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Huishang Bank Corporation Limited*

徽 商 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: 3698 and 4608 (Preference Shares))

2019 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the “**Board**”) of Huishang Bank Corporation Limited (the “**Bank**”) is pleased to announce the audited results of the Bank and its subsidiaries as at 31 December 2019. This announcement, containing the full text of the 2019 Annual Report of the Bank, complies with the relevant content requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to preliminary announcements of annual results. The printed version of the Bank’s 2019 Annual Report will be delivered to the holders of H Shares of the Bank and available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Bank at www.hsbank.com.cn in April 2020.

By order of the Board
Huishang Bank Corporation Limited*
Wu Xuemin
Chairman

Hefei, Anhui Province, the PRC
March 31, 2020

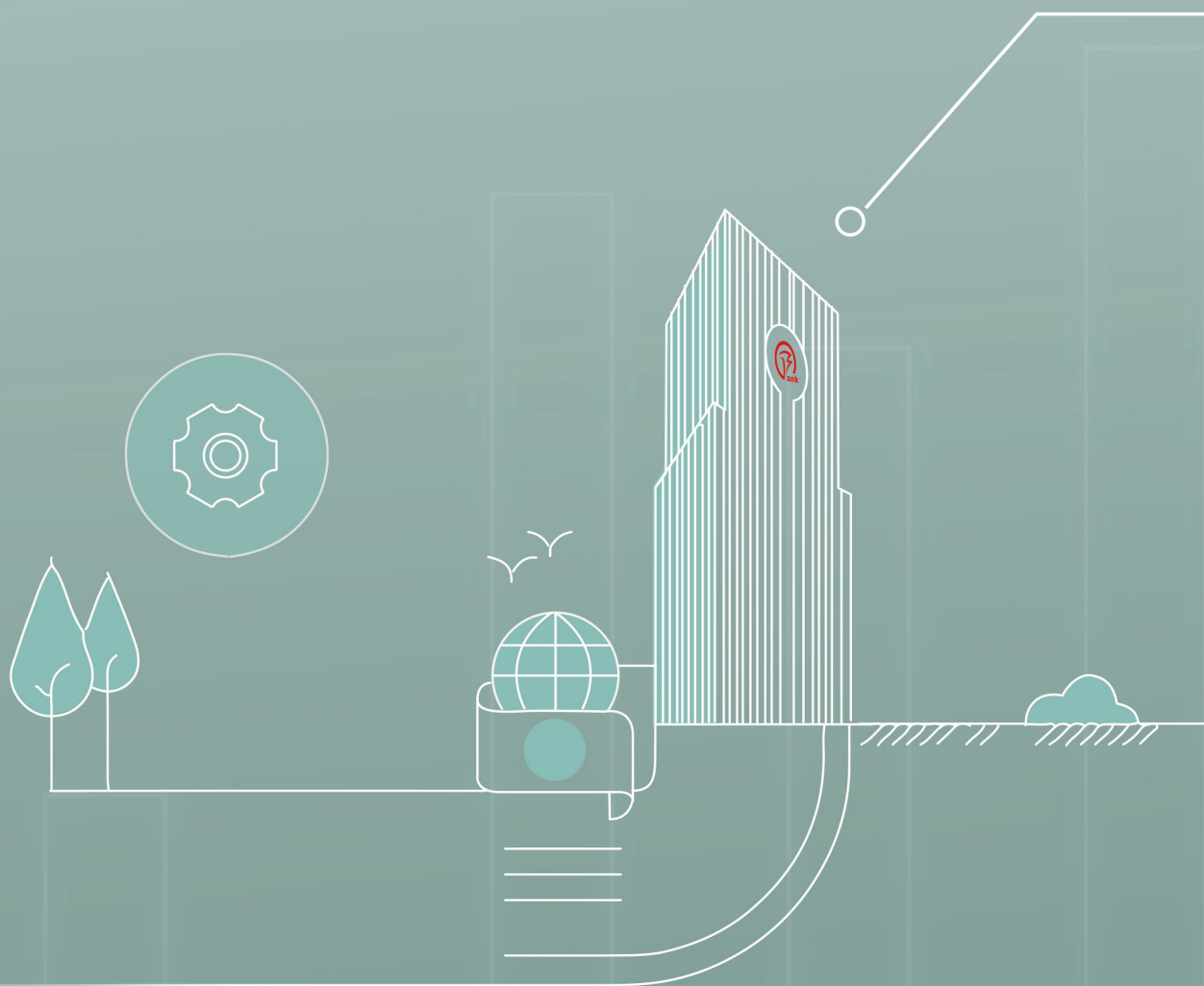
As at the date of this announcement, the Board of the Bank comprises Wu Xuemin, Zhang Renfu and He Jiehua as executive Directors; Zhu Yicun, Yan Chen, Wu Tian, Qian Dongsheng, Gao Yang, Wang Wenjin and Zhao Zongren as non-executive Directors; Dai Peikun, Zhou Yana, Liu Zhiqiang, Yin Jianfeng and Huang Aiming as independent non-executive Directors.

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

Contents

Definitions	4
Chapter I Corporate Information	5
Chapter II Summary of Accounting Data and Business Data	10
Chapter III Chairman's Statement	13
Chapter IV President's Statement	16
Chapter V Management Discussion and Analysis	19
Chapter VI Report of the Board of Directors	75
Chapter VII Changes in Share Capital and Particulars of Shareholders	91
Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions	109
Chapter IX Corporate Governance Report	126
Chapter X Internal Control	159
Chapter XI Report of the Board of Supervisors	162
Chapter XII Financial Report	164





Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Bank" or "Huishang Bank"	Huishang Bank Corporation Limited, including its subsidiaries and branches
"CBIRC"	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
"CBRC"	the former China Banking Regulatory Commission (原中國銀行業監督管理委員會)
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"CIRC"	the former China Insurance Regulatory Commission (原中國保險監督管理委員會)
"CBIRC Anhui Office"	the China Banking and Insurance Regulatory Commission Anhui Office (中國銀保監會安徽監管局)
"CBRC Anhui Office"	the former China Banking Regulatory Commission Anhui Office (原中國銀監會安徽監管局)
"Domestic Shares"	the ordinary shares issued by the Bank in the PRC with a nominal value of RMB1.00 per share
"H Shares"	the ordinary shares issued by the Bank to overseas investors, which are denominated in RMB, subscribed for in Hong Kong Dollars and listed on the Main Board of the Hong Kong Stock Exchange
"Overseas Preference Shares"	44,400,000 non-cumulative perpetual overseas preference shares issued by the Bank at the issue price of US\$20 per share with the proceeds of US\$888 million, and listed on the Hong Kong Stock Exchange with a nominal value of RMB100 per share
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"H Share Listing"	the listing of H Shares of the Bank on the Main Board of the Hong Kong Stock Exchange
"H Share Listing Date"	the date on which dealings in the H Shares of the Bank first commenced on the Hong Kong Stock Exchange, i.e. 12 November 2013
"Latest Practicable Date"	the latest practicable date for the purpose of ascertaining certain information contained in this annual report, i.e. 31 March 2020
"Non-green Industries"	the heavily-polluting, highly energy-consuming and over-capacity industries
"Three Dimensional Rural Issues"	abbreviation for issues related to agriculture, rural areas and farmers
"PBOC"	the People's Bank of China
"China" or "PRC"	the People's Republic of China
"Reporting Period"	the year of 2019 (1 January 2019 to 31 December 2019)
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Yuan" or "RMB"	Renminbi, the lawful currency of China. Unless otherwise specified herein, the currency used in this annual report shall be Renminbi
"HK\$" or "Hong Kong Dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"US\$" or "U.S. Dollars"	U.S. dollars, the lawful currency of the United States
"IFRS"	International Financial Reporting Standards
"PMI"	Purchasing Managers' Index
"GDP"	Gross Domestic Product
"CPI"	Consumer Price Index
"PPI"	Producer Price Index
"PPP"	Public-Private Partnership
"FVTPL"	Fair Value through Profit and Loss
"LPR"	Loan Prime Rate

Chapter I Corporate Information

1.1 CORPORATE INFORMATION

- 1.1.1 Registered Chinese name: 徽商银行股份有限公司¹
Registered English name: Huishang Bank Corporation Limited
- 1.1.2 Legal representative: Wu Xuemin
Authorized representatives: Wu Xuemin, Ngai Wai Fung
Secretary to the Board of Directors: Lian Baohua
Company secretary: Ngai Wai Fung
- 1.1.3 Registered and business office address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC
- 1.1.4 Contact address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC
Tel: +86-551-62667729
Fax: +86-551-62667787
Postal code: 230001
Bank's website: www.hsbank.com.cn
E-mail: djb@hsbank.com.cn
- 1.1.5 Principal place of business in Hong Kong: 40/F, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
- 1.1.6 Domestic auditor: Ernst & Young Hua Ming LLP (Special General Partnership)
Office address: Room 01-12, Level 17, Ernst & Young Tower, Oriental Plaza, No. 1 East Chang An Avenue, Dongcheng District, Beijing, the PRC
International auditor: Ernst & Young
Office address: 22/F, Citic Tower, 1 Tim Mei Avenue, Hong Kong
- 1.1.7 Legal advisor as to PRC law: DeHeng Law Offices
Legal advisor as to Hong Kong law: Clifford Chance
- 1.1.8 Domestic shares trustee agency: China Securities Depository and Clearing Corporation Limited
H share registrar: Computershare Hong Kong Investor Services Limited

Note: 1 Huishang Bank Corporation Limited is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking/deposit-taking business in Hong Kong.

Chapter I Corporate Information

1.2 COMPANY PROFILE

Headquartered in Hefei, Anhui Province, Huishang Bank is the first regional joint stock commercial bank in the PRC established through the merger and reorganization of city commercial banks and urban credit cooperatives with the approval of the CBRC. The Bank was incorporated on 4 April 1997, and changed its name to Huishang Bank Corporation Limited on 30 November 2005. On 28 December 2005, the Bank officially merged with the 5 city commercial banks of Wuhu, Ma'anshan, Anqing, Huaibei and Bengbu and the 7 urban credit cooperatives of Lu'an, Huainan, Tongling, Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda in Anhui Province. The Bank officially opened for business on 1 January 2006. On 12 November 2013, H Shares of the Bank were listed on the Main Board of the Hong Kong Stock Exchange (stock code: 3698). The Bank holds a financial institution license numbered B0162H234010001 from the CBRC Anhui Office and the unified social credit code numbered 913400001489746613 from the former Anhui Provincial Administration of Industry and Commerce. The registered address is Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC. As at the end of 2019, the registered capital of the Bank was RMB12,154,801,211. The Bank successfully issued the USD888,000,000 Overseas Preference Shares in November 2016 and such shares were listed on the Hong Kong Stock Exchange (stock code: 4608).

The Bank's principal activities in the PRC include the taking of deposits from corporate and retail customers, the granting of loans using the deposits received, and the conducting of capital business including money market business, investment and trading business and transactions on behalf of customers. As of 31 December 2019, Huishang Bank had 9,499 on-the-job employees. Apart from its headquarter, the Bank has 17 branches, 416 front offices (including 1 business department branch and 415 sub-branches) and 623 self-service areas (points). The Bank also has three subsidiaries, namely Huiyin Financial Leasing Co., Ltd., Jinzhai Huiyin Rural Bank Co., Ltd. and Wuwei Huiyin Rural Bank Co., Ltd. and owns equity interest in Chery Huiyin Motor Finance Service Co., Ltd.

By maintaining its market position as a bank "serving the local economy, serving small and medium enterprises ("SME(s)") and serving the general public", the Bank has continuously experienced a relatively fast growth in its business development, has gradually strengthened its comprehensive strength, has steadily improved its operational management standards, and has achieved a synergic development of scale, quality and efficiency, thus building up a good social image of the "local bank", the "people's bank" and the "SME bank", and becoming a regional commercial bank that is more well-known and has considerable influence in Anhui Province and even in the banking industry across China. With the full recognition and widespread praise from all sectors of society, the Bank was named one of the top 200 in the "Top 1000 World Banks" by The Banker, a UK magazine, with the ranking at No. 142, 20 places up from that in the last year.



Chapter I Corporate Information

1.3 AWARDS FOR 2019

In 2019, the Bank won numerous accolades and rewards in contests organized by domestic and international authorities and organizations:

Time	Reward	Awarding Agencies
January	2018 Good News in China Banking Industry – Most Influential Good News	China Banking Association
January	2018 Interbank Home Currency Market Top 300, Core Dealer and Excellent Dealer in Bond Market	China Foreign Exchange Trading System & National Interbank Funding Center (CFETS)
January	Excellent Issuing Institution, Excellent Underwriting Institution and Excellent Proprietary Dealer among members of CCDC	China Central Depository & Clearing Co., Ltd. (CCDC)
January	The first prize of “Provincial Government Non-tax Revenue Agency Bank”	Anhui Provincial Department of Finance, PBOC Hefei Central Sub-branch
January	“Award for Practical Work”, “Award for Targeted Poverty Alleviation” in debt financing plan business, “Award for Outstanding Innovation” in debt financing plan business through accounts receivable	Beijing Financial Assets Exchange
January	“Award for New Institution”, “Excellent Investment Institution” of 2018 Wealth Management Direct Financing Instrument	China Banking Wealth Management Registration & Depository Center Co., Ltd.
January	“Boosting China” Influential Brand—Award for Contribution to Poverty Alleviation	China Economic Net
January	Company with the Most Valuable Brands among Top 100 Companies of 2019 Hurun New Finance Report, Top 100 Companies of 2019 Hurun New Finance Report	Organizing Committee selecting Top 100 Committee of Hurun New Finance Report
January	Brand story in financial industry loved by Anhui netizens	Sina Anhui
February	Innovation Award for 2018 Interbank Domestic Currency Market Trading System (X-Bond)	China Foreign Exchange Trading System
February	Award for Outstanding Contribution to Mobile Payment	China UnionPay
February	Outstanding Group in Mobile Payment Convenience-for-people Demonstration Project of Anhui Province in 2018	PBOC Hefei Central Sub-branch
March	2018 Excellent Information Company under the Anhui Banking Association	Association of Anhui Bank
March	Women’s Civilization Post	All-China Women’s Federation
March	The first prize for Key Subjects in 2018 selected by Banking Accounting Society of Anhui Province	Banking Accounting Society of Anhui Province
March	The second prize in the essay competition themed by “Making a suggestion to the payment industry”, “Excellent Organization Award” in 2018	Payment & Clearing Association of China
March	2018 Provincial Demonstration Project with Standardized Construction Quality	Anhui Province Quality & Safety Supervision Head Office for Construction Projects
April	2018 Anhui Provincial May Fourth Red Flag Youth League (Working) Committee	Anhui Provincial Committee of the Communist Youth League
May	The Most Popular Credit Card of the Year in Anhui	Anhui Banking Association, New Media Group, Jinri Toutiao
May	The Advanced Entity in Maintaining the Operation of Member Bank Front End (MBFE) in Anhui Provincial Payment system in 2018	PBOC Hefei Central Sub-branch
May	Grade A Taxpayer in Anhui Province in 2018	Anhui Provincial State Taxation Administration
May	Excellent performance in payment and liquidation as a participant in the payment system of commercial bank in Anhui Province in 2018	Anhui Banking Association
June	The Most Socially Responsible Bank of the Year in Anhui	Jinri Toutiao
June	The third prize of Good News Award in Anhui Banking Industry in 2018	Association of Anhui Bank

Chapter I Corporate Information

Time	Reward	Awarding Agencies
June	Ma'anshan Development Zone Sub-branch was award "2017-2018 National Youth Civilization"	21 members of Central Committee of the Communist Youth League creating "Youth Civilization" activities
June	Best Corporate Governance Award	China Financial Market
June	Top 100 China Quasi-unicorns of 2019, Quasi-unicorn Brands in the Internet Financial Industry of 2019	China Internet Weekly of Chinese Academy of Sciences, Information Research Center of Chinese Academy of Social Sciences
June	Top 100 Chinese Companies by Fin-tech Competitiveness of 2019	Zhongguancun Internet Finance Institute, China Internet Finance 30 Forum (CIF30), Guopei Institute
June	Excellent and Innovative Case in the Banking Digital Marketing Contest of 2019	China Financial Certification Authority
June	Bronze Trophy of Modern Advertising Award of 2019	The 26th China International Advertising Festival (CIAF)
June	"A" Rating of Compliance and Information Security in Credit Reporting of Institutions Accessing the National Financial Credit Information Basic Database	PBOC Hefei Central Sub-branch
July	2018 Best Social Responsibility Practice Case Award in selecting Top 100 Social Responsibility Cases of China Banking	China Banking Association
July	2019 Tianji Award for Banks with Inclusive Finance services	Securities Times
July	2019 Junding Award for China Open Non-net-worth Bank Wealth Management Products	Securities Times
July	JinBei Award of 2019 Best Asset Management (2019 Best Bank Wealth Management Brand)	21st Century Business Herald
August	2019 Best Development Award for Syndicated Loans Business	China Banking
August	Outstanding Organization Award of "Week of Payment Security and Prevention of Telecommunications Network New Fraud"	Payment & Clearing Association of China
September	Grand Prize in the selection of outstanding achievements in the study of the development of China Banking (2019)	China Banking Association
October	Advanced Unit in Card-not-present Business Cooperation	China UnionPay
October	The third prize of Bank Technology Development (application and practice of quantum communication in online banking)	PBOC
October	Best Organization of BCM Practice of the Year	DRI International
November	"2019 Top 100 Financial Innovation Companies", "2019 China Top 100 Financial Services Companies"	China Economic Net
November	2019 Best 10 Financial Institutions in Practicing Financial Innovation to Serve the Real Economy	Hong Kong Commercial Daily
November	2019 China Jinding Award of "Annual Outstanding Credit Card"	National Business Daily
November	The honor of "2019 Corporate Business Bank"	Southern Finance and Economics Omnimedia Group, 21st Century Business Herald
November	Outstanding Organization Award of the 10th National Excellent Wealth Manager Contest	China Banking Association
November	The Bank Progress Award of 2018 Jinniu Wealth Management	China Securities Journal
November	2019 Outstanding "Golden Wealth Management" Award for Net-worth Wealth Management Product	Shanghai Securities News

Chapter I Corporate Information

Time	Reward	Awarding Agencies
November	Best Comprehensive Team of 2019 in the 4th "Looking for Good Voice" comprehensive business skill competition of China Banking Customer Services Center, Best Training Team	China Banking Association
November	The institution actively promoting the payment through phone number	National Clearing Center of the People's Bank of China
November	The Small and Medium-sized Bank with the Most Characteristic Businesses	Modern Bankers
December	Top Ten City Commercial Banks	Financial Times
December	2019 Most Competitive Bank in Anhui	Xinanwanbao
December	2019 Inclusive Finance Service Award in Anhui Financial Industry	Sina Anhui
December	"No. 1 Bank in the Industry" and "Most Satisfactory Bank by Residents" in the survey on residents' Satisfaction towards top ten service industry	Anhui Center for Provincial Survey
December	Wuhu Nanling Sub-branch, Ma'anshan Taibai Road Sub-branch, Chuzhou Fengyang Sub-branch, Lu'an Administrative District Sub-branch and Huaibei Xiangxi Sub-branch were awarded "2019 Five-star Outlet for Civilized and Standardized Services in the Banking Industry"; Hefei Huayuan Street sub branch, Fuyang Taihe sub branch, Ma'anshan Lake South Road sub branch, Huainan square road sub branch and Wuhu Huangshan Road sub branch were awarded "Top 1000 Demonstration Units of Civilized and Standardized Banking Service"	China Banking Association
December	2019 Chinese Treasury and Corporate Finance Award · The Best Trading Bank Product Experience Award	West Lake Institute of Treasury and Corporate Finance
December	Best Trading Bank Service Award	Trade Finance
December	Good Promoter of Mobile Payment	National Clearing Center of the People's Bank of China
December	Innovation Award for Best Mobile Bank Best Direct Sales Bank of 2019	China Financial Certification Authority
December	Best Block Chain Innovation Award for Direct Sales Bank of 2019	China Internet Weekly of Chinese Academy of Sciences, Information Research Center of Chinese Academy of Social Sciences
December	"Outstanding Contribution Award" of the Second Session of City Commercial Bank Working Committee	China Banking Association
December	Third Prize of 2019 National Internal Audit Theory Seminar	China Institute of Internal Audit
December	Excellent Organization Prize of 2019 Provincial Internal Audit Theory Seminar	Anhui Institute of Internal Audit
December	Tier A Bank for Banking Foreign Exchange Business Compliance and Prudent Operation of 2019	Anhui Branch of the State Administration of Foreign Exchange

Chapter II Summary of Accounting Data and Business Data

2.1 MAIN FINANCIAL INFORMATION

Unit: RMB million, except for percentages

			Changes over the corresponding period of the last year +/(-)%
Operational results	2019	2018	
Net operating income ⁽¹⁾	31,159	26,951	15.61
Profit before tax	12,301	10,821	13.68
Net profit attributable to shareholders of the Bank	9,819	8,747	12.26

Unit: RMB, except for percentages

			Changes over the corresponding period of the last year +/(-)%
Per ordinary share	2019	2018	
Basic earnings attributable to shareholders of the Bank	0.78	0.69	13.04
Diluted earnings attributable to shareholders of the Bank	0.78	0.69	13.04
Closing net assets attributable to shareholders of the Bank	5.86	5.12	14.45

Unit: RMB million, except for percentages

			Changes over the end of the last year +/(-)%
Scale indicators	31 December 2019	31 December 2018	
Total assets	1,131,721	1,050,506	7.73
Including: Total loans and advances to customers ⁽²⁾	463,985	381,766	21.54
Total liabilities	1,042,228	980,229	6.32
Including: Total customer deposits ⁽³⁾	593,834	565,961	4.92
Equity attributable to shareholders of the Bank	87,209	68,213	27.85

Notes: (1) Net operating income comprises net interest income, net fee and commission income, net trading income/(loss), net income/(loss) on financial investments, dividend income and other operating income, net.

(2) Accrued interest and provision for impairment are not included in total loans and advances to customers.

(3) Interest payable is not included in total customer deposits.

