reporting for loss of share certificates and dividend warrants, etc., please send the enquiries in writing to the following address:

the Bank's Board of Directors' Office
No. 1 Huaxia Road, Tianhe District, Guangzhou, PRC
Tel.: (020)28019324
Fax: (020)22389227

(4) Management of Investor Relations

Shareholders and investors may send enquiries to the Board to:

the Bank's Board of Directors' Office
No. 1 Huaxia Road, Tianhe District, Guangzhou, PRC
Tel.: (020)28019324
Fax: (020)22389227
Email: ir@grcbank.com

(5) Information Disclosure

The Bank attaches importance to communication with shareholders, and seeks to improve understanding and communication among shareholders through various channels including general meetings, results announcement conferences, roadshows, receiving guests and telephone consultation.

XIV. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AS SET OUT IN HONG KONG LISTING RULES

The Bank agrees to the principles contained in the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 to Hong Kong Listing Rules. The Company has been in full compliance with the provisions of the Code during the Reporting Period.

XV. REMUNERATION MANAGEMENT

In 2019, the Bank further improved its remuneration performance system, and primarily revised "Assessment Methods on Performance of Employees of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行員工績效考核辦法》), "Assessment Methods on Performance of Senior Management of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行高層管理人員績效考核辦法》) and "Administrative Measures on Performance Contracts of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行績效合同管理辦法》). In addition to the above newly revised systems in 2019, the Bank's current remuneration systems mainly include: "Administrative Measures on Remuneration of Guangzhou Rural Commercial Bank (Trial)" (《廣州農村商業銀行薪酬管理辦法(試行)》), "Administrative Measures on Performance-based Salary Pool of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行績效工資池管理辦法》), "Administrative Measures on Deferred Payment of Remuneration of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行薪酬遞延支付管理辦法》), etc. The Bank established a remuneration performance system that matches the organizational structure and position system of the Bank, it also used the performance management system to conduct scientific assessments, thereby enhancing the external market competitiveness and internal fairness of remuneration. In addition, the Bank established incentives and constraints that meet the requirements of the development of modern financial enterprises. The mechanism fully mobilized the employees' enthusiasm for work and effectively played the role of salary guarantee and incentive.

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors hereby presents the Report of the Board of Directors together with the audited financial statements of the Group for the year ended 31 December 2019.

I. BUSINESS REVIEW

(1) Business Review

The Group is primarily engaged in PRC banking and related financial services, primarily including corporate banking, retail banking and financial market businesses.

Further discussion and analysis of the business review as required by Schedule 5 to the Hong Kong Companies Ordinance, including the key risks and uncertainties faced by the Group and the possible future development plan of the Group's business, are set out in the sections headed "Management Discussion and Analysis" and "Directors, Supervisors, Senior Management and Employees" in this annual report. Such discussions form an integral part of this Report of the Board of Directors.

(2) Employment Relationship

The Bank always attaches importance to employees' work-life balance, strives to create a warm and harmonious working atmosphere, and works together to promote its business development.

The Bank continuously propelled the thousand-hundred-ten talent team selection scheme, initially built a reserve of talent team including management trainees and Sannong financial service commissioners, and steadily promoted the pioneer scheme to solve the problem of lacking talents gradually. Moreover, the Bank established a direct communication system between the leading group and all staff members and collected and responded to employees' opinions and suggestions in a timely manner, so as to build a positive working atmosphere. Zhujiang Business School was set up by the human resources department. In 2019, the training was guided by the middle and long-term development strategy and human resources planning of the Bank. Internal and external resources of the Bank were integrated by linking the front, middle and back office departments and innovating online and offline learning methods. A total of 52 training programs were organized throughout the year, of which, there were 3 middle and high-level projects, 14 main business projects, 20 basic employee projects, 13 open subject projects, and 2 county bank projects. There were more than 400 training programs for centralized administration and supervision, covering a total of more than 40 thousand employees in all positions and levels of the Bank, with an average satisfaction score of 96.47 among the members of the key training projects. Meanwhile, by fully leveraging the mobile learning system platform of Zhujiang Business School, 10 key business courses of 160 hours were provided to the Group. 40 online learning programs were organized and 54 hours of online learning per individual was recorded. The Bank won the "Best Learning Platform Operation Award" granted by the 11th China E-Learning Forum & Exhibition. The Bank established and implemented the allocation system of pre-liquidation performance quarterly, and continued to improve the timeliness, accuracy, and motivation of allocating performance appraisal to ensure the contributions of the employees could be paid off on a timely basis. The Bank promoted the implementation of regularizing the labor dispatched employees, withdrawal of the unsuitable employees part-by-part, communication and selection of the internal employees, to optimize the human resources structure. The Bank continued to improve the staff's welfare system and enhanced their happiness by establishing employees' annual physical examination plan, supplementary medical insurance system, and employee enterprise annuity scheme. The Bank established a file of assistance for employees in distress and provided them with various poverty alleviation services such as providing community care funds, living aids, medical aids and policy consultation. The positive and cohesion culture was cultivated by organizing athletics games, marathons, light volleyball matches, music festivals, etc.

REPORT OF THE BOARD OF DIRECTORS

(3) Relationship with Customers and Suppliers

The Bank actively promotes the financial services of deposit customers, loan customers and interbank customers, and strives for customers' understanding, trust and support. The Bank insists on the market principle for all customers who apply for loans, especially related customers, and avoids special credit aid priority.

The Bank adheres to the principles of openness, fairness and impartiality, employs suppliers in the form of tenders, negotiations and price quotations, and maintains good communication and cooperation with various suppliers.

(4) The Environmental Policy and Performance of the Bank

The Bank is committed to the long-term sustainability of the environment and community in which it operates. The Bank acted in an environmentally responsible manner and tried its best to comply with laws and regulations concerning environmental protection, and took effective measures to make effective use of resources, save energy and reduce waste.

On top of the overall orientation of the annual basic credit policy, the Bank emphasized the promotion of green credit from the strategic perspective and speeded up the development of green financial service system, while formulating the segmented credit policy for green credit (energy conservation and environmental protection) and increasing support for green economy, low-carbon economy and circular economy. Meanwhile, customers and businesses in industries with high energy consumption, high pollution or over-capacity remained to be listed in the withdrawn and restricted category, and the policy of orderly exit and pressure reduction was implemented incessantly. The Bank strictly prohibited the creation of any form of credit support for projects with serious environmental protection violations, prevented environmental and social risks and improved its environmental and social performance. Thus, the credit structure was optimized and the service level was improved to better serve the real economy. This helped promoting the green transformation of the Bank's investment and financing structure and business development, and advocating the development of green credit.

The Bank also promoted the concept of low-carbon and environmentally-friendly operations, advocated the concept of "green office, energy conservation and environmental protection" and integrated it into the construction and operation of office premises and business outlets. The Bank reduced printing to protect the environment, promoted paperless counters and green office, purchased energy-saving equipment, turned off lights and kept taps closed if not required, continued to reduce energy consumption and carbon emissions, and actively performed any possible environmental protection work.

(5) Details of Major Events Affecting the Company that Occurred after the Review of the Financial Year

The Bank conducted a comprehensive review of 2019 financial performance in compliance with national laws and regulatory requirements and prepared the 2019 annual report. After the end of the annual financial review, the Bank did not have any events or cases that had a significant impact on the Bank.

REPORT OF THE BOARD OF DIRECTORS

(6) Permitted Indemnity Provision

According to code provision A.1.8, the Bank shall maintain appropriate insurance to cover the potential legal litigations initiated against directors of the Bank. In order to comply with such code provision, the Bank has purchased appropriate liability insurance for directors to provide indemnity for their liabilities incurred during the operations of the Bank for the year ended 31 December 2019.

No permitted indemnity provision previously or currently in effect benefitted the directors of the Bank (whether entered into by the Bank or by others) or the directors of the Bank's associates (if entered into by the Bank) at any time during the financial year and up to the date of the report of the Board of Directors.

(7) Equity-linked Agreement

During the year ended 31 December 2019, the Bank did not enter into any equity-linked agreement.

II. PROFITS AND DIVIDENDS

(1) Dividends

The revenue of the Bank for the year ended 31 December 2019 and the financial condition of the Bank as at that date are set out in the "consolidated financial statements" in this annual report.

Pursuant to the resolution passed at the 2018 Annual General Meeting held on 24 May 2019, the Bank paid a dividend of RMB0.20 (tax inclusive) per share for 2018 to all shareholders in an aggregate amount of approximately RMB1.962 billion (tax inclusive). Such dividend was paid to the Shareholders whose names appeared on the register of members after the closing of market on 4 June 2019. Such dividends were denominated in Renminbi and paid to holders of non-overseas listed shares and holders of H shares in Renminbi and Hong Kong dollars, respectively. The exchange rate for dividend paid in Hong Kong dollars was the average middle rate of Renminbi against Hong Kong dollars for the five business days preceding the date of declaration of such dividend at the 2018 Annual General Meeting (i.e. 24 May 2019, inclusive) as announced by the PBOC (i.e. HK\$1.00 to RMB0.878978), and the final dividend per H Share was HK\$0.22754 (tax included). Such dividend was paid on 21 June 2019.

The Board of Directors has proposed the payment of a cash dividend of RMB0.20 (tax inclusive) per share for 2019 to all shareholders in an aggregate amount of approximately RMB1.962 billion (tax inclusive). The payment of such dividend is subject to consideration at the 2019 Annual General Meeting, and, if approved, such dividend will be paid to the non-overseas listed shareholders and H shareholders whose names appeared on the register of members of the Bank after the closing of market on 4 June 2020. Such dividend will be denominated in Renminbi, and paid to the non-overseas listed shareholders and H shareholders in Renminbi and Hong Kong dollars, respectively. The exchange rate for dividend to be paid in Hong Kong dollars shall be the average middle rate of Renminbi against Hong Kong dollars for the five business days preceding the date of declaration of such dividend at the 2019 Annual General Meeting (i.e., 22 May 2020, inclusive) as announced by the PBOC. It is expected that the dividend payment date will be 22 June 2020. For details of the distribution of annual dividend of the Bank, please see the circular of 2019 Annual General Meeting of the Bank.

REPORT OF THE BOARD OF DIRECTORS

The Bank has not proposed any resolutions to convert the capital reserve to increase the share capital in the past three years. The cash dividend distribution for ordinary shareholders of the Bank for the past three years is as follows:

Item	2018	2017	2016
Distribution amount per share (tax inclusive, RMB)	0.2	0.2	0.2
Cash dividend (tax inclusive, RMB100 million)	19.62	19.62	16.31
Percentage of net profit attributable to the Bank (%)	30.06	34.36	32.45

(2) Tax on Dividends

According to the applicable provisions of the “Enterprise Income Tax Law of the People’s Republic of China” and the “Individual Income Tax Law of the People’s Republic of China” and its implementation rules, for the non-overseas listed shares and the holding of the Bank’s shares via Hong Kong Stock Connect, the Bank shall withhold and pay the individual income tax at the rate of 20% according to the national tax law for the dividends of natural person shareholders, while corporate shareholders shall make its own declaration in accordance with the requirements of the national tax law.

Taxes on dividend of H Shares are subject to the Hong Kong tax law.

According to the Enterprise Income Tax Law and its implementation rules, both effective on 1 January 2008, before distribution of dividends, the Bank shall withhold and pay the enterprise income tax at the rate of 10% for non-resident enterprise shareholders whose names appear on the Bank’s register of members for H Shares.

According to the Notice on Issues Concerning Taxation and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348), the Bank shall withhold and pay individual income tax for individual holders of H Shares.

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries or regions which have an agreed tax rate of 10% under the relevant tax treaties with the PRC, the Bank will withhold and pay individual income tax at the rate of 10% on behalf of such shareholders.

If the individual holders of H Shares are residents of the countries or regions that have a tax rate lower than 10% under the tax treaties with the PRC, the Bank will withhold and pay individual income tax at the rate of 10% on behalf of such shareholders. If such shareholders claim refund of the amount in excess of the individual income tax payable under the tax treaties, the Bank can apply on behalf of such shareholders according to the relevant tax treaties for the relevant agreed preferential tax treatment, provided that the relevant shareholders submit the relevant documents and information in a timely manner required by the Administrative Rules on Enjoying Treatment under Taxation Treaties by Non-resident Taxpayers (State Administration of Taxation Announcement, 2015, No. 60) and the provisions of the relevant tax treaties. The Company will assist with the tax refund subject to approval of the competent tax authority.

REPORT OF THE BOARD OF DIRECTORS

If the individual holders of H Shares are residents of the countries or regions that have a tax rate higher than 10% but lower than 20% under the tax treaties with the PRC, the Bank will withhold and pay individual income tax at the applicable tax rates stated in such tax treaties on behalf of such shareholders.

If the individual holders of H shares are residents of the countries or regions that have a tax rate of 20% under the tax treaties with the PRC, or that have not entered into any tax treaties with the PRC, or otherwise, the Bank will withhold and pay individual income tax at the rate of 20% on behalf of such shareholders.

III. ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The 2019 Annual General Meeting (the “AGM”) will be held on Friday, 22 May 2020. In order to determine the holders of shares who are eligible to attend and vote at the AGM, no transfer of shares will be registered from Wednesday, 22 April 2020 to Friday, 22 May 2020, both days inclusive. For those holders of H Shares who wish to attend and vote at the 2019 AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Bank’s H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 21 April 2020.

IV. RESERVES

Details of the movements of the Group’s reserves available to Shareholders for the year ended 31 December 2019 are set out in the consolidated statement of changes in equity.

V. SUMMARY OF FINANCIAL INFORMATION

A summary of the Group’s operating results, assets and liabilities for the year ended 31 December 2019 is set out in the summary of financial data in this annual report.

VI. DONATIONS

Donations made by the Group during the year ended 31 December 2019 for charitable and other purposes amounted to RMB5.8945 million. Sun Charity Foundation, which was established by the Bank, made an external donation of RMB6.89 million.

VII. PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group for the year ended 31 December 2019 are set out in note 25 “Property and Equipment” to the “Financial Statements” of this annual report.

VIII. RETIREMENT BENEFITS

Details of the retirement benefits provided to employees of the Group are set out in note 34 “Salaries, bonuses, allowances and subsidies payable” to the “Financial Statements” of this annual report.

REPORT OF THE BOARD OF DIRECTORS

IX. ULTIMATE PARENT AND ITS SUBSIDIARIES

Details of the Bank's ultimate parent and its subsidiaries as at 31 December 2019 are set out in the relevant sections of "Changes in Share Capital and Shareholders" and notes to the "Financial Statements" of this annual report, respectively.

X. PURCHASE, SALE AND REDEMPTION OF SHARES OF THE BANK

During the Reporting Period, the Bank and its subsidiaries did not purchase, sell or redeem any shares of the Bank.

XI. PRE-EMPTIVE RIGHTS

The Articles of Association and relevant PRC laws did not grant the shareholders of the Bank the terms of pre-emptive rights. The Articles of Association provide that based on the requirements for operation and development and in accordance with laws and regulations and the Articles of Association, after the Shareholders' general meeting has made its resolution and the approval has been obtained from the banking regulatory authorities of the State Council, the Bank may increase its registered capital in the following ways: offering new shares to non-specific investors; issuing new shares to specific investors; allotting new shares to existing Shareholders; distributing new shares to existing Shareholders; converting capital reserve into share capital; or any other methods approved by laws and administrative regulations.

XII. MAJOR CUSTOMERS

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. Mr. Su Zhigang, a non-executive Director of the Bank, and his close associates own 100% equity interest of Zhuhai Chimelong Investment & Development Co., Ltd., one of the five largest customers mentioned above. Save as disclosed above, 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 abovementioned five largest customers.

XIII. SHARE CAPITAL

Details of the movement in share capital of the Bank during the Reporting Period are set out in note 35 "Share Capital" to the "Financial Statements" of this annual report.

XIV. TOP TEN SHAREHOLDERS AND SHAREHOLDINGS

The top ten Shareholders and their shareholdings as at the end of 2019 are set out in "Changes in Share Capital and Shareholders" of this annual report.

XV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The list of the members of the Board of Directors, and details of their biographies and changes as at the end of the Reporting Period are set out in "Directors, Supervisors, Senior Management and Employees". Such section also forms an integral part of the report of the Board of Directors.

REPORT OF THE BOARD OF DIRECTORS

XVI. CONFIRMATION OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Bank has received from each of its independent non-executive Directors the annual confirmation of his/her independence. The Bank considers that all independent non-executive Directors are in compliance with the relevant guidelines set out in Rule 3.13 of the Hong Kong Listing Rules, and are accordingly independent.

XVII. FINANCIAL, BUSINESS AND FAMILY RELATIONSHIP BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no financial, business, family or any material relationship between the Directors, Supervisors and senior management of the Bank.

XVIII. ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the Reporting Period was the Bank, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors and supervisors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

XIX. DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save for those continuing connected transactions which can be exempted from the reporting, annual review, announcement and independent shareholder's approval requirements under Chapter 14A of the Hong Kong Listing Rules, no Director or Supervisor or entities related to such persons had a material interest, whether directly or indirectly, in material transactions, arrangements and contracts in relation to the Group's businesses to which the Bank, its holding company, any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period (excluding service contracts).

XX. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

During the Reporting Period, none of the Directors and Supervisors entered into service contracts with the Bank that cannot be terminated by the Bank within one year without payment of compensation (other than statutory compensation).

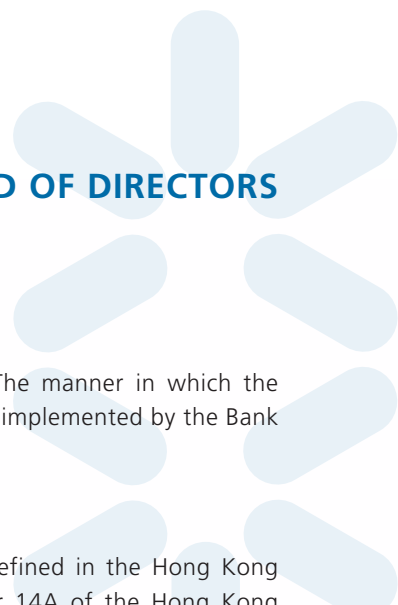
XXI. MANAGEMENT CONTRACTS

During the year ended 31 December 2019, there was no management and administrative contract in respect of all or any of the principal activities being entered into by or existed in the Bank.

XXII. DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors and Supervisors had any interest in businesses that constitute or may constitute competition, directly or indirectly, with the business of the Bank.





REPORT OF THE BOARD OF DIRECTORS

XXIII. CORPORATE GOVERNANCE

The Bank is committed to maintaining a high level of corporate governance. The manner in which the principles and code provisions in the Corporate Governance Code are applied and implemented by the Bank is set out in detail in the “Corporate Governance Report” of this annual report.

XXIV. CONNECTED TRANSACTIONS

The transactions entered into among the Bank and its connected persons (as defined in the Hong Kong Listing Rules) will constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules, subject to the exemption from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Bank has reviewed all connected transactions and confirmed that such transactions were in compliance with the disclosure requirement under Chapter 14A of the Hong Kong Listing Rules.

The definition of connected persons under Chapter 14A of the Hong Kong Listing Rules is different from the definition of related parties under International Accounting Standard 24, “Related Party Disclosures”, and its interpretations by the IASB. Related party transactions set out in note 46 to the consolidated financial statements do not constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules.

During the Reporting Period, the connected transactions of the Bank were entered into in the ordinary course of business on normal commercial terms, and were in compliance with the disclosure exemption requirement under the Hong Kong Listing Rules.

XXV. REMUNERATION POLICY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank has endeavored to improve its remuneration management measures and performance assessment systems for its Directors, Supervisors and senior management under the guidance of relevant policies of the PRC.

The remuneration of the Directors, Supervisors and senior management personnel appointed by the municipal party committees shall be implemented in accordance with the requirements of relevant regulatory authorities. The remuneration of independent non-executive Directors, non-executive Directors, external Supervisors and shareholder Supervisors of the Bank include basic salary and allowances. The Bank’s remuneration policy for other senior management personnel is based on the principle of combining rights, responsibility and benefits, taking into account short-term benefits and long-term incentives, and governmental regulation and market adjustment, and has defined a structured remuneration system comprising basic salary, performance-based salary, allowances and subsidies as well as medium and long-term incentives.

The Bank participates in various statutory contribution retirement plans of Chinese governmental organizations of different levels for its employees including Directors, Supervisors and senior management. Since the State has not issued relevant policies, the Bank has not implemented mid-term and long-term incentive plans for Directors, Supervisors, senior management and other staff members.

REPORT OF THE BOARD OF DIRECTORS

XXVI. SUFFICIENT PUBLIC FLOAT

As of 31 December 2019, the public float for H Shares of the Bank was 18.56%. Based on information that is publicly available to the Bank and to the knowledge of the directors, as at the date of this report, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange.

XXVII. TAX RELIEF (H SHAREHOLDERS)

(1) Non-resident Shareholders

Pursuant to the relevant requirements of Enterprise Income Tax Law of the People's Republic of China and related implementation rules, the relevant provisions of the Notice of the State Administration of Taxation on Issues Relating to PRC Resident Enterprises' Withholding Enterprise Income Tax in Respect of Dividends to Be Received by Non-resident Enterprise Holders of H Shares (Guo Shui Han [2008] No. 897), the List of Agreed Dividend Tax Rates (Guo Shui Han [2008] No. 112), the Bank will withhold the enterprise income tax at the rate of 10% for non-resident enterprise shareholders whose names appear on the register of members of the H Shares. The effective tax rate will be subjected to the tax treaty.

(2) Non-resident Individual Shareholders

According to the document Guo Shui Han [2011] No. 348 issued by the State Administration of Taxation, the Bank is entitled to relevant preferential tax arrangement for non-resident individual holders of H Shares pursuant to the taxation agreements between the countries where they are residing and China and the regulations on taxation arrangement between the Mainland and Hong Kong (Macau).

1. As for non-resident individual holders of H Shares in countries which have entered into an agreement with China in respect of a tax rate lower than 10%, the Bank will apply for the relevant entitlements thereunder on their behalf.
2. As for non-resident individual holders of H Shares in countries which have entered into an agreement with China in respect of a 10% tax rate, the Bank will withhold individual income tax at the rate of 10%.
3. As for non-resident individual holders of H Shares in countries which have entered into an agreement with China in respect of a tax rate between 10% and 20%, the Bank will withhold individual income tax at the actual rate agreed thereunder.
4. As for non-resident individual holders of H Shares in countries which have no tax agreement with China or are under any other circumstances, the Bank will withhold individual income tax at the tax rate of 20%.

REPORT OF THE BOARD OF DIRECTORS

XXVIII. USE OF PROCEEDS

The Bank issued the non-cumulative perpetual offshore preference shares in the size of USD1.43 billion on 20 June 2019. For details of the use of proceeds from the issuance of preference shares, please refer to “Changes in Share Capital and Shareholders – (VI) Issuance of Offshore Preference Shares through a Private Offering”.

XXIX. ISSUE OF DEBENTURES

For the issue of debentures by the Bank, please refer to “Changes in Share Capital and Shareholders – Issue, Purchase, Sale and Redemption of Securities” of this annual report.

XXX. SOCIAL RESPONSIBILITY

2019 was the 70th anniversary of our motherland and the important time for the Bank's tenth year of restructuring and listing. The Bank was committed to inclusive finance, staff development, poverty alleviation by welfare and protection of the interests of financial consumers. It worked on various aspects continuously such as taxation contribution, employment, poverty alleviation and welfare support, and proactively performed its social responsibility, and notable achievements were received. The Bank comprehensively built an inclusive financial service network, innovated financial service products and service models for small and micro enterprises, and insisted on serving the real economy and people's livelihood needs. The Bank modified the standard, procedure and method of selecting talents based on the “Openness, Fairness, Selecting the Best Talents” principle, and standardized the talent referral system, decision-making process and introduction procedures, in order to strengthen team management. “Sun • Silent Love” (太陽•無聲的愛) hearing project for hearing-impaired children, special village assistance project of “Together under Banyan Tree” (同在榕樹下) and project of “Sun • Special Travel Project in Old Revolutionary Bases” (太陽•革命老區專項行) were launched in order to let hearing-impaired children enter the audio world and assist with major diseases. Promotion and education of financial knowledge were strengthened to improve the risk identification and personal protection level of financial consumers continuously. Information transparency was improved, and operating activities information and financial position information were announced on a timely basis.

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

For the details of the environmental information and performance of social responsibility of the Bank, please refer to the “2019 Environmental, Social and Governance Report” of the Bank to be published separately.

XXXI. SUBSEQUENT EVENTS

The Bank intends to issue A shares with the total amount of no more than 1,596,694,878 shares, and the issuance proportion does not exceed 14% of the total share capital after the issuance. The relevant proposal on the above matter was considered and approved by the general meeting of the Bank held on 6 September 2018.

The Bank intends to issue financial bonds with the total amount of no more than RMB20 billion. The relevant resolution on the above matter was considered and approved by the general meeting of the Bank held on 22 August 2019.

The Bank intends to invest in the establishment of Shaoguan Rural Commercial Bank (韶關農村商業銀行). The relevant proposal on the above investment matter was considered and approved by the Board of Directors of the Bank.

REPORT OF THE BOARD OF DIRECTORS

XXXII. OTHERS

As far as the Board of Directors 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.

The Bank has adopted a code of conduct on terms no less exacting than the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its code governing securities transactions conducted by its Directors and Supervisors and relevant employees. After having made inquiries to all Directors and Supervisors, the Bank confirmed that they had complied with the above code during the Reporting Period. The Bank was not aware that any relevant employee had breached the code.

During the Reporting Period, the Bank was not aware that any Shareholder had waived or agreed to any arrangement to waive dividends.

During the Reporting Period, none of the Directors waived or agreed to relevant arrangement to waive remuneration.

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

During the Reporting Period, there were no significant contracts entered into between the Bank or any of its subsidiaries and a controlling Shareholder or its subsidiaries.

During the Reporting Period, the Bank or any of its subsidiaries had not accepted services provided by a controlling Shareholder or its subsidiaries.



REPORT OF THE BOARD OF SUPERVISORS

In 2019, in accordance with the Company Law of the People's Republic of China, the "Guidelines for Corporate Governance of Commercial Banks", the "Guidelines for Work of Board of Supervisors of Commercial Banks" and other laws and regulations, regulatory requirements and the Bank's Articles of Association, and the general working concept of "improving corporate governance and strengthening performance supervision", the Board of Supervisors performed its supervisory responsibilities, and effectively accomplished in the areas of due diligence, financial activities, risk management and internal control, thereby promoting the improvement of corporate governance and the steady operation of the Bank.

I. COMPOSITION OF THE BOARD OF SUPERVISORS

For the composition of the Board of Supervisors, please refer to "Corporate Governance Report" in this report.

II. CONVENING OF MEETINGS OF THE BOARD OF SUPERVISORS

For the convening of meetings of the Board of Supervisors, please refer to "Corporate Governance Report" in this report.

III. SUPERVISION WORK OF THE BOARD OF SUPERVISORS

During the Reporting Period, by carrying out supervision work on the Bank's financial activities, risk management, internal control and performance of duties of the Board of Directors and senior management and their members in order to improve the effectiveness of supervision work, the Board of Supervisors well performed its supervisory duties for the steady development of the Bank.

(I) Improvement of supervision system development and effectiveness of supervision

In order to meet the requirements of improving the corporate governance mechanism and supervision system development of the Bank, the Board of Supervisors of the Bank improved various working systems in accordance with the requirements of relevant laws and regulations and the Articles of Association. During the Reporting Period, a total of six systems were revised, including the Rules of Procedure of the Board of Supervisors, the Rules of Procedure of the Audit and Supervision Committee of the Board of Supervisors, etc. and ten systems including the Administrative Measures for the Supervision of the Board of Supervisors and the Administrative Measures for the Chairman of Boards of Supervisors of Subsidiaries (Trial), etc. were newly formulated, thereby ensuring the standardized and effective operation of supervision of the Board of Supervisors.

Meanwhile, by focusing on the Bank's strategic requirements for strengthening the supervision system and effectively improving the Bank's corporate governance, internal control and risk prevention and control level, the "Implementation Opinions of the Board of Supervisors on Improving and Strengthening the Bank's Supervision System" was formulated, which clearly established the "1+2+3" supervision system of multi-level, full-coverage and grid-based, aiming to achieve the supervision effect of "financial compliance, strict risk control and effective internal control".

REPORT OF THE BOARD OF SUPERVISORS

(II) Conducting supervision and assessment on the performance of duties in an orderly manner

The Board of Supervisors of the Bank continued to deepen its supervision and assessment on the performance of duties, which focused on the performance of duties of the Board of Directors and senior management in the aspects of corporate governance, development strategy, operation management, internal control and risk management.

Firstly, supervision of duty performance process was strengthened. By participating in meetings of the party committee and general meetings, attending the important meetings of the Board of Directors and special committees, president office, professional committees of senior management and special issues of business lines, reviewing the duty performance materials on a timely basis including the reports of meetings of the Board of Directors, the reports of meetings of the professional committees of senior management, and the reports of duty performance of directors, conducting interviews and forums with directors, senior management and the heads of relevant departments of the Bank from time to time, and commencing audits on economic responsibilities during the terms of office, the members of Board of Supervisors supervised the duty performance of the Board of Directors and senior management and their members.

Secondly, performance assessment mechanism was improved and annual performance assessment was conducted. The Board of Supervisors of the Bank organized the revision and improvement of the Measures for the Assessment of Performance of Directors and Its Members (《董事會及其成員履職評價辦法》) and the Measures for the Assessment of Performance of Senior Management and Its Members (《高級管理層及其成員履職評價辦法》). Meanwhile, the 2018 performance assessment of the Board of Directors and senior management and their members was carried out, a performance assessment report was prepared, and the result of performance assessment was reported to the general meetings and regulatory department as required.

(III) Emphasis on supervision focus and improvement of supervision effectiveness

In line with the regulatory requirements and the Bank's key working plan, the Board of Supervisors of the Bank focused on supervising its corporate governance, financial activities, internal control and risk management. Also, it organized and conducted a number of supervision activities including inspection, investigation and research and supervision.

Firstly, special inspection was carried out. The Board of Supervisors of the Bank organized and carried out internal and external inspections, including a number of special inspections such as special inspection on the implementation of rectification of problems identified, special inspections on system development and implementation, annual comprehensive supervision and inspection by the Board of Supervisors, special inspection on wealth management business, and process and efficiency supervision. It made management recommendations on the problems identified to the Board of Directors and senior management.

Secondly, strategic assessment work was organized and conducted. The assessments on the scientificity, reasonableness and effectiveness of the Bank's development strategies were conducted, thereby assessing the implementation of development strategies, making relevant management recommendations and enhancing strategic execution power.

REPORT OF THE BOARD OF SUPERVISORS

Thirdly, in-depth grass-root special research was launched. By focusing on the topics of corporate governance, management of the boards of supervisors of subsidiaries, optimization of organizational structure and process optimization, the Board of Supervisors of the Bank went further into the relevant departments of the head office, branches and subsidiaries to launch a number of investigation and research activities, in order to listen to grassroots opinions and suggestions, and proactively supervise the daily operation management, risk management and internal control of the Bank. It promoted the corporate governance level of the Bank based on the actual needs of business development and management for the sake of stable development.

(IV) Strengthening of supervision process and promotion of standardized supervision

The Board of Supervisors of the Bank independently exercised its supervisory power in accordance with the laws, kept abreast of the dynamics in operation and management in the Bank, and strengthened the supervision process.

Firstly, the Monthly Information Report of the Board of Supervisors (《監事會信息月報》), quarterly reports on business operation, risk management and internal control, and information collected from other channels were reviewed regularly. Besides, it listened to the reports from the relevant officials of the compliance and risk control department, inclusive finance and financial market lines, so as to understand the progress of the Bank's operation management and key tasks, which laid a foundation for selecting key supervision points and carrying out supervision.

Secondly, the supervision of important areas, important links and important risk points in the operation management process of the Bank was strengthened. The Board of Supervisors of the Bank reviewed information of periodic reports, prospectus, board meeting materials and audit reports, and also assessed and guided the internal audit work. Five "Letters about Supervision Recommendation of the Board of Supervisors" (《監事會監督建議函》), one "Letter about Supervision Rectification of the Board of Supervisors" (《監事會監督整改函》) and one "Letter about Management Recommendation of the Board of Supervisors" (《監事會管理建議書》) regarding major asset disposal, information disclosure and shareholders' equity management were issued to the Board of Directors, senior management and relevant departments of the Bank in a timely manner, which facilitated the improvement of the Bank's internal control compliance and the prevention of risk incidents.

(V) Strengthening of supervision of subsidiaries for the full coverage of supervision

The Board of Supervisors of the Bank strengthened the management and guidance of duty performance towards the chairmen of subsidiaries' Boards of Supervisors, and gave full play to the subsidiaries' Boards of Supervisors in corporate governance and risk prevention and control of subsidiaries.