Chapter II Summary of Accounting Data and Business Data

2.2 FINANCIAL RATIOS

	2019	2018	Unit: % Changes over the corresponding period of the last year + / (-) %
Profitability indicators⁽¹⁾			
Return on average total assets (ROA)	0.92	0.90	0.02
Return on average net assets (ROE)	14.60	15.08	(0.48)
Net interest spread	2.32	2.21	0.11
Net interest margin	2.51	2.37	0.14

	2019	2018	Unit: % Changes over the corresponding period of the last year + / (-) %
Proportion of net operating income			
Net interest income ⁽²⁾	79.35	66.67	12.68
Net non-interest income ⁽³⁾	20.65	33.33	(12.68)
Cost-to-income ratio (including tax and surcharges) ⁽⁴⁾	22.76	23.02	(0.26)

	31 December 2019	31 December 2018	Unit: % Changes over the end of the last year + / (-) %
Asset quality indicators			
Non-performing loan ratio	1.04	1.04	0.00
Allowance to non-performing loan ratio	303.86	302.22	1.64
Allowance to loans ratio	3.15	3.15	0.00

	31 December 2019	31 December 2018	Unit: % Changes over the end of the last year + / (-) %
Capital adequacy indicators			
Core tier I capital adequacy ratio	8.85	8.37	0.48
Capital adequacy ratio	13.21	11.65	1.56
Equity to total assets ⁽⁵⁾	7.91	6.69	1.22

Notes: (1) The ratios are annualized.

(2) The net interest income from financial instruments at fair value through profit or loss is not included in this indicator and was charged to net trading income/(loss).

(3) Net non-interest income in this indicator comprises net fees and commission income, net trading income/(loss), net income/(loss) on financial investments, dividend income and other operating income, net, but excludes net income from investment in associates.

(4) Cost-to-income ratio = Operating expenses/Net operating income.

(5) Equity includes minority interests.

Chapter II Summary of Accounting Data and Business Data

2.3 FIVE-YEAR FINANCIAL SUMMARY

	2019	2018	2017	2016	2015
Results for the year					
(RMB thousand)					
Net operating income ⁽¹⁾	31,159,318	26,950,609	22,508,325	20,918,409	16,977,100
Operating expenses	(7,091,775)	(6,204,914)	(5,830,139)	(5,763,036)	(5,435,251)
Asset impairment loss	(11,920,086)	(10,064,367)	(7,202,558)	(6,486,913)	(3,656,836)
Profit before tax	12,300,817	10,820,905	9,612,764	8,812,525	7,972,989
Net profit attributable to shareholders of the Bank	9,818,780	8,747,031	7,614,884	6,870,472	6,160,661
Per ordinary share (RMB)					
Dividends	0.157⁽²⁾	0.056	0.125 ⁽³⁾	0.061	0.159
Basic earnings	0.78	0.69	0.60	0.62	0.56
Diluted earnings	0.78	0.69	0.60	0.62	0.56
Closing net assets attributable to shareholders of the Bank	5.86	5.12	4.68	4.15	3.72
At year end (RMB thousand)					
Paid-in capital stock (share capital)	12,154,801	12,154,801	11,049,819	11,049,819	11,049,819
Total equity attributable to shareholders of the Bank	87,208,997	68,212,525	57,703,305	51,871,401	41,159,144
Total liabilities	1,042,227,609	980,228,850	848,887,611	701,590,676	593,785,360
Customer deposits ⁽⁴⁾	603,454,819	573,798,311	512,808,182	462,014,409	359,224,554
Total assets	1,131,721,238	1,050,506,309	908,099,697	754,773,994	636,130,621
Net loans and advances to customers ⁽⁵⁾	450,419,777	370,661,381	305,208,545	269,336,141	237,428,103
Key financial ratios (%)					
Return on average total assets	0.92	0.90	0.94	1.01	1.11
Return on average net assets	14.60	15.08	15.56	15.63	15.75
Cost-to-income ratio ⁽⁶⁾	22.76	23.02	25.90	27.55	32.02
Non-performing loan ratio	1.04	1.04	1.05	1.07	0.98
Core tier 1 capital adequacy ratio	8.85	8.37	8.48	8.79	9.80
Capital adequacy ratio	13.21	11.65	12.19	12.99	13.25

Notes: (1) The data of net operating income exclude net income from investment in associates.

(2) Please refer to Section 6.23 "PROFIT AND DIVIDENDS" for details.

(3) According to the 2017 profit distribution plan, the Bank distributed cash dividends of RMB0.25 and 1 bonus share per 10 shares to all shareholders. The bonus share is issued at RMB1.00 each.

(4) Customer deposits data for 2018 and 2019 includes interest payable while data before 2018 was not adjusted retrospectively.

(5) Net loans and advances to customers data in 2018 and 2019 includes interests accrued on loans while data before 2018 was not adjusted retrospectively.

(6) Cost-to-income ratio = Operating expenses/Net operating income.

Chapter III Chairman's Statement



Wu Xuemin

Chairman



Chapter III Chairman's Statement

2019 is the final year of five-year development strategy plan formulated by Huishang Bank, and is the crucial year for Huishang Bank to accelerate the advancement of the action plan of "One Body, Two Wings (一體兩翼)". 2019 also represents the year for Huishang Bank to nurture high-quality development led by "digital" transformation. In 2019, facing the severe and complex operating environment where various sudden risks are intertwined, Huishang Bank always maintained its strategic focus and overcame difficulties with one mind. However, in spite of great difficulties, Huishang Bank has firmly grasped development opportunities brought about by "five stabilities", namely maintaining stability for growth, customer, liabilities, quality and foundation. Huishang Bank focused on its main business, made the best use of the circumstances and trends, and seized the fleeting opportunities between the transformation of risk and opportunity to lay on solid foundation for the high-quality development and bring a broad space for development.

During the year, the Bank has fully completed the five-year strategic plan with solid achievements. As at the end of 2019, the Bank recorded total assets of RMB1,131.721 billion (in domestic and foreign currencies), representing an increase of 7.73% as compared with the end of the last year, with the asset size being stable at over RMB1 trillion; total customer deposits of RMB593.834 billion, representing a year-on-year increase of 4.92%, the balance of corporate deposits ranking first in Anhui Province for 12 consecutive years; market share growth of savings deposits ranking No.1 in Anhui Province; personal financial assets under management (AUM) reaching over RMB300 billion; net profit of RMB10.062 billion (it was the first time that the net profit exceeded RMB10 billion), representing a year-on-year increase of 13.57%; ROE and ROA remaining stable at approximately 15% and over 0.9%, with a leading profitability among the city commercial banks; non-performing loan ratio of 1.04% and provision coverage ratio of 303.86%, continuously achieving excellent asset quality and high level of resilience to risk among banks. After five-year great development, major indicators have met or exceeded the planned goals. At the end of 2019, Huishang Bank ranked No.142 among the Top 1000 World Banks by The Banker, a UK magazine, climbing 52 places as compared to that of 2014.

During the year, the Bank developed "Body" and "Wings" for serving the real economy through reform and innovation. The Bank has adopted a series of innovative measures, such as the acquisition of the approval to establish the first wealth management subsidiary in the Central China, the issuance of the first batch of perpetual bonds of RMB10 billion ahead other city commercial banks and the successful issuance of bonds for small and micro-enterprises of RMB10 billion, thereby constantly improving its driving force for the full implementation of the development of the "Body" through "Six Financial Strategies". Under the background of online supply-chain finance achieving a breakthrough, the success of the first PRE-debt-to-equity swap project, the difficulties of listed companies seeking investments being relieved, online Credit e-Lending (信e貸), Online Micro-Lending (微網貸), Credit Guarantee Loans (信保貸) getting booming development and a series of innovative products emerging among the market competition, the "Wing" (i.e. the "business product systems") has been built stronger. The Bank further advanced shareholders' leadership of the Communist Party of China and improved the corporate governance, restarted the A-share listing application, enhanced shareholders' stock equity management, promoted the work for "the year of work style construction", implemented the remuneration system reform, promoted the intelligent outlet transformation and launched a new generation of centralized operation platform. From the design of top-level systems and the planning of layout to the process optimization of basic-level operations, the Bank continued to promote the reform of management systems and mechanism, making the "Wing" (i.e. the "management systems") more robust and stronger. The original goal of advancing the "One Body, Two Wings" action plan is to serve the supply-side structural reform and local economic and social development, so as to ensure the financial water that irrigates the real economy keeps flowing and smooth. During the year, bearing original ideals in mind, Huishang Bank extended new credit loans of over RMB80 billion and new loans to private enterprises of nearly RMB20 billion, ranking the first in Anhui province in terms of the market share in loans for small and micro-enterprises. In terms of the loans extended to private enterprises and the contribution to targeted poverty alleviation and support for local development, Huishang Bank was recognized as "Excellent" by Anhui Province and awarded a title of "Grade A Taxpayer".

Chapter III Chairman's Statement

During the year, we injected the core “gene” of digital transformation in our high-quality development. Fintech, which is developing rapidly, is profoundly changing the financial consumption patterns of customers, reinventing the patterns of organization and management of commercial banks, and rapidly bringing new cognition, idea and culture of future commercial banks. In the foreseeable future, artificial intelligence, big data, cloud computation and block chain will promote the iterative evolution of commercial banks step by step, and the digital transformation of commercial banks has become irreversible. The high-quality development of the Bank must take “digitization” as the core gene. And this gene has been gradually injected into customer marketing, general management, and risk control and internal control systems, defining the subsequent organizational system, management procedure, service model, and product innovation and reform, and providing guidance as to the internal transformation of thought, philosophy and values of the staff of the Bank for the next stage.

The success we obtained for the year is attributable the supports and trust from the public, our investors and customers and is also the best reward for the hard work of all staff of the Bank.

2019 is the first full year in which the fourth session of the Board of the Bank performed its duties. The Directors proactively gave full play to their expertise and extensive experience, and provided suggestions and contributions to the high-quality development of the Bank. During the year, Mr. Qian Li, Mr. Ci Yaping and Mr. Hu Jun resigned as Directors of the Bank and no longer served as Directors. Mr. He Jiehua and Mr. Yan Chen became members of the fourth session of the Board and took responsibilities as Directors of the Bank. On behalf of the Board, I express sincere gratitude to the resigned Directors for their efforts for and contributions to the reform and development of the Bank and extend warmest welcome to the new Directors.

The year of 2020 is the first year of the new five-year development strategic plan of the Bank. Facing changes unseen in a century, we will take Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as our guideline to further intensify our efforts in servicing the real economy, and through digital transformation, to further promote the implementation of our three major strategies, namely, “deposit as the foundation, technology as the growth driver, and talent as the strength builder”. Upholding the principle of making improvement while maintaining stability, consolidating our foundation and acting responsibly, we will strive to become a modern bank with high-quality development, and make our contributions to the building of a moderately prosperous society in all respects.

Wu Xuemin
Chairman



Chapter IV President's Statement



Zhang Renfu

*Executive Director
President*

Chapter IV President's Statement

In 2019, amid the complicated and severe internal and external business environment, under the unified leadership of the party committee of our Bank, its senior management had always adhered to the guidance of Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era and comprehensively implemented the overall development framework of "One Body, Two Wings". To better serve the real economy, we had focused our mind on the main business, to accelerate the pace of transformation, we had moved forward with a reforming and innovative mindset, to conquer the difficult challenges, we had never forgot our bottom line, so that we successfully completed the Board's various business plans and objectives, and thus creating a stable and healthy development trend for Huishang Bank.

We had always stayed true to the founding mission of financial institutions and fulfilled social responsibility while serving the real economy. As of the end of 2019, the total assets of the Group exceeded RMB1.1 trillion, and its net profit exceeded RMB10 billion for the first time. Over the past year, we have focused on serving the "Six Financial Strategies" including people's livelihood finance, industrial finance, green finance, technology finance, inclusive finance and poverty alleviation finance, and continued to increase the credit supply and financial supply in these sectors, with new loans totaling RMB82.22 billion, representing an increase of 21.5%. We had done our best to serve private and small and micro enterprises with loans extended to private enterprise increasing by RMB19.88 billion, and loans granted to small and micro enterprises with credit lines less than and equaling to RMB10 million increasing by RMB11.76 billion. We had helped to fight poverty alleviation and pollution prevention with agriculture-related loans increasing by RMB17.88 billion, and green credit increasing by RMB3.79 billion. We had committed to supporting companies in their transformation and upgrading with loans to technology-based companies increasing by RMB7.52 billion, and medium- and long-term loans to manufacturing enterprises increasing by RMB2.37 billion. We have exerted efforts to expand corporate financing channels, creating investment banks, transaction banks, and asset management brand, providing customers with a full range of financial services including shares, debts, funds, loans, investment and consulting to propel enterprises to deleverage and reduce costs.

We had always pursued balanced development and promoted business transformation by optimizing our business structure. First, we adjusted the structure of our asset. We actively reduced the scale of inter-bank investment with the proportion of loans and investments in total assets increasing and decreasing, respectively. Total corporate loans amounted to RMB263.78 billion, recording the best increment in recent years. Total retail loans amounted to RMB178.33 billion, representing an increase of 22.8% as compared with the end of last year. The asset circulation of RMB15.45 billion was completed throughout the year in five phases, and the proportion of risk assets in the total assets maintained stable with a slight fell. Second, we stabilized the size of debts. Following the principle of establishing the Bank by taking in deposit, and its market share of corporate deposits ranked first in the province it located for 12 consecutive years and the market share growth of savings deposits ranked first within the province, thus further improving the stability of deposits. Third, we optimized the income structure. We laid equal emphasis on both the traditional and green intermediate business income sources. Net fee and commission income for the year amounted to RMB4.16 billion. Settlement and clearing fees, bank card fees and guarantee and commitment fees continued to increase. The wealth management scale reached RMB187.82 billion, representing an increase of RMB73.62 billion. Both assets under custody and income growth ranked the forefront among city commercial banks.

Chapter IV President's Statement

We had always striven for breakthroughs in multiple areas and stimulated business vitality in strengthening reform and innovation. For example, we actively applied for a number of license qualifications -- the bank had been approved to establish the first in the central area and the third wealth management subsidiary of the city commercial bank, to set up the first regional credit bond index fund in the country, and had successfully issued the first batch of RMB10 billion perpetual bonds of the city commercial bank; it had accelerated business product innovation -- enriched the six major business product systems, i.e. investment banks, transaction banks, asset management, wealth management, mobile finance, and digital banking, created the first credit risk mitigation certificate and implemented the first sustainable debt financing plan within the province; put into use the On-Line Dealer Platform and Mobile Banking (version 5.0); achieved relatively rapid development in Credit E-Loan, Fast E-Loan, Micro-Net Loan and other online businesses; the number of direct bank accounts exceeded 19 million, an increase of 3.64 million, ranking the Bank among the top ones in the industry; it strengthened our efforts in institutional and mechanism innovation -- promoted the reform of interbank business steadily, while continuing to deepen the transformation of retail business, thus the number of personal high-quality customers had reached 1.064 million, with an increase of 223,000 and both the number and growth rate hitting a record high; optimized the recruiting and employment mechanism, and implemented the salary system reform; accelerated the digital transformation in all customers, all channels, all products, and all processes. Through all these efforts, we had been further enhanced the driving force for innovative development and stable operation.

We had always thinking about worst-case scenarios, and laid a solid foundation for management in preventing and mitigating risks. We adhered to compliance operations, unwaveringly implemented the national policy guidance and various regulatory opinions; continued to consolidate the results of tackling chaos, and carried out solid work in promoting our work conduct, therefore, making the corporate culture of compliance and soundness embraced by our staff; ensured higher refinement in the bank management -- improved the six major management systems covering corporate governance, risk, internal control, supervision, technology, and remuneration expenses, and steadily improved basic management skills; adopted the policy of consolidating the financial statements of the group; the affiliated institutions had made remarkable results in serving the real economy; maintained high-handed pressure on risk management -- deepened the management in credit risk, market risk, liquidity risk, and operational risk so as to make various risks controllable; the non-performing loan ratio at the end of the year was 1.04%, 0.82 percentage point lower than the national average; in return, the quality of assets was also at a better level than the national average within the industry.

2020 will be the year when the PRC will secure a decisive victory in building a moderately prosperous society in all respects and the completion of the 13th Five-Year Plan. It will also mark the 15th anniversary of the establishment of Huishang Bank. Besides, for the banking industry, it will still be a year of climbing hills and crossing borders. We will thoroughly implement our new five-year development plan designed from the perspective of the whole bank, that is, taking digital transformation as the lead, focusing on three strategic tasks of establishing our Bank by taking in deposits, developing our Bank in a scientific and technological way, and making our Bank strong by attracting and keeping talents. Our goal is, making progress in a stable and responsible manner, rewarding the trust and support of shareholders, customers, employees and all walks of society with excellent operating performance, and working hard to make contributions to the comprehensive construction of a modern bank of high quality!

Zhang Renfu

Executive Director, President

Chapter V Management Discussion and Analysis

5.1 OVERALL BUSINESS REVIEW

In the face of a complex business environment in 2019, the Bank implemented a macro adjustment and control mechanism as well as a monetary credit policy, and also put regulatory requirements into practice and focused on overall development framework of "One Body, Two Wings (一體兩翼)" in the constant belief that innovation spurs transformation while management enhances quality and efficiency. All these facilitated a steady expansion of our business scale and improved profitability, realizing steady growth in various business segments and continuous improvement in operating and management level, which were mainly reflected as follows:

The scale of assets and liabilities increased steadily. As at the end of 2019, the total assets of the Bank were RMB1,131,721 million, representing an increase of RMB81,215 million or 7.73% as compared with the end of last year. Total loans and advances to customers were RMB463,985 million, representing an increase of RMB82,219 million or 21.54% as compared with the end of last year. Total customer deposits were RMB593,834 million, representing an increase of RMB27,873 million or 4.92% as compared with the end of last year.

Provision coverage maintained at a stable level. As at the end of 2019, the Bank's non-performing loan balance was RMB4,815 million, representing an increase of RMB835 million as compared with the end of last year. Non-performing loan ratio was 1.04%, remaining consistent as compared with the end of last year. Non-performing loan provision coverage ratio was 303.86%, representing an increase of 1.64 percentage points as compared with the end of last year.

5.2 ANALYSIS OF INCOME STATEMENT

5.2.1 Summary of financial performance

	Unit: RMB million	
	2019	2018
Net interest income	24,726	17,967
Net fee and commission income	4,164	3,706
Other net income	2,269	5,277
Operating expenses	7,092	6,205
Net income from investment in associates	154	140
Impairment losses on assets	11,920	10,064
Profit before income tax	12,301	10,821
Income tax	2,239	1,961
Net profit	10,062	8,860
Net profit attributable to shareholders of the Bank	9,819	8,747

In 2019, the Bank recorded net profit of RMB10,062 million, representing an increase of 13.57% as compared with last year. The effective income tax rate was 18.20%, representing an increase of 0.08 percentage point as compared with last year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.2 Net operating income

In 2019, the Bank had net operating income of RMB31,313 million (including net income from investment in associates), representing an increase of RMB4,223 million or 15.59% as compared with last year, among which, net interest income accounted for 78.96%, representing an increase of 12.64 percentage points as compared with last year; net non-interest income accounted for 21.04%, representing a decrease of 12.64 percentage points as compared with last year.

The following table sets forth the year-on-year comparison of the net operating income for the recent three years.

	2019 (%)	2018 (%)	2017 (%)
Net interest income	78.96	66.32	89.19
Net fee and commission income	13.30	13.68	12.56
Other net income	7.25	19.48	(2.35)
Net income from investment in associates	0.49	0.52	0.60
Total	100.00	100.00	100.00

Note: Such analysis of net operating income in the table comprises net income from investment in associates.

5.2.3 Net interest income

In 2019, the Bank's net interest income was RMB24.726 billion, representing an increase of RMB6.759 billion or 37.62% and net interest income from financial instruments at fair value through profit or loss was RMB2.351 billion, a total of RMB27.077 billion, representing a year-on-year increase of 20.97%. Such increase was primarily due to the expansion of the scale of interest-earning assets and the increase in average yield.

The following table sets forth the average balances of assets and liabilities, interest income/expenses and annualized average yield/cost ratio of the Bank for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent the daily average balances.

Unit: RMB million, except for percentages

	2019			2018		
	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Average Yield (%)
Interest-earning assets						
Loans and advances to customers	425,257	22,499	5.29	339,614	17,464	5.14
Securities investments	494,330	24,226	4.90	456,457	23,198	5.08
Balances with central bank	72,500	1,068	1.47	74,748	1,158	1.55
Deposits and placements with banks and other financial institutions	44,213	1,096	2.48	44,051	1,265	2.87
Financial leasing	40,597	2,650	6.53	31,508	1,844	5.85
Total interest-earning assets and interest income (including interest income from FVTPL assets)	1,076,897	51,539	4.79	946,378	44,929	4.75

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.3 Net interest income (Continued)

Unit: RMB million, except for percentages

Items	2019			2018		
	Average Balance	Interest Expenses	Average Cost Ratio (%)	Average Balance	Interest Expenses	Average Cost Ratio (%)
Interest-bearing liabilities						
Borrowings from central bank	31,336	916	2.92	25,695	814	3.17
Customer deposits	581,380	10,593	1.82	539,796	8,440	1.56
Deposits and placements from banks and other financial institutions ⁽¹⁾	202,528	6,794	3.35	194,390	7,726	3.97
Debt securities issued	175,565	6,159	3.51	129,222	5,567	4.31
Total interest-bearing liabilities and interest expenses (including interest expenses from FVTPL liabilities)	990,809	24,462	2.47	889,103	22,547	2.54
Net interest income and net interest income from FVTPL financial instruments	–	27,077	–	–	22,383	–
Net interest spread	–	–	2.32	–	–	2.21
Net interest margin	–	–	2.51	–	–	2.37

Note: (1) Included deposits and placements from banks and other financial institutions of insurance companies.

In 2019, the net interest spread of the Bank was 2.32%, while the net interest margin was 2.51%. The annualized average yield of interest-earning assets was 4.79%, while the annualized average cost ratio of interest-bearing liabilities was 2.47%.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.3 Net interest income (Continued)

The following table sets forth the distribution of changes in interest income and interest expenses caused by the changes in scale and interest rates for the period indicated. The changes in scale were measured by the changes of average balances (average daily balances); while the changes in interest rates were measured by changes in average interest rates. The changes in interest income and expenses caused by scale changes and interest rate changes were included in the impact of scale changes on changes in the amount of interest income and expenses.