Firstly, the management and assessment mechanism of the chairmen of the subsidiaries' Boards of Supervisors was improved. The Board of Supervisors of the Bank formulated the Administrative Measures for the Chairman of Boards of Supervisors of Subsidiaries (Trial) and the Measures for Assessment of the Chairman of Boards of Supervisors of Subsidiaries (Trial), which strengthened the management and assessment of the chairmen of the subsidiaries' Boards of Supervisors. Meanwhile, in accordance with the regulations, the supervision and management work conducted by the Boards of Supervisors of subsidiaries was followed up and assessed on a regular basis, and the "Reminder Working Letter of the Board of Supervisors" (《監事會工作提示函》) was issued to improve the effectiveness of the supervisory work of the subsidiaries' Boards of Supervisors.

REPORT OF THE BOARD OF SUPERVISORS

Secondly, training for the chairmen of the subsidiaries' Boards of Supervisors was organized regularly. Targeting the Bank's directors, supervisors and senior managers as well as the chairmen of the subsidiaries' boards of supervisors, an advanced seminar in corporate governance for directors, supervisors and senior management was held, and special trainings in corporate governance and supervision and management practices of the Board of Supervisors were conducted. By creating a remote training column of "Interpretation Today" (《今日解讀》) and carrying out more than 40 special training sessions, the duties performing ability of the chairmen of the subsidiaries' Boards of Supervisors was improved.

(VI) Strengthening of communication and promotion of information exchange

First of all, communication and cooperation with regulatory authorities were strengthened. During the Reporting Period, our Board of Supervisors received the working requirements and advice of strengthening corporate governance, internal control compliance and risk protection and control from regulatory authorities. Contact and reporting with regulatory authorities were strengthened to internalize the regulatory requirements into its own management and improve supervision effectiveness.

Secondly, supervisory manner was innovated and a communication mechanism between the Board of Supervisors and external audit firms was established. The first communication meeting was convened between the relevant departments of the Bank and accounting firms in 2019. Timely communication was conducted on auditing, key issues of both parties, and important issues found during the auditing process, and the key issues of the Board of Supervisors were drafted and the letter was sent to external audit firms.

Thirdly, the communication with other banking institutions was strengthened. Through discussions with the Boards of Supervisors from a number of financial institutions in the banking industry, in-depth insights into the duty performance experience of the Boards of Supervisors could be gained, in order to enhance the duties performing ability of the supervisors.

IV. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS

Legal operation of the Bank: During the Reporting Period, the Bank operated with standardized management in accordance with the laws, and the decision-making procedures of the Bank were legal and valid. The Board of Supervisors was not aware of any performance of the directors and senior management members of the Bank that were in breach of the laws, regulations and the Articles of Association of the Bank or jeopardized the interest of the Bank and its shareholders.

Preparation of regular reports: During the Reporting Period, the Board of Supervisors reviewed the 2018 annual report and 2019 interim result report of the Bank, and considered that its procedures of preparation and approval were in compliance with relevant laws, regulations and regulatory requirements, and these reports give a true, accurate and complete view of the financial positions and operating results of the Bank.

Profit distribution plan: During the Reporting Period, the Board of Supervisors reviewed the 2018 Profit Distribution Plan of the Bank, and considered that the profit distribution plan complied with the relevant provisions of laws, regulations and the Articles of Association, and was in the interests of the shareholders as a whole, which was beneficial to the long-term development of the Bank.

REPORT OF THE BOARD OF SUPERVISORS

Use of proceeds from fundraising activities: During the Reporting Period, the Bank issued the offshore preference shares of USD1.43 billion, and the proceeds raised were used to replenish the additional tier 1 capital of the Bank.

Implementation of resolutions passed at general meeting(s): The Board of Supervisors supervised the implementation of resolutions passed at general meeting(s), and concluded that the Board of Directors and the senior management were able to duly implement such resolutions.

Formulation and implementation of strategy: After its assessment on the development strategy in terms of scientific standard, rationality and effectiveness, the Board of Supervisors considered that the comprehensive and scientific strategy outline of the Bank, which provided significant guidance for the Bank's development, has been implemented well, allowing the Bank to make progress in key areas effectively.

Performance of the Board of Directors and senior management and their members: During the Reporting Period, the Board of Supervisors appraised the performance of the Board of Directors and senior management and their members over 2018, and reported result of the performance appraisal to the general meeting and regulatory authority. The result of such performance appraisal was competence and above.

Internal control and risk management: During the Reporting Period, the Board of Supervisors supervised the internal control and risk management of the Bank, and concluded that the Bank had a more comprehensive corporate governance structure, developed a corresponding internal control and risk management system, and continuously improved the internal control system and the comprehensive risk management mechanism in accordance with the actual situation and regulatory requirements of the Bank. The Board of Supervisors was not aware of any material defects in respect of the internal control of the Bank. The Board of Supervisors reviewed the 2018 Internal Control Assessment Report, 2018 Work Report on Compliance Risk Management and 2018 Work Report on Comprehensive Risk Management, and lodged no objections to the reports.

Performance of social responsibility: During the Reporting Period, the Bank performed its social responsibility in a proactive manner, and the Board of Supervisors had no objections to the 2018 Corporate Social Responsibility Report of the Bank.

Related party transactions: During the Reporting Period, the Bank entered into related party transactions in accordance with the laws and regulations of China and the relevant requirements of the Articles of Association. The Board of Supervisors was not aware of any activities that were in breach of the principles of honest and fair or jeopardized the interest of the Bank and its shareholders.

MAJOR EVENTS

CORPORATE GOVERNANCE

During the Reporting Period, the Bank continued to refine its corporate governance mechanism and improve its corporate governance in strict compliance with laws and regulations such as the Company Law of the People's Republic of China, the Commercial Banking Law of the People's Republic of China as well as the Listing Rules and in line with actual conditions of the Bank.

For the 12 months ended 31 December 2019, the Bank had been observing and complying with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Meanwhile, the Bank had been complying with most of the recommended best practices set out in the aforementioned code.

IMPLEMENTATION OF DISTRIBUTION FOR DIVIDENDS

For details of the execution of distribution of dividends, please refer to “the Report of the Board of Directors – Profits and Dividends” of this annual report.

MATERIAL RELATED PARTY TRANSACTIONS

As of the end of the Reporting Period, the loan balance of material related party transactions with related parties amounted to RMB9,126 million, accounting for 1.90% of the total loans of the Group. Loans under material related party transactions between the Bank and related parties have no negative impact on operating results and financial position of the Bank.

MATERIAL LEGAL PROCEEDINGS AND ARBITRATIONS

During the Reporting Period, there were no legal proceedings or arbitrations which has a substantial impact on the operating activities of the Bank.

As of the end of the Reporting Period, pending legal proceedings in which the Bank was a defendant involved an amount of RMB3.594 million. In the opinion of the Bank, it will not have any material effect on our operating activities.





MAJOR EVENTS

PENALTIES IMPOSED ON THE BANK AND DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

During the Reporting Period, the Bank and all of its Directors, Supervisors and senior management had no record of being subject to inspections, administrative penalties and circulating criticisms by CSRC or public censures by the Hong Kong Stock Exchange, or penalties by relevant regulatory bodies that posed significant impact on the Bank's operation.

PERFORMANCE OF UNDERTAKINGS BY THE BANK AND SHAREHOLDERS HOLDING 5% OR MORE OF THE SHARES

During the Reporting Period, no Shareholders held 5% or more of the total issued share capital of the Bank.

MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the Reporting Period, the Bank had no material contracts to be performed.

MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

During the Reporting Period, Chaozhou Rural Commercial Bank Co., Ltd., in which the Bank holds 57.72% of the equity interests, obtained business license from the CBIRC Chaozhou Office and officially started its operations on 21 June 2019; and Guangdong Nanxiong Rural Commercial Bank Co., Ltd., in which the Bank holds 51% of the equity interests, obtained business license from the CBIRC Shaoguan Office and officially started its operations on 5 July 2019.

MAJOR CAPITAL OPERATION

During the Reporting Period, the Bank successfully issued USD1,430 million 5.90% non-cumulative perpetual Offshore Preference Shares in Hong Kong on 20 June 2019. The Offshore Preference Shares had a par value of RMB100 each and were issued as fully paid-up capital in U.S. dollars so that the total issuance price of the Offshore Preference Shares was USD20 each and the total number of shares issued was 71,500,000 shares. Based on the middle price of RMB exchange rate announced by the People's Bank of China on 20 June 2019, the gross proceeds from the offering of the Offshore Preference Shares were approximately RMB9,839 million. The proceeds raised from the issuance of Offshore Preference Shares, after deduction of the expenses relating to the issuance, were fully used to replenish the Bank's additional tier 1 capital.

REPORT ON SANNONG FINANCIAL SERVICES

The Bank has been devoting to local rural finance for more than 60 years with the "Sannong" as its foothold, and has continuously established a flexible and rich rural revitalization financial service system in response to changes in policies and markets. The Bank intensively conducted its operations in the field of rural revitalization finance and provided the "Sannong" customers with more tailor-made, convenient and high-quality financial services. As at the end of 2019, the Bank's agricultural loan balance amounted to RMB36.306 billion, representing an increase of RMB5.505 billion from the beginning of the year and a growth rate of 17.87%.

The Bank's Sannong work in 2019 and the report on the work plan for 2020 are as follows:

I. SANNONG WORK IN 2019

(I) Establishment of the "Sannong" specialized framework and supporting assessment system

1. *Further deepening the "Sannong" specialized framework*

The Bank further optimized the professional, specialized, and dedicated management system of marketing organizations of "Sannong" business. The special lines of "Sannong" business were formed. At the headquarters and branch level, the "Sannong" business management department and several "Sannong" marketing teams were set up respectively. Under the guidance of the basic logic of "market-oriented and customer-centric", we strengthened the overall management, integrated operation and structural assessment of branches and sub-branches, improved management efficiency, promoted business synergies, and provided organizational guarantee for rural revitalization.

2. *Establishment of the appraisal system for "Sannong" business performance*

The Bank further optimized the appraisal system for "Sannong" business performance. Firstly, the Bank allocated the special performance resources for inclusive agriculture-related loans so as to encourage marketing personnel in all business lines to expand the inclusive agriculture-related loan business and push the growth of inclusive agriculture-related loans. Secondly, the Bank established the "Sannong" business appraisal system at various levels, clarified the performance contract plan for the Sannong marketing management team, established the linked assessment mechanism for the Sannong businesses, and encouraged marketing personnel to do the financial services for rural revitalization well.

(II) Improvement of the risk management mechanism for the agriculture-related credit business

1. *Formulation of a special credit policy*

In the 2019 credit policy, the Bank determined the strategic positioning of supporting agriculture, did well in supporting rural revitalization, the Sannong work and poverty alleviation finance, and ensured the business orientation of continuous growth in agriculture-related loans throughout the year. Firstly, the Bank focused on supporting the old village reconstruction projects in Guangzhou locally and in selectively places where its branches were located. Secondly, the Bank planned early to provide a package of financial supporting services for the new communities after reconstruction. Thirdly, the Bank routinely promoted the “Weaving Project” (織網工程) for customers of village community to deeply explore the comprehensive financial needs of village communities and villagers. Fourthly, the Bank focused on the agricultural supply-side structural reforms and agricultural modernization, selected industry leading customers, and fostered a long-term cooperation to iron out industry cycle risks. Fifthly, the Bank actively provided microcredit for poverty alleviation and increased its efforts in financial poverty alleviation.

2. *Establishment of a professional approval mechanism*

Firstly, the Bank outfitted the professional review and approval personnel and the green channels for approval, actively supported the agricultural planting and breeding, industrial parks, industry chain leaders, green credit and old village reconstruction in the focus of rural revitalization, and promoted the flow of credit resources to the field of rural revitalization. Secondly, the Bank combined the financial assistance for rural revitalization with risk prevention and control to ensure that, under the premise of controllable risks, it could do well in serving rural revitalization and poverty alleviation.

3. *Improvement of the diligence and liability exemption mechanism for financial services related to agriculture and poverty alleviation*

In accordance with the guidance of external regulatory institutions and the relevant provisions of accountability of the Bank's credit business, the Bank formulated the “Rules for Implementing Diligence and Liability Exemption of Financial Services Related to Agriculture and Poverty Alleviation of Guangzhou Rural Commercial Bank (Trial)” (廣州農村商業銀行涉農、扶貧金融服務盡職免責工作實施細則(試行)) in order to further ensure the financial support related to the financial service for agriculture and poverty alleviation.

REPORT ON SANNONG FINANCIAL SERVICES

(III) Implementation of the "Sannong" business development strategy in the whole Bank

1. *Continuously establishing a comprehensive, multi-level model of financial services for village community*

(1) *Further visiting the village community and understanding the financial needs of village community*

The Bank successfully established a comprehensive village-visiting work system. In 2019, the Bank's leadership of different levels visited a total of 1,311 village communities with a coverage ratio of 100%. An effective communication mechanism between the Bank and villages was built to understand and satisfy the financial needs of rural revitalization in a timely manner.

(2) *Promoting financial service commissioners and enhancing grassroots service*

In 2019, the Bank formulated and launched the "Administrative Measures for the Sannong Financial Service Commissioner of Guangzhou Rural Commercial Bank" (廣州農村商業銀行三農金融服務專員管理辦法) to optimize the scope of responsibilities, management requirements and incentive policies for the Sannong financial service commissioner, and actively promoted the implementation of rural revitalization at the grassroots level.

(3) *Publishing village journals and strengthening the promotion of village communities*

In 2019, the Bank successfully issued two volumes of "Cuckoo•Village Journal" (布谷•村社專輯) covering 1,311 village communities, demonstrating the positive attitude of the village community and providing a cultural exchange platform for the village community.

(4) *Continuing to carry out public welfare to help develop the village community*

In 2019, the Bank implemented a total of 58 "Village Construction Support" (支持村建) projects, covering 11 administrative districts in the city, and supported the construction of the ecologically livable and beautiful villages. The "Sun • Together Under Banyan Trees" (太陽•同在榕樹下) charity project assisted a total of 461 persons with total aiding funds of RMB2.09 million, and actively carried out rural charitable undertakings such as poverty alleviation, assistance for education and vulnerable groups, etc.

2. *Continuously implementing the overall improvement plan for village community business*

Based on the "Overall Promotion Plan for Village Community Business" (《村社業務總體提升方案》) launched in 2018, the Bank worked hard to implement various measures of the plan this year, and has successively progressed many special tasks, such as the customer services for village community executives, the old village reconstruction business, the marketing and maintenance model of the Sannong customers, the village financial management and the compliance and risk control management in the implementation of the project.

3. *Improving the three-year action plan of the rural revitalization strategy*

Following the national rural revitalization strategy, the Bank launched the “Three-year Action Plan for Promotion of Rural Revitalization Strategy of Guangzhou Rural Commercial Bank (2018-2020)” (《廣州農村商業銀行推進鄉村振興戰略三年行動計劃(2018-2020年)》) in the second half of 2018. From the beginning of this year, the Bank set up a special subject research group to comprehensively sort and study all policies, and was committed to becoming the bank which knows the rural revitalization policy best. Taking into account the research results, the Bank fully revised and re-issued the action plan to ensure that the Bank’s strategic steps were closely in line with the conditions of the central government, and the action guidelines were made for the Bank’s service for the rural revitalization.

(IV) Optimization and innovation of “Sannong” financial services and products

Through the long-term cooperative relationship with the village community, the Bank continuously enriched and improved a “basket” of agriculture-related product systems by keen market sense and response:

1. *Enrichment of deposit products for the villagers*

First of all, villagers-featured deposits products were launched. Targeting the steady risk preference of the customers from the village community and their savings habit, various new products such as “Happiness Deposits” (幸福存款), “Dream Deposits” (夢想存款), “Monthly Profits” (月得利) and “Gold Accumulation” (積存金) were launched.

Secondly, preferential interest rates for villagers’ dividend deposits were launched. With a view to serving “Sannong” consistently and enhancing the deposit contribution from the customer group of the village community, exclusive preferential pricing was made for dividend funds of the village community.

Thirdly, the innovation of personal wealth management products for villagers was enhanced. By launching exclusive wealth management products for the customer group of the village community, we raised our wealth management products awareness in the village community in Guangzhou. As of the end of December 2019, we launched 55 exclusive wealth management products for villagers, thereby raising cumulative RMB6.618 billion to help more than 40 thousand residents in the village community.

REPORT ON SANNONG FINANCIAL SERVICES

2. *Innovation and optimization of agriculture-related credit products*

First of all, "Sun•Villager E-loan" (太陽•村民e貸) online credit product for the villagers was further optimized. This product is a "convenient, fast, small amount" pure credit online personal business loan. As of the end of 2019, RMB218 million was released in total, involving 2,208 customers.

Secondly, "Sun•Village Community Quick Loan for Senior Management" (太陽•村社高管快貸) online credit product for senior management of the village community was launched. This product has advantages of complete automation, wholly online operation, comprehensive and all-round credit. As of the end of December 2019, RMB61.9365 million was released in total, involving 520 customers.

3. *Improvement in redevelopment of product system in the old villages*

In line with the vigorous promotion of the redevelopment of the old villages in Guangzhou, the Bank launched various products and service systems of different phases in relation to redevelopment of the old villages, such as "three old" redevelopment loan which is used in settling the expenses in the phase of demolition and rebuilding for the old villages redevelopment projects (including the relevant fees such as demolition fee, compensation fee, placement fee and construction fee of rebuilding houses).

4. *Enhancement of capability of service for agriculture-related system platform*

Leveraging on our experience and advantages in funds, technology, network, customer resources and financial management, we proactively carried out financial innovation by developing various agriculture-related platforms such as rural collective funds account supervision platform, urban renewal and redevelopment funds supervision platform, "Bidding Easy" (招標易), the Party fee online payment platform and district-level financial-centralized payment system, so as to provide professional financial services to the departments of the government at all levels and the customers of the village community.

(V) Establishment and promotion of rural inclusive financial service channels

Currently, the Bank has formed a diverse inclusive financial service network with wide coverage comprised of operating outlets, community banks, off-bank self-service banking, community financial service stations, rural financial service stations, cash terminals for farmers, online banking, mobile banking, telephone banking and direct-selling banking, which connected the “last kilometer” of Sannong services. As of the end of December 2019, the Bank had 619 outlets (including 83 community banks), 10 community financial service stations, 130 rural financial service stations and approximately 1,904 ATMs in Guangzhou, which greatly satisfied the needs of inclusive financial services in Guangzhou.

On this basis, the Bank also launched various featured service measures for rural customers:

First of all, financial knowledge publicity activities were fully carried out. In 2019, through outlets in villages and financial service stations, financial knowledge publicity activities, which mainly promoting consumer protection service, payment and settlement business and knowledge of usage of bank cards, were carried out online and offline on a multi-dimensional basis and in all aspects.

Secondly, “Social Security Card” (社保卡) service outlets were proactively enlarged. The Bank has organized and conducted the work of setting up the social security card service outlets since 2019. It has expanded to 517 operating outlets of its operating area currently to meet the needs of the social security services of village community.

Thirdly, “Sun•City Renewal Card” (太陽•城市更新卡) was issued. The Bank launched “Sun•City Renewal Card” for the customer groups of village community redeveloped from the old city. “Sun•City Renewal Card” provided village customers with various featured rights such as smart home and transportation, as well as a number of concession fees to better serve village customers and assist the urban redevelopment of Guangzhou.

Fourthly, retail teams of village community business were established by linking relevant departments. 100 village community business teams were established by the way of “pairing-up” (結對子). They conducted regular visits to primary-level personnel, collected and responded to the needs of village customers on a timely basis, provided down-to-earth and localized onsite service to villagers and economic organizations of village community.

REPORT ON SANNONG FINANCIAL SERVICES

(VI) Full support of “three old” redevelopment

In order to match up with the launch of “three old” redevelopment of Guangzhou, the Bank proactively innovated in organizational structure, product system and working model, by combining its own advantages to assist the urban renewal of Guangzhou.

1. *Setting up of city renewal specialized institutions*

In order to propel the professional operation of city renewal business, the Bank set up specialized institutions for city renewal business in head office level and allocated management and marketing personnel who are familiarized with the related fields, so as to effectively meet the financing needs of the enterprises undertaking the redevelopment and facilitate the implementation of projects.

2. *Improvement of city renewal product system*

In the industry, the Bank was the first to divide the comprehensive transformation of old villages in Guangzhou into five phases: preliminary service, cooperation intention, reconstruction and placement, financial regions construction and old villages reconstruction. On this basis, it provided exclusive products and services for each urban renewal phase, including urban renewal loans, urban renewal homeland loans, urban renewal and reconstruction funds supervision platform, and “three old” redevelopment loans, etc., and the Bank is proactively promoting the development of online innovative products such as urban renewal theme cards.

3. *Optimization of the working model of city renewal*

“Guangzhou Old Village Redevelopment Project Pool” (廣州市舊村改造項目庫) first launched by the Bank, has recorded the widest coverage of projects in the city, the fastest updating speed in the city, and detailed project progress. In 2018, the Bank joined the Guangzhou Urban Renewal Association to achieve the most accurate, truthful and comprehensive capturing of the policies. In addition, the Bank also entered into strategic cooperation agreements with seven major real estate enterprises of old villages redevelopment and 154 administrative villages, in order to strengthen the cooperative relationship between banks and enterprises and banks and villages.

4. *Focusing on provision of integrated service by the new community of village community to villagers*

Taking the “three old” redevelopment as an opportunity, “Smart Homeland” (智慧家園) project and “City Renewal Pass” (城市更新一卡通) were integrated to provide various featured integrated services such as providing access management, collecting and settling water charges, electricity charges, gas charges and property charges, managing senseless payment for carparks, collecting dividends, carrying out exclusive wealth management, queuing on outlets, etc. to village community and villagers. According to the needs of asset heritage for senior management of village community, the first and second generations of the villagers, the Bank carried out proactive marketing, one-on-one exclusive service for senior management of village community and tried on the family credit pilot. A series of brand campaigns named “Sun New Stars Training Camp” (太陽新星訓練營) was launched to improve the comprehensive quality education for the children of village customers and broaden the horizons of the second and third generations of the villagers.

(VII) "Internet + Financial" to assist in rural revitalization

1. *Proactive promotion of the application of mobile payment in rural areas "Ten-Hundred-Thousand Project" (十百千示范工程)*

Based on the theme of "One District, One Scenario, One Feature" (一區一片一特色), the business model of "Internet + Scenario + Finance" was strongly promoted to accelerate the integration of urban and rural payments and improve the capability of financial service to rural revitalization. As of the end of December, the Bank had a total of 476 million new payment transactions, with cumulative transaction amount of approximately RMB336.51 billion, representing a year-on-year increase of 22% and 24%, respectively. Among 1,311 administrative villages in Guangzhou, merchants in 798 villages have used our payment service. The Bank had 6,254 merchants in village community.

First of all, the livelihood scenario of village community was being focused, and the livelihood and business scenarios of medical, transportation and wet market were established. With the smart transportation business of Baiyun airport lines and Conghua public transport lines, the Bank had a total of 410 thousand transactions in the transportation scenario with the transaction amount of RMB132 million in total. "Smart medical" services were launched, with a total of 300 thousand transactions and the cumulative transaction amount of RMB350 million.

Secondly, demonstration business circles of rural tourism were created by focusing on rural revitalization. In 2019, the Bank has established tourism business circles such as Conghua Xitang Village (從化西塘村), Lianma Village (蓮麻村), Huangpu Ancient Port in Haizhu District (海珠區黃埔古港) and Panyu Shawan Ancient Town (番禺沙灣古鎮). As of the end of December, there was a total of 850 thousand transactions in the tourism industry, with the cumulative transaction amount of RMB340 million.

Thirdly, construction of "smart campus" was facilitated. Targeting on the daily payment needs of different kinds of schools such as universities, secondary and primary schools and kindergartens, "smart campus" products were launched, and the functions of payment reminder messages and monthly bill checking were provided. As of the end of December, a total of 37 campuses had used the campus payment service of the Bank. There were 111.2 thousand transactions, representing a year-on-year increase of 37.14% while the transaction amount was RMB607 million, representing a year-on-year increase of 45.47%.

Fourthly, mobile payment habit was cultivated in villages, and the promotion of various mobile payment was carried out. In 2019, a total of 173.3 thousand new users used cloud flash payment APP, together with additional 250.2 thousand linked credit cards. The transaction volume of mobile payment was 2.5128 million.

REPORT ON SANNONG FINANCIAL SERVICES

2. Optimization of the e-commerce platform of "Sun Market" (太陽集市) and creation of offline retail stores

Based on the e-commerce platform 2.0 of "Sun Market" of the Bank, the goods invoicing management module was launched to provide technical support for the standardized operation. With a view to assisting in rural industrial development, B2B business module was successfully developed and the integration between the new business and traditional business was accelerated.

Meanwhile, by facilitating the construction of offline retail stores in all aspects, and proactively exploring and promoting the practices such as "sample-store-driven retail stores" (樣板店帶動零售店), "selling goods of large-scale supermarkets together with signature goods" (大型商超商品配合地標商品一併銷售), some large-scale supermarkets have established chain operations in the retail stores of the Bank.

3. Enhancement of the promotion of featured agricultural products

In 2019, Sun Market enhanced the promotion of "famous, special, high-quality and innovative" in Guangdong and established online and offline special promotion zones for "famous, special, high-quality and innovative" agricultural products. In 2019, cooperation agreements were entered into with top ten local enterprises of featured agricultural products, joining hands in promoting the branding of featured agricultural products with the Bureau of Agriculture and Rural Affairs (農業農村局) in the region. Meanwhile, the Bank joined the "Brand Agricultural Alliance" (品牌農業聯盟), acting as an alliance promoter company to participate in a series of follow-up work such as poverty alleviation through consumption and agricultural development through branding (品牌強農).

(VIII) Support of the targeted poverty alleviation in villages with an innovative model

The Bank relied on the core position of leading agricultural enterprises, coupled with the Bank's advantages, the Bank fanned out the successful experience gained on key points and endeavored to form an effect agricultural industry poverty alleviation model and improved the quality of financial services for rural revitalization. At the same time, the Bank combined the existing poverty alleviation measures with various initiatives, thereby developing good economic benefits and brand effect.

1. Formulation of the implementation plan for targeted poverty alleviation to win the battle against poverty

Based on the actual situation of its own business, the Bank formulated the "Implementation Plan for Financial Targeted Poverty Alleviation of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行金融精準扶貧實施方案》). Under the premise of controlling risks, it optimized the allocation of financial resources, innovated financial products and services, increased the financial supports, and gave full play to the Bank's pivotal role in regional targeted poverty alleviation.

REPORT ON SANNONG FINANCIAL SERVICES

2. *Implementation of the "Thousand Enterprises Help Thousand Villages (千企幫千村)" initiative to implement rural revitalization*

Firstly, the Bank actively introduced Yuewang Group (粵旺集團) to invest in the frog and rice symbiosis project in Gaoping Village, Aotou Town, Conghua District. Secondly, the Bank donated a total of RMB149 thousand through the Sun Charity Foundation to the patients with serious illness, poor students and poor elderly in the village. Thirdly, the Bank planned to donate RMB1.483 million to improve the rural living environment in order to construct the beautiful villages.

3. *Deepening of industrial support to steadily promote the targeted poverty alleviation*

In the early stage, the Bank cooperated with Yuewang Group, a leading agricultural enterprise, and successfully created the industrial poverty alleviation model featuring in "Internet + Leading Agricultural Enterprises + Bases + Farmers". In 2019, the Bank further deepened its industrial support. On the basis of the 100-mu greenhouse planting assistance project in Shengli Village, with additional loans were provided to support the construction of 302-mu greenhouse planting bases in Tangwan Village and Shantang Village.

4. *Exploration of the new e-commerce poverty alleviation model to open up the new paths for rural revitalization*

The Bank joined forces with leading agricultural enterprises to actively explore the industrial poverty alleviation, and achieved the pairing of production and sales through the unified cultivation of seedlings, unified greenhouse planting and unified recycling of products. The Bank introduced the professional poverty alleviation enterprises to increase resource investments and integration efforts, utilized the online and offline channels of the "Sun Market" to showcase and sell agricultural products from poverty-stricken areas, and explored the establishment of the long-term targeted poverty alleviation mechanism.

5. *Continuous deepening of poverty alleviation and welfare activities*

Firstly, the Bank relied on the Sun Charity Foundation to carry out more than 1,000 welfare activities through 22 volunteer teams, making a total donation of more than RMB6.89 million with more than 4,500 participants joined in the volunteer activities. Secondly, the Bank helped 523 poor families in Qingyuan City to enjoy basic medical care and minimum living guarantee, including the renovation of 2 poor households, the grant of educational subsidies to 81 children of poor households, and the provision of daytime care for 14 exceptional disabled people. Thirdly, the Bank actively arranged unit canteens and employees to purchase agricultural products from poverty-stricken areas, with a total purchase amount of RMB342.2 thousand.

REPORT ON SANNONG FINANCIAL SERVICES

(IX) Implementation of the co-construction of bank, village and party to comprehensively deepen the rural revitalization

The Bank continuously strengthened the leading role of party construction, actively organized grassroots party organizations pairing up with village communities in Guangzhou for co-construction, and gave full play to the role of grassroots party organizations as a fortress. It has comprehensively commenced the new "bank and village co-construction" model which is characterized with mutual learning among party members, mutual benefit, mutual business promotion, mutual resources sharing and mutual assistance for win-win. As of the end of December 2019, various grassroots party organizations of the Bank had established the party construction relationship with more than 190 villages (towns). On the basis of co-construction, the Bank jointly carried out various themed events for party construction, jointly improved the standardized construction level of party organizations, promoted in-depth cooperation between party construction and businesses, and deepened the rural revitalization.

II. 2020 WORK PLAN

In 2020, the Bank will adhere to the subject of "Serving Sannong" and continuously rely on a series of practices such as the establishment of a comprehensive financial service model of village community, the overall improvement plan and Three-Year Action Plan for rural revitalization to vigorously promote the development of financial services of rural revitalization. Starting from various aspects such as policy, product, service and cooperation, the Bank promotes inclusive finance and realizes rural revitalization, so as to actually "serve agriculture, benefit farmers and prosper the rural areas".

(I) Further optimize the structure, clarify the policy and serve "Sannong"

First of all, the existing professional, specialized and dedicated marketing framework for "Sannong" business is maintained. The Bank continuously improves the establishment of the structure and matches up with the business development, so the stable and continuous main structure system provides strong organizational security for business development.

Secondly, in terms of the policy, strategic positioning for supporting the development of agriculture is continuously insisted. The continued growth of annual agriculture loans is ensured by the business directions of supporting rural revitalization, Sannong and poverty alleviation financial projects.

Thirdly, the industry policy for "Sannong" business sub-sector will be formulated. Credit granting procedures will be further simplified and investigation and approval procedures will be optimized, so as to open up green channels for agriculture-related loans and ensure the timeliness and flexibility of financial services of rural revitalization.

REPORT ON SANNONG FINANCIAL SERVICES

(II) Continuously deepen the implementation of the business development strategy of "Sannong"

1. *Strong establishing a comprehensive, multi-level model of financial services for village community*

In 2020, the needs of "Sannong" financial service will be focused continuously and the establishment of a comprehensive, multi-level model of financial services will be strongly promoted. First of all, the Bank will integrate between visiting the villages in a standardized way and policy and service. Secondly, it will deepen the promotion of the financial service function of financial service commissioners in village community. Thirdly, customized publications will be issued to provide ideas for rural revitalization. Fourthly, the Bank will further develop the promotional campaigns for Thousand Villagers Football Match to express the positive side of villages. Fifthly, it will perform well in tackling poverty alleviation by enriching poverty alleviation campaigns in village community of its operating area. Sixthly, it will rely on the "Sun Market" to deepen the function of internet-based financial services of rural revitalization.

2. *Continuous deepening of the implementation of overall village community upgrade*

First of all, the Bank will rely on the existing business basis of the Bank, identify the typical model, implement various measures, vigorously explore and promote a district-level government-related business of the Bank in achieving substantial breakthroughs. Secondly, the in-depth of "Weaving Project" (織網工程) and its effectiveness will be continuously explored. Thirdly, the Bank will promote urban renewal management and the in-depth development of the product system. Fourthly, it will continuously push the development and promotion of agriculture-related and government-related system platform. Fifthly, the online credit mechanism of sensor management in village community will be further optimized to raise the sense of receiving service of the village community.

3. *Implementation of the three-year action plan for rural revitalization in line with the latest situation*

First of all, the Bank will steadily promote the implementation of each measure of the action plan and collect the relevant project progress on a timely basis. Secondly, it will "always look back" to integrate the business situation of village community in its operating area and make adjustments in accordance with the actual outcomes of the practices and measures. Thirdly, the adjustments towards the measures of the action plan will be optimized in accordance with the latest policy orientation.

(III) Strive to develop the scenario financing service system for the entire village

The internal business procedure will be optimized, and the all-aspects scenario financing service system redeveloped by the old village will be established. Especially for the "three old" redevelopment project, the Bank will further improve the comprehensive marketing and in-depth expansion of the "three old" redevelopment project and conduct forward-looking consideration of the arrangement towards the development of retail financial business in the community after the redevelopment project, so as to transform the marketing strategy of redevelopment project of the Bank from "carefree" style to "precise" style.

REPORT ON SANNONG FINANCIAL SERVICES

(IV) Promote urban renewal management and in-depth development of product system

First of all, the Bank will integrate with the accumulative preliminary projects, promote the development of standardized management work and underpin the urban renewal management system. Secondly, the Bank will continuously focus on its advantageous resources to ensure the redevelopment project on the right track, and strive to maintain all villages and communities persistently. Thirdly, it will achieve stable development in the new trend of urban renewal policy in Guangzhou, explore the market space of industrial redevelopment project such as improvement of the construction in village-level industrial park and the land use policy of emerging industries, coordinate with the supporting products, promotion, training and marketing and push the expansion of urban renewal product system in a horizontal way.

(V) Continuously improve the information gathering system for key projects of village community

The Bank will implement the information gathering system for key projects of village communities in Guangzhou continuously, realize the update on the information database for key projects of village communities in Guangzhou, collect the information of the old villages redevelopment in a timely manner, in order to provide more persuasive supporting towards redevelopment business. Through the innovation credit granting products including urban renewal loans, urban renewal homeland loans, urban renewal village loans to promote the various businesses from redevelopment customers through the Bank, the Sannong customer base will be consolidated.

(VI) Deepen the concept of poverty alleviation work expansion and strive to conduct rural revitalization

First of all, the Bank will continuously comply with the work requirements of central government, provincial and municipal committees concerning rural revitalization and targeted poverty alleviation. The Bank will earnestly complement its shortcomings and further optimize the implementation of its targeted poverty alleviation plan. Long-term effective mechanism of poverty alleviation will be established through consolidation on the poverty alleviation effectiveness. Secondly, it will further promote “Thousand Enterprises Help Thousand Villages” (千企幫千村) and continuously launch the poverty alleviation project in Gaoping Village in relation to the industry of frogs and crops growing in the same field. The Bank will expedite the development of poverty alleviation projects of the planting industry in Shantang Village and Tangwan Village. Thirdly, it will fully leverage on the innovative and leading role of “Sun Market” e-commerce platform in tackling poverty alleviation through the integration of online and offline models, to assist in poverty alleviation through consumption.

(VII) Further strengthen the “Internet + Finance” capability towards rural revitalization

First of all, the financial service capability of rural area network will be greatly improved. With the aid of payment business, the Bank will focus on rural revitalization strategy, greatly push forward the development of “Mobile Payment of Ten-Hundred-Thousand Demonstration Projects in Rural Areas” (農村移動支付十百千示範工程), continuously extend its service scope and facilitate the mobile payment in various convenient scenarios including medical, transportation, travel, business circle and wet market, so as to consolidate the business advantages of the Bank in the village community and improve the financial service level in rural areas. Secondly, the projects of “three-old” redevelopment and new community construction will be focused. The Bank will complete the construction of a smart community service platform in stages, provide a comprehensive financial service process from development and construction of the “three-old” project to its operation after completion, to maximize the comprehensive contribution of customers at a lower cost. Thirdly, online financial products and services channels will be enriched. Products will be tailor-made for specific customer groups, in order to provide a convenient and smooth online experience to the customers. Product competitiveness will be enhanced by increasing the non-financial interest in the products. Fourthly, it will further rely on “Sun Market” to build an e-commerce sales platform and service network for special agricultural by-products centering on the upstream and downstream parts of the agricultural industry chain. The Bank will track and monitor the new rural operating models of “Farmer + Base” and “Farmer + Company” from sourcing to terminal sales, and provide financing and financial consulting services.

(VIII) Continuously promote the inclusive financial services to assist rural revitalization

First of all, the Bank will continuously propel the promotion of rural financial knowledge. It will rely on outlets in villages, financial service stations and official WeChat account to organize various financial knowledge inclusive activities such as payment security, risk prevention and wealth management investment. Secondly, the Bank will continuously issue the featured deposit products which are favorable to village customers, implement flexible deposit interest rate pricing, and simplify the procedures to improve the customer service level. Thirdly, various exclusive products for the villagers including “Sun Business Loans for Villagers” (太陽村民致富貸) and “Sun Convenient Agricultural Loans” (太陽農易貸) will be launched, to satisfy the demand for financing of the operation and consumption of the villagers, including the “second generation of the village” (村二代) and the “third generation of the village” (村三代), by innovatively using a method of incomplete mortgage for bases of houses. Fourthly, the financial service needs of the “second generation of the village” and the “third generation of the village” will be collected. The Bank will increase the number of exclusive products for the villagers under the existing retail debt product system, and further favor the village customers in terms of product revenue, sales and ease of purchase.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Guangzhou Rural Commercial Bank Co., Ltd.

(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Guangzhou Rural Commercial Bank Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 134 to 290, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

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

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

- Measurement of expected credit losses for loans and advances to customers and financial investments measured at amortized costs; and
- Consolidation of structured entities.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and financial investments measured at amortized costs	
Refer to note 2, note 3, note 21 and note 24 to the consolidated financial statements. As at 31 December 2019, the Group's gross loans and advances to customers amounted to RMB479,968 million, and a loss allowance of RMB16,917 million was recognized in the Group's consolidated statement of financial position; and the gross balance of financial investments measured at amortized costs amounted to RMB83,223 million, with a loss allowance of RMB687 million. The impairment losses on loans and advances to customers and financial investments measured at amortized costs recognized in the Group's consolidated statement of profit or loss for the year ended 31 December 2019 amounted to RMB5,748 million and RMB386 million, respectively. International Financial Reporting Standard 9: Financial Instruments ("IFRS 9" or "the standard") is a new and complex accounting standard effective from 1 January 2018.	Our audit procedures relating to ECL for loans and advances to customers and financial investments measured at amortized cost are as follows: We understood, evaluated and tested the internal controls relating to the measurement of ECL for loans and advances to customers and financial investments measured at amortized costs, primarily including: – The selection, approval and application of ECL modelling methodology; and the internal controls relating to the ongoing monitoring and optimization of the models; – Internal controls relating to significant management judgements and assumptions over ECL models, including the review and approval of portfolio segmentation, model selections, parameters estimation, significant increase in credit risk, and defaults or credit-impaired, forward-looking measurement;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and financial investments measured at amortized costs	
Following the requirements of IFRS 9, management applied expected credit losses ("ECL") models and made the best estimation of ECL for loans and advances to customers and financial investments measured at amortized costs at 1 January 2018 (the effective date of the standard) and the reporting date. The Group assesses whether the credit risk of loans and advances to customers and financial investments measured at amortized costs have increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their ECL. For corporate loans and financial investments measured at amortized costs classified into stages I and II, and all personal loans, management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans and financial investments measured at amortized costs in stage III, the management assesses loss allowance by estimating the cash flows from the loans and financial investments. The measurement models of expected credit losses involve significant management estimations and judgements, primarily including the following: (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;	– Internal controls over the accuracy and completeness of key inputs used by the models; – Internal controls relating to estimated future cash flows and calculations of present values of such cash flows for corporate loans and financial investments measured at amortized cost in stage III; and – Internal controls over the information systems for model-based calculation. The substantive procedures we performed primarily included: – With our internal ECL modelling specialists' assistance, we reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We examined the coding for model measurement on a sample basis, to test whether or not the measurement models reflect the modelling methodologies documented by the management; – We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and financial investments measured at amortized costs	
(2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or credit-impaired incurred; (3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; and (4) The estimated future cash flows for corporate loans and financial investments measured at amortized costs in stage III. Considering the material balances of loans and advances to customers and financial investments measured at amortized costs, significant management estimations and judgements, and complex models involved for impairment assessment, we identified this as a key audit matter.	– With the support from our internal ECL modelling specialists, we assessed the forward-looking information in ECL models used by management, including reviewing management's selection of economic indicators, economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic scenarios' weightings; – We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness; and – For corporate loans and financial investments measured at amortized costs in stage III, we examined, on a sample basis, the reasonableness of the forecasted future cash flows prepared by management, including forecasted cash flow and discount rates, etc. from financial information of borrowers and guarantors, latest collateral valuations, and other available information. Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of expected credit losses for loans and advances to customers and financial investments measured at amortized costs, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of structured entities	
Refer to note 2, note 3 and note 41 to the consolidated financial statements. As at 31 December 2019, the Group has managed and invested in various structured entities, such as wealth management products, trust plans and asset management plans. The Group determined whether to consolidate these structured entities based on its assessment whether the Group has control, taking into consideration the power arising from rights, variable returns, and link between power and returns. The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support. The comprehensive analysis over these factors and the conclusion of the control in place or not, involved significant judgements and estimations. Due to the significance of the structured entities and the complexity of judgement exercised by management, whether to consolidate these structured entities is considered a key audit matter.	Our procedures in relation to consolidation of structured entities included: – Understood the process and relevant controls over the assessment and disclosures of consolidation of structured entities; – Assessed the management's accounting policies about control and the application consistency of these accounting policies, which included the assessment of the Group's power, variable returns from its involvement with, and its ability to use its power to affect the amount of its return from structured entities; – Reviewed the relevant term sheets and the corresponding supporting documents on a sample basis to assess whether the Group had legal or constructive obligation to absorb any loss of the structured entities, and whether the Group has provided liquidity support or credit enhancement to the structured entities, so as to evaluate the Group's controls over the structured entities; and – Understood and evaluated the appropriateness of disclosures in the consolidated financial statements relating to structure entities. Based on the procedures we have performed and the evidence obtained, we found the management's judgement on consolidation of structured entities was supportable.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

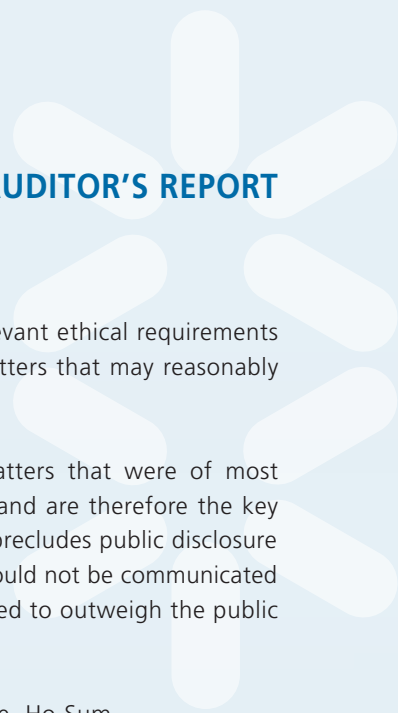
INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with ISAs, 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.
- 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 the Audit Committee 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.





INDEPENDENT AUDITOR'S REPORT

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

From the matters communicated with 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 Zee, Ho Sum.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

		Year ended 31 December	
	Note	2019	2018
Interest income	6	35,745,361	29,445,584
Interest expense	6	(17,181,707)	(16,173,934)
Net interest income		18,563,654	13,271,650
Fee and commission income	7	1,992,834	1,813,220
Fee and commission expense	7	(310,705)	(265,700)
Net fee and commission income		1,682,129	1,547,520
Net trading gains	8	2,735,012	4,537,202
Net gains on financial investments	9	52,590	648,937
Other income, gains or losses	10	623,899	661,359
Operating income		23,657,284	20,666,668
Operating expenses	11	(6,675,696)	(5,984,334)
Credit impairment losses	13	(7,078,305)	(5,829,923)
Impairment losses on other assets	13	(8,159)	(139,019)
Profit before income tax		9,895,124	8,713,392
Income tax expense	14	(1,984,411)	(1,881,229)
Profit for the year		7,910,713	6,832,163
Attributable to:			
Shareholders of the Bank		7,520,348	6,526,337
Non-controlling interests		390,365	305,826
		7,910,713	6,832,163
Earnings per share (RMB yuan)			
– basic and diluted	16	0.77	0.67

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

	Year ended 31 December	
	2019	2018
Profit for the year	7,910,713	6,832,163
Other comprehensive income (after tax, net)		
Items that may be reclassified to profit or loss		
Changes in the fair value of financial assets at fair value through other comprehensive income	(567,301)	2,026,661
Changes in the expected credit losses of financial assets at fair value through other comprehensive income	621,324	376,924
Items that will not be reclassified to profit or loss		
Remeasurement losses on defined benefit plans	(5,734)	(83,045)
Subtotal of other comprehensive gains for the year	48,289	2,320,540
Total comprehensive income for the year	7,959,002	9,152,703
Total comprehensive income attributable to:		
Shareholders of the Bank	7,566,877	8,849,900
Non-controlling interests	392,125	302,803
	7,959,002	9,152,703

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	31 December 2019	31 December 2018
ASSETS			
Cash and deposits with central bank	17	99,562,341	101,589,714
Deposits with banks and other financial institutions	18	30,700,318	10,866,562
Placements with banks and other financial institutions	19	20,604,232	15,299,113
Financial assets held under resale agreements	20	28,593,493	29,338,950
Loans and advances to customers	21	463,051,371	364,967,971
Financial investments			
– Financial assets at fair value through profit or loss	22	85,432,178	89,797,155
– Financial assets at fair value through other comprehensive income	23	69,706,113	57,697,751
– Financial assets at amortized cost	24	82,536,087	80,358,225
Property and equipment	25	2,921,638	2,381,741
Goodwill	26	734,237	258,056
Deferred tax assets	27	5,054,904	3,542,727
Other assets	28	5,257,379	7,191,632
Total assets		894,154,291	763,289,597
LIABILITIES			
Due to the central bank		8,867,584	2,702,904
Deposits from banks and other financial institutions	29	41,039,193	63,215,965
Placements from banks and other financial institutions	30	984,917	1,553,583
Financial assets sold under repurchase agreements	31	9,730,355	11,817,776
Customer deposits	32	658,243,086	542,335,162
Income tax payable		2,323,077	1,448,438
Debt securities issued	33	79,240,055	65,875,435
Other liabilities	34	20,016,713	18,759,266
Total liabilities		820,444,980	707,708,529

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	31 December 2019	31 December 2018
EQUITY			
Share capital	35	9,808,269	9,808,269
Preference shares	36	9,820,734	–
Reserves	37	28,326,689	25,775,261
Retained earnings		20,391,000	17,277,797
Equity attributable to shareholders of the Bank		68,346,692	52,861,327
Non-controlling interests		5,362,619	2,719,741
Total equity		73,709,311	55,581,068
Total liabilities and equity		894,154,291	763,289,597

The consolidated financial statements were approved by the Board of Directors on 30 March 2020 and were signed on its behalf by:

Yi Xuefei
Vice Chairman

Chen Jianming
Chief Financial Officer

Ding Bin
Head of Financial Department

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

	Attributable to shareholders of the Bank										
	Reserves							Retained earnings	Total	Non-Controlling interests	Total
	Share capital Note 35	Preference shares Note 36	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Subtotal Note 37				
Balance at 1 January 2019	9,808,269	-	10,860,995	4,398,573	9,448,545	1,067,148	25,775,261	17,277,797	52,861,327	2,719,741	55,581,068
Net profit for the year	-	-	-	-	-	-	-	7,520,348	7,520,348	390,365	7,910,713
Other comprehensive income for the year	-	-	-	-	-	46,529	46,529	-	46,529	1,760	48,289
Total comprehensive income	-	-	-	-	-	46,529	46,529	7,520,348	7,566,877	392,125	7,959,002
Capital contributed by non-controlling shareholders	-	-	-	-	-	-	-	-	-	72,280	72,280
Transactions with non-controlling interests	-	-	(43,884)	-	-	-	(43,884)	-	(43,884)	43,884	-
Issuance of preference shares	-	9,820,734	-	-	-	-	-	-	9,820,734	-	9,820,734
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	2,272,514	2,272,514
Shareholders' donation	-	-	103,292	-	-	-	103,292	-	103,292	2,583	105,875
Appropriation to surplus reserve	-	-	-	657,204	-	-	657,204	(657,204)	-	-	-
Dividends declared and paid	-	-	-	-	-	-	-	(1,961,654)	(1,961,654)	(140,508)	(2,102,162)
Appropriation to general reserve	-	-	-	-	1,788,287	-	1,788,287	(1,788,287)	-	-	-
Balance at 31 December 2019	9,808,269	9,820,734	10,920,403	5,055,777	11,236,832	1,113,677	28,326,689	20,391,000	68,346,692	5,362,619	73,709,311

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

	Attributable to shareholders of the Bank									
	Reserves						Retained earnings	Total	Non-Controlling interests	Total
	Share capital Note 35	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Subtotal Note 37				
Balance at 1 January 2018	9,808,269	10,581,739	3,777,432	8,718,218	(1,955,550)	21,121,839	15,114,407	46,044,515	2,433,204	48,477,719
Impact on accounting policy changes	–	–	–	–	699,135	699,135	(1,049,825)	(350,690)	(95,932)	(446,622)
Restated balance at 1 January 2018	9,808,269	10,581,739	3,777,432	8,718,218	(1,256,415)	21,820,974	14,064,582	45,693,825	2,337,272	48,031,097
Net profit for the year	–	–	–	–	–	–	6,526,337	6,526,337	305,826	6,832,163
Other comprehensive income for the year	–	–	–	–	2,323,563	2,323,563	–	2,323,563	(3,023)	2,320,540
Total comprehensive income	–	–	–	–	2,323,563	2,323,563	6,526,337	8,849,900	302,803	9,152,703
Capital contributed by non-controlling shareholders	–	–	–	–	–	–	–	–	130,000	130,000
Shareholders' donation	–	279,256	–	–	–	279,256	–	279,256	23,813	303,069
Appropriation to surplus reserve	–	–	621,141	–	–	621,141	(621,141)	–	–	–
Dividends declared and paid	–	–	–	–	–	–	(1,961,654)	(1,961,654)	(74,147)	(2,035,801)
Appropriation to general reserve	–	–	–	730,327	–	730,327	(730,327)	–	–	–
Balance at 31 December 2018	9,808,269	10,860,995	4,398,573	9,448,545	1,067,148	25,775,261	17,277,797	52,861,327	2,719,741	55,581,068

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended 31 December	
		2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		9,895,124	8,713,392
Adjustments for:			
Interest income on financial investments		(6,497,535)	(6,187,427)
Interest income accrued on impaired financial assets		(55,366)	(56,433)
Interest expense on debt securities	6	3,046,939	3,895,244
Net trading gains		(1,406,137)	(2,842,141)
Net gains on financial investments	9	(52,590)	(648,937)
Net foreign exchange gains		(204,704)	(200,918)
Negative goodwill	10	(86,476)	–
Net gains on disposal of property and equipment		(49,496)	(10,448)
Depreciation and amortization	11	903,917	563,688
Depreciation of investment properties		21,800	22,759
Interest expense on lease liabilities		53,464	N/A
Impairment losses	13	7,086,464	5,968,942
Others		3,146	–
		12,658,550	9,217,721
Net decrease/(increase) in operating assets:			
Balances with central bank		(6,053,386)	9,839,066
Deposits with banks and other financial institutions		5,696,722	1,641,847
Placements with banks and other financial institutions		(1,832,267)	(7,748,314)
Financial assets held under resale agreements		1,917,008	8,894,487
Loans and advances to customers		(89,595,380)	(84,602,396)
Increase in financial assets at fair value through profit or loss		15,119,509	(23,889,068)
Other assets		(143,760)	(2,429,241)
		(74,891,554)	(98,293,619)
Net increase/(decrease) in operating liabilities:			
Due to the central bank		6,164,680	1,548,720
Deposits from banks and other financial institutions		(22,176,772)	19,136,967
Placements from banks and other financial institutions		(568,666)	(1,974,931)
Financial assets sold under repurchase agreements		(2,087,421)	(12,022,220)
Customer deposits		79,453,745	45,126,375
Other liabilities		200,355	5,794,649
		60,985,921	57,609,560
Net cash flows used in operating activities before tax		(1,247,083)	(31,466,338)
Income tax paid		(2,740,431)	(1,556,780)
Net cash flows used in operating activities		(3,987,514)	(33,023,118)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

		Year ended 31 December	
	Note	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and other long-term assets		(439,606)	(2,288,105)
Proceeds from disposal of property and equipment and other long-term assets		136,837	39,061
Cash paid for investments		(93,698,712)	(52,228,804)
Proceeds from sale and redemption of investments		76,842,924	88,859,280
Acquisition of subsidiaries	42	3,967,468	–
Return on investments		8,661,237	8,916,953
Net cash flows (used in)/from investing activities		(4,529,852)	43,298,385
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of preferences shares		9,839,115	–
Cash payments for transaction cost of preferences shares issued		(18,381)	–
Capital contributed by non-controlling shareholders		72,280	130,000
Transactions with non-controlling interests		(43,884)	–
Shareholders' donation		106,343	303,693
Proceeds from debt securities issued		115,931,192	81,074,499
Repayment of debt securities issued		(101,641,783)	(119,833,635)
Interest paid on debt securities		(3,971,728)	(1,994,724)
Dividends paid on ordinary shares		(1,961,654)	(1,961,654)
Payment for lease contracts		(278,758)	–
Dividends paid to non-controlling shareholders		(140,508)	(74,147)
Net cash flows from/(used in) financing activities		17,892,234	(42,355,968)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		9,374,868	(32,080,701)
Cash and cash equivalents at the beginning of the year		77,319,617	109,247,230
Effect of exchange rate changes on cash and cash equivalents		176,411	153,088
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	39	86,870,896	77,319,617
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		28,871,526	24,071,293
Interest paid		(14,422,481)	(9,704,458)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

1 CORPORATE INFORMATION AND STRUCTURE

Guangzhou Rural Commercial Bank Co., Ltd. (the “Bank”), whose predecessor was established in 1952, underwent a series of reforms in subsequent years. Under the “Approval Regarding the Opening of Guangzhou Rural Commercial Bank Co., Ltd.” (Yinjianfu No. [2009]484) issued by the China Banking Regulatory Commission (the “CBRC”, which was renamed to China Banking Insurance Regulatory Commission (the “CBIRC”) in 2018), Guangzhou Rural Commercial Bank Co., Ltd. was incorporated on 9 December 2009.

The Bank obtained its finance permit No.B1048H244010001 from the CBIRC and its business license of Unified Social Credit code No.914401017083429628 from the Administration for Industry and Commerce of Guangzhou Municipality. The legal representative is Wang Jikang and the registered office is located at No. 9 Yingri Road, Huangpu District, Guangzhou, the PRC.

On 20 June 2017, the Bank was listed on The Stock Exchange of Hong Kong Limited.

The Bank and its subsidiaries (the “Group”) conducts its operating activities in the PRC.

The principal activities of the Bank comprise taking deposits from the general public (including domestic and foreign currencies), granting short, medium and long-term loans (including domestic and foreign currencies), domestic and international settlements, bills acceptance and discounting, providing agency services for issuing/redemption and underwriting of government bonds, trading government bonds, trading and issuing financial bonds, inter-bank placements (including domestic and foreign currency), bank cards (including debit cards and credit cards) business, providing agency services of payment collection and insurance agency service, providing safe locker service, foreign currency remittance, foreign currency exchange, settlement and sale of foreign exchange, foreign credit investigations, advisory and attestation service, fund and insurance assets trusteeship, financing services, fund consignment business, e-bank services, securitization of credit assets, and other financial business activities approved by the CBIRC or other relevant regulators.

As at 31 December 2019, the Bank had a total of 29 subsidiaries, including 25 county banks, a financial leasing company and 3 rural commercial banks across China.

The consolidated financial statements were authorized for issue by the Board of Directors of the Bank on 30 March 2020.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

1 CORPORATE INFORMATION AND STRUCTURE (CONTINUED)

The Bank and its subsidiaries are collectively referred to as the “Group”. As at 31 December 2019, the Bank had a total of 29 subsidiaries, including 25 county banks, a financial leasing company and 3 rural commercial banks, which are located in Guangdong, Shandong, Jiangsu, Hunan, Henan, Sichuan, Liaoning, Jiangxi and Beijing. The details of the Bank’s subsidiaries as at 31 December 2019 are as follows:

Name	Place of registration	Registered capital (in thousands)		Percentage of equity interests held by the Bank		Percentage of voting rights held by the Bank		Principal activities
		31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018	
Laiwu Zhujiang County Bank	Laiwu, Shandong Province	60,000	60,000	51.00%	51.00%	51.00%	51.00%	Banking
Jiangsu XuyiZhujiang County Bank	Xuyi, Jiangsu Province	50,000	50,000	51.00%	51.00%	51.00%	51.00%	Banking
Jiangsu Qidong Zhujiang County Bank	Qidong, Jiangsu Province	100,000	100,000	51.00%	51.00%	51.00%	51.00%	Banking
Changning Zhujiang County Bank	Changning, Hunan Province	50,000	50,000	51.00%	51.00%	51.00%	51.00%	Banking
Laizhou Zhujiang County Bank	Laizhou, Shandong Province	80,000	80,000	51.00%	51.00%	56.00%	51.00%	Banking
Haiyang Zhujiang County Bank	Haiyang, Shandong Province	70,000	70,000	51.00%	51.00%	51.00%	51.00%	Banking
Huixian Zhujiang County Bank (i)	Huixian, Henan Province	100,000	60,000	35.00%	35.00%	52.57%	51.00%	Banking
Pengshan Zhujiang County Bank (i)	Meishan, Sichuan Province	50,000	50,000	35.00%	35.00%	51.00%	51.00%	Banking
Xinjin Zhujiang County Bank (i)	Xinjin, Sichuan Province	100,000	100,000	35.00%	35.00%	53.00%	53.00%	Banking
Guanghan Zhujiang County Bank (i)	Guanghan, Sichuan Province	100,000	100,000	35.00%	35.00%	51.00%	51.00%	Banking
Dalian Baoshuiqu Zhujiang County Bank (i)	Dalian Bonded Area, Liaoning Province	350,000	100,000	81.43%	35.00%	87.43%	56.00%	Banking
Jizhou Zhujiang County Bank (i)	Jian, Jiangxi Province	87,820	87,820	33.79%	33.79%	57.19%	57.19%	Banking
Heshan Zhujiang County Bank (i)	Heshan, Guangdong Province	150,000	150,000	34.00%	34.00%	71.00%	71.00%	Banking
Beijing Mentougou Zhujiang County Bank	Mentougou District, Beijing	100,000	100,000	51.00%	51.00%	51.00%	51.00%	Banking
Xinyang Zhujiang County Bank(i)	Xinyang, Henan Province	414,200	414,200	39.60%	39.60%	54.13%	54.13%	Banking
Yantai Fushan Zhujiang County Bank	Yantai, Shandong Province	100,000	100,000	93.00%	93.00%	100.00%	100.00%	Banking

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

1 CORPORATE INFORMATION AND STRUCTURE (CONTINUED)

Name	Place of registration	Registered capital (in thousands)		Percentage of equity interests held by the Bank		Percentage of voting rights held by the Bank		Principal activities
		31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018	
Anyang Zhujiang County Bank(i)	Anyang, Henan Province	60,000	60,000	35.00%	35.00%	55.50%	55.50%	Banking
Qingdao Chengyang Zhujiang County Bank(i)	Chengyang District, Qingdao, Shandong Province	100,000	100,000	35.00%	35.00%	51.00%	51.00%	Banking
Suzhou Wuzhong Zhujiang County Bank	Wuzhong District, Suzhou, Jiangsu	150,000	150,000	51.00%	51.00%	51.00%	51.00%	Banking
Sanshui Zhujiang County Bank(i)	Foshan, Guangdong Province	200,000	200,000	33.40%	33.40%	50.50%	50.50%	Banking
Zhongshan Dongfeng Zhujiang County Bank(i)	Dongfeng, Guangdong Province	150,000	150,000	35.00%	35.00%	55.00%	55.00%	Banking
Xingning Zhujiang County Bank(i)	Meizhou, Guangdong Province	50,000	50,000	34.00%	34.00%	100.00%	100.00%	Banking
Shenzhen Pingshan Zhujiang County Bank(i)	Shenzhen, Guangdong Province	300,000	300,000	35.00%	35.00%	83.00%	83.00%	Banking
Dongguan Huangjiang Zhujiang County Bank(i)	Dongguan, Guangdong Province	150,000	150,000	35.00%	35.00%	100.00%	100.00%	Banking
Zhengzhou Zhujiang County Bank(i)	Zhengzhou, Henan Province	200,000	200,000	35.00%	35.00%	90.00%	90.00%	Banking
Zhuzhou Zhujiang Rural Commercial Bank ("ZZRCB")	Zhuzhou, Hunan Province	600,000	600,000	51.00%	51.00%	61.00%	61.00%	Banking
Chaozhou Rural Commercial Bank (the "CZRCB")	Chaozhou, Guangdong Province	2,633,342	N/A	57.72%	N/A	74.38%	N/A	Banking
Nanxiong Rural Commercial Bank (the "NXRCB")	Nanxiong, Guangdong Province	431,800	N/A	51.00%	N/A	53.39%	N/A	Banking
Zhujiang Financial Leasing Co. Ltd.	Guangzhou, Guangdong Province	1,000,000	1,000,000	100.00%	100.00%	100.00%	100.00%	Financial leasing

- (i) The Bank holds less than majority equity interests in these subsidiaries. In accordance with the agreements to act in concert entered into by the Bank and the non-controlling shareholders, the non-controlling shareholders vote consistently with the Bank in deciding the financial and operating policies. Hence, the management of the Bank believes that the Bank has controls over these subsidiaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and interpretations promulgated by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

These financial statements have been prepared on an accrual basis and under the historical cost convention except for financial assets/liabilities at fair value through profit or loss and other comprehensive income that have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Bank. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if and only if the Bank has:

- (a) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- (b) Exposure, or rights, to variable returns from its involvement with the investee; and
- (c) The ability to use its power over the investee to affect its returns.

When the Bank has less than majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) The contractual arrangement with the other voting right holders of the investee;
- (b) Rights arising from other contractual arrangements; and
- (c) The Group’s voting rights and potential voting rights.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership of a subsidiary without a loss of control, is accounted for as equity transaction. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the financial statements from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- (a) derecognises the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognises the carrying amount of any non-controlling interest;
- (c) derecognises the cumulative translation differences recorded in equity;
- (d) recognises the fair value of the consideration received;
- (e) recognises the fair value of any investment retained;
- (f) recognises any resulting surplus or deficit in profit or loss; and
- (g) reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated statement of profit or loss, and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the parent company. An acquisition of non-controlling interests is accounted for as an equity transaction.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Standards, amendments and interpretations effective in 2019

On 1 January 2019, the Group adopted the following new standards, amendments and interpretations. The Group has not early adopted any other standards, interpretations or amendments that have been issued but is not yet effective.

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IFRS 3,	Annual Improvements to IFRSs
IFRS 11, IAS 12 and IAS 23	2015-2017 cycle

IFRS 16

For the lessee, under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts unless the underlying asset is of low value, in the statement of financial position. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the liability in the statement of profit or loss, and also classify cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.

IFRIC 23

The IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

Amendments to IFRS 9

On 12 October 2017, the IASB issued amendments to IFRS 9 – Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability.

Amendments to IAS 28

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Standards, amendments and interpretations effective in 2019 (continued)

Amendments to IAS 19

On 7 February 2018, the IASB issued amendments to the guidance in IAS 19 – Employee Benefits, in connection with accounting for plan amendments, curtailments and settlements. The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change, and any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling. The entities should separately recognise any changes in the asset ceiling through other comprehensive income.

Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

The Annual Improvements to IFRSs 2015 -2017 Cycle include a number of amendments to various IFRSs, including the amendments IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income Taxes, the amendments to IAS 23 – Borrowing Costs.

The impact of IFRS 16 is described in note 4.1. Except the impact of IFRS 16, the adoption of the above amendments does not have a significant impact on the operation results, comprehensive income and financial position of the Group.

2.3 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019

		Effective for annual periods beginning on or after
IFRS 17	Insurance Contracts	1 January 2021 (likely to be extended to 1 January 2023)
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Amendments to IFRS 3	Definition of a Business	1 January 2020

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019 (continued)

IFRS 17

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured at each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the modification reflects that it allows adjustment of contractual service margin for certain change. The results of insurers using this model are there fore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The adoption of the above new IFRS issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

Amendments to IFRS 1 and IFRS 8

The HKICPA has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and the meaning of primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as existing and potential investors, lenders and other creditors that must rely on general purpose financial statements for much of the financial information they need.

Amendments to IFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term outputs is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies

2.4.1 Foreign currency translation

The consolidated financial statements of the Group are presented in RMB, being the functional and presentation currency of the Bank and its subsidiaries.

Foreign currency transactions are initially recorded at the functional currency using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rates ruling at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in the statement of profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value is determined.