Unit: RMB million

	2019 vs. 2018		Net increase/ (decrease) ⁽³⁾
	Increase/(decrease) factors Scale ⁽¹⁾	Interest rate ⁽²⁾	
Assets			
Loans and advances to customers	4,404	631	5,035
Securities investments	1,925	(897)	1,028
Balances with central bank	(35)	(55)	(90)
Deposits and placements with banks and other financial institutions	5	(174)	(169)
Financial leasing	532	274	806
Changes in interest income (including interest income from FVTPL assets)	6,196	414	6,610
Liabilities			
Borrowings from central bank	179	(77)	102
Customer deposits	650	1,503	2,153
Deposits and placements from banks and other financial institutions	323	(1,255)	(932)
Debt securities issued	1,996	(1,404)	592
Changes in interest expenses (including interest expenses from FVTPL liabilities)	2,579	(664)	1,915
Changes in net interest income and net interest income from FVTPL financial instruments	3,617	1,078	4,695

Notes:

- (1) Represents average balance for the year minus average balance for the prior year, and then multiplies by average return rate/cost rate for the prior year.
- (2) Represents average yield/cost rate for the year minus average yield/cost rate for the prior year, and then multiplies by average balance for the year.
- (3) Represents interest income/expenses for the year minus interest income/expenses for the prior year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.4 Interest income

In 2019, the Bank's interest income and interest income from financial assets at fair value through profit or loss recognized in net trading income/(loss) amounted to RMB51,539 million, representing an increase of 14.71% from last year. Such increase was mainly due to the expansion of the scale of interest-earning assets.

Interest income from loans

In 2019, the Bank's interest income from loans and advances to customers amounted to RMB22,499 million, representing an increase of RMB5,035 million or 28.83% as compared with last year.

The following table sets forth the average balances, interest income and annualized average yields on each component of the Bank's loans and advances to customers for the periods indicated.

Unit: RMB million, except for percentages

	2019			2018		
	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Average Yield (%)
Corporate loans	257,781	13,607	5.28	208,543	10,772	5.17
Retail loans ⁽¹⁾	152,538	8,405	5.51	116,343	6,046	5.20
Discounted bills	14,938	487	3.26	14,728	645	4.38
Loans and advances to customers	425,257	22,499	5.29	339,614	17,464	5.14

Note:

- (1) Retail loans comprise personal business loans and personal consumption loans (including residential mortgage loans).

Other interest income

In 2019, the Bank's interest income from securities investments (including interest income from financial assets at fair value through profit or loss) amounted to RMB24,226 million, representing a year-on-year increase of RMB1,028 million or 4.43%. Interest income from balances with central bank amounted to RMB1,068 million, representing a decrease of RMB90 million or 7.77% as compared with last year. Interest income from deposits and placements with banks and other financial institutions amounted to RMB1,096 million, representing a decrease of RMB169 million or 13.36% as compared with last year. Interest income from financial leasing amounted to RMB2,650 million, representing an increase of RMB806 million or 43.71% as compared with last year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.5 Interest expenses

In 2019, the Bank's interest expenses and interest expenses from financial liabilities at fair value through profit or loss recognized in net trading income/(loss) amounted to RMB24,462 million, representing an increase of RMB1,915 million or 8.49% as compared with last year. Such increase was primarily due to an expansion of the scale of interest-bearing liabilities.

Interest expense on customer deposits

In 2019, the Bank's interest expense on customer deposits amounted to RMB10,593 million, representing an increase of RMB2,153 million or 25.51% as compared with last year. Such increase was mainly due to the increase in the average cost ratio on customer deposits.

The following table sets forth the average balance, interest expenses and annualized average cost ratio of the Bank's corporate deposits and retail deposits for the periods indicated.

Unit: RMB million, except for percentages

	2019			2018		
	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)
Corporate deposits						
Demand deposits	252,619	2,387	0.94	235,484	1,881	0.80
Time deposits	135,988	4,037	2.97	139,815	3,908	2.80
Sub-total	388,607	6,424	1.65	375,299	5,789	1.54
Retail deposits						
Demand deposits	59,357	350	0.59	55,298	294	0.53
Time deposits	103,526	3,478	3.36	86,443	2,117	2.45
Sub-total	162,883	3,828	2.35	141,741	2,411	1.70
Others ⁽¹⁾	29,890	341	1.14	22,755	240	1.06
Total customer deposits	581,380	10,593	1.82	539,796	8,440	1.56

Note:

(1) Other deposits include margin deposits and credit card deposits, etc.

Other interest expenses

In 2019, interest expense on deposits and placements from banks and other financial institutions amounted to RMB6,794 million, representing a decrease of RMB932 million or 12.06% as compared with last year. Interest expenses on issuance of bonds (including interest expenses on interbank certificates of deposit at fair value through profit or loss) amounted to RMB6,159 million, representing an increase of RMB592 million or 10.63% as compared with last year. Interest expenses on borrowings from central bank was RMB916 million, representing an increase of RMB102 million or 12.53%.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.6 Net non-interest income

In 2019, the Bank realized a net non-interest income of RMB6.587 billion, representing a year-on-year decrease of RMB2.536 billion or 27.80%. Such significant decrease was primarily due to the fact that other net non-interest net income decreased.

The following table sets forth the principal components of the Bank's net non-interest income for the periods indicated.

	Unit: RMB million	
	2019	2018
Fee and commission income	4,477	3,841
Less: Fee and commission expenses	313	135
Net fee and commission income	4,164	3,706
Other net non-interest income⁽¹⁾	2,423	5,417
Total net non-interest income	6,587	9,123

Note: (1) Comprises net trading income/(loss), net income/(loss) on financial investments, other operating income, net, dividend income and net income from investment in associates.

5.2.7 Net fee and commission income

In 2019, the Bank's net fee and commission income was RMB4.164 billion, representing an increase of RMB458 million or 12.36% as compared with last year. Such increase was primarily due to the increase in agency commissions, financial leasing business fee income and bank card fees.

The following table sets forth the principal components of the Bank's fee and net commission income for the periods indicated.

	Unit: RMB million	
	2019	2018
Fee and commission income	4,477	3,841
Settlement and clearing fees	82	54
Guarantee and commitment fees	277	211
Investment banking fees	732	914
Custody fees	504	467
Bank card fees	768	629
Acquiring business fees	20	26
Agency commissions	1,371	1,081
Financial leasing fee income	591	363
Others	132	96
Fee and commission expenses	(313)	(135)
Net fee and commission income	4,164	3,706

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.8 Other net non-interest income

In 2019, the Bank's other net non-interest income was RMB2.423 billion, representing a decrease of RMB2.994 billion as compared with last year. Such decrease was primarily due to the fact that the decrease in net interest income resulting from the scale reduction of financial instruments at fair value through profit or loss presented in net trading income/(loss).

The following table sets forth the principal components of the Bank's other net non-interest income for the periods indicated.

	Unit: RMB million	
	2019	2018
Net income/(loss) on financial investment	85	106
Net trading income/(loss)	2,100	4,973
Net income from investment in associates	154	140
Dividend income	1	0.88
Other operating income, net	83	197
Total other net non-interest income	2,423	5,417

5.2.9 Operating expenses

In 2019, the Bank's operating expenses were RMB7,092 million, representing an increase of 14.29% as compared with last year. Such increase was primarily attributable to the increases in staff costs, other general and administrative expenses to different extents as a result of such factors as reform on the remuneration system for enhancement of talent competitiveness and an increase in cooperation service fees as compared with last year due to rapid development of cooperative business.

The following table sets forth the principal components of the Bank's operating expenses for the periods indicated.

	Unit: RMB million	
	2019	2018
Staff costs	(4,155)	(3,557)
Tax and surcharges	(273)	(218)
Depreciation and amortization	(731)	(435)
Lease expenses ⁽¹⁾	(56)	(375)
Other general and administrative expenses	(1,877)	(1,620)
Total operating expenses	(7,092)	(6,205)

Note: (1) The Bank has adopted IFRS 16-Lease since 1 January 2019.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.10 Asset impairment losses

In 2019, the Bank's allowance for asset impairment losses was RMB11,920 million, representing an increase of 18.44% as compared with last year.

Items	Unit: RMB million	
	2019	2018
Loans and advances to customers ⁽¹⁾	(4,581)	(4,697)
Financial investments	5,403	(4,908)
Deposits with banks and other financial institutions	(707)	(7)
Placements with banks and other financial institutions	9	(17)
Financial assets held under resale agreements	(8)	28
Credit commitments	(72)	(151)
Finance lease receivables	(755)	(299)
Foreclosed assets	(23)	(27)
Other assets	(380)	14
Total	(11,920)	(10,064)

Note: (1) Loans and advances to customers comprise loans and advances to customers measured at amortised cost and at fair value through other comprehensive income.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS

5.3.1 Assets

As of 31 December 2019, the Bank's total assets amounted to RMB1,131,721 million, representing an increase of RMB81,215 million or 7.73% as compared with the end of last year. The increase in total assets was primarily due to an increase in loans and advances to customers.

Unit: RMB million, except for percentages

Items	31 December 2019		31 December 2018	
	Amount	% of the total	Amount	% of the total
Total loans and advances to customers	463,985	41.00	381,766	36.34
Accrued interest of loans and advances to customers	956	0.08	803	0.08
Provision for loan impairment	14,521	1.28	11,907	1.13
Net loans and advances to customers	450,420	39.8	370,661	35.28
Investments	477,254	42.17	504,645	48.04
Cash and balances with the central bank	91,971	8.13	88,144	8.39
Deposits with banks and other financial institutions	14,254	1.26	7,964	0.76
Placements with banks and other financial institutions	4,738	0.42	5,022	0.48
Derivative financial assets	235	0.02	209	0.02
Financial assets held under resale agreements	28,651	2.53	26,287	2.50
Investments in associates	1,242	0.11	1,100	0.10
Fixed assets	2,059	0.18	2,232	0.21
Right-of-use assets	1,058	0.09	–	–
Deferred income tax assets	8,162	0.72	5,749	0.55
Finance lease receivables	43,949	3.88	35,624	3.39
Other assets	7,727	0.68	2,867	0.27
Total assets	1,131,721	100.00	1,050,506	100.00

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.1 Loans and advances to customers

As of 31 December 2019, the Bank's total loans and advances to customers amounted to RMB463,985 million, representing an increase of 21.54% as compared with the end of last year, and the total loans and advances to customers accounted for 41.00% of the Bank's total assets, increase of 4.66 percentage points from the end of last year.

Distribution of loans by product type

The following table sets forth information on the Bank's loans and advances to customers by product type as of the dates indicated.

Unit: RMB million, except for percentages

Items	31 December 2019		31 December 2018	
	Amount	% of the total	Amount	% of the total
Corporate loans	263,783	56.86	223,163	58.46
Discounted bills	21,870	4.71	13,357	3.50
Retail loans	178,332	38.43	145,246	38.04
Total loans and advances to customers	463,985	100.00	381,766	100.00

Corporate loans

As of 31 December 2019, the Bank's total corporate loans was RMB263,783 million, representing an increase of 18.2% as compared with the end of last year, and accounting for 56.86% of the total loans and advances to customers of the Bank, down by 1.6 percentage points from the end of last year. In 2019, in view of the macroeconomic environment and regulatory requirements, the Bank reasonably adjusted and controlled its total loan amount, adjusted its loan structure deeply, and systemically prevented various risks, which achieved simultaneous optimization of loan structure and risk return.

Discounted bills

As of 31 December 2019, the Bank's total discounted bills amounted to RMB21,870 million, representing an increase of 63.73% as compared with the end of last year. In 2019, according to regulatory requirements and changes in bill market, the Bank reasonably developed its discounted bill business to improve the comprehensive return thereof, after thoughtfully considering credit size, market yield, liquidity management and various risks.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.1 Loans and advances to customers (Continued)

Retail loans

As of 31 December 2019, the Bank's total retail loans amounted to RMB178,332 million, representing an increase of 22.78% as compared with the end of last year, and accounted for 38.43% of the total loans and advances to customers, representing an increase of 0.39 percentage point from the end of last year.

Unit: RMB million, except for percentages

Items	31 December 2019		31 December 2018	
	Amount	% of the total	Amount	% of the total
Personal residential mortgage loans	90,031	50.48	84,977	58.51
Personal business revolving loans	6,634	3.72	6,364	4.38
Others	81,667	45.80	53,905	37.11
Total retail loans	178,332	100.00	145,246	100.00

5.3.1.2 Investments

Investments of the Bank consist of listed and non-listed securities denominated in both Renminbi and foreign currencies, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost.

In 2019, the market yield of interest rate bonds showed an overall fluctuating trend. Based on the market situation, the Bank chose to increase the investment in interest rate bonds and local government bonds to optimize the investment portfolio structure.

The following table sets forth the components of the investment portfolio of the Bank by accounting classification:

Unit: RMB million, except for percentages

Items	31 December 2019		31 December 2018	
	Amount	% of the total	Amount	% of the total
Financial assets at fair value through profit or loss	95,225	19.95	106,480	21.10
Financial assets at fair value through other comprehensive income	103,176	21.62	105,806	20.97
Financial assets at amortised cost	278,853	58.43	292,360	57.93
Investments	477,254	100.00	504,646	100.00

Note: As the Group has adopted IFRS 9 – Financial Instruments, the classification and measurement of relevant financial assets are presented in accordance with the requirements of the newly adopted standard.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.2 Investments (Continued)

Financial assets at fair value through profit or loss

The following table sets forth the components of financial assets at fair value through profit or loss of the Bank:

	Unit: RMB million	
	31 December 2019	31 December 2018
Government bonds	1,146	868
Other bonds	1,389	500
Interbank certificates of deposit	50	159
Beneficial rights in asset management and trust plans	70,974	74,698
Non-guaranteed wealth management products managed	20,221	28,910
Interest received	1,447	1,345
Total financial assets at fair value through profit or loss	95,225	106,480

Note: As the Group has adopted IFRS 9 – Financial Instruments, the classification and measurement of relevant financial assets are presented in accordance with the requirements of the newly adopted standard.

As of 31 December 2019, the Bank's financial assets at fair value through profit or loss amounted to RMB95,225 million.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.2 Investments (Continued)

Financial assets at fair value through other comprehensive income

The following table sets forth the components of financial assets at fair value through other comprehensive income of the Bank:

	Unit: RMB million	
	31 December 2019	31 December 2018
Debt securities	95,906	85,907
Inter-bank certificates of deposits	5,511	18,415
Equity securities	181	143
Interest accrued	1,579	1,341
Total financial assets at fair value through other comprehensive income	103,176	105,806

Note: As the Group has adopted IFRS 9 – Financial Instruments, the classification and measurement of relevant financial assets are presented in accordance with the requirements of the newly adopted standard.

As of 31 December 2019, financial assets at fair value through other comprehensive income of the Bank amounted to RMB103,176 million.

Financial assets at amortised cost

The following table sets forth the components of financial assets at amortised cost of the Bank:

	Unit: RMB million	
	31 December 2019	31 December 2018
Debt securities	75,095	63,077
Beneficial rights in asset management and trust plans and others	210,290	233,068
Interest accrued	4,882	4,092
Less: provision for impairment	(11,414)	(7,878)
Net financial assets at amortised cost	278,853	292,360

Note: As the Group has adopted IFRS 9 – Financial Instruments, the classification and measurement of relevant financial assets are presented in accordance with the requirements of the newly adopted standard.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.2 Investments (Continued)

Financial assets at amortised cost (Continued)

As of 31 December 2019, net financial assets at amortised cost of the Bank amounted to RMB278,853 million, of which debt securities accounted for RMB75,095 million while beneficial rights in asset management and trust plans and others accounted for RMB210,290 million.

Carrying value and market value

All assets classified as financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income were recorded at market value or fair value.

The following table sets forth the carrying value and market value of the financial assets at amortised cost in the Bank's portfolio as of the dates indicated:

	31 December 2019		31 December 2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost	278,853	279,504	292,360	292,951

Unit: RMB million

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.3 Subsidiaries and major investee companies

Name	Initial investment amount (RMB'000)	Percentage of shareholdings (%)	Number of shares held at the end of the period (in thousands of shares)	Carrying value at the end of the period (RMB'000)	Sources of shares held	Remark
Jinzhai Huiyin Rural Bank Co., Ltd. ⁽¹⁾	32,800	41	32,800	32,800	Promotion	Subsidiary
Wuwei Huiyin Rural Bank Co., Ltd. ⁽²⁾	40,000	40	40,000	69,513	Promotion	Subsidiary
Huishang Bank Financial Leasing Co., Ltd.	1,020,000	54	1,620,000	1,706,820	Promotion, participation in capital increase	Subsidiary
Chery HuiYin Motor Finance Service Co., Ltd.	100,000	20	300,000	1,242,338	Promotion, participation in capital increase	investee company

Notes:

- (1) Due to the changes in the shareholding of Jinzhai Huiyin Rural Bank Co., Ltd. in 2017, its shareholders, Anhui GuoYuan Investment Co., Ltd. (holding 10% equity interests in Jinzhai Huiyin Rural Bank Co., Ltd.) and Zhang Hua'an (holding 10% equity interests in Jinzhai Huiyin Rural Bank Co., Ltd.) have been acting in concert with the Bank. Such shareholders will agree with the Bank when voting on material decisions regarding financial and operating policies of Jinzhai Huiyin Rural Bank Co., Ltd.
- (2) In 2010, the Bank invested in and established Wuwei Huiyin Rural Bank Co., Ltd. Its registered capital was RMB100 million, of which the Bank contributed RMB40 million, accounting for 40% shareholding. Upon the approval from the CBRC, Wuwei Huiyin Rural Bank Co., Ltd. officially opened for business on 8 August 2010. Although the Bank has no absolute controlling interest in Wuwei Huiyin Rural Bank Co., Ltd., after taking into various factors, the company's operating activities since its incorporation indicated that the Bank has a dominant position over operating activities of Wuwei Huiyin Rural Bank Co., Ltd. Therefore, the Bank has de facto control over it. The Bank included Wuwei Huiyin Rural Bank Co., Ltd. in its consolidated financial statements on 31 December 2014.

For further details of subsidiaries and major investee companies, please refer to section 5.9.7 of this annual report.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.2 Liabilities

As of 31 December 2019, total liabilities of the Bank amounted to RMB1,042,228 million, representing an increase of 6.32% as compared with the end of last year. Such increase was mainly due to the growth of customer deposits, financial assets sold under repurchase agreements, and issuance of bonds.

Unit: RMB million, except for percentages

Items	31 December 2019		31 December 2018	
	Amount	% of the total	Amount	% of the total
Borrowings from central bank	40,689	3.90	40,721	4.15
Deposits from banks and other financial institutions	111,336	10.68	117,696	12.01
Placements from banks and other financial institutions	36,303	3.48	28,779	2.94
Financial liabilities at fair value through profit or loss	—	—	87,599	8.94
Derivative financial liabilities	281	0.03	138	0.01
Financial assets sold under repurchase agreements	50,365	4.83	27,845	2.84
Customer deposits	593,834	56.98	565,961	57.74
Interests payable on customer deposits	9,621	0.92	7,837	0.80
Taxes payable	3,223	0.31	3,243	0.33
Issuance of bonds	183,243	17.58	91,444	9.33
Other liabilities	13,334	1.28	8,967	0.91
Total liabilities	1,042,228	100.00	980,229	100.00

Customer deposits

The Bank has been focusing on and actively expanding its deposit business. In 2019, despite an increasingly intense competition among the peers, the Bank managed to maintain a steady growth of customer deposits through various effective measures. As of 31 December 2019, total customer deposits of the Bank amounted to RMB593,834 million and accounted for 56.98% of total liabilities of the Bank, representing an increase of RMB27,873 million from the end of 2018.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.2 Liabilities (Continued)

Customer deposits (Continued)

The following table sets forth the Bank's customer deposits by product type and customer type as of the dates indicated.

Unit: RMB million, except for percentages

Items	31 December 2019		31 December 2018	
	Amount	% of the total	Amount	% of the total
Corporate deposits				
Demand deposits	249,096	41.95	256,454	45.31
Time deposits	135,546	22.83	133,976	23.67
Subtotal	384,642	64.77	390,430	68.99
Retail deposits				
Demand deposits	59,252	9.98	57,701	10.20
Time deposits	117,714	19.82	90,361	15.97
Subtotal	176,966	29.80	148,062	26.16
Other deposits	32,226	5.43	27,469	4.85
Including: Pledged deposits	32,007	5.39	27,073	4.78
Total customer deposits	593,834	100.00	565,961	100.00

As of 31 December 2019, retail deposits of the Bank accounted for 29.8% of total customer deposits, representing an increase of 3.64% from the end of 2018.

As of 31 December 2019, the Bank's demand deposits to total customer deposits ratio was 42.65%, showing an increase of 3.01 percentage points from the end of 2018. Among them, the proportion of demand deposits in corporate deposits was 22.83%, showing a decrease of 0.84 percentage point over the end of 2018; while the proportion of demand deposits in retail deposits was 19.82%, showing an increase of 3.85 percentage points over the end of 2018.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.3 Equity

Items	Unit: RMB million	
	31 December 2019	31 December 2018
Share capital	12,155	12,155
Other equity instruments	15,990	5,990
Capital reserve	6,760	6,760
Surplus reserve	11,365	9,553
Statutory general reserve	11,115	9,118
Other comprehensive income	1,825	1,587
Retained earnings	27,998	23,049
Total equity attributable to shareholders of the Bank	87,209	68,212
Non-controlling interest	2,285	2,065
Total equity	89,494	70,277

5.4 LOAN QUALITY ANALYSIS

5.4.1 Distribution of loans by the five-category classification

The following table sets forth the distribution of the Bank's loans by the five-category classification as of the dates indicated.

	31 December 2019		31 December 2018	
	Amount	% of the total	Amount	% of the total
(in RMB100 million, except for percentages)				
Pass	4,521.74	97.45	3,719.59	97.43
Special mention	69.96	1.51	58.27	1.53
Substandard	22.30	0.48	15.85	0.42
Doubtful	18.94	0.41	15.05	0.39
Loss	6.91	0.15	8.90	0.23
Total loans and advances to customers	4,639.85	100.00	3,817.66	100.00
Total non-performing loans	48.15	1.04	39.80	1.04

Under the five-category classification system of the loan supervision, the non-performing loans ("NPLs") of the Bank include loans of substandard, doubtful and loss categories. Affected by changes of the external business environment, the Bank's asset quality faced serious challenges in 2019. By focusing on risk prevention and accelerating disposal treatment, the Bank maintained stable quality of assets. As of the end of the Reporting Period, the NPL ratio of the Bank was 1.04%, keeping consistent as compared with the end of last year.