2.4.2 Financial instruments

2.4.2.1 Financial assets and financial liabilities

(1) Recognition and derecognition

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. When financial assets are purchased in a regular way or sold out, they are recognised on trade-date. Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and the transfer satisfies the new financial instrument guidelines for the derecognition of financial assets. When the current obligations of financial liabilities have been discharged, the Group derecognizes the financial liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(1) Recognition and derecognition (continued)

Modification of financial assets

The Group sometimes renegotiates or otherwise modifies financial assets' contract which will change the contractual cash flows of financial assets. When this happens, the Group assessed whether or not the new items are substantially different to the original terms.

If the terms are substantially different, the Group derecognizes the original financial assets and recognises 'new' assets at fair value and remeasures a new effective interest rate for the assets. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group remeasures the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is remeasured by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). In assessing whether the credit risk of the relevant financial assets has increased significantly, the Group compares the risk of default on the statement of financial position based on the changed contract terms with the risk of default based on the original contract terms at initial recognition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(1) Recognition and derecognition (continued)

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- (i) has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) is prohibited from selling or pledging the assets; and
- (iii) has an obligation to remit any cash it collects from the assets without material delay.

Collateral furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitization transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The carrying amount of the transferred asset and associated liability is: (a) the amortized cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortized cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(2) Classification and measurement

At initial recognition, the Group measures financial assets or financial liabilities at its fair value plus or minus, in the case of financial assets or financial liabilities not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

When there is a difference between the fair value and the transaction cost at the initial recognition of a financial asset or financial liability, the Group distinguishes between the following:

- (a) At initial recognition, the fair value of a financial asset or financial liability is determined based on the quotation of the same asset or liability in an active market or valuation techniques using only observable market data, the difference between the fair value and the transaction cost is recognised as a gain or loss.
- (b) In the initial recognition, if the fair value of financial assets or financial liabilities is determined in other ways, the difference between the fair value and the transaction cost is deferred. After the initial recognition, the deferred difference is recognised as the gain or loss of the corresponding accounting period based on the degree of change in a factor in the corresponding accounting period. This factor should be limited to factors that market participants will consider when pricing the financial instrument, including time.

Fair value

Fair value refers to the price that a market participant can receive from sell an asset or transfer a liability in an orderly transaction that occurs on the balance sheet date. The fair value of financial instruments traded in active markets is based on quoted market prices (unadjusted) at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. At the time of valuation, the Group adopts valuation techniques that are applicable under current circumstances and that are sufficiently supported by data and other information, and inputs that are consistent with the characteristics of assets or liabilities considered by market participants in transactions in related assets or liabilities. These valuation techniques maximise the use of observable market data where it is available.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(2) Classification and measurement (continued)

Financial assets

The Group classifies its financial assets in the following measurement categories:

- Amortized cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVPL).

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(2) Classification and measurement (continued)

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Group's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- (i) Amortized cost;
- (ii) Fair value through other comprehensive income (FVOCI); or
- (iii) Fair value through profit or loss (FVPL).

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. Factors considered by the Group in determining the business model of a set of financial assets include how the cash flows of the Group were collected in the past, how the Group's performance was assessed and reported to key management personnel, how the risks were assessed and managed, and the way the business managers are paid.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(2) Classification and measurement (continued)

Debt instruments (continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by expected credit losses allowance. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains on financial investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(2) Classification and measurement (continued)

Debt instruments (continued)

The Group reclassifies debt investments if and only if its business model for managing those assets changes. The reclassification takes place from the beginning of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- (a) Purchased or originated credit-impaired ('POCI') financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- (b) Financial assets that are not 'POCI' but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit losses allowance).

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as Net trading gains when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the statement of profit or loss.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(2) Classification and measurement (continued)

Financial liabilities

In both the current and prior period, financial liabilities are classified as subsequently measured at amortized cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability;
- Financial guarantee contracts and loan commitments.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(3) Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(4) Offset

The Group shows financial assets and financial liabilities separately in the statement of financial position and may not offset each other, except for:

- (i) The Group has a statutory right to offset the confirmed amount and the legal right is now enforceable;
- (ii) The Group plans to settle the net assets or realize the financial assets and liquidate the financial liabilities at the same time.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.2 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

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

- The amount of expected credit loss allowance (calculated as described in Note 2.4.2.1(3)); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the ECL allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the ECL allowance is recognised as a provision. However, for contracts that include both a loan and an unused commitment and the Group cannot separately identify provision of unused commitment component from the loan component, the ECL on the unused commitment are recognised together with the ECL allowance for the loan. Provided that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as provisions.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.3 Trade date accounting

All regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the Group commits to purchase or sell the assets. A regular way purchase or sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

2.4.4 Reverse repurchase and repurchase transactions

Assets sold under agreements to repurchase at a specified future date ("repos") are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a "repurchase agreement", reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognised on the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a "reverse repurchase agreement". The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.5 Property and equipment

Property and equipment, other than construction in progress are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

Construction in progress comprises the actual costs of construction. These costs comprise various direct construction costs during the period of construction and other related expenditures. When an asset under construction is ready for its intended use, it is reclassified to fixed assets, intangible assets or other assets, and depreciation or amortization is provided for according to corresponding policies. Construction in progress is not depreciated until the construction is completed and the asset is ready for its intended use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment, less any estimated residual value, over the estimated useful life. The estimated useful life, estimated residual value and annual depreciation rate of each item of property and equipment are as follows:

	Estimated useful life	Estimated residual value	Annual depreciation rate
Properties and buildings	10 to 20 years	0%-5%	4.75%–9.50%
Leasehold improvements	Over the shorter of the useful economic lives and remaining lease terms		
Office equipment	4 to 5 years	0%-5%	19.00%–23.75%
Motor vehicles	3 to 5 years	0%-5%	19.00%–31.67%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.5 Property and equipment (continued)

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year the asset is derecognised.

2.4.6 Land use rights

Land use rights are right-of-use assets and are recognised at cost, which is the consideration paid. The rights are amortized using the straight-line basis over the period of the leases.

2.4.7 Foreclosed assets

Foreclosed assets are initially recognised at fair value and subsequently measured at the lower of their carrying amount and fair value less costs to sell, at the end of each reporting period. When the fair value less costs to sell is lower than a foreclosed asset's carrying amount, an impairment loss is recognised in the consolidated income statement.

Any gain or loss arising on the disposal of the foreclosed asset is included in the consolidated statements of profit or loss in the period in which the item is disposed.

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

2.4.8 Intangible assets (other than goodwill)

The Group's intangible assets mainly comprise computer software.

Intangible assets are initially measured at cost and recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost can be reliably measured. Otherwise, they are recognised in the statement of profit or loss in the period in which they occur.

Upon an intangible asset becoming ready for its intended use, the costs less estimated residual value and any impairment losses are amortized over its estimated useful life on the straight-line basis.

The useful lives of the Group's intangible assets are from 2 years to 10 years. The amortization rates of the Group's intangible assets are between 10% and 50%.

The useful life and the amortization method for intangible assets with finite useful lives are reviewed at the end of each reporting period. If the expected useful life of the asset or the amortization method differs significantly from previous assessments, the amortization period or amortization method is adjusted accordingly as change of accounting estimate.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.9 Investment properties

Investment properties are properties held to earn rentals or for capital appreciation or both. The investment properties of the Group mainly include leased buildings.

Investment property is recognised only when it is probable that economic benefits associated with the property will flow to the Group and the cost of the property can be reliably measured.

Investment properties are initially and subsequently measured using the cost method. Depreciation is calculated using the straight-line method.

	Estimated useful life	Estimated residual value	Annual depreciation rate
Properties and buildings	10 to 20 years	5%	4.75%–9.50%

2.4.10 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed.

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either: (a) fair value; or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRSs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.10 Business combination and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4.11 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.12 Asset impairment

Impairment losses on assets except for deferred tax assets and financial assets are determined based on the following:

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/ amortization, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss. After such a reversal, the depreciation/ amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.4.13 Cash and cash equivalents

Cash and cash equivalents refer to short-term highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash, unrestricted balances with the central bank, amounts due from banks and other financial institutions, Financial assets held under resale agreements and debt securities with original maturity of less than three months.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.14 Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the each year is significant, the Group will present them at their present value.

(a) *Statutory defined contribution plans*

In accordance with the relevant laws and regulations, the employees of the Group participate in basic pension insurance and unemployment insurance schemes administered by the local government authorities. The Group calculates and contributes to the local government agencies under the above pension and insurance schemes using applicable contribution bases and rates stipulated in the relevant local regulations in the period the employees provide their services to the Group. Contributions to these plans are recognised in the statement of profit or loss as incurred.

(b) *Retirement benefit annuity plan*

In addition to the basic pension insurance scheme, employees and early retirees of the Group also participate in a defined contribution plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to the statement of profit or loss when it incurs. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

(c) *Supplemental retirement benefits*

The Group pays supplemental retirement benefits to the retirees, including supplemental pension payments and medical expense coverage. The liability related to the supplemental retirement benefit obligations as at each financial reporting date is calculated by the Group using the projected unit credit method and is recorded as a liability under "Employee benefit obligations" in the statement of financial position. The present value of the liability is determined by discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The actuarial gains or losses of supplemental retirement benefits are recognised in "Other comprehensive income" in the period when they occur. The gains or losses arising from amendments to supplemental retirement benefit obligations are recognised in the statement of profit or loss in the period when they occur.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.14 Employee benefits (continued)

(d) Early retirement benefits

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. The amounts of retirement benefit expense and present value of these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, retirement benefit growth rates and other factors. Gains and losses arising from the changes in assumptions and amendments to pension plans are recognised in the statement of profit or loss as they occur.

2.4.15 Fiduciary activities

Where the Group acts in a fiduciary capacity such as custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the statement of financial position.

The asset custody services of the Group refer to the business that the Group as trustee approved by regulatory authorities, signs custody agreements with clients and takes the responsibility of trustee in accordance with relevant laws and regulations. The assets under custody are recorded as off-balance sheet items as the Group merely fulfils the responsibility as trustee and charges fees in accordance with these agreements without retaining any risks or rewards of the assets under custody.

The Group grants the entrusted loans on behalf of the trustors, which are recorded off-balance sheet. The Group, as a trustee, grants such entrusted loans to borrowers under the direction of those trustors who fund these loans. The Group has been contracted by those trustors to manage the administration and collection of these loans on their behalf. Those trustors determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The risk of loss is borne by those trustors. The Group charges a commission related to its activities in connection with entrusted loans which is recognised ratably over the period in which the service is provided.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.16 Recognition of income and expense

(a) Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets measured at amortized cost or fair value through other comprehensive income, except for:

- POCI financial assets, for which the original credit adjusted effective interest rate is applied to the amortized cost of the financial asset.
- Financial assets that are not 'POCI' but have subsequently become credit impaired (or 'Stage III'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit losses allowance).

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or expense over the period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount on initial recognition. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees and interest paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.16 Recognition of income and expense (continued)

(b) *Fee and commission income*

The Group earns fee and commission income from a diverse range of services it provides to its customers.

The Group recognizes revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (thus the customer obtains control of that good or service).

(c) *Dividend income*

Dividend income is recognised when the Group's right to receive payment is established.

(d) *Net trading income*

Net trading income arising from trading activities include gains and losses from changes in fair value for financial assets at fair value through profit or loss.

2.4.17 Income tax

Income tax comprises current and deferred income tax. Income tax is recognised in the statement of profit or loss except that it relates to items recognised directly in equity, in which case it is recognised in equity.

(a) *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of each year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.17 Income tax (continued)

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of each year between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (i) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- (i) Where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.18 Leases

The Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change is described in note 4.1.

Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.18 Leases (continued)

- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.19 Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group 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); and
 - (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 parent of the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.20 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

2.4.21 Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Group's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Group. Dividends for the years ended 2019 and 2018 approved after the end of the year are disclosed as a post year-end event after the year. As authorized by the ordinary equity holders in the annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. Preference share dividend distribution is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

2.4.22 Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Examples of structured entities include asset-backed securities, funds, wealth management products, trust plans and asset management plans. The Group's unconsolidated structured entities mainly include off-balance sheet non-guaranteed wealth management products sponsored by the Group and the structured entities invested by the Group (Note 41).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.23 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the Group receives the grants of monetary assets, the grants are recorded at the amount received or receivable. Where the Group receives the grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets. If the fair value cannot be measured reliably, the grants are recorded at the nominal amount of the non-monetary assets. When the grant relates to an expense item, where the grant is intended to compensate the expenses or costs to be incurred in the subsequent period, it is recognised as deferred income and is released to the statement of profit or loss over the periods that the costs, which it is intended to compensate, are expensed; while where the grant is intended to compensate the incurred expenses or costs, the grant is recognised in the statement of profit or loss in the current period. When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments. Grants recorded at nominal amount shall be recognised in the statement of profit or loss in the current period.

2.4.24 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. 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 services, the type or class of customers, the methods used to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated as "others" segment if they share a majority of these criteria.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that had a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

3.1 Expected credit losses measurement

The measurement of the expected credit losses allowance for financial assets measured at amortized cost and FVOCI, financial guarantee contracts and loan commitments is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers' defaulting and the resulting losses).

The measurement models of expected credit losses involves significant management estimations and judgements, primarily including the following:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; and
- The estimated future cash flows for corporate loans and financial investments measured at amortized costs in stage III.

3.2 Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments that are not quoted in an active market. These valuation techniques include the use of observable inputs and data with consistent characteristics of assets or liabilities in the transaction of related assets or liabilities. To the extent practical market observable inputs and data, such as interest rate yield curves, foreign currency rates, commodity price and implied option volatilities, are prioritized to use when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using unobservable inputs and data, such as assumption on the credit risk, volatilities and credit of the counterparty. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(All amounts expressed in thousands of RMB unless otherwise stated)

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.3 Income taxes

Significant estimates are required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues arising from new tax regulations or other uncertain tax arrangements based on estimates of whether additional taxes will be due. The deductibility of certain items is subject to tax authority's final approval. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will affect the current income taxes and levies and/or deferred tax provisions in the period in which such determination is made.

3.4 Early retirement benefits and supplementary retirement benefits

The amount of expenses and liabilities of early retirement benefits and supplementary retirement benefits shall be determined based on various assumptions. These assumptions include the discount rate, the growth rate of average medical expenses, the growth rate of benefits for retirees and other factors. Although the management believes that the assumptions which have been adopted are reasonable, the actual empirical values and the changes in the assumptions will still affect the costs and liabilities of the early retirement benefits and supplementary retirement benefits of the Bank.

3.5 Goodwill impairment

Goodwill impairment reviews are undertaken annually or more frequently, and it is also needed if events or changes indicate a potential impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating unit (the "CGU"), or groups of CGUs. The Group forecasts future cash flow of the CGU and CGUs, and applies appropriate discount rate for the calculation of the present value of future cash flow.

3.6 Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4 TRANSITION DISCLOSURES

4.1 The Impact of the adoption of IFRS 16 on the Group

The Group has adopted IFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019. The new accounting policies are disclosed in Note 2.4.18.

The major impacts of adopting the new standard and application guidance on the financial information are as follows:

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.90%.

The measurement principles of IFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

(i) *Measurement of lease liabilities*

	2019 RMB
Operating lease commitments disclosed as at 31 December 2018	1,055,063
Discounted using the lessee's incremental borrowing rate of at the date of initial application	4.90%
Lease liabilities recognised as at 1 January 2019	955,999

(ii) *Measurement of right-of-use assets*

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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4 TRANSITION DISCLOSURES (CONTINUED)

4.1 The Impact of the adoption of IFRS 16 on the Group (continued)

(iii) *Adjustments recognised in the statement of financial position on 1 January 2019*

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

	As at 1 January 2019
Other assets (land use rights)	(954,412)
Other assets (right-of-use assets)	1,935,907
Other assets (receivables and payments)	(15,750)
Other assets (long-term deferred expenses)	(9,746)
Other liabilities (lease liabilities)	955,999

There is no impact on retained earnings on 1 January 2019.

(iv) *Lessor accounting*

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5 OPERATING SEGMENT INFORMATION

5.1 Operating segments

For management purposes, the Group is organized into four different operating segments as follows:

Corporate banking

The corporate banking segment covers financial products and services for corporate customers including deposits, loans, settlement, clearing and other trade-related services.

Retail banking

The retail banking segment covers financial products and services for individual customers including deposits, debit and credit cards, personal and collateral loans and personal wealth management services.

Financial market business

The financial market business segment covers proprietary tradings and agent services including money market placements, investments, repurchases and foreign exchange transactions.

Others

This segment covers businesses other than corporate banking, retail banking and financial market business, of which the assets, liabilities, income and expenses cannot be directly attributable or allocated to certain segment on a reasonable basis.

Inter-segment transfer pricing is made in accordance with the sources, funding periods and interest rates announced by the People's Bank of China (the "PBOC") and the interbank market rates. The allocation of expenses between segments above is based on the benefits received.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5 OPERATING SEGMENT INFORMATION (CONTINUED)

5.1 Operating segments (continued)

	Corporate banking	Retail banking	Financial market business	Others	Total
Year ended 31 December 2019					
Interest income	18,357,007	6,090,096	11,298,258	–	35,745,361
Interest expense	(5,022,088)	(3,795,350)	(8,364,269)	–	(17,181,707)
Inter-segments Interest (expense)/income	(553,693)	3,875,678	(3,321,985)	–	–
Net interest income	12,781,226	6,170,424	(387,996)	–	18,563,654
Fee and commission income	1,003,362	892,679	96,793	–	1,992,834
Fee and commission expense	(144,771)	(124,039)	(41,895)	–	(310,705)
Net fee and commission income	858,591	768,640	54,898	–	1,682,129
Net trading gains	–	–	2,735,012	–	2,735,012
Net gains on financial investments	–	–	50,370	2,220	52,590
Other income, gains or losses	265,236	6,839	(5,272)	357,096	623,899
Operating income	13,905,053	6,945,903	2,447,012	359,316	23,657,284
Operating expenses	(2,115,202)	(3,433,316)	(969,475)	(157,703)	(6,675,696)
Credit impairment losses	(5,937,475)	86,672	(1,096,037)	(131,465)	(7,078,305)
Impairment losses on other assets	(5,518)	(2,286)	(316)	(39)	(8,159)
Profit before tax	5,846,858	3,596,973	381,184	70,109	9,895,124
Income tax expense					(1,984,411)
Profit for the year					7,910,713
Other segment information:					
Depreciation and amortisation	332,253	567,928	58,963	20,037	979,181
Capital expenditure	134,046	256,047	36,186	13,327	439,606
As at 31 December 2019					
Segment assets	312,376,309	124,736,024	445,175,152	11,866,806	894,154,291
Segment liabilities	(334,129,769)	(327,898,220)	(158,151,288)	(265,703)	(820,444,980)
Other segment information: Credit commitments	151,157,149	23,927,825	–	–	175,084,974

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5 OPERATING SEGMENT INFORMATION (CONTINUED)

5.1 Operating segments (continued)

	Corporate banking	Retail banking	Financial market business	Others	Total
Year ended 31 December 2018					
Interest income	13,808,430	4,380,004	11,257,150	–	29,445,584
Interest expense	(5,149,061)	(3,766,016)	(7,258,857)	–	(16,173,934)
Inter-segments Interest (expense)/income	(534,472)	4,405,009	(3,870,537)	–	–
Net interest income	8,124,897	5,018,997	127,756	–	13,271,650
Fee and commission income	975,184	749,469	88,567	–	1,813,220
Fee and commission expense	(165,073)	(91,146)	(9,481)	–	(265,700)
Net fee and commission income	810,111	658,323	79,086	–	1,547,520
Net trading gains	–	–	4,536,738	464	4,537,202
Net gains on financial investments	–	–	648,937	–	648,937
Other income, gains or losses	267,338	822	(139)	393,338	661,359
Operating income	9,202,346	5,678,142	5,392,378	393,802	20,666,668
Operating expenses	(1,848,142)	(3,489,955)	(604,107)	(42,130)	(5,984,334)
Credit impairment losses	(4,836,817)	(788,849)	(98,241)	(106,016)	(5,829,923)
Impairment losses on other assets	(115,338)	(18,811)	(2,343)	(2,527)	(139,019)
Profit before tax	2,402,049	1,380,527	4,687,687	243,129	8,713,392
Income tax expense					(1,881,229)
Profit for the year					6,832,163
Other segment information:					
Depreciation and amortization	181,147	382,355	17,751	5,194	586,447
Capital expenditure	706,771	1,491,813	69,257	20,264	2,288,105
As at 31 December 2018					
Segment assets	263,382,440	111,363,326	382,038,522	6,505,309	763,289,597
Segment liabilities	(294,902,741)	(258,069,510)	(154,696,800)	(39,478)	(707,708,529)
Other segment information:					
Credit commitments	127,036,959	13,685,268	–	–	140,722,227

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5 OPERATING SEGMENT INFORMATION (CONTINUED)

5.2 Geographic information

The Bank mainly operates in Guangdong Province, China. The major customers and non-current assets are located in Guangdong Province, China.

6 NET INTEREST INCOME

	Year ended 31 December	
	2019	2018
Interest income		
Loans and advances to customers	25,853,837	19,605,081
Financial investments	6,497,535	6,187,427
– Financial assets at amortized cost	3,873,096	3,377,475
– Financial assets at fair value through other comprehensive income	2,624,439	2,809,952
Financial assets held under resale agreements	818,331	1,606,545
Due from central bank	1,103,783	1,083,252
Deposits with banks and other financial institutions	1,471,875	963,279
Subtotal	35,745,361	29,445,584
Interest expense		
Customer deposits	(12,016,733)	(9,159,620)
Debt securities issued	(3,046,939)	(3,895,244)
Deposits from banks and other financial institutions	(1,305,820)	(2,126,440)
Financial assets sold under repurchase agreements	(166,283)	(449,332)
Borrowings from other banks(i)	(433,488)	(491,867)
Due to central bank	(158,980)	(51,431)
Lease liabilities	(53,464)	–
Subtotal	(17,181,707)	(16,173,934)
Net interest income	18,563,654	13,271,650
Including:		
Interest income accrued on impaired financial assets	55,366	56,433

- (i) The interest expenses for the long-term and short-term borrowings from other banks were incurred by Zhujiang Financial Leasing Co., Ltd., a wholly-owned subsidiary of the Bank.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7 NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2019	2018
Fee and commission income:		
Bank card fees	670,834	609,863
Agency and custodian service fees	405,694	284,114
Advisory and consultancy fees	170,028	360,730
Settlement and electronic channel business fees	167,370	145,633
Guarantee and commitment service fees	140,054	71,250
Wealth management product related fee income	89,308	82,746
Financial lease business fees	87,440	82,707
Foreign exchange business fees	42,453	79,660
Others	219,653	96,517
Subtotal	1,992,834	1,813,220
Fee and commission expense:		
Settlement and electronic channel business fees	(24,116)	(20,520)
Bank card fees	(70,649)	(57,381)
Other	(215,940)	(187,799)
Subtotal	(310,705)	(265,700)
Net fee and commission income:	1,682,129	1,547,520

8 NET TRADING GAINS

	Year ended 31 December	
	2019	2018
Debt securities:		
Unrealised gains/(losses) from debt securities	(876,894)	1,617,252
Realised gains from debt securities	3,202,694	2,788,432
Subtotal	2,325,800	4,405,684
Funds:		
Unrealised gains from funds	17,867	128,786
Realised gains from funds	388,497	2,268
Subtotal	406,364	131,054
Others	2,848	464
Total	2,735,012	4,537,202

The above amounts include gains and losses arising from the buying and selling of, interest income on, and changes in the fair value of financial assets at fair value through profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

9 NET GAINS ON FINANCIAL INVESTMENTS

	Year ended 31 December	
	2019	2018
Net gains from financial assets at fair value through other comprehensive income	52,630	643,530
Net (losses)/gains from financial assets at amortized cost	(40)	5,407
Total	52,590	648,937

10 OTHER INCOME, GAINS OR LOSSES

	Year ended 31 December	
	2019	2018
Net foreign exchange gains	249,619	269,983
Government grants and subsidies	99,131	88,773
Negative goodwill	86,476	–
Net gains/(losses) on disposal of property and equipment	49,496	(758)
Gains from the liquidation of non-performing assets	39,012	–
Net gains on sale of foreclosed assets	27,937	11,206
Penalties and compensation	8,354	288,677
Others	63,874	3,478
Total	623,899	661,359

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11 OPERATING EXPENSES

	Year ended 31 December	
	2019	2018
Staff costs(i)	4,105,403	3,687,561
Depreciation and amortization	903,917	563,688
Rental expenses	N/A	287,711
Tax and surcharges	229,727	187,477
Labor dispatch fee	168,881	176,023
Consulting fees	14,785	17,313
Professional service fees	16,098	13,560
Others	1,236,885	1,051,001
Total	6,675,696	5,984,334

(i) Staff costs

	Year ended 31 December	
	2019	2018
Salaries, bonuses and allowances	3,021,501	2,660,680
Social insurance and employee benefits	912,624	845,959
Benefits for early retirement and supplemental retirement	43,736	91,888
Labour union expenditure and education costs	127,542	89,034
Total	4,105,403	3,687,561

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For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Details of the directors' and supervisors' emoluments are as follows:

Name	Year ended 31 December 2019				Total
	Fees	Salaries	Allowances and benefits	Contribution to pension schemes	
Vice Chairman					
Yi Xuefei	–	1,121	94	157	1,372
Independent Directors					
Yung Hin Man Raymond	203	–	–	–	203
Liu Shaobo	231	–	–	–	231
Liu Heng	261	–	–	–	261
Song Guanghui	393	–	–	–	393
Zheng Jianbiao	219	–	–	–	219
Directors					
Li Fangjin	75	–	–	–	75
Su Zhigang	63	–	–	–	63
Shao Jianming (i)	18	–	–	–	18
Zhang Yongming (ii)	12	–	–	–	12
Zhu Kelin	122	–	–	–	122
Liu Guojie	63	–	–	–	63
Supervisors					
Huang Yong	102	–	–	–	102
Wang Xigui (iii)	–	842	86	144	1,072
Zhang Dalin	96	–	–	–	96
Lai Jiaxiong	–	1,508	94	144	1,746
He Heng	–	1,601	94	148	1,843
External Supervisors					
Chen Dan	65	–	–	–	65
Shao Baohua	102	–	–	–	102
Mao Yunshi	128	–	–	–	128
Total	2,153	5,072	368	593	8,186

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For the year ended 31 December 2019
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12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Details of the directors' and supervisors' emoluments are as follows: (continued)

Year ended 31 December 2018					
Name	Fees	Salaries	Allowances and benefits	Contribution to pension schemes	Total
Chairman					
Wang Jikang (iv)	–	921	101	128	1,150
Vice Chairman					
Yi Xuefei	–	921	101	128	1,150
Independent Directors					
Yung Hin Man Raymond	231	–	–	–	231
Liu Shaobo	255	–	–	–	255
Liu Heng	231	–	–	–	231
Song Guanghui	394	–	–	–	394
Zheng Jianbiao	202	–	–	–	202
Directors					
Li Fangjin	93	–	–	–	93
Zheng Shuping (v)	–	–	–	–	–
Su Zhigang	63	–	–	–	63
Shao Jianming	93	–	–	–	93
Zhang Yongming	93	–	–	–	93
Zhu Kelin	105	–	–	–	105
Liu Guojie	69	–	–	–	69
Supervisors					
Huang Yong	99	–	–	–	99
Lu Lian (vi)	78	–	–	–	78
Zhang Dalin	87	–	–	–	87
Liu Wensheng (vii)	–	55	9	9	73
Lai Jiaxiong	–	1,388	101	128	1,617
Xiao Shilian (viii)	–	274	36	44	354
He Heng	–	1,311	101	126	1,538
External Supervisors					
Chen Dan	81	–	–	–	81
Shao Baohua	93	–	–	–	93
Mao Yunshi	141	–	–	–	141
Total	2,408	4,870	449	563	8,290

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Details of the directors' and supervisors' emoluments are as follows: (continued)

- (i) Shao Jianming ceased to act as the director of the Bank from 14 August 2019.
- (ii) Zhang Yongming ceased to act as the director of the Bank from 27 November 2019.
- (iii) Wang Xigui began to act as the supervisor of the Bank from 7 December 2018.
- (iv) Wang Jikang ceased to act as the chairman of the Bank from 21 July 2019.
- (v) Zheng Shuping ceased to act as the director of the Bank from 26 October 2018.
- (vi) Lu Lian ceased to act as the supervisor of the Bank from 22 November 2018.
- (vii) Liu Wensheng ceased to act as the supervisor of the Bank from 31 January 2018.
- (viii) Xiao Shilian ceased to act as the supervisor of the Bank from 19 June 2018.

(b) Five highest paid individuals

The five highest paid individuals of the Group are all employees of the Bank. For the years ended 31 December 2019 and 2018, the five highest paid individuals of the Group comprised no directors nor supervisors.

The emoluments of the five highest paid individuals for the years are as follows:

	Year ended 31 December	
	2019	2018
Salaries, allowances and discretionary bonuses	10,866	10,394
Contributions to pension schemes	1,240	1,143
Total	12,106	11,537

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12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals (continued)

	Number of Individuals Year ended 31 December	
	2019	2018
RMB500,001 – RMB1,000,000	–	–
RMB1,000,001 – RMB1,500,000	–	–
RMB1,500,001 – RMB2,000,000	2	1
RMB2,000,001 – RMB2,500,000	1	4
RMB2,500,001 – RMB3,000,000	2	–
Total	5	5

For the years ended 31 December 2019 and 2018, no emoluments had been paid or payable by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13 IMPAIRMENT LOSSES

(a) Credit impairment losses:

	Year ended 31 December	
	2019	2018
Loans and advances to customers	5,747,967	5,017,913
Placements with banks and other financial institutions	5,705	158
Loans and advances at fair value through other comprehensive income	124,713	271,729
Financial investments	1,089,484	411,076
Others	110,436	129,047
Total	7,078,305	5,829,923

(b) Impairment losses on other assets:

	Year ended 31 December	
	2019	2018
Goodwill	–	124,160
Others	8,159	14,859
Total	8,159	139,019

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

14 INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
Current income tax	3,615,070	2,441,532
Deferred income tax	(1,630,659)	(560,303)
Total	1,984,411	1,881,229

Current income tax is calculated based on the statutory rate of 25% of the taxable income of the Group for the respective periods.

The difference between the actual income tax charged in the profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2019	2018
Profit before income tax	9,895,124	8,713,392
Tax calculated at a tax rate of 25%	2,473,781	2,178,348
Tax effect arising from income not subject to tax (i)	(522,243)	(376,936)
Tax effect of expenses that are not deductible for tax purposes (ii)	34,794	43,807
Tax effect of deductible temporary differences and deductible tax losses that are not recognised as deferred income tax assets in the current period	—	32,605
Adjustments on income tax for prior years which affect current profit or loss	(1,921)	3,405
Income tax expense	1,984,411	1,881,229

- (i) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulations.
- (ii) The expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses and so forth, which are not deductible for tax purposes according to PRC tax regulations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
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15 DIVIDENDS

	Year ended 31 December	
	2019	2018
Dividends on ordinary shares declared and paid:	1,961,654	1,961,654
Dividend per share (in RMB yuan)	0.20	0.20

(a) Distribution of final dividend for 2018

A cash dividend of RMB0.2 per ordinary share related to 2018, amounting to RMB1,961,654 thousands in total was approved in the annual general meeting held on 24 May 2019.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2019.

(b) Distribution of final dividend for 2017

A cash dividend of RMB0.2 per ordinary share related to 2017, amounting to RMB1,961,654 thousands in total was approved in the annual general meeting held on 31 May 2018.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2018.

(c) A final dividend of RMB0.2 per ordinary share in respect of the year ended 31 December 2019 totaling RMB1,961,654 thousands has been proposed by the directors and is subject to approval by the ordinary equity holders in the annual general meeting.

16 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding in issue during the years.

	Year ended 31 December	
	2019	2018
Net profit attributable to ordinary shareholders of the Bank (in RMB thousand)	7,520,348	6,526,337
Weighted average number of ordinary shares in issue (in thousand)	9,808,269	9,808,269
Basic and diluted earnings per share (in RMB yuan)	0.77	0.67

During the years 2019 and 2018, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the years ended 31 December 2019, and therefore the conversion feature of preference shares has no dilutive effect on earnings per share calculation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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17 CASH AND DEPOSITS WITH CENTRAL BANK

	As at 31 December	
	2019	2018
Cash on hand	3,085,852	2,532,087
Mandatory reserves with central bank(a)	65,728,258	59,797,236
Surplus reserves with central bank(b)	29,845,402	37,455,968
Fiscal deposits with central bank	910,705	1,813,106
Subtotal	99,570,217	101,598,397
Less:		
ECL allowance	(7,876)	(8,683)
Total	99,562,341	101,589,714

(a) The Group is required to place mandatory reserve deposits with the PBOC, and these mandatory reserve deposits with the central bank are not available for use in the Group's daily operations. As at 31 December 2019, the ratio of the Bank for RMB deposits statutory reserve was 10.5% (31 December 2018: 12%), and different ratios are applicable to the subsidiaries based on their respective locations. The ratio for foreign currency deposits was 5% (31 December 2018: 5%). The reserves for RMB is interest bearing based on the rules of the PBOC.

(b) Surplus reserves are mainly for settlement purpose.

18 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2019	2018
Deposits with banks operating in Mainland China	16,782,835	8,019,099
Deposits with other financial institutions operating in Mainland China	1,102,940	561,029
Deposits with banks operating outside Mainland China	12,691,816	2,222,805
Interest receivable	141,744	64,603
Subtotal	30,719,335	10,867,536
Less:		
ECL allowance	(19,017)	(974)
Total	30,700,318	10,866,562

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For the year ended 31 December 2019
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19 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2019	2018
Placements with banks operating in Mainland China	2,612,201	4,959,246
Placements with other financial institutions operating in Mainland China	16,722,023	10,215,000
Placements with banks operating outside Mainland China	1,215,272	–
Interest receivable	61,779	126,205
Subtotal	20,611,275	15,300,451
Less:		
ECL allowance	(7,043)	(1,338)
Total	20,604,232	15,299,113

20 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 31 December	
	2019	2018
Notes purchased under resale agreements	1,423,194	2,043,170
Securities purchased under resale agreements	27,153,429	27,260,350
Interest receivable	19,205	38,002
Subtotal	28,595,828	29,341,522
Less:		
ECL allowance	(2,335)	(2,572)
Total	28,593,493	29,338,950

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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21 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers:

	As at 31 December	
	2019	2018
Loans and advances at amortised cost		
Corporate loans and advances		
– Corporate loans	326,135,408	266,039,075
– Discounted bills	7,608,189	155,312
	333,743,597	266,194,387
Personal loans and advances		
– Personal residential mortgages	63,694,134	54,297,183
– Personal business loans	40,502,802	31,890,383
– Personal consumption loans	11,287,473	13,294,058
– Credit cards overdraft	9,234,471	8,872,460
	124,718,880	108,354,084
Gross amount of loans and advances at amortised cost	458,462,477	374,548,471
Less: ECL allowance of loans and advances at amortised cost	(16,916,755)	(13,020,939)
Net amount of loans and advances at amortised cost	441,545,722	361,527,532
Loans and advances at fair value through other comprehensive income		
Corporate loans and advances		
– Discounted bills	21,505,649	3,440,439
Net amount of loans and advance to customers	463,051,371	364,967,971

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Loans listed by assessment method for allowance

	Stage I	Stage II	Stage III	Purchased or originated credit-impaired	Total
31 December 2019					
Corporate loans	287,814,977	56,399,955	10,946,590	87,724	355,249,246
Personal loans	121,590,758	1,527,041	1,548,626	52,455	124,718,880
Gross amount of loans and advances to customers	409,405,735	57,926,996	12,495,216	140,179	479,968,126
Less:					
ECL allowance					
– Corporate loans	(1,239,986)	(7,048,784)	(5,173,062)	–	(13,461,832)
– Personal loans	(1,685,516)	(532,606)	(1,236,801)	–	(3,454,923)
	(2,925,502)	(7,581,390)	(6,409,863)	–	(16,916,755)
Net amount of loans and advances to customers	406,480,233	50,345,606	6,085,353	140,179	463,051,371
	Stage I	Stage II	Stage III		Total
31 December 2018					
Corporate loans	223,374,416	41,041,254	5,219,156		269,634,826
Personal loans	105,920,352	962,141	1,471,591		108,354,084
Gross amount of loans and advances to customers	329,294,768	42,003,395	6,690,747		377,988,910
Less:					
ECL allowance					
– Corporate loans	(1,161,864)	(4,935,028)	(2,540,606)		(8,637,498)
– Personal loans	(2,659,922)	(435,016)	(1,288,503)		(4,383,441)
	(3,821,786)	(5,370,044)	(3,829,109)		(13,020,939)
Net amount of loans and advances to customers	325,472,982	36,633,351	2,861,638		364,967,971

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21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance

Movements in ECL allowance on loans and advances to customers at amortized cost

	Year ended 31 December 2019				Total
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Purchased or originated credit- impaired	
Corporate loans and advances					
ECL allowance as at 1 January 2019	1,161,864	4,935,028	2,540,606	–	8,637,498
Originated or purchased	737,621	3,449,173	216,828	954,331	5,357,953
Derecognition or settlements	(467,640)	(1,165,590)	(155,253)	–	(1,788,483)
Remeasurement					
– Parameter changes	(104,328)	(215,072)	610,236	–	290,836
– Stage transfer	(2,189,075)	2,140,716	3,270,329	–	3,221,970
Write-off	–	–	(1,247,921)	(954,331)	(2,202,252)
Transfers	2,101,544	(2,095,471)	(6,073)	–	–
Transfer from Stage I to Stage II	(124,511)	124,511	–	–	–
Transfer from Stage I to Stage III	(39,023)	–	39,023	–	–
Transfer from Stage II to Stage I	2,265,078	(2,265,078)	–	–	–
Transfer from Stage II to Stage III	–	(264,866)	264,866	–	–
Transfer from Stage III to Stage II	–	309,962	(309,962)	–	–
Transfer from Stage III to Stage I	–	–	–	–	–
Others	–	–	(55,690)	–	(55,690)
ECL allowance as at 31 December 2019	1,239,986	7,048,784	5,173,062	–	13,461,832

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For the year ended 31 December 2019
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21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance (continued)

Movements in ECL allowance on loans and advances to customers at amortized cost

	Year ended 31 December 2018			Total
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	
Corporate loans and advances				
ECL allowance as at				
1 January 2018 (restated)	1,028,290	1,429,426	1,817,727	4,275,443
Originated or purchased	758,913	1,881,821	44,091	2,684,825
Derecognition or settlements	(441,870)	(300,478)	(238,927)	(981,275)
Remeasurement				
– Parameter changes	(74,622)	84,716	475,969	486,063
– Stage transfer	(180,978)	2,092,339	1,443,664	3,355,025
Write-off	–	–	(1,135,106)	(1,135,106)
Transfers	72,131	(252,796)	180,665	–
Transfer from Stage I to Stage II	(121,130)	121,130	–	–
Transfer from Stage I to Stage III	(1,693)	–	1,693	–
Transfer from Stage II to Stage I	194,954	(194,954)	–	–
Transfer from Stage II to Stage III	–	(183,965)	183,965	–
Transfer from Stage III to Stage II	–	4,993	(4,993)	–
Transfer from Stage III to Stage I	–	–	–	–
Others	–	–	(47,477)	(47,477)
ECL allowance as at 31 December 2018	1,161,864	4,935,028	2,540,606	8,637,498

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21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance (continued)

Movements in ECL allowance on loans and advances to customers at amortized cost

	Year ended 31 December 2019				Total
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Purchased or originated credit- impaired	
Personal loans and advances					
ECL allowance as at 1 January 2019	2,659,922	435,016	1,288,503	–	4,383,441
Originated or purchased	752,653	137,446	46,022	84,340	1,020,461
Derecognition or settlements	(1,403,954)	(138,306)	(152,327)	–	(1,694,587)
Remeasurement					
– Parameter changes	(281,260)	(34,758)	138,374	–	(177,644)
– Stage transfer	(91,973)	301,095	447,711	–	656,833
Write-off	–	–	(649,565)	(84,340)	(733,905)
Transfers	50,128	(167,887)	117,759	–	–
Transfer from Stage I to Stage II	(25,410)	25,410	–	–	–
Transfer from Stage I to Stage III	(18,425)	–	18,425	–	–
Transfer from Stage II to Stage I	92,123	(92,123)	–	–	–
Transfer from Stage II to Stage III	–	(111,620)	111,620	–	–
Transfer from Stage III to Stage II	–	10,446	(10,446)	–	–
Transfer from Stage III to Stage I	1,840	–	(1,840)	–	–
Others	–	–	324	–	324
ECL allowance as at 31 December 2019	1,685,516	532,606	1,236,801	–	3,454,923

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance (continued)

Movements in ECL allowance on loans and advances to customers at amortized cost

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Personal loans and advances				
ECL allowance as at				
1 January 2018 (restated)	2,232,506	411,894	1,618,705	4,263,105
Originated or purchased	1,683,579	73,692	29,357	1,786,628
Derecognition or settlements	(1,293,982)	(161,357)	(508,230)	(1,963,569)
Remeasurement				
– Parameter changes	68,314	13,686	364,611	446,611
– Stage transfer	(72,501)	220,149	446,579	594,227
Write-off	–	–	(734,605)	(734,605)
Transfers	42,006	(123,048)	81,042	–
Transfer from Stage I to Stage II	(18,111)	18,111	–	–
Transfer from Stage I to Stage III	(19,387)	–	19,387	–
Transfer from Stage II to Stage I	76,006	(76,006)	–	–
Transfer from Stage II to Stage III	–	(69,386)	69,386	–
Transfer from Stage III to Stage II	–	4,233	(4,233)	–
Transfer from Stage III to Stage I	3,498	–	(3,498)	–
Others	–	–	(8,956)	(8,956)
ECL allowance as at 31 December 2018	2,659,922	435,016	1,288,503	4,383,441

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For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance (continued)

Movements in ECL allowance on loans and advances to customers at fair value through other comprehensive income

	Year ended 31 December 2019			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Discounted bills				
ECL allowance as at 1 January 2019	12,059	95,488	164,182	271,729
Originated or purchased	3,014	–	–	3,014
Derecognition or settlements	(9,457)	(43,989)	(164,182)	(217,628)
Remeasurement				
– Parameter changes	–	–	–	–
– Stage transfer	–	–	339,327	339,327
Transfers	(2,602)	(51,499)	54,101	–
Transfer from Stage I to Stage II	–	–	–	–
Transfer from Stage I to Stage III	(2,602)	–	2,602	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	(51,499)	51,499	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
ECL allowance as at 31 December 2019	3,014	–	393,428	396,442
	Year ended 31 December 2018			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Discounted bills				
ECL allowance as at				
1 January 2018 (restated)	35,564	–	–	35,564
Originated or purchased	12,059	95,488	164,182	271,729
Derecognition or settlements	(35,564)	–	–	(35,564)
Transfers	–	–	–	–
Transfer from Stage I to Stage II	–	–	–	–
Transfer from Stage I to Stage III	–	–	–	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	–	–	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
ECL allowance as at 31 December 2018	12,059	95,488	164,182	271,729

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) The movements in gross carrying amounts of loans and advances

The movements in gross carrying amounts of loans and advances to customers at amortized cost

	Year ended 31 December 2019				Total
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Purchased or originated credit- impaired	
Corporate loans and advances					
Gross carrying amounts as at 1 January 2019	220,834,649	40,504,130	4,855,608	–	266,194,387
Originated or purchased	155,626,786	22,897,898	289,917	1,076,904	179,891,505
Derecognition	(95,143,166)	(14,579,947)	(382,081)	(34,849)	(110,140,043)
Write-off	–	–	(1,247,921)	(954,331)	(2,202,252)
Transfers	(14,260,268)	7,577,874	6,682,394	–	–
Transfer from Stage I to Stage II	(25,009,327)	25,009,327	–	–	–
Transfer from Stage I to Stage III	(4,976,763)	–	4,976,763	–	–
Transfer from Stage II to Stage I	15,725,822	(15,725,822)	–	–	–
Transfer from Stage II to Stage III	–	(2,461,342)	2,461,342	–	–
Transfer from Stage III to Stage II	–	755,711	(755,711)	–	–
Transfer from Stage III to Stage I	–	–	–	–	–
Gross carrying amounts as at 31 December 2019	267,058,001	56,399,955	10,197,917	87,724	333,743,597

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) The movements in gross carrying amounts of loans and advances (continued)

The movements in gross carrying amounts of loans and advances to customers at amortized cost

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Corporate loans and advances				
Gross carrying amounts as at				
1 January 2018 (restated)	171,649,900	18,564,019	2,618,980	192,832,899
Originated or purchased	140,973,765	17,968,608	107,376	159,049,749
Derecognition	(75,339,039)	(8,772,962)	(441,154)	(84,553,155)
Write-off	–	–	(1,135,106)	(1,135,106)
Transfers	(16,449,977)	12,744,465	3,705,512	–
Transfer from Stage I to Stage II	(17,928,924)	17,928,924	–	–
Transfer from Stage I to Stage III	(138,904)	–	138,904	–
Transfer from Stage II to Stage I	1,617,851	(1,617,851)	–	–
Transfer from Stage II to Stage III	–	(3,573,808)	3,573,808	–
Transfer from Stage III to Stage II	–	7,200	(7,200)	–
Transfer from Stage III to Stage I	–	–	–	–
Gross carrying amounts as at				
31 December 2018	220,834,649	40,504,130	4,855,608	266,194,387

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) The movements in gross carrying amounts of loans and advances (continued)

The movements in gross carrying amounts of loans and advances to customers at amortized cost

	Year ended 31 December 2019				Total
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Purchased or originated credit- impaired	
Personal loans and advances					
Gross carrying amounts as at 1 January 2019	105,920,352	962,141	1,471,591	–	108,354,084
Originated or purchased	51,628,119	558,010	82,339	160,683	52,429,151
Derecognition	(34,776,685)	(424,985)	(104,892)	(23,888)	(35,330,450)
Write-off	–	–	(649,565)	(84,340)	(733,905)
Transfers	(1,181,028)	431,875	749,153	–	–
Transfer from Stage I to Stage II	(859,772)	859,772	–	–	–
Transfer from Stage I to Stage III	(535,618)	–	535,618	–	–
Transfer from Stage II to Stage I	210,041	(210,041)	–	–	–
Transfer from Stage II to Stage III	–	(239,229)	239,229	–	–
Transfer from Stage III to Stage II	–	21,373	(21,373)	–	–
Transfer from Stage III to Stage I	4,321	–	(4,321)	–	–
Gross carrying amounts as at 31 December 2019	121,590,758	1,527,041	1,548,626	52,455	124,718,880

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) The movements in gross carrying amounts of loans and advances (continued)

The movements in gross carrying amounts of loans and advances to customers at amortized cost

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Personal loans and advances				
Gross carrying amounts as at				
1 January 2018 (restated)	93,354,264	1,041,111	1,857,027	96,252,402
Originated or purchased	43,482,060	145,135	35,181	43,662,376
Derecognition	(30,010,464)	(475,833)	(339,792)	(30,826,089)
Write-off	–	–	(734,605)	(734,605)
Transfers	(905,508)	251,728	653,780	–
Transfer from Stage I to Stage II	(641,958)	641,958	–	–
Transfer from Stage I to Stage III	(500,864)	–	500,864	–
Transfer from Stage II to Stage I	230,767	(230,767)	–	–
Transfer from Stage II to Stage III	–	(168,692)	168,692	–
Transfer from Stage III to Stage II	–	9,229	(9,229)	–
Transfer from Stage III to Stage I	6,547	–	(6,547)	–
Gross carrying amounts as at				
31 December 2018	105,920,352	962,141	1,471,591	108,354,084

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) The movements in gross carrying amounts of loans and advances (continued)

The movements in gross carrying amounts of loans and advances to customers at fair value through other comprehensive income

	Year ended 31 December 2019			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Discounted bills				
Gross carrying amounts as at 1 January 2019	2,539,767	537,124	363,548	3,440,439
Originated or purchased	20,756,976	–	–	20,756,976
Derecognition	(2,145,503)	(197,478)	(348,785)	(2,691,766)
Transfers	(394,264)	(339,646)	733,910	–
Transfer from Stage I to Stage II	–	–	–	–
Transfer from Stage I to Stage III	(394,264)	–	394,264	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	(339,646)	339,646	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
Gross carrying amounts as at 31 December 2019	20,756,976	–	748,673	21,505,649

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) The movements in gross carrying amounts of loans and advances (continued)

The movements in gross carrying amounts of loans and advances to customers at fair value through other comprehensive income

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Discounted bills				
Gross carrying amounts as at				
1 January 2018 (restated)	4,927,972	–	–	4,927,972
Originated or purchased	2,539,767	537,124	363,548	3,440,439
Derecognition	(4,927,972)	–	–	(4,927,972)
Transfers	–	–	–	–
Transfer from Stage I to Stage II	–	–	–	–
Transfer from Stage I to Stage III	–	–	–	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	–	–	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
Gross carrying amounts as at				
31 December 2018	2,539,767	537,124	363,548	3,440,439

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2019	2018
Government bonds	13,775,230	4,224,785
Bonds issued by policy banks	13,807,955	4,500,108
Bonds issued by financial institutions	3,204,462	1,700,527
Certificates of deposit issued by other financial institutions	399,681	894,013
Assets backed securities issued by other banks and non-bank financial institutions	1,029,534	93,099
Corporate bonds	751,953	1,701,589
Trust and asset management plans	31,321,554	43,317,030
Fund and other investments	19,401,208	31,753,644
Interest receivable	1,740,601	1,612,360
Total	85,432,178	89,797,155

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December	
	2019	2018
Government bonds	22,604,131	13,540,436
Bonds issued by policy banks	24,587,039	23,959,694
Bonds issued by financial institutions	2,213,074	3,796,764
Assets backed securities issued by other banks and non-bank financial institutions	190,332	109,335
Corporate bonds	3,201,728	4,075,007
Certificates of deposit issued by other financial institutions	499,810	592,792
Trust and asset management plans	14,971,879	10,654,695
Interest receivable	1,438,120	969,028
Total	69,706,113	57,697,751

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(a) Movements in ECL allowance are summarised as follows:

	Year ended 31 December 2019			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2019	148,361	329,802	292,843	771,006
Originated or purchased	48,927	–	–	48,927
Derecognition or settlements	(48,555)	(13,511)	(11,108)	(73,174)
Remeasurement				
– Parameter changes	(4,383)	(28,986)	(90,413)	(123,782)
– Stage transfer	–	119,766	731,982	851,748
Transfers:	(55,188)	(233,230)	288,418	–
Transfer from Stage I to Stage II	(24,223)	24,223	–	–
Transfer from Stage I to Stage III	(30,965)	–	30,965	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	(257,453)	257,453	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
ECL allowance as at 31 December 2019	89,162	173,841	1,211,722	1,474,725

	Year ended 31 December 2018			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2018	253,071	95,094	156,440	504,605
Originated or purchased	76,985	296,123	90,740	463,848
Derecognition or settlements	(170,700)	(26,083)	(143,458)	(340,241)
Remeasurement				
– Parameter changes	(9,112)	(24,701)	(5,958)	(39,771)
– Stage transfer	(17,229)	33,472	166,322	182,565
Transfers:	15,346	(44,103)	28,757	–
Transfer from Stage I to Stage II	(207)	207	–	–
Transfer from Stage I to Stage III	(4,009)	–	4,009	–
Transfer from Stage II to Stage I	19,562	(19,562)	–	–
Transfer from Stage II to Stage III	–	(24,748)	24,748	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
ECL allowance as at 31 December 2018	148,361	329,802	292,843	771,006

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) The movements in gross carrying amounts are summarised as follows:

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amounts as at 1 January 2019	55,467,126	1,406,972	823,653	57,697,751
Originated or purchased	38,801,593	–	–	38,801,593
Derecognition	(26,310,038)	(58,273)	(894,012)	(27,262,323)
Transfers:	(3,760,778)	596,409	3,164,369	–
Transfer from Stage I to Stage II	(1,651,963)	1,651,963	–	–
Transfer from Stage I to Stage III	(2,108,815)	–	2,108,815	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	(1,055,554)	1,055,554	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
Change of interest accrued	312,369	58,083	98,640	469,092
Gross carrying amounts as at 31 December 2019	64,510,272	2,003,191	3,192,650	69,706,113

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amounts as at 1 January 2018	51,358,437	889,072	1,123,063	53,370,572
Originated or purchased	22,538,043	1,204,267	199,961	23,942,271
Derecognition	(19,073,120)	(395,759)	(1,115,241)	(20,584,120)
Transfers:	(287,754)	(314,266)	602,020	–
Transfer from Stage I to Stage II	(176,807)	176,807	–	–
Transfer from Stage I to Stage III	(400,088)	–	400,088	–
Transfer from Stage II to Stage I	289,141	(289,141)	–	–
Transfer from Stage II to Stage III	–	(201,932)	201,932	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
Change of interest accrued	931,520	23,658	13,850	969,028
Gross carrying amounts as at 31 December 2018	55,467,126	1,406,972	823,653	57,697,751

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

24 FINANCIAL ASSETS AT AMORTIZED COST

	As at 31 December	
	2019	2018
Government bonds	26,268,742	23,217,555
Bonds issued by policy banks	26,609,634	30,728,159
Bonds issued by financial institutions	430,000	818,469
Certificates of deposit issued by other financial institutions	11,776,155	1,177,465
Assets backed securities issued by other banks and non-bank financial institutions	358,000	282,326
Corporate bonds	2,399,981	2,498,933
Trust and asset management plans	14,049,518	20,335,180
Interest receivable	1,331,309	1,601,625
Subtotal	83,223,339	80,659,712
Less:		
ECL allowance	(687,252)	(301,487)
Total	82,536,087	80,358,225

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

24 FINANCIAL ASSETS AT AMORTIZED COST (CONTINUED)

(a) Movements in ECL allowance are summarised as follows:

	Year ended 31 December 2019			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2019	228,647	72,840	–	301,487
Originated or purchased	92,204	–	–	92,204
Derecognition or settlements	(153,321)	(72,840)	–	(226,161)
Remeasurement				
– Parameter changes	16,840	–	–	16,840
– Stage transfer	–	279,104	223,778	502,882
Transfers:	(41,550)	32,541	9,009	–
Transfer from Stage I to Stage II	(32,541)	32,541	–	–
Transfer from Stage I to Stage III	(9,009)	–	9,009	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	–	–	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
ECL allowance as at 31 December 2019	142,820	311,645	232,787	687,252

	Year ended 31 December 2018			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2018	428,572	–	68,481	497,053
Originated or purchased	3,327	–	–	3,327
Derecognition or settlements	(179,674)	–	(24,349)	(204,023)
Remeasurement				
– Parameter changes	(20,385)	–	–	(20,385)
– Stage transfer	(41,820)	67,335	–	25,515
Transfers:	38,627	5,505	(44,132)	–
Transfer from Stage I to Stage II	(5,505)	5,505	–	–
Transfer from Stage I to Stage III	–	–	–	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	–	–	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	44,132	–	(44,132)	–
ECL allowance as at 31 December 2018	228,647	72,840	–	301,487

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

24 FINANCIAL ASSETS AT AMORTIZED COST (CONTINUED)

(b) The movements in gross carrying amount are summarised as follows:

	Year ended 31 December 2019			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Gross carrying amounts as at 1 January 2019	80,109,186	550,526	–	80,659,712
Originated or purchased	26,101,907	–	–	26,101,907
Derecognition	(22,717,964)	(550,000)	–	(23,267,964)
Transfers:	(4,164,235)	3,242,294	921,941	–
Transfer from Stage I to Stage II	(3,242,294)	3,242,294	–	–
Transfer from Stage I to Stage III	(921,941)	–	921,941	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	–	–	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
Change of interest accrued	(414,474)	142,477	1,681	(270,316)
Gross carrying amounts as at 31 December 2019	78,914,420	3,385,297	923,622	83,223,339

	Year ended 31 December 2018			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Gross carrying amounts as at 1 January 2018	97,807,133	–	488,396	98,295,529
Originated or purchased	6,222,311	–	–	6,222,311
Derecognition	(25,309,753)	–	(150,000)	(25,459,753)
Transfers:	(211,604)	550,000	(338,396)	–
Transfer from Stage I to Stage II	(550,000)	550,000	–	–
Transfer from Stage I to Stage III	–	–	–	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	–	–	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	338,396	–	(338,396)	–
Change of interest accrued	1,601,099	526	–	1,601,625
Gross carrying amounts as at 31 December 2018	80,109,186	550,526	–	80,659,712

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(All amounts expressed in thousands of RMB unless otherwise stated)

25 PROPERTY AND EQUIPMENT

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost						
At 1 January 2019	4,975,186	204,293	557,083	1,249,964	67,838	7,054,364
Additions	42,854	192,166	25,638	78,673	1,139	340,470
Transfer	106,807	(204,362)	3,006	94,549	–	–
Acquisition of a subsidiary	673,546	17,051	–	10,902	2,251	703,750
Disposals	(25,328)	–	–	(191,454)	(19,494)	(236,276)
Other transfer-out	–	(38,771)	–	–	–	(38,771)
At 31 December 2019	5,773,065	170,377	585,727	1,242,634	51,734	7,823,537
Accumulated depreciation						
At 1 January 2019	3,187,342	–	456,209	967,522	61,550	4,672,623
Depreciation	265,023	–	41,769	132,554	4,233	443,579
Disposals	(19,166)	–	–	(177,386)	(17,751)	(214,303)
At 31 December 2019	3,433,199	–	497,978	922,690	48,032	4,901,899
Net book value						
At 31 December 2019	2,339,866	170,377	87,749	319,944	3,702	2,921,638
At 1 January 2019	1,787,844	204,293	100,874	282,442	6,288	2,381,741

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(All amounts expressed in thousands of RMB unless otherwise stated)

25 PROPERTY AND EQUIPMENT (CONTINUED)

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost						
At 1 January 2018	4,229,463	231,165	549,669	1,268,693	72,711	6,351,701
Additions	569,200	217,787	10,614	76,214	6	873,821
Transfer	174,827	(186,211)	11,228	156	–	–
Other transfer-in	22,088	–	–	–	–	22,088
Disposals	(6,736)	–	(14,428)	(95,099)	(4,879)	(121,142)
Other transfer-out	(13,656)	(58,448)	–	–	–	(72,104)
At 31 December 2018	4,975,186	204,293	557,083	1,249,964	67,838	7,054,364
Accumulated depreciation						
At 1 January 2018	2,971,902	–	378,197	925,166	63,934	4,339,199
Depreciation	234,177	–	82,963	130,208	1,018	448,366
Other transfer-in	880	–	–	–	–	880
Disposals	(6,111)	–	(4,951)	(87,852)	(3,402)	(102,316)
Other transfer-out	(13,506)	–	–	–	–	(13,506)
At 31 December 2018	3,187,342	–	456,209	967,522	61,550	4,672,623
Net book value						
At 31 December 2018	1,787,844	204,293	100,874	282,442	6,288	2,381,741
At 1 January 2018	1,257,561	231,165	171,472	343,527	8,777	2,012,502

The original value and net value of the fixed assets that have been used but are in the process of applying for the right certificates and that have been used but have not yet applied for the right certificates are listed as follows:

	As at 31 December	
	2019	2018
Original value	1,575,300	823,274
Net value	847,057	129,386

Management expects that the aforesaid matter would not affect the rights of the Group to these assets or have any significant impact on the business operation of the Group.

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26 GOODWILL

	At 1 January 2019	Additions	At 31 December 2019
ZZRCB	382,216	–	382,216
CZRCB	–	476,181	476,181
Impairment allowance (i)	(124,160)	–	(124,160)
	258,056	476,181	734,237

	At 1 January 2018	Additions	At 31 December 2018
ZZRCB	382,216	–	382,216
Impairment allowance (i)	–	(124,160)	(124,160)
	382,216	(124,160)	258,056

(i) Impairment

The recoverable amount of the asset group is based on the five-year budget approved by the management, which is then estimated based on a fixed growth rate (as described in the table below) and calculated using the cash flow forecast method.

The assumptions of the future cash flow discount method are as follows:

	As at 31 December	
	2019	2018
Growth rate	3%	3%
Discount rate	15%	15%

The growth rate is the weighted average growth rate used by the Group to forecast the cash flow after five years, which is consistent with the forecast data contained in the industry report and does not exceed the long-term average growth rate of each business. The management uses the interest rate of profit-before-tax as the discount rate which can reflect the specific risks of the relevant asset groups and the portfolio of asset groups. The above assumptions are used to analyse the recoverable amounts of each asset group and portfolio of asset groups within the business division.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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27 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets against income tax liabilities and when the deferred income taxes are related to income taxes levied by the same taxation authority. The deferred tax assets and liabilities recognised are as follows:

	31 December 2019		31 December 2018	
	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference
Deferred income tax assets:				
Impairment allowances for assets	4,498,397	17,993,586	3,351,320	13,405,283
Provisions	94,767	379,067	98,254	393,017
Changes in the expected credit losses of financial assets at FVOCI	368,681	1,474,725	192,752	771,006
Changes in fair value of financial assets at FVOCI	80,803	323,210	–	–
Changes in the expected credit losses of loans and advances to customers at FVOCI	99,111	396,442	67,932	271,729
Changes in fair value of loans and advances to customers at FVOCI	9,314	37,256	5,506	22,023
Changes in fair value of financial assets at FVPL	–	–	440	1,759
Staff salary and welfare payable	463,166	1,852,664	435,791	1,743,165
Others	49,266	197,065	43,305	173,216
Subtotal	5,663,505	22,654,015	4,195,300	16,781,198
Deferred income tax liabilities:				
Changes in the expected credit losses of financial assets at FVOCI	(368,681)	(1,474,725)	(192,752)	(771,006)
Changes in fair value of financial assets at FVOCI	–	–	(104,490)	(417,959)
Changes in the expected credit losses of loans and advances to customers at FVOCI	(99,111)	(396,442)	(67,932)	(271,729)
Changes in fair value of financial assets at FVPL	(40,172)	(160,687)	(287,237)	(1,148,946)
Adjustment of book value of assets and liabilities on the date of acquisition	(100,475)	(401,901)	–	–
Unrealized gains of foreclosed assets	(162)	(646)	(162)	(646)
Subtotal	(608,601)	(2,434,401)	(652,573)	(2,610,286)
Net deferred income tax	5,054,904	20,219,614	3,542,727	14,170,912

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27 DEFERRED INCOME TAXES (CONTINUED)

The movements for deferred tax assets and liabilities recognised are as follows:

	As at 31 December	
	2019	2018
Balance at the end of the last year	3,542,727	3,634,745
Impact on accounting policy changes	–	148,874
Restated balance at the beginning of the year	3,542,727	3,783,619
Charged to profit or loss	1,630,659	560,303
Charged to other comprehensive income	(18,007)	(801,195)
Acquisition of a subsidiary	(100,475)	–
At the end of the year	5,054,904	3,542,727

28 OTHER ASSETS

	As at 31 December	
	2019	2018
Receivables and payments (a)	1,423,077	4,698,721
Intangible assets (b)	166,722	1,119,567
Right-of-use assets (c)	1,911,079	N/A
Foreclosed assets (d)	600,622	242,475
Prepayment of properties and buildings	520,295	567,555
Settlement and clearing accounts	419,502	423,285
Assets to be settled	297,366	297,366
Interest receivable	359,693	143,902
Investment properties	126,794	149,013
Long-term deferred expenses	116,108	137,785
Others	54,959	41,890
Total	5,996,217	7,821,559
Less: Allowance for impairment losses	(738,838)	(629,927)
Total	5,257,379	7,191,632

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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28 OTHER ASSETS (CONTINUED)

(a) Receivables and payments

According to the agreements which the Bank signed sponsorship and related agreements (the "Agreements") for the Shaoguan Rural Commercial Bank to be restructured from rural credit cooperatives (the "Restructure"), the Bank made a total payment of investment, credit-impaired loans and foreclosed assets. According to the terms of the Agreements, the above payments can be refunded if the Restructure cannot be completed. As at 31 December 2019, the Restructure of the Shaoguan Rural Commercial Bank was not yet completed and the Bank accounted for the remaining amount of RMB860,291 thousands in other assets.