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.2 Distribution of loans and NPLs by product type

The following table sets forth the distribution of loans and NPLs by product type as of the dates indicated.

	31 December 2019				31 December 2018			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
<i>(in RMB100 million, except for percentages)</i>								
Corporate loans	2,637.83	56.86	38.37	1.45	2,231.63	58.46	32.44	1.45
Discounted bills ⁽¹⁾	218.70	4.71	–	–	133.57	3.50	–	–
Retail loans	1,783.32	38.43	9.78	0.55	1,452.46	38.04	7.36	0.51
Total loans and advances to customers	4,639.85	100.00	48.15	1.04	3,817.66	100.00	39.80	1.04

Note: (1) Overdue discounted bills are transferred to corporate loans.

5.4.3 Distribution of loans and NPLs by industry

The following table sets forth the distribution of loans and NPLs by industry as of the dates indicated.

	31 December 2019				31 December 2018			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
<i>(in RMB100 million, except for percentages)</i>								
Commerce and services	500.86	10.79	10.67	2.13	520.20	13.63	6.88	1.32
Manufacturing	448.41	9.66	14.65	3.27	448.86	11.76	15.70	3.50
Public utilities	964.87	20.80	0.24	0.02	672.23	17.61	0.15	0.02
Real estate	189.43	4.08	2.67	1.41	164.28	4.30	0.76	0.46
Construction	276.50	5.96	4.80	1.74	193.07	5.06	2.73	1.41
Transportation	63.55	1.37	0.25	0.39	64.34	1.69	0.49	0.76
Energy and chemical	102.31	2.21	4.11	4.02	100.76	2.64	4.00	3.97
Catering and travelling	10.51	0.23	0.51	4.85	12.92	0.34	1.59	12.31
Education and media	13.80	0.30	0.15	1.09	8.04	0.21	–	–
Financial services	53.16	1.15	–	–	37.73	0.99	–	–
Others ⁽¹⁾	14.43	0.31	0.32	2.22	9.20	0.24	0.14	1.52
Discounted bills	218.70	4.71	–	–	133.57	3.50	–	–
Retail loans	1,783.32	38.43	9.78	0.55	1,452.46	38.03	7.36	0.51
Total loans and advances to customers	4,639.85	100.00	48.15	1.04	3,817.66	100.00	39.80	1.04

Note: (1) Others mainly include the planting, forestry, and livestock industry and the fishery industry.

In 2019, the Bank thoroughly stuck to the overall credit strategy of “practising green concept of credit business to optimize the allocation of credit resources, actively supporting the development of the real economy by strengthening risk controls of key areas and key industries to adhere to the bottom risk line”. The Bank guided credit resources to better serve the real economy and actively allocated credit resources to “small and micro” enterprises as well as developed green credit. The Bank also implemented credit limit management over local government financing platforms, real estate and overcapacity industries to prevent and control risk exposure in the “Non-green Industries” such as steel, coal and shipbuilding and relevant steel and coal trading industries. During the Reporting Period, the increments of non-performing corporate loans of the Bank were mainly from commerce and services.

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.4 Distribution of loans and NPLs by geographical segment

The following table sets forth the distribution of loans and NPLs by geographical segment as of the dates indicated.

	31 December 2019				31 December 2018			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
<i>(in RMB100 million, except for percentages)</i>								
Anhui	4,224.57	91.05	45.09	1.07	3,414.30	89.43	38.50	1.13
Jiangsu	415.28	8.95	3.06	0.74	403.36	10.57	1.30	0.32
Total loans and advances to customers	4,639.85	100.00	48.15	1.04	3,817.66	100.00	39.80	1.04

As at the end of 2019, total loans of Jiangsu Province accounted for 8.95% of the total loans and advances to customers, while NPLs of Jiangsu Province accounted for 6.36% of the Bank's total NPLs.

5.4.5 Distribution of loans and NPLs by type of collateral

The following table sets forth the distribution of loans and NPLs by type of collateral as of the dates indicated.

	31 December 2019				31 December 2018			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
<i>(in RMB100 million, except for percentages)</i>								
Collateralized loans	1,673.89	36.08	24.97	1.49	1,628.19	42.65	24.00	1.47
Pledged loans	1,177.10	25.37	0.44	0.04	804.41	21.07	0.05	0.01
Guaranteed loans	678.68	14.63	18.38	2.71	602.24	15.78	13.33	2.21
Unsecured loans	891.48	19.21	4.36	0.49	649.25	17.01	2.42	0.37
Discounted bills	218.70	4.71	-	-	133.57	3.49	-	-
Total loans and advances to customers	4,639.85	100.00	48.15	1.04	3,817.66	100.00	39.80	1.04

During the economic downturn period, the Bank focused on the implementation of risk mitigation measures including increasing collaterals to prevent and control risk. As at the end of the Reporting Period, both NPL amount and NPL ratio of secured loans of the Bank recorded increases compared with the end of last year due to the effect of an overall economic environment. The Bank has adopted other risk mitigating measures such as improving its guarantee and assets preservation under litigation to handle NPL risk in a timely manner.

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.6 Loans of the top 10 single borrowers

The following table sets forth the Bank's loans of the top 10 single borrowers as of the date indicated.

Top 10 borrowers	Industry borrower belongs to	31 December 2019	% of net capital
		Amount of loans as of (RMB million)	
A	Mining	2,932	2.75
B	Manufacture	2,865	2.68
C	Financial services	1,967	1.84
D	Water, environment and public infrastructure management	1,726	1.62
E	Wholesale and retail	1,622	1.52
F	Water, environment and public infrastructure management	1,600	1.50
G	Water, environment and public infrastructure management	1,457	1.37
H	Water, environment and public infrastructure management	1,440	1.35
I	Real estate	1,380	1.29
J	Mining	1,310	1.23
Total		18,299	17.15

5.4.7 Distribution of loans by overdue period

The following table sets forth the distribution of loans by overdue period as of the dates indicated.

	31 December 2019	31 December 2018
Total overdue customer loans and advances to customers listed by duration (RMB million)		
Within 3 months	2,598	2,170
3 to 6 months (including)	987	1,945
6 to 12 months	1,216	969
Over 12 months	1,646	745
Total	6,447	5,829
Percentage (%)		
Within 3 months	40.30	37.23
3 to 6 months (including)	15.31	33.37
6 to 12 months	18.86	16.62
Over 12 months	25.53	12.78
Total	100.00	100.00

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.8 Restructuring loans

During the Reporting Period, the Bank's restructuring NPLs amounted to RMB355.7657 million, which included 16 corporate loans amounting to RMB215.0796 million and 25 small enterprise loans amounting to RMB139.7861 million and 1 retail loans amounting to RMB0.9 million. In 2019, the restructuring NPLs of the Bank amounted to RMB355.7657 million, representing an increase of RMB63.3518 million from last year.

5.4.9 Transfer of credit assets

The Bank disposes of its non-performing credit assets by transferring such assets to third parties in its ordinary course of business. In 2019, the Bank transferred NPLs of RMB49.8345 million as above stated.

5.4.10 Change of allowances for loan impairment⁽¹⁾

The Bank adopts the Expected Credit Loss Model to assess impairment provision and loss on loans on a regular basis in accordance with the requirements of IFRS 9. In measuring the expected loss, the Bank uses a complex model comprising the future macroeconomic situation and the credit history of borrowers and makes relevant assumptions. After carrying out a forward-looking assessment of the expected credit loss on each loan, the Bank classifies the loans into stage one, two and three accordingly and determines the degree of impairment loss based on the degree of default. The Bank will regularly review the methodology and assumptions such as the criteria for significant increase in credit risk, the definition of credit-impaired assets, the parameters for expected credit loss measurement and forward-looking information to reduce the difference between the estimated impairment loss and the actual impairment loss on loans.

The following table sets forth the changes of allowances for impairment on loans and advances to customers.

Items	Unit: RMB million	
	2019	2018
Balance at the beginning of the period	12,026	9,486
Effect of adopting IFRS 9	0	(439)
Opening balance after adopting IFRS 9	12,026	9,047
Allowances for the period	4,581	4,697
Reversal/unwinding of allowances for impairment caused by the write-down of interest on impaired loans and advances to customers	(41)	(49)
Write-offs and transfer out for the period	(2,519)	(2,173)
Reversal caused by recovery of loans and advances to customers written off	583	504
Balance at the end of the period	14,630	12,026

Note: (1) Loans and advances to customers comprise loans and advances to customers measured at amortised cost and at fair value through other comprehensive income.

Chapter V Management Discussion and Analysis

5.5 CAPITAL ADEQUACY RATIO ANALYSIS

The Bank continued to optimize asset structure, enhance capital management, and met the regulatory requirements on capital adequacy ratio set by the CBRC during the Reporting Period.

The Bank calculated the capital adequacy ratio in accordance with the relevant requirements contained in the “Measures for the Capital Management of Commercial Banks (Trial)” issued by the CBRC. As of 31 December 2019, the Bank’s capital adequacy ratio was 13.21%, core Tier 1 capital adequacy ratio was 8.85%, and Tier 1 capital adequacy ratio was 10.85%.

The table below shows information relating to capital adequacy ratios of the Bank as at 31 December 2019:

Unit: RMB million, except for percentages

	31 December 2019
Core Tier 1 capital	72,785.74
Including: Paid-in capital	12,154.80
Capital reserve	8,585.57
Surplus reserve and statutory general reserve	22,480.31
Retained earnings	27,998.41
Non-controlling interests	1,566.64
Regulatory deductions for core Tier 1 Capital	(1,343.17)
Core Tier 1 capital, net of deductions	71,442.57
Other Tier 1 capital, net of deductions	16,198.79
Tier 1 capital, net of deductions	87,641.36
Tier 2 capital	19,066.88
Including: Tier 2 capital instruments and premium	9,200.00
Surplus loan loss provisions	9,449.11
Non-controlling interests	417.77
Total capital, net of deductions	106,708.24
Credit risk-weighted assets	755,928.89
Market risk-weighted assets	1,099.14
Operational risk-weighted assets	50,513.90
Risk-weighted assets	807,541.93
Capital adequacy ratio	13.21%
Tier 1 capital adequacy ratio	10.85%
Core Tier 1 capital adequacy ratio	8.85%

Chapter V Management Discussion and Analysis

5.5 CAPITAL ADEQUACY RATIO ANALYSIS (Continued)

Pursuant to regulatory requirements, the capital adequacy ratio of the Bank above was calculated after consolidating relevant data of Jinzhai Huiyin Rural Bank Co., Ltd., Wuwei Huiyin Rural Bank Co., Ltd. and Huiyin Financial Leasing Co., Ltd.

Leverage ratio

Unit: RMB million, except for percentages

Item	31 December 2019	31 December 2018
Leverage ratio	7.14%	6.25%
Tier 1 capital, net of deductions	87,641	69,512
Adjusted balance of assets on and off the balance sheet	1,227,078	1,111,338

Note: Indicators related to leverage ratio are calculated pursuant to the "Administrative Measures for Leverage Ratio of Commercial Banks (Revised)" (No. 1 Order of CBRC in 2015) effective from 1 April 2015.

5.6 SEGMENT PERFORMANCES

Operating segments

The Bank provides services through four main business segments: corporate banking, retail banking, treasury and others. The table below sets forth the segment performance of the Bank by business line as at the periods indicated.

	2019		2018	
	Total segment profits	Percentage (%)	Total segment profits	Percentage (%)
	(RMB million, except for percentages)			
Corporate banking business	6,671	54.23	5,539	51.19
Retail banking business	1,892	15.38	1,155	10.67
Treasury	3,550	28.86	3,523	32.56
Others	188	1.53	604	5.58
Total	12,301	100.00	10,821	100.00

Chapter V Management Discussion and Analysis

5.6 SEGMENT PERFORMANCES (Continued)

Geographical segments

Geographically, the Bank's business is mainly in Mainland China. It has set up branches in Anhui Province and Pan-Yangtze River Delta area. The table below lists the Bank's geographical segments performance as at the periods indicated.

31 December 2019					
	Anhui Province	Pan-Yangtze River Delta area	Head office	Inter-segment eliminations	Total
			(RMB million)		
Segment assets	637,331	66,510	424,671	(4,953)	1,123,559
Including: investments in associates	–	–	1,242	–	1,242
Deferred income tax assets					8,162
Total assets					1,131,721
Segment liabilities	(623,221)	(65,251)	(358,709)	4,953	(1,042,228)
Total profits	8,126	844	3,331	–	12,301

31 December 2018					
	Anhui Province	Pan-Yangtze River Delta area	Head Office	Inter-segment eliminations	Total
			(RMB million)		
Segment assets	607,004	40,746	438,832	(41,825)	1,044,757
Including: investments in associates	–	–	1,100	–	1,100
Deferred income tax assets	–	–	–	–	5,749
Total assets					1,050,506
Segment liabilities	(572,096)	(38,229)	(411,729)	41,825	(980,229)
Total profits	7,239	691	2,891	–	10,821

5.7 OTHERS

5.7.1 Off-balance sheet balances and important circumstances that may have significant impacts on the financial position and operating results of the Bank

The off-balance sheet items of the Bank include letters of guarantee, letters of credit, bank acceptance and bank commitment letters. Commitment letters include loan commitments, operating leases commitment, capital commitment, and certificate government bond honor commitments. Contingencies and commitments can be found in Note 44 to the financial statements.

5.7.2 Overdue outstanding debt

At the end of 2019, the Bank had no overdue outstanding debt.

Chapter V Management Discussion and Analysis

5.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICY AND THE FOCUSES OF THE OPERATION

In 2019, the global economic growth slowed down with rising external uncertainties. Despite the generally stable domestic economic development and the steady implementation of structural adjustments, the significantly increased risks and challenges arising from changes in long-term and short-term, internal and external factors added to the downward pressure on the economy.

1. The existence of external pressure and various risks

In 2019, the global economic growth rate fell to its lowest level in 10 years, which was mainly manifested by the weak economic growth engine and driving force of the US, the continuously sluggish European economies, the stagnant economy of Japan severely dragged down by its exports and consumption, the generally slow-down economic growth and the implementation of interest rate cut policies in major emerging market countries, and the descending PMI indexes and exports in most emerging markets. More than 30 economies around the world have announced interest rate cuts, and some economies have even cut interest rates for several rounds, and some countries even have adopted the regime of negative interest rate. It should be noted that once ease monetary policies are successively adopted in major economies, it may lead to the competitive depreciation of currencies of various countries and may cause the global asset bubble to continue to expand. Taking into account the risk factors such as the twists and turns of Sino-US trade negotiations and the rising geopolitical risks in the Middle East, China's development still faces huge challenges and uncertainties of the external environment. As indicated in the "World Economic Situation and Prospects 2020" published by the United Nations, due to the trade tensions and the sharp decline in the investment, the global economic growth slipped to 2.3% in 2019, and the global economic growth rate was projected at 2.5% in 2020. However, the impact of trade tension, financial turmoil or an increase in geopolitical tensions will still hinder the recovery process of the global economy. With the significantly increasing uncertainties faced by the banking sector in the future, high attention should be paid to the adverse effects of the trend shifts of monetary policies and the changes of emerging markets.

2. The slight downturn of the domestic economy for the year

In 2019, amid the increasing internal and external uncertainties and challenges, China's economy continued its slightly downward trend since 2018, and stopped falling and stabilized in the fourth quarter. The GDP growth for the year was 6.1%, and the GDP growth in the second and third quarters dropped by 0.2 percentage point respectively. As a result, the GDP growth for the third quarter fell to 6.0%, recording the lowest rate since 1990. From the perspective of the supply side, the industrial structure continued to be optimized, the industrial added value gradually declined and maintained a low level, the manufacturing PMI generally remained in the contraction range, and the index of services production showed a trend of high level in the first half and low level in the second half. From the demand side, the overall investment in fixed assets gradually declined, with an annual growth rate of 5.4%, hitting another record low; infrastructure investment improved slowly, an increase of 3.8% over the previous year, showing insufficient support for the economy; the growth of investment in manufacturing at the end of the year rebounded by more than expected to 3.1%, and the growth of real estate development investment slowed down with strong momentum; the growth of imports and exports decreased significantly, and the recessionary trade surplus continued to increase. As a result of the surge in food prices, the overall CPI rose significantly year-on-year, but the core inflation still maintained a low level and PPI once again entered the deflationary range. At present, the real economy, especially the private economy, is facing more difficulties, enterprise profits have slowed down, and the total profits made by industrial enterprises above the designated size have dropped by 3.3% year-on-year, showing a continuously downturn of enterprise prosperity.

Chapter V Management Discussion and Analysis

5.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICY AND THE FOCUSES OF THE OPERATION (Continued)

3. Increasing risk exposures in financial sector

Affected by increasing global economic uncertainties, the escalation of Sino-US trade frictions, and financial turmoil in emerging economies, coupled with the significant change of market expectations and the increasing risk exposures, a balance was sought in the implementation of policies and measures to support entities, prevent risks, and stabilize the market. In terms of macro leverage ratio, in the first three quarters of 2019, China's macro leverage ratio increased by 5.1, 0.7, and 1.6 percentage points, respectively, with a cumulative increase of 7.4 percentage points, hitting another record high, of which residents and the government have become the main force of leverage. Rising macro leverage ratio also means the accumulation of risks. In terms of financial institutions, the occurrence of bank credit risk incidents contributed to solving problems in relation to the interbank rigid payment, and small and medium-sized banks was facing pressure to shrink their balance sheets, accelerating the classification of bank credit risk; as the supervision over the person-to-person online lending industry was increasingly tightened, as at the end of 2019, there were only 248 online lending institutions in operation in the country, decreasing by 76% compared with the beginning of 2019, leading to a significant decline of Internet financial risks. In the financial market, default events in the bond market further increased. In 2019, there were a total of over 100 bond defaults with a total value of more than RMB100 billion, of which the defaulting entities were mainly private enterprises. In light of the frequent occurrence of default events associated with star companies, the belief in high ratings was broken. In terms of the foreign exchange market, the exchange rate of RMB against the US dollar has shown a ladderling downward trend since 2019 and fell to around 7.13 in the third quarter due to the impact of trade frictions, and began to stabilize and rebound in the fourth quarter. Overall, under the combined effects of internal and external factors, the historically accumulated risks and contradictions are still being exposed.

4. Enhancing the effectiveness and efficiency of fiscal policies

In the face of downward pressure on the economy, the focus of fiscal policy has turned to stabilizing growth since the second half of 2019, and the effectiveness and efficiency of fiscal policies have been enhanced. A combination of inclusive tax reduction and structural tax reduction was implemented to focus on reducing the tax burden on manufacturing industry and small and micro sized enterprises, and supporting the development of real economy. Inclusive tax reduction was introduced to small and micro sized enterprises and technology-based start-ups. Emphasis was given to the areas in need of strengthening the innovation in financial support and promoting the development of the manufacturing industry with high quality. Investment in research and development was increased to improve innovation capability and efficiency. Private enterprises and small and medium-sized enterprises were better served to improve the viability of market players, accelerate the development of new driving force and enhance economic innovation and competitiveness. With the continuously introduction of fiscal policies, positive factors began to appear: firstly, the reduction of external demand constraints, the underpinning of infrastructure investment, and the reduction of taxes and fees have formed certain support for industrial production; secondly, the accelerated pace of special bond issuance since the third quarter and the early issuance of 2020 special bond quota in the fourth quarter will continue to boost the growth of infrastructure investment; thirdly, tax cut, fee reduction, consumption stimulus policy, improved automobile consumption and residential consumption upgrade will bolster the consumption.

Chapter V Management Discussion and Analysis

5.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICY AND THE FOCUSES OF THE OPERATION (Continued)

5. Transmission channels of monetary policy to be smoothed

The PBC Central Bank insisted on stable monetary policy, while maintaining its focus and “self-centred”, it has increased forehead and micro adjustment to monetary policy, directed targeted funds to key and weak fields in the real economy and promoted the “combination of two tracks into one” loan interest rates to popularize the use of LPR and alleviate the problem of difficult and expensive financing for corporate. As at the end of December 2019, the balance of broad money (M2) was RMB198.65 trillion, representing a year-on-year increase of 8.7%, up 0.6 percentage point from the same period of the previous year. After being included in the local government special debt, in 2019, the cumulative increase in social financing scale was RMB25.58 trillion, an increase of RMB3.08 trillion over the previous year. The restoration of social financing was due to the collective support of credit loan, off-balance-sheet and bond financing. Among the social financing, long-term household loans, short-term corporate loans and bill financing was the main sources of credit increase; small and micro enterprise loans have shown a trend of “increasing volume, falling prices, and expanding scope”. As at the end of 2019, the inclusive loans to small and micro enterprises supported 27.04 million small and micro business entities, a year-on-year increase of 26.4%; off-balance-sheet financing has been significantly narrowed on a year-on-year basis due to the reduction of financial regulatory margins and a low base, which has reduced the effect on social financing; under the guidance of the issuance of special bonds by local governments and the “three arrows” of private enterprises, bond issuance has accelerated. The policy will remain more focused on targeted regulation to channel the fund to real economy, and guide reasonable growth of money and credit and social financing.

5.9 BUSINESS OPERATION

5.9.1 Wholesale banking

Business overview

The Bank provides a full range of wholesale financial products and services to corporations, financial institutions and governmental and institutional customers. During 2019, based on its characteristics as a city commercial bank, the Bank continued to develop its local market in Anhui Province while exploring markets in Nanjing and other provinces, and provided customers with comprehensive financial services and fully supported the development of the real economy by leveraging various products, means and tools. The Bank continued to strengthen its advantage in the traditional wholesale business with municipal, governmental and institutional customers. It has further accelerated the innovation of its business modes and products, continued to foster new business growth point, adjusted its business structure, enhanced risk control, fully increased its asset profitability, facilitated the steady increase of interest income and rapid growth of the proportion of non-interest income in total income, and promoted the fast and healthy development of the wholesale business. As of 31 December 2019, the Bank's market share of domestic and foreign currency corporate deposit continued to rank the first in Anhui Province for twelve consecutive years. Transformative businesses including investment banking and transaction banking all achieved rapid growth and innovative businesses including loans dedicated to people's livelihood and rural revitalization were widely recognized by the market.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Business overview (Continued)

In 2020, in the constant aim of comprehensive development, the Bank will positively respond to market changes, continue to expand quality clients and strive to strengthen product innovation and services optimization to accelerate structural adjustment and business transformation and enhance professional service ability, so as to provide professional and comprehensive financial services to clients, whereby striving to realize sustainable development of wholesale banking business as well as fully supporting the development of the real economy.