(b) Intangible assets

	Land use rights	Intangible assets	Total
Cost			
At 1 January 2019	N/A	494,517	494,517
Additions	N/A	76,778	76,778
Transfer from construction in progress	N/A	24,619	24,619
Disposals	N/A	(89)	(89)
At 31 December 2019	N/A	595,825	595,825
Accumulated amortization			
At 1 January 2019	N/A	310,421	310,421
Amortization	N/A	118,726	118,726
Disposals	N/A	(44)	(44)
At 31 December 2019	N/A	429,103	429,103
Net book value			
At 31 December 2019	N/A	166,722	166,722
At 1 January 2019	N/A	184,096	184,096

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28 OTHER ASSETS (CONTINUED)

(b) Intangible assets (continued)

	Land use rights	Other intangible assets	Total
Cost			
At 1 January 2018	197,889	414,259	612,148
Additions	759,675	81,783	841,458
Transfer from construction in progress	—	4,896	4,896
Disposals	(175)	(6,421)	(6,596)
At 31 December 2018	957,389	494,517	1,451,906
Accumulated amortization			
At 1 January 2018	16,518	206,188	222,706
Amortization	5,488	104,394	109,882
Disposals	(88)	(161)	(249)
At 31 December 2018	21,918	310,421	332,339
Net book value			
At 31 December 2018	935,471	184,096	1,119,567
At 1 January 2018	181,371	208,071	389,442

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28 OTHER ASSETS (CONTINUED)

(c) Right-of-use assets

	Properties and equipments	Land use rights	Total
Cost			
As at 31 December 2018	N/A	N/A	N/A
Restated	981,495	976,330	1,957,825
As at 1 January 2019	981,495	976,330	1,957,825
Additions	224,856	39,878	264,734
Acquisition of a subsidiary	–	29,753	29,753
Disposals	–	–	–
As at 31 December 2019	1,206,351	1,045,961	2,252,312
Accumulated depreciation			
As at 31 December 2018	N/A	N/A	N/A
Restated	–	21,918	21,918
As at 1 January 2019	–	21,918	21,918
Charge for the period	297,960	21,355	319,315
As at 31 December 2019	297,960	43,273	341,233
Net book value			
As at 31 December 2019	908,391	1,002,688	1,911,079
As at 1 January 2019	981,495	954,412	1,935,907

(d) Foreclosed assets

	As at 31 December	
	2019	2018
Houses and buildings	580,145	222,134
Land use rights	–	18,941
Others	20,477	1,400
Total	600,622	242,475
Less: Allowance for impairment losses	(64,017)	(65,639)
Total	536,605	176,836

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28 OTHER ASSETS (CONTINUED)

(d) Foreclosed assets (continued)

Movements of allowance for repossessed assets are as follows:

	Houses, buildings and land use rights	Others	Total
At 1 January 2018	47,945	130,062	178,007
Impact of IFRS 9	–	(127,227)	(127,227)
Restated balance at the beginning of the year	47,945	2,835	50,780
Charge for the year	14,739	120	14,859
At 31 December 2018	62,684	2,955	65,639
Impact of IFRS 9			
Charge for the year	1,333	(2,955)	(1,622)
At 31 December 2019	64,017	–	64,017

29 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2019	2018
Deposits from banks operating in Mainland China	4,973,758	29,547,621
Deposits from other financial institutions operating in Mainland China	35,826,246	33,059,511
Interest payable	239,189	608,833
Total	41,039,193	63,215,965

As at 31 December 2019, no deposits arose from principal guaranteed wealth management products (2018: RMB1,513,750 thousands).

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30 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2019	2018
Placements from banks operating in Mainland China	973,915	480,817
Placements from banks operating outside Mainland China	–	1,046,659
Interest payable	11,002	26,107
Total	984,917	1,553,583

31 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 31 December	
	2019	2018
Securities	9,725,600	11,807,250
Interest payable	4,755	10,526
Total	9,730,355	11,817,776

32 CUSTOMER DEPOSITS

	As at 31 December	
	2019	2018
Demand deposits		
– Corporate customers	131,828,171	124,035,104
– Personal customers	107,750,918	99,200,462
	239,579,089	223,235,566
Time deposits		
– Corporate customers	177,449,451	127,713,259
– Personal customers	209,169,740	140,860,909
	386,619,191	268,574,168
Pledged deposits	12,654,096	13,216,853
Other deposits (i)	19,390,710	37,308,575
Total	658,243,086	542,335,162

- (i) As at 31 December 2019, deposits arising from principal guaranteed wealth management products amounted to RMB13,267,360 thousands (2018: RMB27,392,510 thousands).

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33 DEBT SECURITIES ISSUED

	As at 31 December	
	2019	2018
2014 tier 2 capital bonds (a)	–	4,098,047
2018 tier 2 capital bonds (a)	9,998,740	9,998,617
Interbank certificates of deposit issued (b)	67,835,442	51,326,856
Financial bonds (c)	999,335	–
Interest payable	406,538	451,915
Total	79,240,055	65,875,435

(a) Tier 2 capital bonds

Pursuant to the approval of the PBOC and the CBIRC, the Bank issued tier 2 capital bonds in an amount of RMB4.1 billion in the domestic interbank bond market on 11 September 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 6.26% and annual interest payment on 15 September. The principal is repaid upon its maturity and the Bank has the option to early redeem the bonds at the end of the fifth year. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be needed to be paid. The Bank exercised the option to early redeem the bonds on 16 September 2019.

Pursuant to the approval of the PBOC and the CBIRC, the Bank issued tier 2 capital bonds in an amount of RMB10 billion in the domestic interbank bond market on 23 March 2018. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.90% and annual interest payment on 23 March. The principal is repaid upon its maturity and the Bank has the option to early redeem the bonds at the end of the fifth year. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be needed to be paid.

(b) Interbank certificates of deposit issued

As at 31 December 2019 and 2018, the outstanding balance was RMB67,835,442 thousands and RMB51,326,856 thousands, with the interest rate ranging from 2.90% to 3.45% and from 3.20% to 5.12%, and the amount would mature in 2020 and 2019 respectively.

(c) Financial bonds

Pursuant to the approval of the PBOC and the CBIRC, Zhujiang Financial Leasing Co., Ltd. issued financial bonds in an amount of RMB1 billion in the domestic interbank bond market on 18 April 2019. The bonds have a maturity of 3 years, with a fixed coupon rate of 3.80% and annual interest payment on 22 April every year from 2020 to 2022.

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34 OTHER LIABILITIES

	As at 31 December	
	2019	2018
Borrowings from other banks (a)	10,029,867	9,435,006
Settlement and clearing accounts	3,068,025	3,502,534
Salaries, bonuses, allowances and subsidies payable (b)	2,646,339	2,621,980
Guarantee deposits from lessees (c)	1,419,581	1,340,906
Lease liabilities	925,531	N/A
Sundry tax payables	516,684	554,660
Provisions	379,067	393,017
Deferred revenue	253,708	242,437
Deposit insurance premium payable	56,010	50,000
Deposits and guarantees received	39,843	39,804
Payables for commission funds	25,000	25,000
Collection of Foreclosed assets	15,000	15,000
Non-performing assets collection (d)	3,690	639
Others	638,368	538,283
Total	20,016,713	18,759,266

(a) Borrowings from other banks

As at 31 December 2019, the wholly-owned subsidiary of the Bank, Zhujiang Financial Leasing Co., Ltd., borrowed long-term and short-term loans for its leasing operation business, with maturity ranging from 1 to 60 months (31 December 2018: from 2 to 60 months) and fixed interest rates ranging from 3.10% to 5.60% (31 December 2018: from 3.61% to 6.05%).

(b) Salaries, bonuses, allowances and subsidies payable

	As at 31 December	
	2019	2018
Salaries, bonuses and allowances	1,736,711	1,823,668
Social insurance	56,096	4,122
Housing fund	443	447
Employee benefits	9,418	2,440
Labor union expenditure and education costs	180,723	121,826
Defined contribution plans	969	470
Defined benefit plans		
– Supplemental retirement benefits (i)	555,945	554,531
Early retirement benefits	106,034	114,476
Total	2,646,339	2,621,980

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34 OTHER LIABILITIES (CONTINUED)

(b) Salaries, bonuses, allowances and subsidies payable (continued)

(i) Supplemental retirement benefits

The movement of supplementary retirement benefits of the Group are as follows:

	As at 31 December	
	2019	2018
At 1 January	554,531	455,173
Benefits paid during the year	(16,260)	(25,215)
Defined benefit cost recognised in profit or loss	11,940	41,528
Defined benefit cost recognised in other comprehensive income	5,734	83,045
At 31 December	555,945	554,531

The principal actuarial assumptions adopted at the end of 2019 and 2018 are as follows:

	As at 31 December	
	2019	2018
Discount rate		
– Normal retirees	3.38%	3.46%
– Early retirees	3.46%	3.52%
Expected growth rate of benefits	0-5%	0-5%
Age of retirement		
– Male	60	60
– Female	50/55	50/55

Assumptions regarding future mortality are based on the China Life Insurance Mortality table, which published in Mainland China.

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34 OTHER LIABILITIES (CONTINUED)

(b) Salaries, bonuses, allowances and subsidies payable (continued)

(i) Supplemental retirement benefits (continued)

The sensitivity of the present value of supplemental retirement benefit obligations to changes in the principal assumption is:

	Discount rate	
	As at 31 December	
	2019	2018
Change in basis points		
+50 basis points	(38,238)	(37,929)
-50 basis points	43,165	42,813

	Growth rate	
	As at 31 December	
	2019	2018
Change in basis points		
+50 basis points	44,391	44,066
-50 basis points	(39,678)	(39,387)

(c) Guarantee deposits from lessees

The wholly-owned subsidiary of the Bank, Zhujiang Financial Leasing Co., Ltd., received deposits from lessees when entering into the finance lease contracts. These deposits are interest-free and will be repaid upon maturity of the lease contracts.

(d) Non-performing assets collection

The promoters acquired certain non-performing assets of the Group during the Group's restructuring, and resolved to donate to the Group net proceeds received from the disposal of non-performing assets which were entrusted to be managed by the Group. Up to 31 December 2019, the Bank has received accumulative proceeds of RMB2,507,525 thousands (31 December 2018: RMB2,401,182 thousands) from the non-performing assets. The donation procedures of these proceeds amounting to RMB2,503,835 thousands have been completed (31 December 2018: RMB2,400,543 thousands). After deducting income tax of RMB306,013 thousands (31 December 2018: RMB306,013 thousands), the net accumulative proceeds amounting to RMB2,197,822 thousands as at 31 December 2019 (31 December 2018: RMB2,094,530 thousands) have been recorded as capital reserve, and the remaining proceeds amounting to RMB3,690 thousands were recorded as other liabilities and pending for completion of the donation procedures as at 31 December 2019 (31 December 2018: RMB639 thousands).

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35 SHARE CAPITAL

All shares of the Bank issued are fully paid ordinary shares, with par value of RMB1 per share. The Bank's number of shares is as follows:

	31 December 2019		31 December 2018	
	Number of shares '000	Nominal value	Number of shares '000	Nominal value
Opening balance	9,808,269	9,808,269	9,808,269	9,808,269
As at 31 December 2019/ 31 December 2018	9,808,269	9,808,269	9,808,269	9,808,269

36 PREFERENCE SHARES

(a) Preference shares outstanding at the end of the period

	Issue date	Accounting classification	Dividend rate	Issue price	Number of shares	In original currency	In RMB	Maturity	Conversion condition	Conversion
Offshore preference share										
Preference shares in USD	20 June 2019	Equity	5.90%	USD20/share	71,500,000	1,430,000	9,839,115	No maturity date	Mandatory	No conversion during the period
Total							9,839,115			
Less: Issuance fees							18,381			
Book value							9,820,734			

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36 PREFERENCE SHARES (CONTINUED)

(b) Main clauses

Offshore preference shares

(i) Dividend

The offshore preference shares accrue non-cumulative dividends on the issue price at the relevant dividend rate below:

- (1) From and including the issue date to but excluding the first reset date, at the rate of 5.90% per annum; and
- (2) Thereafter, in respect of the period from and including the first reset date and each reset date falling thereafter to but excluding the immediately following Reset Date, at the relevant Reset Dividend Rate, provided that the Dividend Rate shall not at any time exceed 13.57% per annum, being the mean of the weighted average return on equity of the Bank (as determined in accordance with the Rules for Preparation of Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings per Share (as amended in 2010) and calculated based on the return attributable to the Ordinary Shareholders) for the two most recent financial years prior to the Issue Date.

(ii) Conditions to distribution of dividends

The payment of any dividend on any dividend payment date is subject to:

- (a) the Board (or within the delegated authorization of the Board) having passed a resolution to declare such Dividend in accordance with the Articles of Association;
- (b) the Bank having distributable after-tax profit, after making up for the previous years' losses and contributing to the statutory reserve fund and general reserve; and
- (c) the capital adequacy ratios of the Bank meet the regulatory requirements.

Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

The cancellation of any amount of dividend (in whole or in part) shall not constitute a default for any purpose by the Bank. Dividend payments are non-cumulative. Under the circumstances where the Bank cancels a dividend (in whole or in part), any amount of dividend that has not been fully distributed to the offshore preference shareholders during the then current dividend period will not be accumulated to the following dividend periods.

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36 PREFERENCE SHARES (CONTINUED)

(b) Main clauses (continued)

(iii) *Mandatory conversion trigger events*

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, offshore preference share shall be mandatorily converted into ordinary H Shares of the Bank (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.8489), partially or entirely.

(iv) *Order of distribution and liquidation method*

On winding-up of the Bank, distribution to offshore preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the offshore preference shares; all offshore preference shareholders are ranked the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to offshore preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the offshore preference shares have been made, be applied to the claims of the offshore preference shareholders equally in all respects with the claims of holders of any parity obligations and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the offshore preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, offshore preference shareholders will share the distribution amount on a proportional basis.

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36 PREFERENCE SHARES (CONTINUED)

(b) Main clauses (continued)

(v) Redemption

The offshore preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the offshore preference shares after five years. The redemption period ends at the date when shares are fully converted or redeemed.

(c) Movements of preference shares issued

	As at 1 January 2019	Movements		As at 31 December 2019
		Additions	Reductions	
Offshore reference shares				
Amount (shares)	N/A	71,500,000	–	71,500,000
In RMB, after deducting issuance fees	N/A	9,820,734	–	9,820,734

37 RESERVES

(a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value and shareholders' donation.

(b) Surplus reserve

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles of association to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

For the year ended 31 December 2019, an appropriation of 10% of the profit of the Group determined under generally accepted accounting principles of the PRC ("PRC GAAP") was made to the statutory surplus reserve, in the amount of RMB657,204 thousands (2018: RMB621,141 thousands).

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37 RESERVES (CONTINUED)

(c) General reserve

Pursuant to the relevant regulations issued by the Ministry of Finance (the "MOF"), the Bank and its subsidiaries are required to maintain a general reserve within equity, through the appropriation of net profit, starting from 1 July 2012, which should not be less than 1.5% of the year-end balance of their respective risk assets as defined by the regulations.

During the year ended 31 December 2019, the Group transferred RMB1,788,287 thousands (2018: RMB730,327 thousands) to the general reserve pursuant to the regulatory requirements in the PRC and the reserve has reached 1.5% of the year-end balance of its risk assets as required on 31 December 2019 and 31 December 2018.

(d) Other comprehensive income

Other comprehensive income included financial assets revaluation reserve and remeasurement losses on defined benefit plans. The financial assets revaluation reserve records the fair value changes and expected credit losses of financial assets at fair value through other comprehensive income.

Remeasurement losses on defined benefit plans are the actuarial gains or losses of supplemental retirement benefits.

38 COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Other comprehensive income in statement of financial position				Other comprehensive income in income statement			
	Attributable to the shareholders		Attributable to the non-controlling interests		Net amount transferred to the income statement		Attributable to the shareholders	
	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	Amount before tax	Tax expense	As at 31 December 2018	As at 31 December 2019
Other comprehensive income to be reclassified to profit or loss in subsequent years:								
Financial assets at fair value through other comprehensive income	1,082,026	52,263	1,134,289	415,462	343,432	18,007	52,263	1,760
Other comprehensive income not to be reclassified to profit or loss in subsequent years:								
Remeasurement (losses) on defined benefit plans	(14,878)	(5,734)	(20,612)	(5,734)	-	-	(5,734)	-
Total	1,067,148	46,529	1,113,677	409,728	343,432	18,007	46,529	1,760

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38 COMPONENTS OF OTHER COMPREHENSIVE INCOME (CONTINUED)

	Other comprehensive income in statement of financial position				Other comprehensive income in income statement			
	As at 01 January 2018 (restated)	Attributable to the shareholders of the Bank after tax	As at 31 December 2018	Amount before tax	Net amount transferred to the income statement	Tax expense	Attributable to the shareholders of the Bank after tax	Attributable to the non- controlling interests after tax
Other comprehensive income to be reclassified to profit or loss in subsequent years:								
Financial assets at fair value through other comprehensive income	(1,324,582)	2,406,608	1,082,026	3,525,662	320,882	801,195	2,406,608	(3,023)
Other comprehensive income not to be reclassified to profit or loss in subsequent years:								
Remeasurement gains/(losses) on defined benefit plans	68,167	(83,045)	(14,878)	(83,045)	-	-	(83,045)	-
Total	(1,256,415)	2,323,563	1,067,148	3,442,617	320,882	801,195	2,323,563	(3,023)

39 ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

On the consolidated statement of cash flows, cash and cash equivalents have an original maturity of less than three months and include the following:

	As at 31 December	
	2019	2018
Cash on hand	3,085,852	2,532,087
Surplus reserves with central bank	29,845,402	37,455,968
Deposits with banks and other financial institutions	22,824,144	7,598,357
Placements with banks and other financial institutions	2,538,875	2,327,896
Financial assets held under resale agreements	28,576,623	27,405,309
Total	86,870,896	77,319,617

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40 TRANSFERS OF FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets in the consolidated statement of financial position.

(a) Bond lending arrangements

The Group entered into bond lending agreements with securities borrowers to lend out its bond securities classified as financial assets at fair value through profit or loss of carrying amount totalling RMB90,762 thousands as at 31 December 2019 (2018: nil) and financial assets at fair value through other comprehensive income of carrying amount totalling RMB678,402 thousands as at 31 December 2019 (2018: RMB1,042,906 thousands). The counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them in the consolidated financial statements.

(b) Securitisation transactions

In the course of securitisation transactions, the Group sells assets to special purpose trusts and the asset-backed securities are subsequently sold to the investors. The Group may hold some asset-backed securities in these businesses, thus reserving part of risks and rewards of transferred credit assets. The Group analyses and judges whether to derecognise relevant credit assets based on degree of retention of risks and rewards.

As at 31 December 2019, the carrying amount of the credit assets transferred by the Group to special purpose trusts was RMB6,017,962 thousands (2018: RMB7,054,991 thousands). The Group has derecognised the relevant credit assets. The carrying amount of the Group's share of the above asset-backed securities as at 31 December 2019 was RMB37,752 thousands (2018: RMB102,963 thousands), with a maximum loss exposure similar to the carrying amount.

(c) Transfer of beneficial rights of credit assets

In the course of beneficial rights of credit assets transfer transactions, the Group transfers beneficial rights of credit assets to special purpose trusts from whom the trust schemes are subsequently transferred to the investors. The Group may subscribe some trust funds in these businesses, thus reserving part of risks and rewards of transferred beneficial rights of credit assets. The Group analyses and judges whether to derecognise relevant beneficial rights of credit assets based on degree of retention of risks and rewards.

As at 31 December 2019, the carrying amount of the beneficial rights of credit assets transferred by the Group to special purpose trusts was RMB3,444,851 thousands (2018: RMB3,444,851 thousands). The Group has derecognised relevant credit assets. The carrying amount of the Group's share of the above beneficial rights of credit assets as at 31 December 2019 was nil (2018: nil).

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41 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments, asset management and securitisation transactions. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. The interests held by the Group in the unconsolidated structured entities are set out below:

(a) Structured entities sponsored by the Group

In conducting wealth management business, the Group has established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. During the year ended 31 December 2019, the Group recorded commission income as the manager of these wealth management products amounting to RMB89,308 thousands (2018: RMB82,746 thousands). The gains from the unconsolidated non-guaranteed wealth management products of the Group are the same as the Bank's maximum exposure to loss in such business. The Group considered its variable returns from its involvement with the structured entities are not significant and hence it does not consolidate these structured entities.

For the purpose of asset-liability management, the Group's unconsolidated structured entities may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. The Group may enter into repurchase and placement transactions with these unconsolidated structured entities in accordance with market principles. As at 31 December 2019, there was no balance of the above repurchase and placement transactions (2018: nil). The maximum exposure to loss of those placements approximated the carrying amount.

As at 31 December 2019, the balance of the unconsolidated non-guaranteed wealth management products sponsored by the Group amounted to RMB79,359,695 thousands (2018: RMB77,630,363 thousands).

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41 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

(b) Unconsolidated structured entities invested by the Group

As at 31 December 2019, the Group invests in a number of unconsolidated structured entities mainly consisting of asset-backed securities, funds, wealth management products, trust plans and the asset management plans sponsored and managed by other independent third parties.

The table below sets out the carrying value and the Group's maximum exposure to these unconsolidated structured entities.

At 31 December 2019	Carrying value	Maximum exposure to loss
<u>Financial assets at fair value through profit or loss</u>		
Trust plans and asset management plans	27,679,726	27,679,726
Fund investments	19,237,866	19,237,866
Other investments	5,226,010	5,226,010
Subtotal	52,143,602	52,143,602
<u>Financial assets at fair value through other comprehensive income</u>		
Trust plans and asset management plans	15,426,312	15,426,312
Other investments	191,158	191,158
Subtotal	15,617,470	15,617,470
<u>Financial assets at amortised cost</u>		
Trust plans and asset management plans	13,602,618	13,602,618
Other investments	371,303	371,303
Subtotal	13,973,921	13,973,921

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41 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

(b) Unconsolidated structured entities invested by the Group (continued)

At 31 December 2018	Carrying value	Maximum exposure to loss
<u>Financial assets at fair value through profit or loss</u>		
Trust plans and asset management plans	43,363,012	43,363,012
Fund investments	28,769,701	28,769,701
Other investments	1,923,591	1,923,591
Subtotal	74,056,304	74,056,304
<u>Financial assets at fair value through other comprehensive income</u>		
Trust plans and asset management plans	10,654,695	10,654,695
Other investments	109,335	109,335
Subtotal	10,764,030	10,764,030
<u>Financial assets at amortised cost</u>		
Trust plans and asset management plans	20,041,012	20,041,012
Other investments	282,301	282,301
Subtotal	20,323,313	20,323,313

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42 BUSINESS COMBINATIONS

(a) Summary of acquisition

CZRCB

Pursuant to the "Approval Regarding the Opening of Chaozhou Rural Commercial Bank Co., Ltd. (Yue Yinbaojianfu No. [2019]497)" issued by the CBIRC Guangdong Bureau, Chaozhou Rural Commercial Bank obtained its finance permit from the CBIRC and its business license from the Administration for Market Regulation of Chaozhou Municipality on 21 June 2019. The CZRCB was formed as a result of a combination of Chaozhou Urban Rural Credit Cooperative Union, Chaozhou Chaoan District Rural Credit Cooperative Union and Raoping County Rural Credit Cooperative Union with investments of some strategic investors. The Bank was one of these investors and holds 57.72% equity interests of the CZRCB. Further to signing of certain acting in concert agreements with other shareholders of the CZRCB, the Bank controls 74.38% voting rights in the CZRCB. Hence, management of the Bank believes that it has control over the CZRCB from 21 June 2019.

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value	Book value
ASSETS		
Cash and deposits with central bank	3,319,083	3,319,083
Deposits with banks and other financial institutions	6,455,344	6,494,762
Financial investments	8,645,116	8,648,896
Loans and advances to customers	11,854,234	11,868,845
Placements with banks and other financial institutions	3,267,578	3,267,578
Property and equipment	601,269	159,539
Other assets	311,406	368,428
Total assets	34,454,030	34,127,131
LIABILITIES		
Customer deposits	(29,679,962)	(29,679,962)
Deposits from banks and other financial institutions	(1)	(1)
Deferred tax liabilities	(82,252)	–
Income tax payable	(220)	(220)
Other liabilities	(179,592)	(181,700)
Total liabilities	(29,942,027)	(29,861,883)
Net identifiable assets	4,512,003	4,265,248
Less: Non-controlling interests acquired (i)	(1,907,675)	(1,803,347)
Add: goodwill	476,181	N/A
Satisfied by cash	3,080,509	N/A

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42 BUSINESS COMBINATIONS (CONTINUED)

(a) Summary of acquisition (continued)

NXRCB

Pursuant to the approval notice of "Approval Regarding the Opening of Nanxiong Rural Commercial Bank Co., Ltd. (Yue Yinjianfu No. [2019]523)" issued by the CBIRC Guangdong Bureau, Nanxiong Rural Commercial Bank Co., Ltd. obtained its finance permit from the CBIRC and its business license from the Administration for Market Regulation of Shaoguan Municipality. The Bank holds 51% equity interests of the NXRCB. Further to signing of certain acting in concert agreements with other shareholder of the NXRCB, the Bank controls 53.39% voting rights in the NXRCB. Hence, management of the Bank believes that it has control over the NXRCB from 5 July 2019.

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value	Book value
ASSETS		
Cash and deposits with central bank	1,363,858	1,363,858
Deposits with banks and other financial institutions	3,867,390	3,867,390
Loans and advances to customers	1,218,467	1,215,472
Financial assets at fair value through profit or loss	1,500	1,500
Financial assets at amortized cost	996,725	996,725
Property and equipment	102,481	67,015
Intangible asset	21,243	–
Other assets	116,980	103,896
Total assets	7,688,644	7,615,856
LIABILITIES		
Customer deposits	(6,774,218)	(6,774,218)
Salaries payable	(14,133)	(14,133)
Income tax payable	(750)	(750)
Deferred tax liabilities	(18,223)	–
Other liabilities	(136,751)	(136,963)
Total liabilities	(6,944,075)	(6,925,958)
Net identifiable assets	744,569	689,898
Less: Non-controlling interests acquired(i)	(364,839)	(338,050)
Add: negative goodwill	(86,476)	N/A
Satisfied by cash	293,254	N/A

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42 BUSINESS COMBINATIONS (CONTINUED)

(a) Summary of acquisition (continued)

The goodwill is attributable to the the high profitability of the acquired business. It will not be deductible for tax purposes.

(i) Accounting policy choice for non-controlling interests

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis.

For the non-controlling interests in the CZRCB and NXRCB, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

(ii) Profit contribution

If the acquisition had occurred on 1 January 2019, consolidated pro-forma profit for the year ended 31 December 2019 would have been RMB8,120,551 thousands respectively.

(b) Net cash flow for acquisition

Net cash flow for acquisition of the CZRCB is analysed below:

	Year ended 31 December 2019
Purchase consideration:	
Cash paid in current year	(1,520,019)
Cash paid in 2018 as receivables and prepayments	(1,560,490)
Total cash consideration	(3,080,509)
Less: cash paid to acquire the CZRCB in current year	(1,520,019)
Add: cash and cash equivalents held by the CZRCB	3,569,609
Net cash inflow from acquisition of the CZRCB	2,049,590

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42 BUSINESS COMBINATIONS (CONTINUED)

(b) Net cash flow for acquisition (continued)

Net cash flow for acquisition of the NXRCB is analysed below:

	Year ended 31 December 2019
Purchase consideration:	
Cash paid in current year	(220,218)
Cash paid in 2018 as receivables and prepayments	(73,036)
Total cash consideration	(293,254)
Less: cash paid to acquire the NXRCB in current year	(220,218)
Add: cash and cash equivalents held by the NXRCB	2,138,096
Net cash inflow from acquisition of the NXRCB	1,917,878

43 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Loan and credit card commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Bank acceptances comprise undertakings by the Group to pay bills drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan and credit card commitments are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and guarantees represent the maximum potential losses that would be recognised at the end of the year had the counterparties failed to perform as contracted.

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43 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(a) Loan and credit card commitments (continued)

	As at 31 December	
	2019	2018
Bank acceptances	28,469,095	9,968,108
Letters of credit issued	1,312,911	1,238,370
Guarantees issued	31,791,369	23,430,405
Loan and credit card commitments (i)	113,514,099	106,085,344
Total	175,087,474	140,722,227
Allowance for credit commitments	375,473	392,569

(i) Loan commitments of the Group are the unconditionally revocable loan commitments.

(b) Operating lease commitments

During the year, the Group leased certain of their office properties under operating lease arrangements, and the total future minimum lease payments in respect of non-cancellable operating leases are as follows:

	As at 31 December	
	2019	2018
Within one year	N/A	268,567
After one year but not more than two years	N/A	218,514
After two years but not more than three years	N/A	182,328
After three years	N/A	385,654
Total	N/A	1,055,063

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43 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(c) Capital commitments

At the end of the year, the Group had capital commitments as follows:

	As at 31 December	
	2019	2018
Contracted, but not provided for	217,662	137,792

(d) Credit risk-weighted amount of financial guarantees and credit related commitments

	As at 31 December	
	2019	2018
Financial guarantees and credit related commitments	28,522,733	22,164,427

The credit risk-weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBIRC and depends on the credit worthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

(e) Legal proceedings

As at 31 December 2019, the total claimed amounts of the litigation cases of which the Bank or its subsidiaries are the defendant amounted to RMB3,594 thousands (2018: RMB448 thousands). In the opinion of management, the Bank has made adequate provisions for any probable losses based on the current facts and circumstances. The litigation cases are not expected to have a significant impact on the Bank's business, financial condition and performance.

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44 FIDUCIARY ACTIVITIES

The Group operates entrusted loans. The entrusted loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrusted agreements signed by the Group and the trustors. The Group only acts on behalf of trustors and assists them to administer the loans. Risks remain to trustors while the Group charges commission fee for the business. Entrusted loans are not included in the Group's consolidated balance sheet.

The Group manages assets for customers as an agent, which does not include in the Group's consolidated balance sheet. The Group only charges fees according to agent agreement and bears no risk and takes no benefit of these assets.

	As at 31 December	
	2019	2018
Entrusted deposits	(8,403,956)	(12,869,093)
Entrusted loans	8,403,956	12,869,093

Entrusted wealth management refers to service that the Group makes investments and manages principal on behalf of customers within agreed investment plans and methods, and earnings will be paid to customers in accordance with terms of agreements and actual earnings. As at 31 December 2019 and 31 December 2018, entrusted wealth management service of the Group amounted to RMB79,359,695 thousands and RMB77,630,363 thousands respectively.

45 ASSETS PLEDGED AS SECURITY

(a) Financial assets which have been pledged

As at 31 December 2019 and 2018, financial assets of the Group, which refer to debt securities, have been pledged as security for liabilities or contingent liabilities, mainly arising from financial assets sold under repurchase agreements, time deposits and borrowings from the Central Bank. As at 31 December 2019 and 2018, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB18,241,592 thousands and RMB17,679,550 thousands respectively.

(b) Collateral received

The Group received debt securities and bills as collateral in connection with the terms of the financial assets held under resale agreements, the Group did not hold any collateral that can be resold or reused as at 31 December 2019 and 2018.

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46 RELATED PARTY DISCLOSURES

(a) Related party relationships

On 31 December 2019 and 31 December 2018, there is no shareholder directly or indirectly holding 5% or above shares of the Bank.

(b) Related party transactions

Related party transactions of the Bank mainly include loans and deposits. Transactions between the Bank and its related parties follow general business terms and normal procedures and their pricing principle is the same as with independent third parties.

(i) *Transactions between the Bank and major shareholders and the companies controlled or jointly controlled by major shareholders*

Major shareholders include shareholders of the Bank with the power to appoint a director in the Bank.

	As at 31 December	
Balances at the end of the year	2019	2018
Financial assets held under resale agreements	—	299,540
Loans and advances to customers	6,102,972	4,129,158
Financial assets at fair value through other comprehensive income	—	911,681
Deposits from banks and other financial institutions	129,666	82,128
Customer deposits	2,242,668	4,918,895
Bank acceptance bills	28,389	49,084
Credit commitments	3,053,200	2,112,450

	Year ended 31 December	
Transactions during the year	2019	2018
Interest income	309,453	306,198
Interest expense	161,796	163,022
Fee and commission income	1,024	7,496
Fee and commission expense	6,016	5,455

	Year ended 31 December	
Asset transfer	2019	2018
Transfer price	—	58,063
Book value	—	58,063

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46 RELATED PARTY DISCLOSURES (CONTINUED)

(b) Related party transactions (continued)

(ii) Transactions between the Bank and subsidiaries

There are various related party transactions that occur between the Bank and its subsidiaries. These transactions are equitable and follow regular business procedures. The material balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements. In the opinion of management, the transactions between the Bank and subsidiaries have no significant impact on profit or loss.

(iii) Other related parties

Other related parties include the companies controlled or jointly controlled by the key management personnel and their close family members, and the companies of which key management personnel and their close family members were appointed as directors and key management personnel. During the year, the Group entered into transactions with other related parties in the ordinary course of business. Details are as follows:

	As at 31 December	
Balances at the end of the year	2019	2018
Loans and advances to customers	13,362,666	10,551,783
Deposits from banks and other financial institutions	—	860
Customer deposits	11,265,844	4,375,240
Bank acceptance bills	742,789	742,769
Credit commitments	3,860,341	521,869
	Year ended 31 December	
Transactions during the year	2019	2018
Interest income	737,055	498,652
Interest expense	210,799	208,006
Fee and commission income	9,744	10,969
Fee and commission expense	—	953

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46 RELATED PARTY DISCLOSURES (CONTINUED)

(c) Key management personnel

Key management personnel refer to those have power and directly or indirectly are responsible for planning, instruction and control of the Group.