Corporate loans

The Bank's corporate loans mainly include working capital loans, fixed asset loans, PPP project loans, supply chain financing and other loans. During 2019, the Bank, in compliance with laws and regulations, adhering to the principle of "taking protective or suppressive measures" and with reference to macro-economic policies of China, further optimized the industry structure of corporate loans by prioritizing its support to emerging strategic industries, modern services industries and traditional industries with competitive advantages and introduced innovative businesses including loans dedicated to people's livelihood and rural revitalization and loans for pension institutions. The Bank made great efforts to develop green loans such as new energy, energy conservation and environmental protection loans, and effectively controlled the growth of government financing platforms and loans to the "Non-green Industries". As of 31 December 2019, the Bank's balance of corporate loans (including discounted bills) was RMB285,653 million, representing an increase of RMB49,133 million from the last year.

Corporate deposits

While intensifying its efforts to maintain existing customers, the Bank put emphasis on application and innovation of its deposit product portfolios, and enhanced coordinated marketing of corporate banking business and personal banking business, so as to provide integrated services solutions to customers and improve comprehensive income of its various businesses. Through making all-out efforts to develop businesses such as investment banking, supply chain finance, cash management, bill and custody business, the Bank has taken in a substantial amount of low-cost corporate deposits by continuously improving the quality of customer services and broadening the sources of deposits. As of 31 December 2019, the Bank's balance of corporate deposits amounted to RMB384.642 billion (excluding margin deposits).

People's livelihood loan business

In order to implement the relevant policy requiring the financial support for people's livelihood and to broaden the financial services pipeline for bidding and tendering projects, the Bank launched the "livelihood loan" series of products. The launch of the "livelihood loan" products effectively alleviated the problem of financing difficulties for the bid-winning enterprises in the livelihood projects, and has greatly promoted the development of the real economy. As at the end of 2019, the cumulative approval amount of the livelihood loan business was RMB15.787 billion.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Transaction banking

In 2019, the Bank regarded the digital transformation of Fintech-driven products and returning to the fundamental purposes of trading to consolidate the customer base as the focus of the transformation and development of supply chain finance. Leveraging on the innovative products with Internet, digitization and intelligent service, the Bank focused on major industries and industry chain scenarios to improve the ability of services to business customers and enhance the quality and effectiveness of financial service for small and macro and private enterprises with the support of supply chain finance.

Cash management business is a strategic transaction banking business of the Bank in response to the challenge brought by interest rate liberalization. Through the establishment of a transaction banking business model to provide various services including account management, receipt and payment management, liquidity management, investment and financing management, risk management and information services, the Bank was committed to building a domestic and foreign currency integrated transaction banking services platform, to give full play to advantage of the strength of professional services of transaction banking and meet cash management demands of customers during the entire transaction process, thus comprehensively promoting the fast development of online corporate banking business. By vigorously promoting product innovation and increasingly expanded customer base and services scope, cash management comprehensive services ability and market influence of the Bank were significantly enhanced. Particularly, the Bank's advantageous asset and cash management scheme for government and industries is taking a leading position. During 2019, the transaction amount of cash management business of the Bank exceeded RMB2,100 billion, representing an increase of 31% from the last year.

In 2019, based on the overall balance of assets size, liquidity, profitability and risks, the Bank actively responded to the changes in the business environment and scientifically followed the development pace of bills business development, to enhance the profitability of bills business and facilitate the full compliance and healthy development of bills business. As of 31 December 2019, the Bank's balance of direct discounted bills was RMB7,495 million, an increase of RMB4,080 million from the end of last year. The Bank's balance of transferred discounted bills amounted to RMB14,375 million, representing a year-on-year increase of RMB4,433 million.

In 2019, persistently adhering to customer-centric service philosophy, the Bank constantly sought breakthroughs in product innovation of international business to improve its international market share and gave full play to the advantages of professional services, to fully enhance the ability of comprehensive financial services. As at the end of 2019, the Bank completed cross-border settlement in a total of USD7,660 million; the accumulatively granted on-sheet international trade financing amounted to RMB7,100 million; domestic letters of credit and financing business thereunder amounted to RMB33,200 million; and financing external guarantee amounted to USD1,827 million. The business volume in all respects has been steadily improved.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Transaction banking (Continued)

In 2019, against the backdrop of two-way fluctuation in the exchange rate, the Bank closely followed the trend of the market and developed the transactions conducted on behalf of clients and proprietary transactions simultaneously on the prerequisite of strictly controlling risks and ensuring liquidity, accomplishing a total volume of foreign exchange transactions of USD21,489 million (including spot foreign exchange, forward foreign exchange, foreign exchange swap, foreign currency lending).

In developing correspondent banking channels, the Bank implemented its new layout and new strategies of correspondent banks in line with “One Belt, One Road” initiative and further improved its overseas network of correspondent banking relationships based on customer and business development demands. As of the end of 2019, the number of correspondent banks of the Bank was 682, and the total number of overseas clearing accounts for the main settlement currencies amounted to 14. It also further improved the anti-money laundering compliance risk management system for overseas agency business. As the Bank constantly optimized correspondent banking structure and improved clearing channels, correspondent banking customer demands for clearing and settlement services were fully satisfied..

Investment banking business

To promote its business transformation, the Bank focuses on developing investment banking services such as lead underwriting of debt financing instruments, asset securitization, M&A financing, structural financing, investment and financing consulting. The Bank continually enriches its investment banking products by launching innovative products such as asset securitization, direct wealth management financing instruments, debt financing plans, credit risk mitigating instruments and other innovative products.

After being promoted to type A lead underwriting qualification by the National Association of Financial Market Institutional Investors, the Bank has vigorously promoted the underwriting business of debt financing instruments. During 2019, the Bank completed the registration of 18 debt financing instruments, with a total registered amount of RMB34.55 billion; and completed the issuance of 31 debt financing instruments with an underwriting amount of RMB14.80 billion, increasing by 24.58% as compared to last year. Among that, the Bank completed the registration of 6 debt financing instruments, with a total registered amount of RMB10.70 billion; and completed the issuance of 6 debt financing instruments with an underwriting amount of RMB3.60 billion in Jiangsu, demonstrating its great achievements in expanding debt financing instruments business there. At the same time, through independent creation of credit risk mitigation vouchers, the Bank helped private enterprises in debt issuing and financing, realized the breakthrough of bond financing support tools business, and effectively mitigated the difficulty in and high cost of financing for private enterprises.

Since 2019, with joint efforts of its head office and branches, the Bank continued to make breakthroughs in the asset securitization business, completing the lead underwriting business of multiple corporate asset securitization products. The Bank also achieved rapid growth in debt financing plan business and further satisfied the diversified corporate financing needs.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business

Business overview

In 2019, through intensifying its efforts in market expansion, enriching marketing campaigns and models, innovating financial products and services and accelerating business channel and team building, the Bank continually promoted the construction of inclusive finance systems, wealth management and private banking systems and transformation and upgrade of our outlets. These efforts have helped lay a solid foundation for retail business development of the Bank and improve the performance indicators and regional competitiveness of its retail business.

In 2019, as the Bank's active customers maintained a steady growth, and the number of medium-to-high-value customers grew fast, the structure of customer base was further optimized. As of the end of 2019, the number of customers with customer equity of RMB500,000 or above amounted to 146,423, representing an increase of 55.1% as compared with the beginning of the year. The number of customers with customer equity over RMB2 million increased by 62.6% from the beginning of the year. Wealth management business maintained a rapid growth rate, with the Bank's personal financial assets under management (AUM) reaching RMB330 billion, sales and ownership of wealth management products (WMPs) growing rapidly, and sales of PRC treasury bonds maintaining a leading position in the province.

The scale of deposits and loans of retail customers expanded continuously. New indicators for retail deposits reached a historic high. Market share of retail deposits in Anhui Province has kept rising since the listing of H Shares of the Bank. Moreover, the growth rate of retail deposits has surpassed the average growth rate of Anhui Province for several consecutive years since the listing. The scale of retail deposits at county level maintained a relatively fast growth. The business scale of retail loans continued to expand, with the scale of retail loans exceeding RMB170 billion and pricing levels of retail loans being improved constantly.

In 2019, the bank card business maintained good momentum of development with new breakthroughs were made in product design and channel building. The scale of card issuance grew steadily, the number of card issuance accelerated and the number of active cards and average balance per card continued to increase. As of the end of 2019, the debit card business continued to develop with total transaction volume via debit cards amounting to 399 million, and transaction amount via debit cards amounting to RMB3.34 trillion. Throughout the year, the Bank has realized a debit card transaction volume of 8.2846 million, representing an increase of 28.83% as compared with the corresponding period of the last year, and the transaction amount amounted to RMB75.725 billion, representing a decrease of 5.96% as compared with the corresponding period of last year.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business (Continued)

Business overview (Continued)

With the strong impacts of interest rate liberalization and fintech, and the increasingly stringent regulatory environment, the retail business will be under the operating pressure to a considerable extent. Nevertheless, the Bank will actively grasp the development opportunities, stick with the basic role of financial services and improve comprehensive ability of its personal banking services. Through improving its retail business philosophy, management standard, innovation capability and technology level, the Bank will strengthen the retail business talent pool, improve the capabilities of outlets, broaden wealth management product lines, improve service quality, strengthen data analysis ability and advance digital transformation of retail business. At the same time, the Bank will accelerate the building of wealth centers, and lay a solid foundation for the construction of inclusive finance, mobile finance and transformation and upgrade of our outlets, so as to further optimize the structure of the retail business, maintain a rapid and healthy growth in each of the retail business, and comprehensively improve the overall competitiveness of the retail business and its contribution to the entire business.

Wealth management business

The Bank's personal wealth management business mainly includes personal wealth management services, agency service for sales of funds, agency service for sales of insurance products, agency service for sales of treasury bonds and agency service for sales of precious metal. In 2019, the personal wealth management business (excluding direct banking business) amounted to RMB164,777 million, representing an increase of RMB62,222 million or 60.67% from the beginning of the year. In particular, funds raised from personal wealth management business totaled RMB362,390 million, representing an increase of 76.82% as compared with the same period of the last year. In 2019, income from the intermediary business under the personal wealth management business of the Bank achieved was RMB276 million.



Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business (Continued)

Bank card business

One card

In 2019, the Bank further deepened the expansion and operation of the customer base of retail business. In adherence to the customer-centric business philosophy and with an aim to cater to the customers' needs, through upgrade of product mix, technical innovation and system optimization, the Bank vigorously promoted the circulation of financial IC cards, enhanced the resource integration of preferential merchants, proactively carried out various kinds of marketing activities for bank cards, constantly cultivated the card-using habits of customers and constantly enhanced its customer loyalty, so as to further achieve a steady and continuous growth in Huangshan Debit Cards transactions. As at the end of 2019, the Bank issued a total of 18.7587 million cards, including 14.4322 million debit cards, and 1.7371 million cards newly issued during the year; total deposits of the cards amounted to RMB96,320 million, representing an increase of 33.79% as compared with the same period of the last year, and deposit per card amounted to RMB6,700, representing an increase of 21.82% as compared with the same period of the last year.

Credit card

In respect of credit card business, under the overall development framework of "One Body, Two Wings (一體兩翼)", with aim to build and improve the digital credit card service system, the Bank vigorously expanded its customer base and underlying assets, fully implemented Internet, digitization and intelligent service, and improved the market influence, revenue contribution, risk control capability and customer satisfaction of credit card business.

As at the end of the Reporting Period, the Bank issued 1,470,920 valid credit cards. The number of credit cards issued during the Reporting Period was 280,570. Throughout 2019, the transaction amount of credit cards was RMB39.89 billion in aggregate. The credit card overdraft amount was RMB13.159 billion, representing an increase of RMB1.921 billion as compared with the end of the last year. Credit card income amounted to RMB898 million, representing an increase of 18.5% as compared with the same period of the last year. As of 31 December 2019, credit cards NPL ratio was 2.35%, representing an increase of 0.40 percentage point from the end of the last year.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business (Continued)

Retail loans

In 2019, the Bank increased its effort to develop the personal home loan business market, steadily promoted the development of personal home loan business and continued to expand the operating scale. The Bank also constantly raised the personal home loan pricing level to increase the profitability of personal consumption loans. The overall asset quality of personal home loans of the Bank was relatively good and the level of NPL ratio was relatively low, allowing the Bank to take an advanced position among peers. Meanwhile, given that the vast majority of new NPLs were fully secured by risk mitigation measures, such as collaterals, the possibility of sustaining eventual losses on such loans is slim. As at the end of 2019, the balance of personal home loans of the Bank under the headquarters amounted to RMB89.746 billion, representing an increase of RMB4.921 billion or 5.80% as compared with the beginning of the year. As the Group has adjusted the measurement of NPL to more than 60 days past due, NPL ratio of personal home loan of the Bank under the headquarters was 0.24%, representing an increase of 0.04 percentage point as compared with the beginning of the year.

In 2019, the inclusive financial business followed the principle of high quality development, driven by “on-line, digitalization, intelligence”, focused on target customers, and focused on creating two series of brands: “Micro P2P Lending (微網貸)” of operating category and “fast e Lending (快e貸)” of consumption category and in-depth promoting personal operating lending, Micro lending, personal consumption lending and poverty alleviation financial work to consolidate the basic development and comprehensively promote the rapid and healthy development of inclusive financial business.

As at the end of 2019, personal business loans and microloan of the Bank amounted to RMB32.108 billion, representing an increase of RMB2.470 billion or 8.33% as compared with the beginning of the year; NPL ratio of personal business loans and microloans of the Bank was 0.99%, representing a decrease of 0.03 percentage point as compared with the beginning of the year. The balance of personal non-home consumption loans of the Bank amounted to RMB8.342 billion (excluding credit card consumption loan), representing an increase of RMB5,993 million or 255.24% as compared with the beginning of the year; NPL ratio of personal non-home consumption loan of the Bank (excluding credit card consumption loan) was 0.56%, representing a decrease of 0.42 percentage point as compared with the beginning of the year.



Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business (Continued)

Retail customer deposits

In 2019, facing the change in the growth rate of macro economy, reform on LPR rate and other complicated external economic situation, the personal customer wealth management ideology of the Bank enhanced steadily. By adhering to customer oriented operation philosophy, the Bank concentrated on customer assets allocation, payment settlement and consumption loan to construct a comprehensive service section of finance and non-finance through the intensification of coordination of public and private sectors, thereby improving the capability of retaining customers, classifying customers and precise marketing, achieved rapid growth in retail customer deposits. As at the end of 2019, the Bank's retail customer deposits amounted to RMB176.966 billion, representing an increase of 19.5% as compared with the end of the last year. The Bank's county-level retail deposits under the headquarters amounted to RMB55.836 billion, representing an increase of RMB12.566 billion or 29.04% as compared with the beginning of the year. As at the end of 2019, the market share of the Bank's retail deposits in Anhui Province reached 6.65%, representing an increase of 0.35 percentage point from the beginning of the year. Retail deposits of the year were characterized with a fast and steady growth with optimized structure.

5.9.3 Financial market business

During 2019, Chinese economy faced increasing downward pressure and was still in the critical period of changing development mode, optimizing economic structure and replacing growth drivers. As such, the growth of economy of the country slowly decreased, which, however, will not change the basic trend of Chinese economy going stable and prosperous in a long run. In terms of RMB bonds investment, the Bank adhered to the principle of serving the real economy and made rational investment plans by enhancing study on the trend of overall economy and actively adjusting investment portfolio duration. Firstly, the Bank moderately adjusted the allocation of government bonds, policy-related financial bonds and local government bonds, and maintained the investment in corporate bonds within the region to increase the support for the real economy. Secondly, the Bank continued to increase the proportion of intermediate business income through strengthening customer development, enhancing business innovation, improving marketing ability and intensifying business collaboration. Thirdly, the Bank strived to seize the market opportunities, improved the ability of investment and research and the ability to seize the timing of market, and increased the proportion of spread income.

In 2019, the Bank actively participated in innovative business, while the counter debt business was officially passed inspections and granted. The commencement of the counter debt business marked the improvement in the system of financial products and services as well as the comprehensive financial service capability.



Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.4 Asset management business

During 2019, with the gradual implementation of new regulations on asset management, the industry landscape of general asset management has dramatically changed. The Bank made active response to the new trend and new situation of asset management business by accelerating business exploration, speeding up the transformation and continuously enriching business varieties to seek new ways of development. On 21 August 2019, the establishment of a financial management subsidiary of the Bank was approved. At present, the Bank is actively promoting the preparation of establishment, striving to have it opened earlier and operated steadily. In 2019, the balance of the Bank's wealth management products at the end of the Reporting Period amounted to RMB187.826 billion, representing an increase of 64.53% as compared with the same period of last year, of which the proportion of balance of non-guaranteed wealth management products was about 96.80%. The balance of net-worth wealth management products at the end of the Reporting Period amounted to RMB103.288 billion, accounting for about 54.99%. The transformation towards net-worth wealth management products was carried out orderly. In terms of customer system, in 2019, the Bank further optimized the mix of wealth management customers. The balance of personal wealth management products reached RMB158.299 billion, representing an increase of 63.21% over the same period last year and accounting for approximately 84.28% of the total.

5.9.5 Fund custody business

In 2019, by closely following the overall strategic plan and work arrangement, and upholding the market-oriented, innovation-driven and customer-centered service philosophy, the Bank strengthened the brand building of its custody business, continuously optimized service process, broadened service contents, improved service efficiency, accelerated the construction of the custody business system and comprehensively improved the core competence of custody business, thus achieving sustainable and steady growth in the scale of custody assets and intermediate business income. In terms of the the year-on-year increase of the scale of custody assets and intermediate business income, the Bank ranked leading position in the industry for each quarter of the year. The Bank secured the first place in the industry in terms of the year-on-year increase of custody fee and the increase of the scale of custody assets ranked the second in the industry and the first among city commercial banks as at the end of 2019. The Bank also made great achievements in major custody products through coordinated arrangement of the Bank with focused promotion. Both the balance of public funds custody and the scale of allotted government funds had exceeded RMB20 billion. The balance of insurance asset management products under custody had firstly exceeded RMB10 billion with a continuous improvement in its market influence.

As of 31 December 2019, the balance of assets under custody (excluding regulating products of corporate and investment banking) of the Bank amounted to RMB820.400 billion, representing an increase of RMB128.614 billion or 18.59% as compared with the corresponding period of the last year. The Bank's custody asset business (excluding regulating products of corporate and investment banking) generated a custody fee income of RMB366.8314 million, representing an increase of RMB76.1569 million or 26.20% as compared with the corresponding period of the last year.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.6 Distribution channels

The Bank uses a variety of distribution channels to provide products and services. The Bank's distribution channels are mainly divided into physical distribution channels and electronic banking channels.

Physical distribution channels

As of 31 December 2019, the Bank had a total of 623 self-service banks (including single points) with 1,803 cash self-service equipment (including 63 ATMs, 1,095 CRSs, 318 self-service terminals and 327 smart self-service terminals (including self-service card issuing machines)).

Electronic banking channels

The Bank put great emphasis on developing and improving electronic banking channels, including online banking and mobile banking. In 2019, the Bank enhanced the management on the operation of electronic channels centered on mobile internet, which effectively relieved the pressure on outlets. In 2019, the trading account transactions via retail electronic channels accounted for 95.97%, representing a year-on-year increase of 2.6 percentage points; whereas trading account transactions via corporate electronic channels accounted for 89.26%, representing a year-on-year increase of 4.13 percentage points.

Online banking

In 2019, the Bank's personal online banking business maintained a steady development with a steady growth in customer base and increasing trading activity of customers. As at the end of 2019, the total number of personal online banking customers reached 4.8148 million. The number of personal online banking transactions accumulated to 415.0955 million in 2019, representing a year-on-year increase of 42.67%. Among these transactions, the number of online payment transactions was 210.0476 million, representing a year-on-year increase of 52.97%, and the transaction amount was RMB150.462 billion, representing a year-on-year increase of 96.01%. In 2019, by adapting to the strategy of transformation and development of a digital bank and integrating corporate online banking, cash management platform and financial service platform for small business, the Bank created a unified electronic service portal to corporate business – Transaction Platform (交易家平台). Through business innovation driven by technology empowerment, the Bank offers one-stop integrated financial services to corporate customers. As at the end of 2019, the Bank's total number of enterprise online banking customers reached 0.24 million with 99.0441 million enterprise online banking transactions, representing a year-on-year increase of 88.31%. The transaction amount of enterprise online banking accumulated to RMB2,699.282 billion, representing a year-on-year increase of 33.63%.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.6 Distribution channels (Continued)

Mobile banking

In 2019, the Bank's personal mobile banking continued to maintain a rapid growth with increasing customer activity. As at the end of 2019, the total number of contracted mobile banking customers reached 4.5409 million. The number of mobile banking transactions reached 131.3945 million, representing a year-on-year increase of 38.71 %. The transaction amount accumulated to RMB756.246 billion, representing a year-on-year increase of 98.02%.

Direct banking business

In 2019, the Bank maintained a leading position in terms of the comprehensive strength of the Bank's direct banking brand "Hui Chang You Cai (徽常有财)". As at the end of December 2019, the number of direct bank accounts of the Bank exceeded 19 million; the balance of personal financial assets under management sold by agents was RMB6.444 billion, the cumulative transaction volume of wealth products exceeded RMB99.938 billion, and the accumulated amount of various loans was RMB33.22 billion, with a loan balance of RMB25.785 billion. The Bank's direct banking brand "Hui Chang You Cai (徽常有财)" was shortlisted for "China's Top 100 Quasi-Unicorn Enterprises in 2019" at the "2019 New Enterprise Forum" and was awarded the "2019 Internet Finance Quasi-Unicorn Brand". Due to its strength in direct banking, the Bank was shortlisted for "China's Top 100 Financial Technology Competence in 2019" at the 3rd Fintech and Financial Security Summit; "Hui Chang You Cai (徽常有财)" won the "2019 Direct Bank Innovation Pioneer Award" at the 2nd Digital Transformation Strategy Conference for Commercial Banks. "Hui Chang You Cai (徽常有财)" ranked the second, one place up in China on the 2019 Direct Bank Rankings published by China Internet Weekly magazine, and was awarded "The Best Direct Bank of 2019" at the 2019 Bank Digital Transformation Summit Forum and the 15th Annual Conference of China E-Bank; It was granted "The Best Block Chain Innovation Award for Direct Bank of 2019" at the 17th Chinese Internet and Economy Forum in the 2019 and was included in "2020 Hurun New Financial Top 100 List" at the "2020 Hurun New Financial Top 100 List" summit.



Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.7 Subsidiaries and major companies in which the Bank has shareholdings

Subsidiaries

Huiyin Financial Leasing Co., Ltd.

Registered in Hefei, Huiyin Financial Leasing Co., Ltd., a financial leasing company under the national banking system as approved by the CBRC, officially commenced its business on 30 April 2015 with a registered capital of RMB2,000 million. Huiyin Financial Leasing was jointly established by the Bank, Anhui Foreign Economic Construction (Group) Co., Ltd. and Materials Industry & Trade Company of China Tiesiju Civil Engineering Group Co., Ltd. The Bank contributed RMB1,020 million to the registered capital of Huiyin Financial Leasing, accounting for 51% of its shareholdings. Huiyin Financial Leasing successfully increased its capital in 2018 with its registered capital increased to RMB3,000 million, of which 1,620 million shares are owned by the Bank, accounting for 54% of its shareholding.

The principal businesses of Huiyin Financial Leasing include: (1) financial leasing; (2) handling financial leasing assets as transferor or transferee; (3) fixed-income securities investment; (4) taking leasing deposits from lessees; (5) taking time deposits of three months or more from non-banking shareholders; (6) inter-bank lending; (7) borrowing loans from financial institutions; (8) off-shore borrowing; (9) sale and disposal of leased properties; (10) economic consultation (carrying out business activities within the business scope approved by the CBRC Anhui Office); and (11) other businesses approved by the CBRC.

During 2019, Huiyin Financial Leasing Co., Ltd. followed Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and deepened study and implementation of the underlying principle of the 19th CPC National Congress and the spirit of the Second, Third and Fourth Plenary Session of the 19th CPC Central Committee. The Bank closely adhered to the Five-year (2015-2019) Development Strategic Planning to continuously take the development as the first priority, strengthen corporate governance, strive to seize the market opportunities, strictly manage and control the risks, enhance scientific management, and constantly consolidate fundamental work. With the annually increasing scale of assets and increasing overall strength as well as leading comparable companies in terms various business indicators, the Bank had achieved the strategic goals of “good start, good arrangement, steady progress, long-term development”. In 2019, the amount of investment of lease assets completed by Huiyin Financial Leasing Co., Ltd. was RMB22.84 billion. At the end of 2019, the company had total assets, total liabilities and owners’ equity of RMB48.52 billion, RMB43.801 billion and RMB4.719 billion, respectively, achieving net profit of RMB682 million for the year.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.7 Subsidiaries and major companies in which the Bank has shareholdings (Continued)

Subsidiaries (Continued)

Jinzhai Huiyin Rural Bank Co., Ltd.

Registered in Jinzhai County of Lu'an City, Jinzhai Huiyin Rural Bank Co., Ltd. ("Jinzhai Huiyin") officially commenced its businesses on 28 June 2013 with a registered capital of RMB80 million. Jinzhai Huiyin was jointly established by the Bank and Anhui GuoYuan Investment Co., Ltd. along with other enterprises and individuals. The Bank contributed RMB32.80 million to the registered capital of Jinzhai Huiyin, accounting for 41% of its shareholdings. The principal businesses of Jinzhai Huiyin include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) handling domestic settlements; (4) handling bill acceptance and discounting; (5) engaging in inter-bank lending; (6) engaging in banking card business; (7) issuing, redemption of and underwriting government bonds as agents; (8) acting as an agent in collection and payment and bank insurance business; and (9) other businesses approved by the banking regulatory authority under the State Council.

Since its establishment, with the support from shareholders, Jinzhai Huiyin has upheld its original goal upon establishment. It set up a foothold in Jinzhai County and devoted itself to solving the "Three Dimensional Rural Issues" with a mission to promote comprehensive financial reform in the rural villages and accelerate the economic and social development in Jinzhai County. It has focused its business on agricultural credit, deposit growth, channel development, and risk prevention and control, which has produced good results of business development and received recognition from customers, local government and regulatory authorities. During the Reporting Period, Jinzhai Huiyin Rural Bank Co., Ltd. was officially granted corporate credit inquiry permission and launched corporate credit inquiry front-end system and mobile POS intelligent card-issuing terminal, thus enriching its settlement channels and improving customer satisfaction.

Wuwei Huiyin Rural Bank Co., Ltd.

Registered in Wuwei County of Wuhu City, Wuwei Huiyin Rural Bank Co., Ltd. ("Wuwei Huiyin") commenced its businesses on 8 August 2010. Its registered capital was RMB100 million, to which the Bank contributed RMB40 million, accounting for 40% of its shareholdings. Other major shareholders are local enterprises and individual shareholders in Wuwei. Its principal businesses include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) handling domestic settlements; (4) handling bill acceptance and discounting; (5) engaging in inter-bank lending; (6) engaging in banking business; (7) issuing, redemption of and underwriting government bonds as agents; (8) acting as an agent in collection and payment and bank insurance business; and (9) other businesses approved by the banking regulatory authorities under the State Council.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.7 Subsidiaries and major companies in which the Bank has shareholdings (Continued)

Subsidiaries (Continued)

Wuwei Huiyin Rural Bank Co., Ltd. (Continued)

Wuwei Huiyin Rural Bank Co., Ltd. has been unremittingly following Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and adhering to Huishang Bank's operating philosophy, it supported the development of "Three Dimensional Rural Issues" economy, individual businesses and SMEs, with base in Wuwei and reliance on local villages and towns. Wuwei Huiyin transformed its advantages in strong brand influence into actions in accordance with the operating philosophy of "close to the towns, serving Three Dimensional Rural Issues". Wuwei Huiyin innovated the variety, forms and operation processes of business. It provided flexible, high quality and efficient financial services for the customers relevant to "Three Dimensional Rural Issues". It also supported economic development in local area of Wuwei, extended services to the wider rural areas and provided intangible financial support to farmers' production and development. During the Reporting Period, based on the rural revival strategies, Wuwei Huiyin Rural Bank Co., Ltd. further confirmed the development direction of supporting agriculture and small customers, strengthened institutional construction, and improved internal control management while building up second-generation credit reporting system, thus improving the availability and convenience of rural basic financial services.

Major companies in which the Bank has shareholdings

Chery Huiyin Motor Finance Service Co., Ltd.

Chery Huiyin Motor Finance Service Co., Ltd. ("Chery Huiyin"), which was established on 13 April 2009, is China's first independent brand auto finance company, jointly set up by the Bank and Chery Automobile Co., Ltd. ("Chery Automobile"). The company was registered in Wuhu City with a registered capital of RMB1,500 million, 300 million shares of which are held by the Bank, accounting for 20% of its shareholdings, while Chery Automobile holds 735 million shares, accounting for 49% of its shareholdings; and Chery Holding Co., Ltd. holds 465 million shares, accounting for 31% of its shareholdings.

Approved by the CBRC, the company's principal businesses include: (1) accepting time deposits of three months or more from domestic shareholders; (2) accepting loan security deposits for the purchase of vehicles from auto dealers and car rental deposits from lessees; (3) upon approval, issuing financial bonds; (4) engaging in inter-bank lending; (5) obtaining loans from financial institutions; (6) providing auto loans; (7) providing auto loans to auto dealers for the purchase of vehicles and loans for operating facilities, including showroom construction loans and spare parts and maintenance equipment loans; (8) providing auto financing and leasing businesses (excluding leaseback); (9) selling or repurchasing auto loan receivables and auto financing lease receivables to financial institutions; (10) handling the sale and disposal of rental car for residual value; (11) consulting and agency businesses regarding auto financing; and (12) subject to approval, equity investment of financial institutions regarding auto finance.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT

In 2019, the banking industry was faced with more complicated risks and challenges under the complex and volatile domestic and international economic environment where various risks were intertwined. With a risk appetite featuring “prudence, rationality and soundness”, the Bank continued to improve its comprehensive risk management system and practice the prudent operation philosophy in the Year of Quality Improvement, in a drive to ensure the prudence of business development and the objectivity of asset classification and maintain sufficient risk provisions and capital adequacy. Subject to both external regulation and internal norms, the Bank upheld the philosophy of rational management and controlled major risks in a scientific and effective manner while insisting on “dual growth drivers”, i.e. business development and financial innovation. In the principle of stable operation, the Bank built a comprehensive, full-process risk management system covering all employees and strived to realize coordinated development that balances scale, quality and efficiency on the premise that risks are under control, so as to realize the value of comprehensive risk management and the strategic objective of transformation and upgrading of the Bank.

5.10.1 Credit risk management

Credit risk refers to the risk of loss due to the default of the debtors or counterparties or the reduction in their credit ratings and performance capabilities. Credit risk is the major risk currently faced by the Bank, mainly involving on- and off-balance credit risk exposures in relation to loans, interbank lending, funds, guarantees, commitments, etc.

In 2019, guided by comprehensive risk management, the Bank focused on effectiveness and improved credit risk management. The Bank refined the layered risk policy system and formulated risk preference, risk quota, loan credit policy systems on the basis of comprehensive risk management measures. Besides, the Bank also improved annual assets quality and impairment provision evaluation systems to form a transmission mechanism between policy and evaluation. It strictly controlled customer access, enhanced rating management, standardized credit rating, drew up the annual centralized rating plan, clarified work progress and put more efforts on random inspection. The Bank strengthened its risk alert and exit mechanism, and conducted key risk examination on loans associated with high-risk industries. The Bank also strengthened its risk control over key fields, including the business of small sized enterprises, government financing vehicles, real estate, over capacity, emerging businesses and guarantee companies; and strictly prevented external risk exposures such as guarantee circle and trade financing. Besides, the Bank strictly implemented the national industrial and environmental protection policies on over-capacity industries. The Bank also continued to strengthen its ability to design risk mitigation measures for credit approval, improved the method of credit availability and optimized the credit structure. While focusing on maintaining asset quality, and the Bank promoted the implementation of risk management and control policies through comprehensive risk examination and on-site inspection and supervision. The Bank proactively mitigated potential risks by strengthening its follow-up management for loans with significant risks, setting up a watch list of debtors for dynamic management, and formulating solutions including collection, write-off, restructuring of loans with risks on a “one-customer-one-policy” basis, with an aim to dispose of non-performing assets through different channels and ways and enhance the liquidity of inventory assets. During the Reporting Period, the Bank’s NPL balance increased. However, through implementing a number of measures while reducing old loans and controlling new loans, the structure and quality of its assets were effectively improved. Please refer to Section 5.4 “Loan Quality Analysis” in this annual report for the distribution structure.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.2 Market risk management

Market risk refers to the risk of on- or off-balance-sheet loss caused by changes in interest rates, foreign exchange rates and other market factors. The market risk management of the Bank covers exchange rate risk and interest risk of trading accounts.

In 2019, in the face of complex and volatile external environment, the Bank focused on improving market risk management tools, optimizing market risk management processes, and promoting daily market risk management in an all-round manner. To improve the market risk monitoring mechanism, the Bank measured market risk using a full range of methods, including gap analysis, duration analysis, foreign exchange exposure analysis, sensitivity analysis, scenario analysis, risk value analysis, stress testing and back testing. The Bank effectively promoted the management of market risk limits, implemented a ten-day reporting system for the implementation of such limits, and conducted dynamic management and adjustment of some risk limit indicators. To improve its foresight and initiative in market risk management, the Bank carried out market risk stress tests to assess the potential losses or damage to the Bank under stress scenarios and took risk mitigation measures in advance accordingly. The Bank continued to optimize and perfect its market risk management tools and took the opportunity of transforming its capital management system to improve the yield curves and measurement models of relevant products. Adhering to process optimization and technological innovation and under the comprehensive risk management framework, the Bank fully identified, accurately measured and continuously monitored market risks in various business lines to control market risks within a tolerable range.

5.10.3 Operational risk management

Operational risk refers to the risk of loss arising from flawed or problematic internal procedures, personnel, IT systems and external events. The operational risks faced by the Bank mainly comprise external fraud, internal fraud, employment system and workplace safety, customers, products and business activities, damage to physical assets, business interruption, information system failures and execution, delivery and process management.

With respect to operational risk management, the Bank continued to refine its operational risk management system and strengthen operational risk management. The Bank continued to promote the construction of an operational risk management system, strengthened the development of three major instruments for operational risk management, improved the key operational risk indicators, and set up the information system for operational risk management to improve the informatization of operational risk management. The Bank conducted multi-dimensional risk monitoring over institutions, business activities and customers for routine monitoring of operational risk in key areas such as credit business; made greater use of the external data such as the credit information of the PBOC, sorted out a list of customers with potential risks identified by other financial institutions, and carried out risk screening and subsequent countermeasures to prevent risk contagion; regularly collected major operational risk cases caused by presidents of sub-branches in and out of the Bank and gathered data on operational risk losses to develop key risk indicators and incorporate them into the monitoring system; strengthened IT risk management and focused on emergency drills for interruption of key information systems and business continuity management, with a view to playing the role of the second line of defense against information technology risk.



Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.4 Liquidity risk management

Liquidity risk refers to the risk that the Bank is unable to satisfy its customers' needs for repayment of liabilities due, new loans and reasonable financing, or to satisfy these needs at a reasonable cost. The Risk Management Committee under the Board of the Bank and the Assets and Liabilities Management Committee and the Risk and Internal Control Management Committee under the senior management assume joint responsibilities for formulating policies and strategies on overall liquidity risk management. The Assets and Liabilities Management Department of the Head Office is the leading executive department of liquidity management for the Bank. The Risk Management Department, the Financial Market Department, the Financial Industry Department and the Transaction Banking Department, as the major supporting departments for the Bank for liquidity management, are responsible for overall implementation of various tasks as required by the Assets and Liabilities Management Committee.

The Bank's liquidity risk management aims at ensuring that the Bank shall have sufficient funds to meet both expected and unexpected capital requirements (including loan growth, deposit withdrawal, debt maturity, and changes in off-balance sheet irrevocable commitments) in its normal operating environment or under pressure and to create a stable liquidity environment for ongoing operations, thus fostering positive interactions between liquidity management and business development. With adherence to the principles of prudence, rationality and soundness for liquidity risk management, the Bank makes reasonable adjustments to the size and structure of assets and liabilities based on changes in market conditions and its needs for business development. On the premise of ensuring liquidity, the Bank strives to pursue profit growth and value growth to achieve unity in the "liquidity, safety and profitability" of bank funds.

In 2019, the Bank further enhanced the sophistication of liquidity management whilst closely monitoring pressures in liquidity management from changes in economic and financial situations. Firstly, it maintained coordinated development of asset and liability businesses, dynamically adjusted its liquidity management strategies and capital operation tempo; secondly, it strengthened liquidity indicator management, improved liquidity risk identification, monitoring and measurement, and improved liquidity risk management ability; thirdly, it strengthened liquidity emergency management, reasonably developed liquidity stress scenarios in response to the external environment to ensure that there would be no liquidity risk in any stress scenarios or within the prescribed shortest survival period, and conducted liquidity stress testing on a quarterly basis as well as prepared related reports. Meanwhile, the Bank also formulated contingency plans to prevent potential liquidity crisis and take effective contingency measures to control risk spreading in liquidity crisis scenarios.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.4 Liquidity risk management (Continued)

According to the business development of assets and liabilities of the Bank and the liquidity position, the Bank kept a close attention on the macro regulatory policies and the situation of fund markets, and adjusted the current management strategy and the pace of funds operation in a dynamic manner in response to the impact related to stage and season factors on the liquidity position, in order to improve the ability of handling current risks. As of the end of the Reporting Period, the liquidity coverage ration of the Bank was 149.55%, while the qualified quality liquidity assets amounted to RMB104.796 billion and net cash outflow in the next 30 days was RMB70.074 billion. According to the relevant requirements of Measures for disclosure of net stable capital ratio of commercial banks, the information on net stable capital ratio for the latest two quarters was disclosed. As of the end of 2019, the net stable capital ratio of the Bank was 100.94%, while the available stable capitals reached RMB657.695 billion and the required stable capitals amounted to RMB651.578 billion. As at the end of September 2019, the net stable capitals was 100.32%, while the available stable capitals reached RMB653.504 billion and the required stable capitals amounted to RMB651.411 billion.

5.10.5 Interest rate risk management

Interest rate risk refers to the risk of fluctuation in interest rates which results in adverse impact on the financial position of the Bank. Interest rate risk of the Bank primarily arises from the structural mismatch of maturity dates or re-pricing periods for our banking portfolio. Such structural mismatch of durations may cause the Bank's net interest income to be affected by changes in the prevailing interest rate. In addition, different pricing benchmarks for different products may also lead to interest rate risk for our assets and liabilities within the same re-pricing period. Currently, the Bank primarily assesses its exposure to interest rate risk through gap analysis, sensitivity analysis and duration analysis. The Bank manages its interest rate risk exposure primarily by adjusting the duration of our banking portfolio based on its assessment of potential changes in the interest rate environment.

In 2019, the Bank further promoted its in-depth strategic transformation, proactively coped with interest rate liberalization and increased its efforts in optimizing asset-liability structure and asset-liability coordination. Firstly, the Bank adapted itself to the LPR new rules to dynamically adjust the pricing strategies of the Bank in respect of different products, periods and re-pricing periods. In terms of the transformation of inventory loans with floating rate, the Bank formulated a practicable transformation plan through discussion to guarantee the comprehensive income of the Bank. Secondly, the Bank strengthened the long-term management, reasonably arranged the long-term assets and liabilities, and enhanced the surveillance and regulation on the mid-to-long loan businesses. In addition, the Bank made a early plan on the period and structure of the domestic and foreign currency gap and conducted a proactive adjustment on the structure of assets and liabilities with sensitive rates. Thirdly, the Bank elevated the level of external pricing and management. Base on reflecting the market thoroughly, the Bank adjusted the internal funds pricing strategy by integration of the factors such as business structure, promising interest rate risks and estimation on the interest rate trend of the Bank. The Bank took a overall consideration on the comprehensive contribution from customers, developed a precise pricing strategy and effectively carried out a differential and comprehensive pricing strategy to improve the pricing and management level of interest rate risks.



Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.6 Exchange rate risk management

Exchange rate risk is the risk of loss in the Bank's earnings arising from the duration mismatch of over-bought and over-sold current or forward positions in a particular foreign currency and non-RMB denominated asset and liability due to adverse changes in exchange rate. The Bank's foreign currency assets and liabilities are mainly denominated in U.S. dollars, while the rest are denominated in Euros, Hong Kong dollars, Japanese yen, Canadian dollar, Australian dollar, Korean won, pound and SGD.

The Bank measured its exchange rate risk through qualitative and quantitative analyses. The major methods included gap analysis, duration analysis, exposure analysis, etc. In order to maintain its exchange rate risk within an acceptable range, the Bank implemented stringent limit-based management measures, primarily including trading limits, risk limits, foreign exposure limits and stop loss limits.

The spot and forward foreign exchange transactions of the Bank are mainly transactions conducted on behalf of customers. They are effected by way of "back-to-back" square trading that avoids exchange rate risk to a large extent. Under the new normal of bilateral exchange rate fluctuations of RMB, the Bank will maintain reasonable proprietary position exposures in line with the Bank's limit-based management within the limit of combined exposures approved by the State Administration of Foreign Exchange. In addition, the Bank proactively utilized derivatives to prevent exchange rate risk.

5.10.7 Reputation risk management

In 2019, the Bank effectively managed its reputation risk. There is no reputation risk incident occurred throughout the year. The Bank maintained a good relationship with the media, and the media provided favorable overall feedback.

To control reputation risk, the Bank strengthened the guidance of positive reports externally, and strengthened its reputation risk management internally. To deal with misleading information, the Bank responded quickly, communicated proactively, and had a regard for facts and the freedom of the media. The Bank established positive interaction with the media, and effectively avoided reputational risk that may occur.

Going forward, the Bank will focus on enhancing the techniques of directing external public opinion, integrating the resources invested in the media and fostering the unified culture of reputation risk prevention. It will also strive to increase the brand fame and reputation of the Bank through high-level public relations planning.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.8 Compliance risk management

Compliance risk refers to the risk that commercial banks may be subject to legal sanctions, regulatory punishments, major financial losses, or reputation damage as a result of their violation of laws and regulations, rules and criteria.

The Board of Directors of the Bank takes the ultimate responsibility for the compliance of the Bank's operation activities. The Risk Management Committee under the Board of Directors monitors compliance risk management effectively. The Board of Supervisors is responsible for supervising the performance of the Board of Directors and the senior management of their duties on compliance management. The senior management is responsible for managing compliance risk, conducting regular assessment on compliance risk and submitting compliance risk management report to the Board. The Bank has established a robust compliance risk management system and organizational structure, forming three defense lines at front, middle and back offices interactive with each other, and the vertical double-line reporting system amongst the head office, branches and sub-branches. It was also able to constantly improve the compliance risk management system and mechanism as well as the risk management level and efficiency so as to ensure effective management and control of compliance risk.

During the Reporting Period, with the focus on its business development strategies, the Bank strived to put internal control as its priority, and established the philosophy of "facilitating development through compliance", with an aim to enhance the foresight and pertinence of compliance management. The Bank constantly implemented various requirements of external regulatory authorities, and strengthened the establishment of internal control system. Hence, the compliance risk management mechanism operated effectively, with favorable comments coming from external regulatory authorities. The Bank continued to launch the "Better Quality Year", "Further Rectifying the Market Chaos in the Banking Industry" and "Strengthening the Three Bases and Attaining the Four Adequacies", continuously developed the assessment on compliance and risk management for 2019, the assessment on anti-money laundering work for 2019 and the identification of non-performing loan liabilities to actively promote the establishment of compliance culture, and continued to improve its internal rules and regulations, optimize the compliance risk identification and assessment process, strengthen accountability system for non-compliance, and increase the support for legal compliance review and product innovation, thereby offering protection for the operation of the Bank in compliance with laws.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.9 Anti-money laundering management

The Bank attached great importance to anti-money laundering and strictly complied with relevant laws and regulations aiming at preventing and controlling money laundering activities, with sound measures vigorously carried out across the Bank.