Total amount of remuneration of key management personnel is listed below:

	Year ended 31 December	
	2019	2018
Salary, remuneration and benefits	24,881	24,282

Transactions with key management personnel and their closed family members are listed below:

	As at 31 December	
	2019	2018
Balances at the end of the year		
Loans and advances to customers	21,668	26,062
Customer deposits	40,183	57,931
Credit commitments	1,600	9,144

	Year ended 31 December	
	2019	2018
Transactions during the year		
Interest income	1,605	1,328
Interest expense	68	2,800

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47 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Managing those risks are crucial to the financial business, and risks are an inevitable consequence of being in business operation. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and control programs, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

A description and an analysis of the major risks faced by the Group are as follows:

The major types of risks are credit risk, market risk and liquidity risk. Market risk mainly consists of currency risk, interest rate risk and price risk.

The Board of Directors of the Group is responsible for determining the Group's overall risk preference. Within this framework, the senior management of the Bank designs risk management policies and procedures for credit risk, market risk and liquidity risk accordingly. After the policies and procedures are approved by the Board of Directors, relevant departments of the headquarters are responsible for their implementation.

The Board of Directors of the Group is responsible for setting the Group's overall risk tolerance, risk management and internal control strategies, supervising and ensuring that senior management performs risk management duties effectively. The Group has a Related Party Transactions and Risk Management Committee under the Board of Directors, which is responsible for monitoring the risk management of senior management, evaluating the Group's situation of risk management, risk tolerance ability and level regularly, and taking case precautions, reviewing and controlling the related party transactions. The Board of Supervisors is responsible for inspecting the Group's risk management and taking case precautions, comprehensively evaluating the risk management performance of the directors and senior management. Senior management is responsible for executing the policies of risk management and internal control approved by the Board of Directors and developing the specific rules and regulations of risk management. The Group has a Compliance and Risk Management Committee under senior management, which is responsible for reviewing the Group's significant matters of compliance and risk management.

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Risk Management Department is the leading department of overall risk management, and is responsible for overall planning and coordination of risk management. The Risk Management Department, Credit Management Department, Legal and Compliance Department and Asset Management Department are primarily responsible for managing credit risk, market risk, operation risk and liquidity risk. The Internal Audit Department is responsible for supervising, inspecting, evaluating and reporting the risk management activities' effect independently and objectively.

(a) Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations. Credit risk is often greater when counterparties are concentrated in one single industry or geographic location or have comparable economic features. In addition, different industrial sectors and geographic areas have their unique characteristics in terms of economic development, and could present a different credit risk.

(i) Credit Risk Management

Loans

The Group exercises standardised credit management procedures, including credit investigation and proposals, credit limit review, loan disbursement, post lending monitoring, and management. The Group enhances its credit risk management by strict compliance with its credit management procedures to identify, measure, monitor and manage the potential credit risk, which includes:

- strengthening customer investigation, lending approval and post lending monitoring;
- setting up authorisation limits over loan review and approval;
- establishing the internal assessment system in respect of the credit rating towards different kinds of customers, as the fundamental procedures for granting credit;
- setting up the authority limit over risk classification of credit assets, reviewing periodically and updating risk classification of credit assets, and carrying out on-site sample review and off-site review to monitor the risk; and
- implementing and continuously upgrading the Credit Management System based on the requirements of risk management, developing and popularising various risk management tools.

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For the year ended 31 December 2019
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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Credit Risk Management (continued)

Loans (continued)

In respect of the corporate loans, credit managers of the Group are responsible for accepting application from the applicants, carrying out credit investigation and making recommendations on credit rating through credit risk assessment of the applicants and their business. According to the authority limit over credit review and approval, applications will be assessed and authorised at the branch level or/and head office level. The credit limit will be determined based on assessment of the factors including the applicant's credit rating, financial position, collateral and guarantee, the overall credit risk of the portfolio, macro-economic policies, and restriction imposed by laws and regulations. The Group minimises losses over credit risk through: (1) collecting; (2) restructuring; (3) repossessing the collateral or resourcing from the guarantor; (4) seeking arbitration or pursuing lawsuits; and (5) write off according to relevant regulations.

The Group writes off loans, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation to recover the loan.

The written off amount of such loans by the Group were RMB2,936,157 thousands and RMB1,869,773 thousands respectively in 2019 and 2018.

Bonds and other bills

The Group manages the credit risk exposure of bonds and other bills through controlling the investment scale and based on issuer's credit rating and establishing post lending management standards.

Other financial assets carrying at amortized cost

Other financial assets carrying at amortized cost, include wealth management products, trust plans and asset management plans issued and managed by other banks and other financial institutions. The Group establishes a risk evaluation system on the trust companies, security companies and fund management companies, sets up credit limit for parties repurchasing trust beneficial rights, issuers of wealth management products, ultimate borrowers of asset management schemes, and performs ongoing post-lending monitoring on timely basis.

Inter-bank transactions

The Group reviews and monitors the credit risk of individual financial institutions on regularly basis. Limits are set for each individual bank or non-banking financial institution which has business relationship with the Group.

Credit commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Letters of guarantee issued, acceptances, bill acceptance and letters of credit, which represent irrevocable commitment that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. When the amount of credit commitment exceeds the original credit limit, margin deposits are required to mitigate the credit risk. The Group's exposure of credit risk is equivalent to the total amount of credit commitments.

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(ii) Risk limit control and mitigation policies

The Group manages and limits the concentrations of credit risk, including concentration to individual counterparty, group, industry and region.

The Group continuously optimizes the credit risk structure by setting limits on the borrower, group of borrowers, geographical and industry segments. Concentration risks are monitored on ongoing basis and subject to an annual or more frequent reviews where necessary.

The Group manages the exposure to credit risk through regular analyses of borrowers and potential borrowers' abilities to fulfil interest and principal repayment obligations and amends the lending limits where appropriate.

The Group has established relevant policies to mitigate credit risk. One of the most important measures is to obtain collateral, pledged assets, guarantee deposits or guarantees from corporates or individuals. The Group provides guidelines on the acceptance of specific classes of collateral. The principal types of collateral for loans and advances are:

- Residential property and land use right;
- Commercial assets, such as commercial property, inventory and accounts receivables;
- Financial instruments, such as debt securities and equity shares.

Fair value of collateral is usually required to be assessed by professional valuer designated by the Group. When there is objective evidence of impairment, the value of collateral will be reviewed by the Group to assess whether it could sufficiently cover the credit exposure of relevant loans. To mitigate the credit risk, the Group has implemented loan-to-value ratio requirement based on type of collateral as follows:

Item	Maximum loan-to-value ratio
Residential properties	70%
Office buildings, shops, factories, houses, carports, Warehouses	50%
Land use rights	50%
Constructions In process	45%
Automobiles	50%
Forest ownerships	40%

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience adjustments for current market conditions and estimated expenses to be incurred in the disposal process.

For loans guaranteed by third parties, the Group will review the financial condition and credit history of guarantors and evaluate the ability of the guarantors to meet obligations on regular basis.

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

Stage I (not credit-impaired on initial recognition): 12-month expected credit losses (ECL);

Stage II (significant increase in credit risk since initial recognition): lifetime expected credit losses;

Stage III (credit-impaired assets): lifetime expected credit losses

The Group developed an impairment model to calculate expected credit losses in accordance with the new standards. A top-down development method was used to establish a logistic regression model of macroeconomic indicators and risk parameters.

Stage division

The assessment of significant increase in credit risk consider a number of factors such as five-category classification, overdue days, and credit rating changes. The stages are transferable.

Significant increase in Credit risk

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

Quantitative criteria

At the reporting date, the Group assesses the significant increase in credit risk through the relative change of the probability of default. The thresholds was set based on different product type, such as corporate loans, personal loans, securities investments, etc. For the financial instrument without overdue, the Group assesses changes of probability of default over the lifetime to identify increment of the default risk.

If the borrower fails to pay more than 30 days after the contractual payment date, the credit risk of the financial instrument is considered to be increased significantly.

Qualitative criteria

For corporate loans and bond investment portfolio, the credit risk is considered to be increased significantly, if borrowers were on the watch list or met one or more criteria as follows:

- Significant negative impact appears in business, financing or economic position for borrower
- Actual or expected extension or restructuring;
- Actual or expected significant adverse change on borrower's operations;

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Stage division (continued)

Significant increase in Credit risk (continued)

Qualitative criteria (continued)

- Collateral's valuation changes which expected to led the increase of default probability (only for collateralized and pledged loans);
- Indicator for cash flow or liquidity problems, e.g. extension for account payable or loan repayment

For corporate loans, the Group uses a credit risk early warning monitoring system to assess whether there has been a significant increase in its credit risk. For bond investment, the Group strengthens the management of bond investment and assesses it periodically. For individual loans, the Group assesses at the portfolio level on a quarterly basis whether there has been a significant increase in credit risk. The criteria used to identify significant increases in credit risk are monitored and reviewed by risk management departments on timely basis.

In 2019, the Group did not consider any financial instruments as having low credit risk, so that its credit risk did not need to be evaluated on the reporting date, comparing with its initial recognition date.

Definition of default and credit impairment

When a financial instrument meets one or more of the following conditions, the Group defines the financial asset as default which is consistent with the definition of credit impairment:

Quantitative criteria

The borrower is more than 90 days overdue.

Qualitative criteria

The borrower meets the "difficulty to repay" criteria, indicating significant financial difficulties experienced by the borrower. Examples include:

- Significant financial difficulty of the issuer or the debtor;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Stage division (continued)

Definition of default and credit impairment (continued)

Qualitative criteria (continued)

- Debtors are in breach of contract;
- The disappearance of an active market for some financial assets due to the borrower's financial difficulties;
- A purchased or originated credit-impaired financial asset.

These criteria apply to all financial instruments of the Group and are consistent with the definition of default used in internal credit risk management. The definition of default has been consistently applied to the model of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) in the calculation of expected credit losses of the Group.

Explanation of inputs, assumptions and estimation techniques in the ECL models

The Expected Credit Losses (ECL) are measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Explanation of inputs, assumptions and estimation techniques in the ECL models (continued)

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month).

Forward-looking information should be considered in determining the 12-month and lifetime PD, EAD and LGD. This varies by product types.

The Group quarterly monitors and reviews the ECL calculation related assumptions, including the changes of PD and LGD for different terms.

The Group has updated the PD and EAD in the ECL models based on the latest historical information and risk condition.

Forward-looking information in the ECL models

The assessment of significant increase in credit risk and the calculation of ECL incorporates forward-looking information. The Group obtained the key macroeconomic factors of the past 10 years from the Wind Economic to perform historical analysis on the intertemporal endogenous relationship of the macroeconomic factors. The Group integrates statistical analysis and expert judgements to determine economic forecasts and weighting scheme under various economic scenarios.

The Group has adopted three economic scenarios (Base, Pessimistic and Optimistic) on the basis of the macroeconomic information analysis and expert judgment. The weightings for the three scenarios are 55%, 40% and 5% respectively. Key macroeconomic assumptions are as follows:

Item	Range
Growth rate of Gross National Product ("GDP")	5.80%~6.20%
Growth rate of Producer Price Index ("PPI")	-2.00%~0.90%
Growth rate of Industrial Value Added ("IVA")	4.00%~6.00%
Growth rate of Purchasing Managers' Index ("PMI")	48.00%~51.00%
Growth rate of Total Retail Sales of Consumer Goods	7.00%~8.10%
Growth rate of Fixed Assets Investment	4.00%~5.00%
Growth rate of Export Earnings	-5.00%~2.90%
Growth rate of Total sales of commercial residential buildings	-3.80%~0.50%
Growth rate of M2	8.00%~8.60%
USD to RMB exchange rate	7.00~7.30

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Explanation of inputs, assumptions and estimation techniques in the ECL models (continued)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the nonlinearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Sensitivity analysis

The expected credit losses are sensitive to the parameters used in the model, macroeconomic variables for forward-looking prediction, scenarios weightings and other factors considered in the application of expert judgments. The changes in these parameters, assumptions, models and judgments will have an impact on the significant increase in credit risk and the measurement of expected credit losses.

As at 31 December 2019, the comparison between the ECL allowance under three different scenarios and the weighted average ECL allowance is as follows:

	Corporate Loans	Personal Loans	Financial Instruments
ECL under weighted average	13,858,274	3,454,923	2,161,977
ECL under base scenario	13,059,054	3,304,322	2,115,025
Difference in amount	799,220	150,601	46,952
Difference in percentage	6%	4%	2%
	Corporate Loans	Personal Loans	Financial Instruments
ECL under weighted average	13,858,274	3,454,923	2,161,977
ECL under optimistic scenario	11,974,128	3,103,470	2,042,479
Difference in amount	1,884,146	351,453	119,498
Difference in percentage	14%	10%	6%

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Sensitivity analysis (continued)

	Corporate Loans	Personal Loans	Financial Instruments
ECL under weighted average	13,858,274	3,454,923	2,161,977
ECL under pessimistic scenario	15,192,720	3,705,931	2,241,473
Difference in amount	(1,334,446)	(251,008)	(79,496)
Difference in percentage	-10%	-7%	-4%

Assuming that credit risk has changed significantly, which leads to financial assets and credit commitments in stage II moving into stage I, impact on the ECL allowance and provisions recognised in balance sheet is as follows:

	As at 31 December 2019
Total amount of ECL allowance and provisions, assuming that financial assets and credit commitments in stage II moving into stage I	14,840,402
Total amount of ECL allowance and provisions recognised in balance sheet	18,393,320
Difference in amount	(3,552,918)
Difference in percentage	-19%

As at 31 December 2018, the comparison between the ECL allowance under three different scenarios and the weighted average ECL allowance is as follows:

	Corporate Loans	Personal Loans	Financial Instruments
ECL under weighted average	8,909,228	4,383,441	1,072,518
ECL under base scenario	7,739,430	3,117,713	1,021,640
Difference in amount	1,169,798	1,265,728	50,878
Difference in percentage	13%	29%	5%

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Sensitivity analysis (continued)

	Corporate Loans	Personal Loans	Financial Instruments
ECL under weighted average	8,909,228	4,383,441	1,072,518
ECL under optimistic scenario	7,171,591	2,673,669	993,077
Difference in amount	1,737,637	1,709,772	79,441
Difference in percentage	20%	39%	7%

	Corporate Loans	Personal Loans	Financial Instruments
ECL under weighted average	8,909,228	4,383,441	1,072,518
ECL under pessimistic scenario	10,734,904	6,337,538	1,152,407
Difference in amount	(1,825,676)	(1,954,097)	(79,889)
Difference in percentage	-20%	-45%	-7%

Assuming that credit risk has changed significantly, which leads to financial assets and credit commitments in stage II moving into stage I, impact on the ECL allowance and provisions recognised in balance sheet is as follows:

As at 31
December 2018

Total amount of ECL allowance and provisions, assuming that financial assets and credit commitments in stage II moving into stage I	11,728,620
Total amount of ECL allowance and provisions recognised in balance sheet	13,995,598
Difference in amount	(2,266,978)
Difference in percentage	-16%

Grouping for ECL allowance

The Group classified the exposures with similar characteristics when collectively assessing the ECL allowance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Sensitivity analysis (continued)

The characteristics for grouping are as follows:

Personal loans

- Product types (for instance, personal business loans, personal consumption loans, personal residential mortgages, credit cards overdraft)

Corporate loans

- Industry

Exposures evaluated by impairment assessment

- Corporate loans in Stage III

Credit risk team monitors and reviews the grouping appropriateness regularly.

(iv) Maximum exposure to credit risk

Financial instruments and commitment and guarantee subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The net carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	As at 31 December	
	2019	2018
Cash and deposits with central bank	96,476,489	99,057,627
Deposits with banks and other financial institutions	30,700,318	10,866,562
Placements with banks and other financial institutions	20,604,232	15,299,113
Financial assets held under resale agreements	28,593,493	29,338,950
Loans and advances to customers		
– at amortized cost	441,545,722	361,527,532
– at fair value through other comprehensive income	21,505,649	3,440,439
Financial assets at amortized cost	82,536,087	80,358,225
Financial assets at fair value through other comprehensive income	69,706,113	57,697,751
Other financial assets	964,411	707,048
Total	792,632,514	658,293,247
Credit commitments	174,712,001	140,329,658

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Maximum exposure to credit risk (continued)

Financial instruments and commitment and guarantee subject to impairment (continued)

As at 31 December 2019, the analysis of the maximum credit risk exposure to loans and advances by credit rating/overdue days is as follows:

31 December 2019					
	Stage I	Stage II	Stage III	Purchased or originated credit- impaired	Total
Corporate loans					
Credit rating					
A- to AAA	117,116,188	180,329	–	–	117,296,517
B to BBB	118,152,782	133,308	–	–	118,286,090
C to CCC	–	45,025,558	–	–	45,025,558
D/Default	–	–	9,827,411	–	9,827,411
Unrated	52,546,007	11,060,760	1,119,179	87,724	64,813,670
Total	287,814,977	56,399,955	10,946,590	87,724	355,249,246
Expected credit losses allowance	(1,239,986)	(7,048,784)	(5,173,062)	–	(13,461,832)
Net carrying amount	286,574,991	49,351,171	5,773,528	87,724	341,787,414
31 December 2019					
	Stage I	Stage II	Stage III	Purchased or originated credit- impaired	Total
Personal loans					
Overdue days					
Not overdue	121,404,729	548,488	20,084	–	121,973,301
0 to 30 days	186,029	470,843	2,800	–	659,672
30 to 60 days	–	303,963	13,813	–	317,776
60 to 90 days	–	203,747	61,130	–	264,877
More than 90 days/Default	–	–	1,450,799	52,455	1,503,254
Total	121,590,758	1,527,041	1,548,626	52,455	124,718,880
Expected credit losses allowance	(1,685,516)	(532,606)	(1,236,801)	–	(3,454,923)
Net carrying amount	119,905,242	994,435	311,825	52,455	121,263,957

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Maximum exposure to credit risk (continued)

Financial instruments and commitment and guarantee subject to impairment (continued)

As at 31 December 2018, the analysis of the maximum credit risk exposure to loans and advances by credit rating/overdue days is as follows:

Corporate loans	31 December 2018			Total
	Stage I	Stage II	Stage III	
Credit rating				
A- to AAA	111,979,860	1,019,153	–	112,999,013
B to BBB	89,235,698	489,988	–	89,725,686
C to CCC	–	35,621,671	510,197	36,131,868
D/Default	–	–	3,990,611	3,990,611
Unrated	22,158,858	3,910,442	718,348	26,787,648
Total	223,374,416	41,041,254	5,219,156	269,634,826

Expected credit losses allowance	(1,161,864)	(4,935,028)	(2,540,606)	(8,637,498)
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Net carrying amount	222,212,552	36,106,226	2,678,550	260,997,328
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Personal loans	31 December 2018			Total
	Stage I	Stage II	Stage III	
Overdue days				
Not overdue	105,827,898	258,259	332,566	106,418,723
0 to 30 days	92,454	234,331	5,304	332,089
30 to 60 days	–	271,056	3,103	274,159
60 to 90 days	–	198,495	48,593	247,088
More than 90 days/Default	–	–	1,082,025	1,082,025
Total	105,920,352	962,141	1,471,591	108,354,084

Expected credit losses allowance	(2,659,922)	(435,016)	(1,288,503)	(4,383,441)
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Net carrying amount	103,260,430	527,125	183,088	103,970,643
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For the year ended 31 December 2019
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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Maximum exposure to credit risk (continued)

Financial instruments and commitment and guarantee subject to impairment (continued)

As at 31 December 2019, the analysis of the maximum credit risk exposure to financial investments by credit rating is as follows:

Financial assets at amortized cost	31 December 2019			
	Stage I	Stage II	Stage III	Total
Credit rating				
A- to AAA	9,845,307	—	—	9,845,307
B to BBB	—	—	—	—
C to CCC	—	—	—	—
D/Default	—	—	389,940	389,940
Unrated	69,069,113	3,385,297	533,682	72,988,092
Total	78,914,420	3,385,297	923,622	83,223,339
Expected credit losses allowance	(142,820)	(311,645)	(232,787)	(687,252)
Net carrying amount	78,771,600	3,073,652	690,835	82,536,087

Financial assets at fair value through other comprehensive income	31 December 2019			
	Stage I	Stage II	Stage III	Total
Credit rating				
A- to AAA	18,703,765	183,457	—	18,887,222
B to BBB	—	—	—	—
C to CCC	—	—	—	—
D/Default	—	—	893,673	893,673
Unrated	45,806,507	1,819,734	2,298,977	49,925,218
Total	64,510,272	2,003,191	3,192,650	69,706,113

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Maximum exposure to credit risk (continued)

Financial instruments and commitment and guarantee subject to impairment (continued)

As at 31 December 2018, the analysis of the maximum credit risk exposure to financial investments by credit rating is as follows:

Financial assets at amortized cost	31 December 2018			Total
	Stage I	Stage II	Stage III	
Credit rating				
A- to AAA	9,161,900	—	—	9,161,900
B to BBB	—	—	—	—
C to CCC	—	—	—	—
D/Default	—	—	—	—
Unrated	70,947,286	550,526	—	71,497,812
Total	80,109,186	550,526	—	80,659,712
Expected credit losses allowance	(228,647)	(72,840)	—	(301,487)
Net carrying amount	79,880,539	477,686	—	80,358,225

Financial assets at fair value through other comprehensive income	31 December 2018			Total
	Stage I	Stage II	Stage III	
Credit rating				
A- to AAA	13,702,403	181,879	—	13,884,282
B to BBB	—	—	—	—
C to CCC	—	—	—	—
D/Default	—	—	324,432	324,432
Unrated	41,764,768	1,225,065	499,204	43,489,037
Total	55,467,171	1,406,944	823,636	57,697,751

Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

	As at 31 December	
	2019	2018
Financial assets at fair value through profit or loss	85,432,178	89,797,155

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(v) Loans and advances to customers

By industry	31 December 2019		31 December 2018	
	Amount	(%)	Amount	(%)
Corporate loans				
Real estate	68,340,972	14.24%	55,549,315	14.69%
Lease and commercial service	62,561,983	13.03%	48,898,164	12.93%
Wholesale and retail	53,521,085	11.15%	45,002,653	11.90%
Manufacturing	35,879,586	7.48%	29,853,350	7.90%
Construction	27,254,800	5.68%	17,850,626	4.72%
Hotel and catering	16,542,693	3.45%	10,453,293	2.77%
Transportation, warehouse and postal services	11,617,652	2.42%	13,234,858	3.50%
Agriculture, forestry, farming and fishery	9,318,749	1.94%	8,763,214	2.32%
Education	8,593,224	1.79%	5,389,116	1.43%
Water, environment and public facilities management	7,066,313	1.47%	5,090,059	1.35%
Resident services, repairing and other services	6,619,704	1.38%	4,303,530	1.14%
Information transmission, software and IT services	4,394,985	0.92%	4,905,431	1.30%
Financial services	3,567,007	0.74%	6,774,640	1.79%
Energy and utilities	2,780,646	0.58%	2,690,972	0.71%
Healthcare and social welfare	2,557,545	0.53%	2,902,965	0.77%
Culture, sports and entertainment	2,000,706	0.42%	2,769,936	0.73%
Others	3,517,758	0.73%	1,606,953	0.43%
Subtotal	326,135,408	67.95%	266,039,075	70.38%
Discounted bills	29,113,838	6.07%	3,595,751	0.95%
Personal loans	124,718,880	25.98%	108,354,084	28.67%
Total	479,968,126	100.00%	377,988,910	100.00%

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For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(v) Loans and advances to customers (continued)

By geography	As at 31 December	
	2019	2018
Guangzhou	393,525,908	325,735,533
Pearl River Delta (except Guangzhou)	31,454,180	20,418,951
Guangdong Province (except Pearl River Delta)	30,167,347	11,045,722
Central China	15,313,188	11,576,959
Yangtze River Delta	2,238,008	2,836,743
Western China	2,179,896	1,971,869
Bohai Rim	1,415,803	1,102,843
North-east China	464,647	504,697
Others	3,209,149	2,795,593
Total	479,968,126	377,988,910

By collateral type	As at 31 December	
	2019	2018
Unsecured loans	56,170,334	28,833,498
Guaranteed loans	109,401,885	89,552,568
Collateralised loans	276,622,251	226,734,975
Pledged loans	37,773,656	32,867,869
Total	479,968,126	377,988,910

31 December 2019	Overdue loans and advances to customers				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Unsecured loans	256,016	800,670	463,649	16,857	1,537,192
Guaranteed loans	3,971,709	854,282	681,443	324,201	5,831,635
Collateralised loans	3,921,096	1,641,795	1,079,497	107,306	6,749,694
Pledged loans	62,176	33,115	9,010	548	104,849
Total	8,210,997	3,329,862	2,233,599	448,912	14,223,370

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(v) Loans and advances to customers (continued)

31 December 2018	Overdue loans and advances to customers				Total
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	
Unsecured loans	678,684	628,409	104,995	28,994	1,441,082
Guaranteed loans	581,242	833,913	362,886	212,403	1,990,444
Collateralised loans	2,593,905	978,411	461,551	822,196	4,856,063
Pledged loans	133,602	23,484	5,336	1,103	163,525
Total	3,987,433	2,464,217	934,768	1,064,696	8,451,114

(vi) Credit quality

As at 31 December 2019, the credit quality analysis of the Group's major financial assets (without deducting the original value before the impairment provision) was as follows:

	31 December 2019				Total
	Stage I	Stage II	Stage III	Purchased or originated credit- impaired	
Cash and deposits with central bank	96,484,365	–	–	–	96,484,365
Deposits with banks and other financial institutions	30,206,457	482,803	30,075	–	30,719,335
Placements with banks and other financial institutions	20,283,394	327,881	–	–	20,611,275
Financial assets held under resale agreements	28,595,828	–	–	–	28,595,828
Loans and advances to customers	409,405,735	57,926,996	12,495,216	140,179	479,968,126
Financial assets at amortized cost	78,914,420	3,385,297	923,622	–	83,223,339
Financial assets at fair value through other comprehensive income	64,510,272	2,003,191	3,192,650	–	69,706,113
Other financial assets	557,843	184,787	599,351	–	1,341,981
Total	728,958,314	64,310,955	17,240,914	140,179	810,650,362

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(All amounts expressed in thousands of RMB unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(vi) Credit quality (continued)

As at 31 December 2018, the credit quality analysis of the Group's major financial assets (without deducting the original value before the impairment provision) was as follows:

	31 December 2018			Total
	Stage I	Stage II	Stage III	
Cash and deposits with central bank	99,066,310	–	–	99,066,310
Deposits with banks and other financial institutions	10,867,536	–	–	10,867,536
Placements with banks and other financial institutions	15,300,451	–	–	15,300,451
Financial assets held under resale agreements	29,341,522	–	–	29,341,522
Loans and advances to customers	329,294,768	42,003,395	6,690,747	377,988,910
Financial assets at amortized cost	80,109,186	550,526	–	80,659,712
Financial assets at fair value through other comprehensive income	55,467,126	1,406,972	823,653	57,697,751
Other financial assets	507,134	101,353	365,597	974,084
Total	619,954,033	44,062,246	7,879,997	671,896,276

Loans and advances for stage I and II

	31 December 2019	
	Stage I	Stage II
Not overdue	408,922,479	51,921,617
Overdue		
Within 1 month	483,256	875,913
1 to 2 months	–	3,758,229
2 to 3 months	–	1,371,237
Total	409,405,735	57,926,996

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(All amounts expressed in thousands of RMB unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(vi) Credit quality (continued)

Loans and advances for stage I and II (continued)

	31 December 2018	
	Stage I	Stage II
Not overdue	328,983,719	38,650,077
Overdue		
Within 1 month	311,049	1,149,636
1 to 2 months	–	716,829
2 to 3 months	–	1,486,853
Total	329,294,768	42,003,395

Loans and advances that are overdue but still in stage I and II/unimpaired

As at the balance sheet date, the ageing of loans and advances overdue but still in Stage I and II/unimpaired is as follows:

	As at 31 December	
	2019	2018
Overdue		
Within 1 month	1,359,169	1,460,685
1 to 2 months	3,758,229	716,829
2 to 3 months	1,371,237	1,486,853
3 months and above	–	–
Total	6,488,635	3,664,367

As at 31 December 2019 and 2018, the fair value of the collateral held by the Group for overdue but still in Stage I and II/unimpaired loans was RMB7,991,810 thousands and RMB6,737,217 thousands respectively, including land, property, machinery and other assets.

Stage III/impairment of loans and advances

As at 31 December 2019 and December 2018, the fair value of the collateral held by the Group for the Stage III/impairment loan was RMB12,116,777 thousands and RMB5,483,971 thousands respectively, including land, real estate, machinery and equipment and other assets.

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(All amounts expressed in thousands of RMB unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(vi) Credit quality (continued)

Restructuring loans and advances

As at 31 December 2019 and 2018, the book value of the Group's restructuring loans and advances was RMB10,808,494 thousands and RMB4,608,808 thousands respectively.

As at 31 December 2019 and 2018, the book value of the Group's restructuring loans and advances in stage I was RMB564,161 thousands and RMB917,943 thousands respectively.

Credit rating assessed by a rating agency at the balance sheet date

The RMB bonds of the Group are mainly rated by major credit rating agencies in the PRC. Foreign currency bonds refer mainly to Standard & Poor's (S & P) ratings.

	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Total
31 December 2019				
Medium- term and long-term bonds:				
AAA	1,578,185	9,745,288	16,870,111	28,193,584
A to AA+	2,761,442	100,019	2,017,111	4,878,572
BB- to BB+	—	—	—	—
No rating (1):	29,058,572	59,095,467	39,261,444	127,415,483
Other no rating investments	52,033,979	14,282,565	11,557,447	77,873,991
Total	85,432,178	83,223,339	69,706,113	238,361,630

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(vi) Credit quality (continued)

Credit rating assessed by a rating agency at the balance sheet date (continued)

	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Total
31 December 2018				
Medium- term and long-term bonds:				
AAA	667,769	8,022,281	9,467,112	18,157,162
A to AA+	2,129,707	956,505	4,417,170	7,503,382
BB- to BB+	28,048	—	—	28,048
No rating (1):	10,500,187	50,933,779	32,464,649	93,898,615
Other no rating investments	76,471,444	20,747,147	11,348,820	108,567,411
Total	89,797,155	80,659,712	57,697,751	228,154,618

(1) No rating debt securities mainly consist of investment and trading securities issued by the MOF, central bank, policy banks and other financial institutions which are creditworthy issuers in the market, but are not rated by independent rating agencies.

(b) Liquidity risk

Liquidity risk is the risk that capital will not be sufficient or funds will not be raised at reasonable cost in a timely manner for the repayment of debts due. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims to:

- optimise the structure of assets and liabilities;
- maintain the stability of the deposit base;
- project cash flows and evaluate the level of current assets; and
- in terms of liquidity of the branches, maintain an efficient internal fund transfer mechanism.