During the Reporting Period, the Bank put into practice the principle of “laying emphasis on risks, management, quality and effects” by applying it to anti-money laundering as well, enhanced the “three vertical and three horizontal” network of the anti-money laundering framework and promoted consolidation of resources and active participation by various business departments to effectively strengthen concerted efforts in anti-money laundering. Based on the thinking of establishing “systematic models for capturing indicators of the characteristics of cases”, the Bank collected typical cases of money laundering and their upstream criminal cases through multiple channels, and conducted analysis to sort out the characteristics and fund transaction patterns of money laundering activities for various types of crimes, so as to expand the indicators for self-monitoring of irregular transactions. Through designing, verifying, launching, evaluating and enhancing its models, the Bank adopted a full life cycle management of the monitoring model. The Bank also developed sandbox modules of models for anti-money laundering personnel, so as to achieve “tailored” monitoring to strengthen the effectiveness of monitoring suspicious transactions. Based on the suspicious transactions reported by branch institutions, the Bank stepped up the collection, analysis and application of data and information to obtain timely warnings on risks.

Currently, under the increasingly complex international economic and financial conditions, the ways and means of money laundering are becoming more subtle and diverse as information technology, artificial intelligence and internet technology rapidly develop. Anti-money laundering is facing increasingly severe challenges. The Bank will proactively adopt its risk-based anti-money laundering methods to continue to strengthen the internal control mechanisms and to raise the level of money laundering risk prevention and control.

5.10.10 Implementation of the Basel Accord

The Bank is one of the earliest urban commercial banks in China committed to the implementation of the New Basel Capital Accord. Focusing on the measurement of the three major risks under the first pillar, the Bank gradually promoted the development and application of advanced methods for capital measurement in accordance with the requirements under the Measures for Capital Management of Commercial Banks (Trial) and other regulatory policies. The Bank has established and put into use an internal risk rating system for non-retail and retail credit risk of customers. This year, the Bank finished the verification and optimization of the risk rating models for manufacturing, wholesale and retail business. The internal risk rating system for non-retail credit risk of loans was also completed and being promoted throughout the Bank. The Bank has completed the business consultation on the standardized approach to measure operational risk and build an operational risk relationship system, and is now carrying out optimization and upgrading of the system. The establishment of the internal models approach for market risk is under discussion and preparation.



Chapter V Management Discussion and Analysis

5.11 INFORMATION TECHNOLOGY

In 2019, the Bank focused on its development strategy and adhered to the working ideas of “stabilizing operation, controlling risks, promoting development and improving capabilities” for carrying out information technology work, so as to constantly improve information technology governance, strengthen infrastructure construction and risk prevention and control, streamline operation and management and enhance technological work performance, so as to assist the Bank in the digital transformation.

Firstly, the Bank consistently improved information technology governance system. The Bank promoted the in-depth integration between business and technology, reorganized the system development team, strengthened the professional management, set up an additional functional team of information technology, constantly enhanced the development of technological team and introduced professional technical talents.

Secondly, the infrastructure of information and technology was further strengthened. The data center at the headquarters base designed and built with the standard of a national A-class computer room has been officially put into operation; based on the global load balancing, The “double-live” mobile banking and online banking systems across the data center were established.

Thirdly, the data governance was steadily advanced. The enterprise-level data standards was established with reference to national standards and industry practices; the data management and control platform was built to achieve online and standardized data management processes; the data governance mechanism was improved with perfect data management system; the development of a data management middle-end platform was initiated by building a data science platform, a decision-making engine platform and a cloud-based platform with business intelligence analysis pursuant to which, the Bank actively built a unified portal for data analysis and data management across the Bank, accumulated data capabilities, promoted data sharing and leverage data value.

Fourthly, the data application achieved preliminary effects. The Bank promoted the integration between data and business and explored the development of early warning models for credit assets risk with a better accuracy rate and coverage rate, so as to promote digital empowerment and assist digital transformation.

Fifthly, the rapid development of our business was firmly led and supported by science and technology. In order to promote the integration of products, channels and systems, the Bank actively constructed an open transaction banking platform, integrated the transaction banking business, unified corporate financial platform and realized an open transaction environment across banks, scenarios and online and offline integration. In addition, the Bank continued to promote the practice of business concentration to form a centralized processing model across channels, departments and business lines, effectively improve the efficiency in business processing and reduce the operating costs, and promote the transformation of the Bank towards open service and centralized business.

Sixthly, the security management standard of information technology was further improved. In accordance with the requirements of the national cyber security law and the national newly revised classified protection of information security, the Bank has further strengthened the construction of IT security protection system, advanced the prevention and protection of the cyber security, actively participated in various cyber security protection activities and further carried out the security investigation on and security reinforcement and improvement of the important information system, with the ability and level of the information security protection significantly improved, and the information system in safe and efficient operation.

Chapter V Management Discussion and Analysis

5.12 SOCIAL RESPONSIBILITY

In 2019, the Bank continued to honor the mission of “achieving dreams for customers, creating value for shareholders, promoting employee development and assuming responsibility of citizenship” and serving the local economy by continuously promoting financial product innovation and improving customer service and customer experience to meet their financial needs. The Bank also built the overall development framework of “One Body, Two Wings (一體兩翼)” and sped up the modernization of its corporate governance system and capacity, in an effort to build a modern bank with high-quality development in all-round manner. During the Reporting Period, the Bank used PPP, loans for shanty-town reformation projects and people’s livelihood loan and other business to develop people’s livelihood finance, thereby effectively serving the construction of public infrastructure. The Bank innovated in investment banking, transaction banking and other business models to offer strong support for the transformation and upgrading of enterprises; strengthened the role of green credit in leverage adjustment by promoting green credit to support low-carbon economy; made targeted efforts in promoting inclusive finance to reduce corporate financing costs and support the development of small and micro enterprises; broadened the coverage of financial services to support the development of “agriculture, rural areas and farmers”; vigorously developed poverty alleviation finance and used such models as industrial poverty alleviation and targeted poverty alleviation to improve the precision of financial poverty alleviation; provided customers with intelligent services and ultimate experience by deepening mobile finance and promoting online services. In order to firmly guard against systemic risks, the Bank emphasized the philosophy of financial security and focused on building a comprehensive, full-process risk management system covering all employees to enhance its risk management capabilities. In addition, the Bank played an active role in the national energy-saving and emission-reduction campaign by promoting green operations. The Bank has also been concerned about the physical and mental health of its employees, and has created a positive and harmonious corporate culture by adhering to people-oriented and focusing on employee capacity building.

During the Reporting Period, the Bank was awarded the title of the “Most Socially Responsible Bank of the Year in Anhui Province (安徽年度最具社會責任感銀行)”, the Award for Targeted Poverty Alleviation of the Debt Financing Plan Business (債權融資計劃業務精準扶貧獎), the Tianji Award for Inclusive Financial Services Bank for 2019 (2019年度普惠金融服務銀行天璣獎) and the Award for Inclusive Services of Financial Industry for 2019 in Anhui Province (2019年度安徽金融行業普惠服務獎). The Bank comprehensively implemented the decision-making arrangements of the CPC Central Committee on targeted poverty alleviation and the requirements of the CPC Anhui Provincial Committee and Anhui Provincial Government on resolutely winning the fight against poverty, and comprehensively improved the financial service level for targeted poverty alleviation. During the Reporting Period, the working documentary case in which the Bank worked on the targeted poverty alleviation of Wangzhou Village in Sixian County, Suzhou City won the “Best Social Responsibility Practice Case Award of the Year” by the China Banking Association.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES

5.13.1 Trend of economic development

1. *Prospect on the global economy*

In 2020, the global economy will still be affected by uncertainties, facing challenges such as increased debt and slower productivity growth. It is expected that global GDP growth will slow down to 2.5% in 2020. With the fragmentation between developed countries and emerging markets, the growth rate of the four economies, namely US, EU, Japan and China, which contributed over 50% to the global GDP will decrease, while the historical status of Argentina, Iran, India and Brazil will be expected to recover their growth. But in the face of continuously fragile environment at home and abroad, the rebound space is limited. Global trade frictions have not been reversed with various uncertainties in the Sino-US trade negotiation. At the same time, the ongoing trade frictions among US-EU, US-Japan, US-South Korea and other areas drive the multilateral coordination mechanism of global trade out of order. Under the background of the global economic downturn, trade tension and dropping investment return, the international direct investment status remains pessimistic. Global major bank will continue to adopt the policy of "Low Rate + Quantitative Easing" in the long run and the balance sheet of the PBOC will expand with a slower rate. But backed by the general narrow monetary policy currently, the easy monetary policy supported by long-term low rate tends to exert risks. In the future, fiscal policies will become the major choice of the regulation and control of all countries. The leverage ratio of non-financial corporations in major countries will stay stable and the global inflation will enhance as a result of the crude oil price. With increasing countries implementing a negative interest rate, the asset return will be downward as a whole.

2. *Economic development trend in China*

2020 is the final year of the 13th Five Year Plan, and is a crucial year for building a moderately prosperous society in all respects. Since the fourth quarter of 2019, along with the economic data in China such as production, PPI and profit improved, it is expected that a cycle of the short period supplementing the inventory and the assistance of added fiscal and monetary policies will emerge in China's market in the first and second quarter. However, under the situation of the continuous economic downturn, China's economy is expected to experience a downward trend after uprising in 2020. But, the adverse impact of the Novel Coronavirus Disease at the beginning of 2020 on China's economy will disturb the short period of this recovering cycling economy. With the pace of the adjustments to countercyclical policies speeding up and increasing efforts, the driver of economic growth will recover by virtue of the short-and-long term economic policies and the reform combination. Monetary policies will stably reduce the financing cost of the real economy through the comprehensive reduction of the deposit reserve ratio, targeted interest reduction and LPR reform, so as to keep its flow reasonable and sufficient. The effectiveness and efficiency of fiscal policies will further enhance. With the expansion of the scale of special bonds and the advance of issuance, the deficit rate is expected to increase to give full play to the policy bank. All policies issued in the former stage will be implemented with a faster rate, including measures for stimulating consumption such as subsidies for new energy vehicles and vehicle purchase tax to facilitate industrial investment policies of technology reform and hi-tech investment to contribute. All reform measures and policies will be carried out faster, such as accelerating opening up in all round, assisting small and micro enterprises and private enterprises as well as the reform on income distribution system, the effects of maintaining stable growth will gradually appear. In the long run, macro-policies will further strengthen the supply-side structure reform to solve the difficult and expensive financing of small and medium enterprises and inject more vigor into the micro-entity, in order to achieve a higher quality, better structure and sustainable development.



Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES (Continued)

5.13.2 Measures of the Bank

1. *Leveraging on enhancing the customer basis to accelerate the sustainable development*

Customers are the basis of all operations in commercial banks, as such, the Bank pay close attention to stepping up the work of basic customers. Firstly, the orientation must be clear. Firstly, the focus should be laid on the fortification of basic customers and capturing more basic accounts, thus to require all branches to regard souring, serving and retaining customers as the primary standard of judging operation and management. Secondly, marketing should be empowered. With regard to products, the comprehensive product system of "Stock, Bond, Loan, Agency and Customer" should be set up, while in relation to mechanism, integrated linkage system of "Commitment, Investment, Agency, Trust and Deposit" should be constructed. Thirdly, the responsibility should be fulfilled. In the lateral aspect, the function of customer department and product department should be clarified and the basis of customers and businesses should be enhanced. In the vertical aspect, general and branch positioning should be clear to match the responsibility and right. Constraint symmetry should be spurred to release fully the marketing vigor. Fourthly, the style of work should be consolidated. Souring more customers should be a basic work with overcoming the short-sight thinking of too eager to achieve success. Along with the "Six Major Finance" orientation, the Bank will consult all basic customers in all fields in all aspects and formulate the mid-term marketing programs to truly lay a foundation and record profit in the long run.

2. *Based on stable deposits to achieve balanced development*

Absorbing deposits is not only the natural gene and essence of bank but also the internal requirements of the returning to the source and focusing on the industry. The Bank will put deposits in a paramount position of the Bank to improve the increase of deposits. Firstly, the upper and lower forces should be coordinated. Relevant linkages and departments of the head office and branches should take active actions to consolidate RMB deposits and obtain US dollars deposits with low cost according to its de facto situation. Secondly, the support of products should be fortified. The Bank should focus on the customer demand to build a sound system for liability, payment, wealth management and asset management products and actively expand online and chain deposits to take advantage of souring customers and drainage to increase the proportion of obtaining funds through online channels. The Bank also strives to research and develop liquid asset products with shorter promoting period and more flexibility to facilitate the derivation and accumulation of the funds. Thirdly, the incentive system of rewards and punishments should be enhanced to further strengthen the efforts on deposit assessment. The Bank will optimize assessment transmission mechanism to enhance the penetration of assessment and also motivate the grass-roots net work and the grass-roots staff. Fourthly, auxiliary mechanisms should be improved to be committed to expanding liabilities especially in general deposits to promote the effective matching of assets and liabilities, and focusing on the assessment of internal funds transfer pricing and performance fees as well as the development of businesses.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES (Continued)

5.13.2 Measures of the Bank (Continued)

3. *Strengthening development momentum by improving the proportion of income from intermediate business*

The proportion of income from intermediate business reflects the service level and service capabilities of a bank. The Bank will continue to improve its income from intermediate business, develop customers and improve service ability at the same time. Firstly, consolidate the traditional business by expanding the channels for card issuance, creating colorful consumption scenarios and improving the quality of card and frequency of the utilization to make the credit-card a stable source of income for the Bank. Increase market shares by vigorously developing traditional off-balance sheet businesses such as acceptance bills, letters of credit, and letters of guarantee. Secondly, expand agency business, integrate external agency resources, comprehensively use offline outlets, mobile banking, direct sales banking and other sales channels to actively develop agency services such as treasury bonds, funds, insurance, and gold. Thirdly, expand innovative business, and actively expand innovative sources of income to build sustainable and stable business growth by focusing on investment banking, asset management, fund custody, transaction banking, consumer finance, wealth management, mobile payment, open banking and other business areas. Fourthly, improve service ability and efficiency, strengthen technology supporting to offer customers "immediate, professional and personalized" service and give them a sense of satisfaction; strengthen the refined management of intermediate business, improve the price system, regulate service charges, and continuously improve service quality and efficiency.

4. *Optimizing asset placement to lead high-quality development*

The Bank will focus on the strategy for the integrated development of the Yangtze River Delta, deeply developing the "six finances", improving asset allocation system and actively seize quality assets to effectively support real economy. Firstly, establish forward-looking consciousness, in terms of credit assets, prioritize projects with shorter deadlines, lower weights, controllable risks, compliance with industrial policies, and better comprehensive returns; in terms of non-credit assets, deeply cultivate the local markets of Anhui and Jiangsu, actively increase the allocation of local government special debt and high-quality corporate credit bonds, continue to promote key products such as debt-to-equity swaps, addition-tied-to subtraction, and debt financing plans, and actively innovate "special debt +", "fund +" and other integrated financial services. Secondly, strengthen comprehensive management and consider and formulate seven business management sheets. For the on-balance-sheet business table, coordinate the management of assets and liabilities, maintain reasonable liquidity, stabilize the net interest margin and net interest spread, and ensure a steady increase in operating income; for traditional off-balance-sheet business tables, improve service capabilities and consolidate the foundation of intermediate business; for international business tables, continue to enrich and improve the local and foreign currency service functions; establish and improve the asset allocation system and circulation mechanism for the transferable asset statement; strengthen the strategic coordination and business coordination between the wealth management subsidiary and the parent bank for the financial management statement; for the off-balance-sheet asset statement, adhere to the "record maintained after debts are written off" to maximize the effect of recovering loans; for the entire group's management and control table, establish a complete new consolidated management to maximize overall benefits.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES (Continued)

5.13.2 Measures of the Bank (Continued)

5. ***Guaranteed by comprehensive risk management to promote steady development***

The business philosophy of commercial banks is prudence, rationality and soundness. The Bank will speed up the construction of a comprehensive risk management system and firmly adhere to the baseline of not having systemic risks. Firstly, rebuild the comprehensive risk management system. Adhere to the pre-risk management and control threshold, further advance the risk assignment system, and promote the balance between efficiency and effectiveness; strengthen unified credit management, strengthen the effective identification and control of related customers, and implement comprehensive customer credit concentration management; accelerate the construction of a digital risk control system, and build the whole process pre-warning system for checking before loan approval, prompt review during loan, and post-loan pre-warning disposal. Secondly, complete key risk control shortcomings. For emerging businesses, the Bank will implement pre-risk compliance for key products during the research and development phase, promote normalized interim investigations, and improve disposal and resolution efficiency. For private small and micro businesses, adhere to the “white list” marketing, “non-access, no credit”, and implement the entire process of risk management before, during, and after the loan; for Internet credit, strictly implement the management of white list, credit concentration and business risk thresholds of cooperative institutions to make sure that all types of risks are generally controllable. Thirdly, deepen the internal control compliance system. Implement supervision policies, continue to consolidate achievements from rectification of chaos, and achieve compliance and stable operation; improve the internal control mechanism, penetrate the closed loop of compliance, internal control, and supervision and integrate the three lines of defense resources of internal control, and strengthen the capacity building of internal control performance; deepen the application of big data technology, strengthen the management of employee action, identity and account information; make good use of accountability tools and strict accountability and accountability based on system and facts.

6. ***Taking digital construction as a breakthrough to accelerate transformation and development***

In the future, the Bank will comprehensively promote digital coverage of all customer groups, channels, products, and processes, and speed up the widespread and effective utilization of big data technology in business management. Firstly, strengthen data governance, improve the data management and control structure, clarify functional positioning, advance the construction of data markets to build a unified view of customers, promote capitalization of information, and achieve deeper customer insight and risk analysis. Secondly, accelerate the application of big data, rebuild business structure, re-engineer business processes and upgrade business drivers with digital tools and break internal and external barriers in areas such as customer operations, channel management, product design, risk management, operational services and external cooperation to promote effective application of big data. Thirdly, deepen the reform of the science and technology system, make necessary transformations to the internal organizational management, system construction, and innovation models involved in fin-tech, introduce agile work models, and set up agile teams that span departments, lines, and businesses to quickly respond to customer needs. Fourthly, speed up the construction of science and technology line teams. Innovatively establish differentiated incentive and restraint mechanism for technology lines and increase the internal training and external introduction of professional talents to accelerate the expansion of the number of talents and improve the quality of talents.

Chapter VI Report of the Board of Directors

The Bank presents the annual report and audited financial statements of the Bank and its subsidiaries for the year ended 31 December 2019.

6.1 PRINCIPAL BUSINESS

The Bank's principal activities in the PRC include the taking of deposits from corporate and retail customers, the granting of loans using the deposits received, and the conducting of capital business, which includes money market activities, investment and trading activities and transactions on behalf of customers.

6.2 PARTICULARS OF BUSINESS

6.2.1 External environment faced by and business and operation development of the Bank

1. *Analysis of the environment of our main operating areas*

In 2019, the economy of Anhui Province operated on a reasonable track and maintained a stable operation momentum with progress and better development. The growth rate of key indicators was top-ranked nationwide and leading in central China. In 2019, the annual growth rate of the GDP of Anhui Province reached 7.5%. The added value of the industries above the designated scale increased by 7.3%. Fiscal revenue increased by 6.5% with a further increase in its comprehensive strength. Among which, the investment in fixed assets increased by 9.2%, which was 3.8 percentage points higher than the national level. Total retail sales of consumer goods increased by 10.6%, ranking 2nd nationwide. The total value of imports and exports of goods increased by 9.3%, ranking 5th nationwide. Anhui Province comprehensively implemented the new development philosophy and the "six stabilities" job requirement of the central government. As a result, the economy of Anhui Province maintained a sound and stable development. Larger scale of taxes and fees reduction had come into effect. The corporate operating costs decreased. And the new taxes and fees reduction reached RMB81.36 billion. The per capita disposable income of permanent urban residents increased over 9% and that of permanent rural residents over 10%, the growth rate of which was top-ranked nationwide. The newly increased employed people in urban areas totaled approximately 0.7103 million and the surveyed unemployment rate maintained under 5.5%. Boom in economy of Anhui offers a broad market space for advancing the action plan of "One Body, Two Wings (一體兩翼)" by the Bank.

In 2019, although the main indicators of Anhui Province remained in the fast range, the economic structure was gradually optimized, and the development quality and efficiency was steadily improved, in the face of a complex and severe macro situation, Anhui Province was also facing a slowdown in economic indicator growth and key technologies for industrial upgrading subject to containment, the rising non-performing loans of some small- and medium-sized financial institutions and rising structural unemployment pressures. In a critical period featured by the change of development mode, the optimization of economic structure and the shift of growth momentum in Anhui Province, the economic development experienced an increasing number of difficulties and contradictions, and was intertwined with new and old issues. The economy of Anhui moved forward under heavy burden and pressure.



Chapter VI Report of the Board of Directors

6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

2. *Business performance of the Bank in 2019*

Facing the complex economic and financial situation in 2019, the Bank adhered to the general working guidelines of making progress while maintaining stability with high-quality development as the main line. By focusing on the “four fundamental tasks” in business and “five stabilities” in development, the Bank accelerated the implementation of the action plan of “One Body, Two Wings” (一體兩翼), and overcame various difficulties and forged ahead with determination. New significant progress has been made in the construction of a high-quality and modern bank.

(1) *Adhering to making progress while maintaining stability, and pursuing a solid and steady business development*

In 2019, the Bank steadily recorded a trillion scale in terms of its assets and sought for high-quality development from a new start; total loans maintained a rapid growth, recording an increase of RMB82.219 billion as compared with the end of last year; the new credit supply ranked 1st in Anhui Province; total deposits amounted to RMB593.834 billion, representing an increase of RMB27.873 billion as compared with the end of last year; the scale of personal financial assets exceeded RMB300 billion with the scale and growth recording a new high; the construction of “six finances” exceeded the expectation with the completion progress of main indicator of over 100% and significant progress in stages.

(2) *Accelerating innovation and transformation with its features and advantages gradually shown*

In 2019, the Bank created innovative products such as cyclical investment, replacement loans, and rural revitalization loans, and independently created the first single credit risk mitigation certificate. The first pre-debt-to-equity swap of the platform company landed, and the listed company’s rescue investment successfully broke the ice; the “Huiying e-Finance (徽盈e融)” series of service solutions had been successfully implemented, and the online supply chain had achieved breakthroughs; “Hui Chang You Cai (徽常有財)” ranked second in the country and the brand value had steadily increased; multiple achievements had been achieved in the all-process online business as “Credit e-Lending”, “Online Micro-Lending” and Quick-e-Loan (快e貸), with the full coverage of small and micro enterprises and individual customers; the scale of financial management was nearly RMB190 billion, and brand recognition of the wealth management of Huishang Bank gradually increased.