The Group's expected remaining maturity of their financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

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(All amounts expressed in thousands of RMB unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below:

31 December 2019	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and deposits									
with central bank	-	33,834,083	-	-	-	-	-	65,728,258	99,562,341
Deposits with banks and other financial institutions (1)	30,075	19,027,915	32,587,589	8,524,860	19,432,104	295,500	-	-	79,898,043
Financial assets at fair value through profit or loss	12,550	19,237,866	3,419,328	8,285,484	10,715,573	38,067,492	5,530,543	163,342	85,432,178
Financial assets at amortized cost	294,278	-	885,001	4,720,185	31,532,870	30,110,678	14,993,075	-	82,536,087
Financial assets at fair value through other comprehensive income	893,673	-	2,581,127	2,140,298	8,244,264	35,776,127	20,070,624	-	69,706,113
Loans and advances to customers	7,588,840	-	21,209,989	26,626,618	128,371,765	184,700,055	94,554,104	-	463,051,371
Other financial assets	252,371	-	115,797	23,496	288,078	273,917	10,752	-	964,411
Total financial assets	9,071,787	72,099,864	60,798,831	50,320,941	198,584,654	289,223,769	135,159,098	65,891,600	881,150,544
Financial liabilities:									
Due to the central bank	-	-	-	38,200	8,735,000	-	-	94,384	8,867,584
Deposits from banks and other financial institutions (2)	-	5,388,195	13,817,355	21,858,915	10,690,000	-	-	-	51,754,465
Customer deposits (3)	-	264,405,368	8,345,332	14,296,539	129,062,353	232,433,185	1,593,118	8,107,191	658,243,086
Lease liabilities	-	-	20,434	40,867	190,369	531,400	142,461	-	925,531
Debt securities issued	-	-	-	28,663,552	39,578,428	999,335	9,998,740	-	79,240,055
Other financial liabilities	12,940	795,574	2,238,005	1,988,732	6,708,773	539,001	2,238	302,206	12,587,469
Total financial liabilities	12,940	270,589,137	24,421,126	66,886,805	194,964,923	234,502,921	11,736,557	8,503,781	811,618,190
Net liquidity gap	9,058,847	(198,489,273)	36,377,705	(16,565,864)	3,619,731	54,720,848	123,422,541	57,387,819	69,532,354

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below: (continued)

31 December 2018	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and deposits									
with central bank	-	41,792,478	-	-	-	-	-	59,797,236	101,589,714
Deposits with banks and other financial institutions (1)	-	5,290,343	31,492,970	5,764,214	12,957,098	-	-	-	55,504,625
Financial assets at fair value through profit or loss	1,546,185	29,295,722	2,362,107	3,149,818	12,917,501	36,806,718	3,521,960	197,144	89,797,155
Financial assets at amortized cost	-	-	2,417,654	3,506,058	16,350,551	44,162,158	13,921,804	-	80,358,225
Financial assets at fair value through other comprehensive income	318,983	-	2,110,127	5,648,678	14,110,621	23,143,484	12,365,858	-	57,697,751
Loans and advances to customers	4,502,485	-	21,250,972	18,931,317	93,036,007	145,754,140	81,493,050	-	364,967,971
Other financial assets	-	-	-	419,794	138,846	148,408	-	-	707,048
Total financial assets	6,367,653	76,378,543	59,633,830	37,419,879	149,510,624	250,014,908	111,302,672	59,994,380	750,622,498
Financial liabilities:									
Due to the central bank	-	-	-	76,320	2,603,000	-	-	23,584	2,702,904
Deposits from banks and other financial institutions (2)	-	5,319,969	20,423,962	23,973,745	26,869,648	-	-	-	76,587,324
Customer deposits (3)	-	278,972,393	27,130,686	35,912,335	104,534,499	86,092,674	1,035,325	8,657,250	542,335,162
Debt securities issued	-	-	703,585	20,395,806	30,582,784	-	14,193,260	-	65,875,435
Other financial liabilities	-	2,438,119	-	1,841,087	6,719,902	1,439,252	-	-	12,438,360
Total financial liabilities	-	286,730,481	48,258,233	82,199,293	171,309,833	87,531,926	15,228,585	8,680,834	699,939,185
Net liquidity gap	6,367,653	(210,351,938)	11,375,597	(44,779,414)	(21,799,209)	162,482,982	96,074,087	51,313,546	50,683,304

(1) Includes placements with banks and other financial institutions, financial assets held under resale agreements.

(2) Includes financial assets sold under repurchase agreements.

(3) Demand deposits from customers are classified as repayable on demand for disclosure purposes. In practice, there is a stable portion which has a longer maturity profile.

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows

The tables below summarise the maturity profile of the Group's financial instruments based on the contractual undiscounted cash flows. The balances of some items in the tables below are different from the balances on the statement of financial position as the tables incorporate all cash flows relating to both principal and interest. The Group's expected cash flows on these instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

31 December 2019	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and deposits with central bank	-	33,817,038	-	-	-	-	-	65,816,991	99,634,029
Deposits and placements with banks and other financial institutions (1)	30,075	19,030,270	32,602,320	8,767,147	19,863,399	357,612	-	-	80,650,823
Financial assets at fair value through profit or loss	12,550	19,237,866	3,430,963	8,584,602	12,554,878	42,099,826	6,044,009	163,342	92,128,036
Financial assets at amortized cost	389,940	-	890,046	5,065,853	33,581,908	34,500,507	16,715,757	-	91,144,011
Financial assets at fair value through other comprehensive income	893,673	-	2,599,759	2,226,706	9,875,192	42,511,249	22,501,854	-	80,608,433
Loans and advances to customers	7,773,498	-	25,918,015	36,300,140	161,551,589	221,189,523	98,833,967	-	551,566,732
Other financial assets	252,371	-	115,797	23,496	288,078	273,917	10,752	-	964,411
Total financial assets	9,352,107	72,085,174	65,556,900	60,967,944	237,715,044	340,932,634	144,106,339	65,980,333	996,696,475
Financial liabilities:									
Due to the central bank	-	-	-	38,200	8,735,201	-	-	94,384	8,867,785
Deposits from banks and other financial institutions (2)	-	5,388,195	13,857,189	22,147,856	10,911,172	-	-	-	52,304,412
Customer deposits (3)	-	264,405,252	8,354,724	14,346,745	131,424,761	256,960,741	2,920,949	8,107,191	686,520,363
Lease liabilities	-	-	20,934	41,869	198,272	611,531	204,459	-	1,077,065
Debt securities issued	-	-	-	28,830,000	40,298,000	3,036,000	11,960,000	-	84,124,000
Other financial liabilities	12,940	795,574	2,256,651	2,010,403	6,804,122	589,595	2,238	302,206	12,773,729
Total financial liabilities	12,940	270,589,021	24,489,498	67,415,073	198,371,528	261,197,867	15,087,646	8,503,781	845,667,354
Net liquidity gap	9,339,167	(198,503,847)	41,067,402	(6,447,129)	39,343,516	79,734,767	129,018,693	57,476,552	151,029,121

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows (continued)

31 December 2018	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and deposits									
with central bank	-	41,821,081	-	-	-	-	-	59,837,599	101,658,680
Deposits and placements with banks and other financial institutions (1)	-	5,258,891	31,548,559	5,902,687	13,309,384	-	-	-	56,019,521
Financial assets at fair value through profit or loss	1,562,069	28,769,701	2,699,290	6,041,610	16,046,483	36,440,961	3,458,722	193,603	95,212,439
Financial assets at amortized cost	-	-	3,082,497	6,381,394	22,518,497	43,282,565	13,644,328	-	88,909,281
Financial assets at fair value through other comprehensive income	318,983	-	2,296,958	5,905,486	15,110,056	27,984,937	14,203,309	-	65,819,729
Loans and advances to customers	4,611,826	-	24,131,365	23,127,064	115,097,257	183,538,315	85,882,431	-	436,388,258
Other financial assets	-	-	-	419,794	138,846	148,408	-	-	707,048
Total financial assets	6,492,878	75,849,673	63,758,669	47,778,035	182,220,523	291,395,186	117,188,790	60,031,202	844,714,956
Financial liabilities:									
Due to the central bank	-	-	-	76,372	2,608,270	-	-	23,584	2,708,226
Deposits from banks and other financial institutions (2)	-	5,268,732	20,413,752	24,062,876	27,635,272	-	-	-	77,380,632
Customer deposits (3)	-	278,972,393	27,160,799	36,011,627	105,768,636	91,279,147	1,218,505	8,657,250	549,068,357
Debt securities issued	-	-	700,000	20,900,000	35,416,967	10,490,000	-	-	67,506,967
Other financial liabilities	-	686,589	544,545	1,316,446	8,231,005	1,583,892	18	396,260	12,758,755
Total financial liabilities	-	284,927,714	48,819,096	82,367,321	179,660,150	103,353,039	1,218,523	9,077,094	709,422,937
Net liquidity gap	6,492,878	(209,078,041)	14,939,573	(34,589,286)	2,560,373	188,042,147	115,970,267	50,954,108	135,292,019

(1) Includes financial assets held under resale agreements.

(2) Includes financial assets sold under repurchase agreements.

(3) Demand deposits from customers are classified as repayable on demand for disclosure purposes. In practice, there is a stable portion which has a longer maturity profile.

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(iii) Analysis of credit commitments by contractual expiry date

Management expects that not all of the commitments will be drawn before the expiry of the commitments.

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
31 December 2019								
Credit commitments	116,550,453	7,943,554	8,963,742	16,914,121	24,340,131	-	-	174,712,001
31 December 2018								
Credit commitments	108,728,700	1,903,875	2,642,204	11,112,610	15,942,269	-	-	140,329,658

(c) Market risk

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

Market risk arises from both the Group's trading and non-trading businesses. The Group's market risk contains currency risk, interest rate risk and other price risk.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions.

The Group's currency risk mainly arises from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities.

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group.

The Bank uses different management methods to control market risk which comprises trading book and banking book risks respectively.

The Group considers the market risk arising from commodity or stock price fluctuations in respect of its investment portfolios to be immaterial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and other currencies.

Transactions in foreign currencies mainly arise from the Group's treasury exposures and foreign exchange business. The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity.

A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. This effect, however, is based on the assumption that the Group's foreign exchange exposures as at the year end are kept unchanged and, therefore, the actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk are not incorporated.

Currency	Exchange rate fluctuation %	Effect on net profit	
		2019	2018
USD	-1%	(117,927)	(36,364)
USD	1%	117,927	36,364
HKD	-1%	(14,551)	(13,459)
HKD	1%	14,551	13,459

While the table above indicates the effect on net profit of 1% change of USD and HKD, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

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(All amounts expressed in thousands of RMB unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Currency risk (continued)

The table below summarizes the Group's exposure to currency risk. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorized by original currency.

31 December 2019	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Assets:					
Cash and deposits with central bank	99,319,862	148,023	78,981	15,475	99,562,341
Deposits and placements with banks and other financial institutions	63,593,651	14,828,789	1,214,563	261,040	79,898,043
Loans and advances to customers	462,808,906	242,465	–	–	463,051,371
Financial assets at fair value through profit or loss	84,454,223	977,955	–	–	85,432,178
Financial assets at amortized cost	81,241,685	–	1,294,402	–	82,536,087
Financial assets at fair value through other comprehensive income	69,706,113	–	–	–	69,706,113
Other financial asset	962,664	765	799	183	964,411
Total financial asset	862,087,104	16,197,997	2,588,745	276,698	881,150,544
Liabilities:					
Due to the central bank	8,867,584	–	–	–	8,867,584
Deposits and placements from banks and other financial institutions	51,530,550	223,915	–	–	51,754,465
Customer deposits	657,108,915	250,474	641,783	241,914	658,243,086
Lease liabilities	925,531	–	–	–	925,531
Debt securities issued	79,240,055	–	–	–	79,240,055
Other financial liabilities	12,580,597	–	6,872	–	12,587,469
Total financial liabilities	810,253,232	474,389	648,655	241,914	811,618,190
Net assets and liabilities position	51,833,872	15,723,608	1,940,090	34,784	69,532,354
Credit commitments	174,640,857	60,214	2,709	8,221	174,712,001

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For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Currency risk (continued)

31 December 2018	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Assets:					
Cash and deposits with central bank	101,287,330	205,481	78,778	18,125	101,589,714
Deposits and placements with banks and other financial institutions	48,186,304	6,020,134	1,054,753	243,434	55,504,625
Loans and advances to customers	363,747,753	1,215,768	–	4,450	364,967,971
Financial assets at fair value through profit or loss	88,891,983	905,172	–	–	89,797,155
Financial assets at amortized cost	79,092,116	–	1,266,109	–	80,358,225
Financial assets at fair value through other comprehensive income	57,697,751	–	–	–	57,697,751
Other financial asset	704,629	1,792	515	112	707,048
Total financial asset	739,607,866	8,348,347	2,400,155	266,121	750,622,489
Liabilities:					
Due to the central bank	2,702,904	–	–	–	2,702,904
Deposits and placements from banks and other financial institutions	75,507,248	1,080,076	–	–	76,587,324
Customer deposits	539,082,622	2,419,760	605,679	227,101	542,335,162
Other liabilities	–	–	–	–	–
Debt securities issued	65,875,435	–	–	–	65,875,435
Other financial liabilities	12,438,360	–	–	–	12,438,360
Total financial liabilities	695,606,569	3,499,836	605,679	227,101	699,939,185
Net assets and liabilities position	44,001,297	4,848,511	1,794,476	39,020	50,683,304
Credit commitments	139,490,297	836,687	2,674	–	140,329,658

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For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate risk mainly arises from the mismatches between the repricing dates of interest generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's net profit and equity.

	Effect on net profit		Effect on equity	
	31 December		31 December	
	2019	2018	2019	2018
Change in basis points				
+100bps	(242,648)	(934,058)	(1,623,383)	(854,216)
-100bps	242,648	934,058	1,729,060	829,533

The sensitivity of the net profit is the effect of a reasonable possible change in interest rates on the net profit for one year, in respect of the financial assets and liabilities held at the end of the reporting period. The effect on other comprehensive income is calculated by revaluing the year end portfolio of fixed-rate FVOCI financial assets, based on a reasonable possible change in interest rates.

The above sensitivity analyses are based on the following assumptions: (i) all assets and liabilities that are repriced/due within three months (inclusive), and between three months and one year (inclusive) are assumed to be repriced in the mid of the respective bands; (ii) there are parallel shifts in the yield curve; and (iii) there are no other changes in the portfolios of assets and liabilities. The Group considers that the assumptions do not reflect their capital utilisation and interest rate risk management policies. Therefore, the above impact may differ from the actual situation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Moreover, the above analysis is for illustration only and represents the effect of pro forma movements in net profit and other comprehensive income based on the projected yield curve scenarios and the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of interest rate risk.

	31 December 2019						Total
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Non-interest bearing	
Assets:							
Cash and deposits with central bank	96,449,402	-	-	-	-	3,112,939	99,562,341
Deposits and placements with banks and other financial institutions (1)	59,917,637	19,432,104	295,500	-	30,075	222,727	79,898,043
Loans and advances to customers	100,195,250	290,758,493	58,994,462	5,514,326	7,588,840	-	463,051,371
Financial assets at fair value through profit or loss	29,055,144	6,602,513	38,136,490	3,559,813	12,550	8,065,668	85,432,178
Financial assets at amortized cost	5,033,472	30,773,605	30,110,457	14,992,965	294,279	1,331,309	82,536,087
Financial assets at fair value through other comprehensive income	3,822,992	8,934,905	36,345,901	18,270,522	893,673	1,438,120	69,706,113
Other financial asset	-	-	-	-	-	964,411	964,411
Total financial asset	294,473,897	356,501,620	163,882,810	42,337,626	8,819,417	15,135,174	881,150,544
Liabilities							
Due to the central bank	38,200	8,735,000	-	-	-	94,384	8,867,584
Deposits and placements from banks and other financial institutions (2)	40,809,519	10,690,000	-	-	-	254,946	51,754,465
Customer deposits	287,047,239	129,062,353	232,433,185	1,593,118	-	8,107,191	658,243,086
Lease liabilities	61,301	190,369	531,400	142,461	-	-	925,531
Debt securities issued	28,663,552	39,171,890	999,335	9,998,740	-	406,538	79,240,055
Other financial liabilities	3,320,000	6,206,600	433,672	-	-	2,627,197	12,587,469
Total financial liabilities	359,939,811	194,056,212	234,397,592	11,734,319	-	11,490,256	811,618,190
Total interest sensitivity gap	(65,465,914)	162,445,408	(70,514,782)	30,603,307	8,819,417	3,644,918	69,532,354

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(All amounts expressed in thousands of RMB unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	31 December 2018						Total
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Non-interest bearing	
Assets:							
Cash and deposits with central bank	99,024,525	–	–	–	–	2,565,189	101,589,714
Deposits and placements with banks and other financial institutions (1)	37,154,199	12,862,724	–	–	–	5,487,702	55,504,625
Loans and advances to customers	83,297,618	234,500,871	40,325,944	2,341,463	4,502,075	–	364,967,971
Financial assets at fair value through profit or loss	3,917,128	6,070,070	27,761,421	3,212,788	1,518,423	47,317,325	89,797,155
Financial assets at amortized cost	5,805,646	16,024,667	43,281,959	13,644,328	–	1,601,625	80,358,225
Financial assets at fair value through other comprehensive income	7,758,804	13,141,593	23,143,484	12,365,858	319,984	968,028	57,697,751
Other financial asset	–	–	–	–	–	707,048	707,048
Total financial asset	236,957,920	282,599,925	134,512,808	31,564,437	6,340,482	58,646,917	750,622,489
Liabilities							
Due to the central bank	76,320	2,603,000	–	–	–	23,584	2,702,904
Deposits and placements from banks and other financial institutions (2)	44,063,226	26,609,900	–	–	–	5,914,198	76,587,324
Customer deposits	342,015,414	104,534,499	86,092,674	1,035,325	–	8,657,250	542,335,162
Debt securities issued	20,954,331	34,469,590	9,999,599	–	–	451,915	65,875,435
Other financial liabilities	1,841,087	6,719,902	1,439,252	–	–	2,438,119	12,438,360
Total financial liabilities	408,950,378	174,936,891	97,531,525	1,035,325	–	17,485,066	699,939,185
Total interest sensitivity gap	(171,992,458)	107,663,034	36,981,283	30,529,112	6,340,482	41,161,851	50,683,304

(1) Includes financial assets held under resale agreements.

(2) Includes financial assets sold under repurchase agreements.

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management

The Group follows the following capital management principles:

- Maintain the high quality and adequacy of capital to meet asset regulatory requirements, support business growth and advance the sustainable development scale in the Group;
- Sufficiently identify, calculate, monitor, mitigate and control various types of risks, ensuring that the capital employed is commensurate with the related risks and the level of risk management of the Group; and
- Optimise asset structure and allocate capital properly, to steadily improve the efficiency and return of capital, and advance the sustainable development of the Group.

Capital adequacy and regulatory capital are monitored by the Group's management by employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis. From 1 January 2013, the Group commenced to calculate the capital adequacy ratios in accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) and other relevant regulations promulgated by the CBIRC.

The Group's regulatory capital is managed by its financial department and consists of the following:

- Common equity tier 1 capital, mainly including share capital, capital reserve, surplus reserve, general reserve, retained profits, eligible portion of minority interests and others;
- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests; and
- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss allowances and eligible portion of minority interests.

The Group implements a weighted approach to measuring credit risk-weighted assets, which are determined according to the credit risks associated with each asset and counter party, taking into account any eligible collateral or guarantee, with adjustments made to reflect the potential losses. Market risk-weighted assets and operational risk weighted assets are calculated using the standardised approach and basic indicator approach, respectively.

The Group takes various measures to manage risk-weighted assets including adjusting the composition of its on-balance and off-balance sheet assets.

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47 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management (continued)

The Group was in compliance with the capital requirement promulgated by the regulators in the reporting period. The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated in accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) and other relevant regulations promulgated by the CBIRC.

	As at 31 December	
	2019	2018
Net common equity tier 1 capital	59,580,724	53,540,602
Net tier 1 capital	69,660,925	53,680,940
Net capital	85,093,035	72,806,946
Risk-weighted assets	597,980,137	509,836,938
Common equity tier 1 capital adequacy ratio	9.96%	10.50%
Tier 1 capital adequacy ratio	11.65%	10.53%
Capital adequacy ratio	14.23%	14.28%

48 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted (Unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable, and

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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48 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

Determination of fair value and fair value hierarchy (continued)

The following tables show an analysis of financial instruments measured or disclosed at fair value by level of the fair value hierarchy:

31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
– Debt securities	–	33,368,423	29,777	33,398,200
– Funds and other investments	19,243,107	–	32,790,871	52,033,978
Financial assets at fair value through other comprehensive income				
– Debt securities	–	54,269,091	–	54,269,091
– Other investments	–	–	15,437,022	15,437,022
Total	19,243,107	87,637,514	48,257,670	155,138,291
31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
– Debt securities	–	13,117,647	236,251	13,353,898
– Funds and other investments	29,300,527	–	47,142,730	76,443,257
Financial assets at fair value through other comprehensive income				
– Debt securities	–	46,861,054	–	46,861,054
– Other investments	–	–	10,836,697	10,836,697
Total	29,300,527	59,978,701	58,215,678	147,494,906

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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48 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

Determination of fair value and fair value hierarchy (continued)

The following tables present the changes in Level 3 assets for the year ended 31 December 2019 and 2018:

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Total
	Debt securities	Funds and other investments		
At 1 January 2019	236,251	47,142,730	10,836,697	58,215,678
Purchase	–	16,428,508	9,324,162	25,752,670
Transfer to Level 3	–	–	–	–
Total gains and losses				
– Realized gains and losses	(206,474)	(1,098,826)	353,016	(952,284)
– Other comprehensive income	–	–	(978,838)	(978,838)
Settlement	–	(29,681,541)	(4,098,015)	(33,779,556)
At 31 December 2019	29,777	32,790,871	15,437,022	48,257,670

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Total
	Debt securities	Funds and other investments		
At 1 January 2018	239,883	67,870,615	17,925,979	86,036,477
Purchase	–	14,083,814	–	14,083,814
Transfer to Level 3	–	–	–	–
Total gains and losses				
– Realized gains and losses	(3,632)	1,386,316	182,001	1,564,685
– Other comprehensive income	–	–	140,868	140,868
Settlement	–	(36,198,015)	(7,412,151)	(43,610,166)
At 31 December 2018	236,251	47,142,730	10,836,697	58,215,678

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48 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

Determination of fair value and fair value hierarchy (continued)

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 fair value measurement is as below:

	Fair value		Valuation techniques	Unobservable input
	31 December 2019	31 December 2018		
Financial assets:				
Financial assets at fair value through profit or loss				
– Debt securities	29,777	236,251	Discounted cash flow	Risk-adjusted discount rate, cash flow
– Funds and other investments	32,790,871	47,142,730	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial assets at fair value through other comprehensive income				
– Other investments	15,437,022	10,836,697	Discounted cash flow	Risk-adjusted discount rate, cash flow
Total	48,257,670	58,215,678		

During the years ended 31 December 2019 and 2018, there were no significant change in the valuation techniques.

As at 31 December 2019 and 2018, unobservable inputs such as estimated future cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly asset management plans and wealth management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

The sensitivity of the fair value measurement on changes in unobservable inputs for Level 3 financial instruments measured at fair value on an ongoing basis.

There are no transfers between Level 1 and Level 2 for financial assets measured at fair value during the year of 2019 and 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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48 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial instruments for which fair values are disclosed

As at 31 December 2019, financial assets and liabilities not presented at fair value on the consolidated statement of financial position mainly represent "Deposits with central banks", "Deposits with banks and other financial institutions", "Placements with banks and other financial institutions", "Financial assets held under resale agreements", "Loans and advances to customers" measured at amortized cost, "Financial assets at amortized cost", "Borrowings from central bank", "Deposits from banks and other financial institutions", "Placements from banks and other financial institutions", "Financial assets sold under repurchase agreements", "Customer deposits" and "Debt securities issued" (31 December 2018: represent "Deposits with central banks", "Deposits with banks and other financial institutions", "Placements with banks and other financial institutions", "Financial assets held under resale agreements", "Loans and advances to customers" measured at amortized cost, "Financial assets at amortized cost", "Borrowings from central bank", "Deposits from banks and other financial institutions", "Placements from banks and other financial institutions", "Financial assets sold under repurchase agreements", "Customer deposits" and "Debt securities issued").

Except for the following items, there are no significant differences between carrying amount and fair value of the remaining financial assets and liabilities not presented at fair value.

	As at 31 December	
	2019	2018
Carrying amount:		
Financial assets at amortized cost	82,536,087	80,358,225
Debt securities issued	79,240,055	65,875,435
Fair Value:		
Financial assets at amortized cost	84,096,337	80,819,890
Debt securities issued	79,315,729	65,273,232

49 EVENTS AFTER THE REPORTING PERIOD

Analysis on the impact of Coronavirus Disease 2019 ("COVID-19")

Since the outbreak of COVID-19 in January 2020 the prevention and control of the COVID-19 has been continuously carried out nationwide. The Group fully implements the requirements of the Notice on Matters concerning Further Strengthening Financial Support for the Prevention and Control of COVID-19, jointly issued by the PBOC, MOF, the CBIRC, the CSRC and the State Administration of Foreign Exchange ("SAFE"), to strengthen financial support for the prevention and control of the epidemic.

The COVID-19 affects the operation of enterprises in Hubei Province, Guangdong Province, Guangzhou City as well as the overall economic environment, which may affect the asset quality of the Group's credit assets and investment assets to a certain extent. The degree of impact will depend on the prevention, control, duration of the epidemic, and the implementation of various regulatory policies.

The Group will continue to pay close attention to the development of the COVID-19, evaluate and actively respond to its impact on the Group's financial position and operating results. As at the date when the financial statements are authorised to issue, the evaluation is still in progress.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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50 STATEMENT OF FINANCIAL POSITION OF THE BANK

	31 December 2019	31 December 2018
ASSETS		
Cash and deposits with central bank	86,388,911	92,991,486
Deposits with banks and other financial institutions	15,885,912	4,872,140
Placements with banks and other financial institutions	18,388,801	14,113,067
Financial assets held under resale agreements	27,965,203	29,338,950
Loans and advances to customers	406,088,165	328,390,159
Financial investments		
– Financial assets at fair value through profit or loss	84,954,655	89,567,912
– Financial assets at fair value through other comprehensive income	68,602,166	57,574,172
– Financial assets at amortized cost	64,418,965	76,264,895
Investment in subsidiaries	6,367,058	2,828,704
Property and equipment	1,762,610	1,993,505
Deferred tax assets	4,564,524	3,144,796
Other assets	4,891,483	6,796,331
Total assets	790,278,453	707,876,117
LIABILITIES		
Due to the central bank	7,694,010	1,623,100
Deposits from banks and other financial institutions	47,613,154	67,588,496
Placements from banks and other financial institutions	231,103	1,238,583
Financial assets sold under repurchase agreements	9,530,355	11,817,776
Customer deposits	571,249,597	499,195,412
Income tax payable	2,033,112	1,351,074
Debt securities issued	78,262,220	65,875,435
Other liabilities	7,343,661	7,441,457
Total liabilities	723,957,212	656,131,333
EQUITY		
Share capital	9,808,269	9,808,269
Preference shares	9,820,734	–
Reserves	27,383,558	25,257,269
Retained earnings	19,308,680	16,679,246
Total equity	66,321,241	51,744,784
Total liabilities and equity	790,278,453	707,876,117

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(All amounts expressed in thousands of RMB unless otherwise stated)

51 RESERVES OF THE BANK

The movements in reserves and retained profits of the Bank during the years ended 2019 and 2018 are set out below:

	Capital reserve	Surplus reserve	General reserve	Reserves Other comprehensive income	Total	Retained profits
Balance at 1 January 2018	10,616,231	3,682,891	8,316,831	(1,955,550)	20,660,403	14,924,738
Impact on accounting policy changes	-	-	-	692,685	692,685	(1,172,250)
Restated balance at 1 January 2018	10,616,231	3,682,891	8,316,831	(1,262,865)	21,353,088	13,752,488
Net profit for the year	-	-	-	-	-	6,211,412
Other comprehensive income for the period	-	-	-	2,326,710	2,326,710	-
Shareholders' donation	254,471	-	-	-	254,471	-
Appropriation to surplus reserve	-	621,141	-	-	621,141	(621,141)
Appropriation to general reserve	-	-	701,859	-	701,859	(701,859)
Dividends declared and paid	-	-	-	-	-	(1,961,654)
Balance at 31 December 2018	10,870,702	4,304,032	9,018,690	1,063,845	25,257,269	16,679,246
Balance at 1 January 2019	10,870,702	4,304,032	9,018,690	1,063,845	25,257,269	16,679,246
Net profit for the year	-	-	-	-	-	6,572,037
Other comprehensive income for the period	-	-	-	44,735	44,735	-
Shareholders' donation	100,605	-	-	-	100,605	-
Appropriation to surplus reserve	-	657,204	-	-	657,204	(657,204)
Appropriation to general reserve	-	-	1,323,745	-	1,323,745	(1,323,745)
Dividends declared and paid	-	-	-	-	-	(1,961,654)
Balance at 31 December 2019	10,971,307	4,961,236	10,342,435	1,108,580	27,383,558	19,308,680

52 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2020.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2019
(All amounts expressed in millions of RMB unless otherwise stated)

1. LIQUIDITY RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO

(1) Liquidity ratio

	As at 31 December 2019	As at 31 December 2018
Liquidity ratio (RMB and foreign currency)	88.51%	76.91%

(2) Liquidity coverage ratio

	As at 31 December 2019	As at 31 December 2018
High-quality liquid assets	144,829.21	129,697.70
Cash outflows in future 30 days	75,652.00	47,821.89
Liquidity coverage ratio	191.44%	271.21%

(3) Net stable funding ratio

	As at 31 December 2019	As at 30 September 2019	As at 30 June 2019
Available and stable funds	539,448.10	525,126.84	516,048.92
Required stable funds	493,138.90	492,892.56	478,857.18
Net stable funding ratio	109.39%	106.54%	107.77%

Pursuant to the Administrative Measures on the Liquidity Risk of Commercial Banks (商業銀行流動性風險管理辦法) issued by the CBIRC, since 1 July 2018 (effective date of the Measures), the above liquidity ratio, liquidity coverage ratio and net stable funding ratio were calculated based on the financial statements prepared in accordance with the Accounting Standards for Business Enterprises issued by the MOF.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

2 CURRENCY CONCENTRATION

	As at 31 December 2019			Subtotal
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	16,262.96	2,611.70	284.62	19,159.28
Spot liabilities	(16,193.59)	(2,611.40)	(284.55)	(19,089.54)
Net long/(short) position	69.37	0.30	0.07	69.74

	As at 31 December 2018			Subtotal
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	8,550.35	2,422.83	274.02	11,247.20
Spot liabilities	(8,482.22)	(2,422.54)	(273.95)	(11,178.71)
Net long/(short) position	68.13	0.29	0.07	68.49

Above information is calculated in accordance with regulations promulgated by the CBRC. The Group had no structural position as at 31 December 2019 and 31 December 2018.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2019
(All amounts expressed in millions of RMB unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group regards all claims on third parties outside Mainland China and claims denominated in foreign currencies on third parties inside Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions, financial assets held under resale agreements and investments in debt securities.

International claims are disclosed by country or geographical region. A country or geographical region 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.

	As at 31 December 2019		Total
	Banks and other financial institutions	Non-bank private institutions	
Asia Pacific	16,520.33	241.19	16,761.52
of which attributed to Hong Kong	2,832.05	–	2,832.05
North and South America	1,275.98	–	1,275.98
Europe	3.53	–	3.53
Oceania	5.22	–	5.22
Total	17,805.06	241.19	18,046.25

	As at 31 December 2018		Total
	Banks and other financial institutions	Non-bank private institutions	
Asia Pacific	13,800.30	1,294.29	15,094.59
of which attributed to Hong Kong	8,599.30	–	8,599.30
North and South America	1,389.92	–	1,389.92
Europe	15.60	–	15.60
Oceania	5.10	–	5.10
Total	15,210.92	1,294.29	16,505.21

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2019

(All amounts expressed in millions of RMB unless otherwise stated)

4 GEOGRAPHICAL DISTRIBUTION OF THE PRINCIPAL AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

Principal amount of overdue loans and advances to customers by geographical region	As at 31 December 2019	As at 31 December 2018
Guangzhou	11,951.51	7,143.34
Pearl River Delta (Excluding Guangzhou)	330.88	89.50
Guangdong Province (Excluding Pearl River Delta)	511.65	2.54
Yangtze River Delta	45.68	88.80
Northeastern China	99.48	127.62
Bohai Rim	89.78	38.12
Western China	45.97	48.22
Central China	583.94	335.09
Others	71.49	57.53
Total	13,730.38	7,930.76

DEFINITIONS

"AGM"	annual general meeting of the Bank
"Articles of Association" or "Articles"	the articles of association of the Bank, which was passed by the shareholders of the Bank at the extraordinary general meeting held on 6 September 2018 and was pre-approved by the China Banking and Insurance Regulatory Commission, Guangdong Bureau on 30 November 2018 to take effect upon the issuance of preference shares on 20 June 2019 (as amended, supplemented or otherwise revised from time to time)
"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
"Company", "Bank" or "Guangzhou Rural Commercial Bank"	Guangzhou Rural Commercial Bank Co., Ltd.
"county bank(s)"	bank institutions that are approved by CBIRC to be incorporated in rural areas to provide services to local farmers or enterprises
"CSRC"	China Securities Regulatory Commission
"Director(s)"	directors of the Bank
"Non-overseas listed shares"	the ordinary shares with a nominal value of RMB1.00 each issued by the Bank, which are subscribed for or credited as paid up in RMB
"Group"	Guangzhou Rural Commercial Bank Co., Ltd. and its subsidiaries
"Guangdong Bureau of CBIRC"	Guangdong Bureau of China Banking and Insurance Regulatory Commission
"H Shares"	the foreign shares which are registered in Mainland China and listed in Hong Kong
"HKD"	the lawful currency of Hong Kong Special Administrative Region
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited

DEFINITIONS

"IFRS"	International Financial Reporting Standards and International Accounting Standards ("IAS"), which include the related standards, amendments and interpretations issued by the International Accounting Standard Board ("IASB")
"Latest Practicable Date"	30 March 2020
"Listing Rules" or "Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"One Belt, One Road"	"Silk Road Economic Belt" and the "21st Century Maritime Silk Road"
"Reporting Period"	For the year from 1 January 2019 to 31 December 2019
"RMB"	the lawful currency of the People's Republic of China
"Sannong"	agriculture, rural areas and farmers
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	holders of shares of the Bank
"Supervisor(s)"	supervisors of the Bank
"USD"	the lawful currency of the United States of America