Chapter VI Report of the Board of Directors

6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

2. Business performance of the Bank in 2019 (Continued)

(3) Promoting structural optimization with the profitability continuously increased

With the continuous improvement in the asset-liability structure of the Bank, the proportion of basic loan and deposit business achieved a gradual increase. With the continuous improvement in the income structure, net interest spread and net interest margin were 2.32% and 2.51%, representing an increase of 11 basic points and 14 basic points, respectively, as compared with the end of last year; with the optimization of resources deployment and improvement in input-output efficiency, both the ROA and ROE are at a higher level.

(4) Strictly adhering to the bottom risk line and maintaining a stable asset quality

With continuously enhanced risk control foundation, the Bank maintained a stable asset quality. In particular, its non-performing loan ratio was 1.04%, flat with the end of last year, which was lower than the industry average, and provision coverage rate was 303.86%, representing an increase of 1.64 percentage points as compared with the end of last year; the Bank conducted "1+8+7" special actions to prevent and resolve major risks; making solid progress in "consolidating the achievements of chaos treatment", "establishing counterbalance system" and other work; the Bank procured all employees to conduct operations and management in accordance with the laws and regulations; and the Bank launched the "100-day Campaign" to dispose of non-performing assets, increasing efforts to settle and collect problem loans.

(5) Strengthening efficiency building with the service standard effectively improved

The Bank promoted comprehensive operation reform in an in-depth way, put the new generation of centralized operation platform into operation smoothly, continued to optimize operational business processes and expanded the scope of pilots to provide strong operational support for the steady development of the Bank; the Bank accelerated channel transformation and upgrading, put new intelligent self-service terminals into operation, promoted the digitalized, intelligence, and open transformation of its channels to further improve the network channel service system; the Bank implemented the reform of remuneration system to enhance the employee's sense of acquisition and stability; the Bank launched such activities as the "Work Style Building Year" to promote work efficiency and service quality.



Chapter VI Report of the Board of Directors

6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

2. *Business performance of the Bank in 2019 (Continued)*

(6) *Strengthening the Party's leadership with the Party building constantly intensified*

The Bank solidly launched the education activities themed “staying true to our founding mission” and specific actions of “strict and strong transition” centralized renovation on formalism and bureaucratism with remarkable phased results and achievements; the Bank created the brand of “Huishang Bank Party Building Plus (徽銀黨建+)” to promote the integration of party construction and management development; the Bank strengthened its political stance, implemented the requirements of the Anhui Provincial Party Committee’s inspection and rectification, and encouraged party members and cadres to take the lead; the Bank used the “three cases” warning education as a starting point to further promote the construction of party style and clean government; the party committee’s first round of inspections was fully advanced to strengthen the implementation of the “two responsibilities”; the Bank promoted outstanding corporate culture, organized and strived for excellence, and a group of advanced typical representatives emerged.

3. *Analysis of key financial performance indicators of the Bank during the year*

Key financial data and key regulatory indicators adopted by the Bank reflect the Bank’s operating results, profits and risk control level in 2019. During the Reporting Period, the Bank achieved satisfactory performance in its various financial data as compared with the corresponding period of last year, and all of its supervisory indicators met regulatory requirements. See details in Chapter II “Summary of Accounting Data and Business Data” in this annual report.

4. *Environmental policy, performance and compliance with laws and regulations*

(1) *Environmental policy and performance of the Bank*

The Bank supported national industrial policies and environmental protection policies, practiced green finance concept, conserved resources, protected and improved natural ecological environment, and supported the environmental and sustainable development. During the Reporting Period, the green loan balance of the Bank amounted to RMB14.818 billion, representing an increase of RMB3.79 billion or 34.48% as compared with the beginning of the year. Green loans are granted for 11 fields including natural environment protection, ecological restoration and disaster prevention and control, waste treatment and pollution prevention, industrial energy conservation, water conservation and environmental protection, rural and urban water projects and green transportation. Further efforts were made to provide an enhanced credit support to the advanced manufacturing and modern service industries, and to regard the fulfillment of environmental and social responsibilities by our customers and implementation of industrial environmental management regulations by them as the important basis for our credit review and approval. The green credit assessment and evaluation system was set up to directly link green loan indicators with annual assessment of our branches. The green credit assessment and evaluation results were included in the appraisal factors for our branches, individual performance and remuneration rewards and post promotion.

Chapter VI Report of the Board of Directors

6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

4. *Environmental policy, performance and compliance with laws and regulations (Continued)*

(2) *Compliance with laws and regulations by the Bank*

The Bank actively carried out anti-money laundering management, and prevented money laundering activities and improved the anti-money laundering internal control mechanisms. Firstly, with the deepening of China's anti-money laundering work, regulatory authorities have recently issued the Measures for the Administration of Combating Money Laundering and Terrorist Financing by Banking Financial Institutions, Guidelines for the Administration of Money Laundering and Terrorist Financing Risks of Corporate Financial Institutions (Trial) and Measures for the Administration of Anti-money Laundering Risk Assessment of Corporate Financial Institutions (Trial), to impose higher requirements on the risk management of money laundering and terrorist financing of financial institutions. In order to implement the new regulations, the Bank has issued the Administrative Measures for Anti-Money Laundering and Counter-terrorist Financing of Huishang Bank based on the former Administrative Measures for Anti-Money Laundering of Huishang Bank, has formulated the Emergency Plan for Combating Money Laundering and Terrorist Financing of Huishang Bank, the Administrative Measures for Self-assessment of Money Laundering Risks of Huishang Bank (Trial), and has revised the Operating Rules for the Reporting of High-Value Transactions and Suspicious Transactions of Huishang Bank, and the Rules for Categorized Management of Money Laundering Risks of Customers of Huishang Bank to further refine the management of money laundering risks, self-assessment of money laundering risks, submission of anti-money laundering data, and categorized management of money laundering risks of customers, thus improving the anti-money laundering internal control mechanisms and consolidating the foundation of anti-money laundering internal control. Secondly, it diligently pressed ahead with the implementation of customer identification works to stringently safeguard proper customer admittance. The Bank enhanced its risk indicator system for money laundering by customers and dynamically adjusted the risk level of money laundering by customers based on qualitative and quantitative principles. Thirdly, it conducted training on anti-money laundering in different aspects through multiple channels to enhance the awareness of staff in performing anti-money laundering duties and created a conducive environment for compliance with anti-money laundering measures. The Bank actively participated in the publicity activities on anti-money laundering organized by regulators in the outdoor plaza and anti-money laundering surveys and researches, in order to encourage its staff to learn and think about as well as to write and reflect on anti-money laundering laws and regulations and boost the ability of its staff in performing anti-money laundering duties.



Chapter VI Report of the Board of Directors

6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

4. *Environmental policy, performance and compliance with laws and regulations (Continued)*

(3) *Relationship between the Bank and its employees*

a. Remuneration of employees

The Bank has continuously optimized management on the remuneration and benefits of employees. With the completion of reform on the remuneration system in 2019, the remuneration management system has been improved. With the reform guidance of prioritizing efficiency while ensuring fairness, following market competitions while protecting grassroots and front-line employees, the Bank has ensured the basic living standards of its employees, and activated the incentive effect of appraisal to maintain the stability of staff teams and enhance external competitiveness and attractiveness of remuneration of the Bank.

b. Staff employment

The Bank has enhanced staff employment management by formulating a standardized set of recruitment criteria and procedure regulating internal recruitment, deployment and other aspects of internal staff management. The Bank has also expanded efforts in recruiting through external channels such as schools, other industry players and headhunters. The Bank has adopted strict procedures in credential checks, written tests, interviews and background checks to ensure that the recruitment process is open, just and fair.



Chapter VI Report of the Board of Directors

6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

4. *Environmental policy, performance and compliance with laws and regulations (Continued)*

(3) *Relationship between the Bank and its employees (Continued)*

c. Staff training and career development

In 2019, the Bank implemented the training program formulated at the beginning of the year to provide multi-dimensional training across the Bank with reference to the skills and competence requirements of staff at different levels and positions with the aim of enhancing their skills and overall qualities and greatly facilitating their career development.

The Bank provided diverse staff training via multiple channels. In 2019, the Bank made full use of the training center, optimized the online training platform and diversified the mobile learning platform where staff could receive integrated online and offline training in the forms of video, live courses and face-to-face lectures.

The Bank implemented certificate-for-job system and certificate awards activity. In order to further strengthen the professional team construction and regulate certificate-for-job system, in 2019, the Bank utilized online exam functions and organized 7 job qualification exams with about 902 examinees, and organized job qualification exams over the Bank in the middle of June and November covering 10 lines, 13 subjects with about 7,162 examinees. In order to further encourage staff to upgrade their skills, the Bank conducted several training incentive activities in 2019, including micro-lecture contest, selection of excellent students and courses, and certificate awards, to stimulate enthusiasm in learning, thus encouraging staff to continuously improve their qualities, thereby providing continuous intelligence support for business development.

In respect of staff career development, in 2019, the Bank continually promoted the management of staff career development based on the talent requirements of the Bank in light of business development, revised and optimized the measures on position sequence management, to further broaden career development channels for staff. The Bank gradually formed a management pattern on staff career development that gives priority to job system building, takes the satisfaction of business requirement as principle and guide on staff development as target.

(4) *Relationship between the Bank and its customers*

See details in section 5.9 “Management Discussion and Analysis – Business Operation” in this annual report.

Chapter VI Report of the Board of Directors

6.2 PARTICULARS OF BUSINESS (Continued)

6.2.2 Subsequent events

For subsequent events of the Bank from 1 January 2020 to the Latest Practicable Date, please refer to Note 53 to the financial statements. Further information about the subsequent events, please refer to the announcements of the Bank dated 7 January 2020, 22 February 2020 and 19 March 2020, and the circular of the Bank dated 7 February 2020. Save as disclosed above, from 1 January 2020 to the Latest Practicable Date, there has not been any non-financial event that may cause material effects on the results of the Bank.

6.2.3 Future business development trends of the Bank

See details in section 5.13 “Management Discussion and Analysis – Prospects and Measures” in this annual report.

6.2.4 Major risks and uncertainties faced by the Bank

See details in section 5.10 “Management Discussion and Analysis – Risk Management” in this annual report.

6.3 RESERVES

Please refer to the statement of financial position for details of the movements in the reserves of the Bank.

6.4 RESERVES AVAILABLE FOR DISTRIBUTION

Please refer to Note 40 to the financial statements for details of the reserves available for distribution as at 31 December 2019.

6.5 FIXED ASSETS

Please refer to Note 26 to the financial statements for details of movements in the fixed assets of the Bank as of 31 December 2019.

6.6 HOLDING AND TRADING OF SHARES OF OTHER LISTED COMPANIES

The Bank has not held nor traded shares of other listed companies during the Reporting Period.

6.7 PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Bank by the Bank or its subsidiaries during the Reporting Period.

6.8 PRE-EMPTIVE RIGHTS

The Articles of Association of the Bank does not provide for pre-emptive rights. There are no pre-emptive rights for the shareholders of the Bank.

6.9 RETIREMENT BENEFITS

Please refer to Note 37 to the financial statements for details of the retirement benefits provided to employees by the Bank.

6.10 MAJOR DEPOSITORS/BORROWERS

The Bank is not dependent too much on a single major depositor/borrower. As at the end of the Reporting Period, the operating income generated from the five largest depositors/borrowers of the Bank represented an amount not exceeding 30% of the total operating income of the Bank. The directors of the Bank and its connected persons did not have any significant interest in the aforementioned five largest depositors/borrowers.

Chapter VI Report of the Board of Directors

6.11 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to Chapter VIII “Profile of Directors, Supervisors, Senior Management, Employees and Institutions” in this annual report.

6.12 INTERESTS AND SHORT POSITIONS HELD BY THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES OF THE BANK UNDER HONG KONG LAWS AND REGULATIONS

As of 31 December 2019, the following directors, supervisors and chief executives of the Bank and their respective associates had the interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Hong Kong Listing Rules. The table below reflects the number of shares, any interests or short positions in underlying shares and debentures held by the directors, supervisors or chief executives of the Bank:

Name	Position	Class of Shares	Status	Number of shares (share) (Long position)	Percentage in issued shares of relevant class (%)	Percentage in all issued ordinary shares (%)
He Jiehua	Executive Director	Domestic Shares	Interest of the Spouse	8,928	0.0001	0.0001
Dai Peikun	Independent Non-executive Director	Domestic Shares	Interest of the Spouse	3,079	0.0000	0.0000
Zhang Youqi	Chairman of the Board of Supervisors	Domestic Shares	Beneficial Owner	25,252	0.0003	0.0002
Tang Chuan	Supervisor	Domestic Shares	Beneficial Owner	56,009	0.0006	0.0005
Yang Mianzhi	Supervisor	Domestic Shares	Beneficial Owner	6,613	0.0001	0.0001
Zhong Qiushi	Supervisor	Domestic Shares	Beneficial Owner	32,133	0.0004	0.0003
Ci Yaping ⁽¹⁾	Former Executive Director, Vice President	Domestic Shares	Beneficial Owner	146,796	0.0017	0.0012

Note: (1) For details of the position change of Mr. Ci Yaping, please refer to “Changes in Directors, Supervisors and Senior Management of the Bank” under section 8.2 of this annual report.

Save as disclosed above, as of 31 December 2019, the Bank was not aware of any other directors, supervisors and chief executives of the Bank and their respective associates having any interests or short positions in any shares, underlying shares and debentures of the Bank or its associated corporations.

6.13 DIRECTORS AND SUPERVISORS’ RIGHTS TO PURCHASE SHARES OR DEBENTURES

During the Reporting Period, none of the directors, supervisors of the Bank or their respective spouses or children under the age of 18 years acquired any right by the way of purchase of shares or bonds of the Bank or exercised any such related rights; and none of the Bank or any of its subsidiaries had made any arrangements to enable the directors, supervisors of the Bank or their respective spouses or children under the age of 18 years to obtain such rights in any other body corporate.

Chapter VI Report of the Board of Directors

6.14 DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the directors of the Bank had any interest in any business that constitutes or may constitute, directly or indirectly, a competing business of the Bank.

6.15 FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save as disclosed in this annual report, there are, to the knowledge of the Bank, no other relationships among the directors, supervisors and senior management of the Bank, including financial, business, family or other material or related relationships.

6.16 DIRECTORS AND SUPERVISORS' INTERESTS IN CONTRACTS AND SERVICE CONTRACTS

During the Reporting Period, no director or supervisor of the Bank (or its connected entities) had any direct or indirect significant interest in any transaction, arrangement or contract of significance entered into by the Bank or other subsidiaries. None of the directors and supervisors of the Bank has 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). During the Reporting Period, none of the Bank or its subsidiaries had any arrangement that enables the directors and supervisors of the Bank to acquire benefits by acquiring shares in and debentures of companies or any other corporate body.

6.17 PENALTIES AND INVESTIGATIONS OF THE BANK, DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

During the Reporting Period, no director, supervisor or senior management of the Bank has been subject to penalties or investigations by competent authorities causing a material impact on the operations of the Bank.

6.18 CONTINUING CONNECTED TRANSACTIONS

In the ordinary course of business, the Bank provides commercial banking services and products to the public in China, including the Bank's directors, supervisors and/or their respective associates. During the Reporting Period, connected transactions carried out between the Bank and connected persons were conducted under normal commercial principles, which were not favorable than the conditions for similar transactions with non-connected persons. The transaction terms were fair and reasonable and in the interests of the Bank and shareholders as a whole. The Bank conducted a series of connected transactions with connected persons (as defined under the Hong Kong Listing Rules) and all these transactions were conducted under normal commercial terms in the ordinary course of business and were exempted from the requirements of reporting, announcement, annual review, circular and independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – deposit taking

The Bank takes deposits from its connected persons (including the Bank's directors, supervisors and/or their respective associates) under normal deposit interest rates and normal commercial terms in the ordinary course of business. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

The Bank takes deposits from its connected persons in the ordinary course of business and on normal commercial terms that are comparable or no more favorable than those offered to independent third parties. These transactions constitute exempted continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules (namely financial assistance provided by a connected person in the form of deposits placed with an issuer for the benefit of the issuer on normal commercial terms or on terms better to the issuer, where no security over the assets of the issuer is granted in respect of the financial assistance), and thus are exempted from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Chapter VI Report of the Board of Directors

6.18 CONTINUING CONNECTED TRANSACTIONS (Continued)

Commercial banking services in the ordinary course of business – loans and credit facilities

The Bank extends loans and credit facilities to its connected persons (including the Bank's directors, supervisors and/or their respective associates) in the ordinary course of its business and on normal commercial terms with reference to prevailing market rates. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

The loans and credit facilities offered by the Bank to its connected persons are in the ordinary course of its business and are on normal commercial terms and on comparable terms provided to independent third parties. Therefore, these transactions constitute exempted continuing connected transactions under Rule 14A.87 of the Hong Kong Listing Rules, namely, financial assistance provided by an issuer in its ordinary course of business to a connected person on normal commercial terms, and are thus exempted from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – other banking service and products

The Bank provides various commercial banking services and products (including credit/debit cards and wealth management products) in the ordinary course of business to its connected persons (including directors, supervisors of the Bank and/or their respective associates) with service fees and charges at normal charging standards and on normal commercial terms and conditions. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

During the Reporting Period, the applicable percentage ratios (as defined under Rule 14A.06 of the Hong Kong Listing Rules) in respect of the annual aggregate service and/or product fees paid to the Bank by a connected person and its associates will not exceed 0.1%. Therefore, these transactions constitute exempted continuing connected transactions pursuant to Rule 14A.76 of the Hong Kong Listing Rules, and will thus be exempted from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Note 50 to the financial statements discloses the related party transactions of the Bank in accordance with the International Accounting Standards. The transactions disclosed therein between the Bank and the following parties constitute the connected transactions of the Bank under the requirements of Chapter 14A of the Hong Kong Listing Rules and part of the continuing connected transactions conducted by the Bank in the ordinary course of business as disclosed in this section, and are exempted from compliance with the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules: Zhongjing Xinhua Asset Investment Management Company Ltd. and Anhui Energy Group Co., Ltd.

6.19 MATERIAL LITIGATION AND ARBITRATIONS

Insofar as the Bank is aware, as at the end of December 2019, the Bank, as a plaintiff, was involved in the following litigation proceeding in its regular course of business: the number of material pending litigation and arbitrations involving the Bank amounted to 38, with a total amount of RMB2.583 billion. The number of pending litigation, to which the Bank is a defendant, each with an amount of more than RMB0.5 million, amounted to 5, totalling approximately RMB376 million. The Bank made full provisions for doubtful accounts of loans involved in the cases above according to expected losses prudently, which will have no material adverse effect on the Bank's financial position and operating results.



Chapter VI Report of the Board of Directors

6.20 ASSET ACQUISITION, DISPOSAL AND REORGANIZATION

During the Reporting Period, the Bank has no other asset acquisition, disposal and reorganization outside the ordinary course of business operations.

6.21 USE OF FUNDS BY RELATED PARTIES

During the Reporting Period, neither the major shareholders nor the related parties of the Bank used any funds of the listed company for non-operating purposes, and no proceeds of the public offering were used in any unfair connected transactions.

6.22 REVIEW OF ANNUAL RESULTS

The financial report of the Bank prepared under International Financial Reporting Standards has been audited by Ernst & Young and a standard audit report with unqualified opinions has been issued. The Bank's Audit Committee of the Board has reviewed the results and the financial reports of the Bank for the year ended 31 December 2019.

6.23 PROFIT AND DIVIDENDS

The Board is required to submit the proposals in respect of dividend payments to a shareholders' general meeting for approval. The Board will, according to the relevant laws, regulations and regulatory requirements, consider whether to pay dividends and the amount of dividend payments based on the Bank's results of operations, cash flow, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions and other factors that the Board of Directors of the Bank deems relevant.

The profit of the Bank for the year ended 31 December 2019 and the Bank's financial position as of that date are set out in the consolidated financial statements section of this annual report.

In accordance with the resolutions passed at the 2018 annual general meeting held on 30 June 2019, a final dividend for 2018 and a total cash dividend of RMB680.6689 million (including tax) were declared and distributed to all shareholders whose names appeared on the register of members of the Bank on 10 July 2019.

As to the 2019 profit distribution plan, the Board of Directors recommends a cash dividend of RMB1.57 (including tax) for every 10 shares in an aggregate amount of approximately RMB1,908.304 million (including tax), accounting for about 20% of audited net profits of the Bank in 2019, based on total share capital of 12,154,801,211 ordinary shares of the Bank at the end of 2019. When the total share capital has changed on the equity register date of dividend payment as a result of that there is increased share issuance prior to this date, the corresponding adjustments shall be made to dividend per share assuming the aggregate dividend declaration remains unchanged. The special dividend arrangement as approved at the 2018 annual general meeting of the Bank shall not be carried out upon completion of the above profit distribution scheme, which shall be submitted at the 2019 annual general meeting of the Bank for approval by the Board of Directors. The final dividend for 2019 is expected to be declared by the Bank on or before the end of August 2020 to shareholders who are entitled to the proposed final dividend for 2019 determined by the Bank, details of the declaration shall be subject to further announcement after convening the 2019 annual general meeting. The Bank shall announce the relevant arrangement on the 2019 annual general meeting in due course. The Bank shall also make timely announcement if there are any changes to the said expected dividend declaration.

The withholding and exemption of income tax from dividends shall be conducted in accordance with the relevant laws and regulations of the PRC.

Chapter VI Report of the Board of Directors

6.24 PUBLIC FLOAT

Based on the public information available to the Bank and to the knowledge of the Board of Directors, from April 2016 to the Latest Practicable Date, the Bank's H share public float was below 25%, the minimum level as required in Rule 8.08(1) (a) of the Hong Kong Listing Rules. As at the Latest Practicable Date, the Bank's H share public float was approximately 15.66%.

According to the Board resolutions, the Bank is actively considering various options so as to restore its public float as soon as practicable, including (i) suggesting the substantial shareholders of the Bank to place down their shares in the Bank; (ii) seeking opportunities to conduct placing of H shares after considering the market conditions in full and with detailed planning; and (iii) proactively promoting the initial public offering and listing of A shares. For details on the public float of the Bank's H Shares, please refer to the announcements published by the Bank since 11 May 2016 in relation to the public float of the Bank's H shares.

6.25 TAX DEDUCTION

6.25.1 Overseas shareholders

According to the "Notice on the Collection of Personal Income Tax after the Expiration of National Tax Bureau Notice [1993] No. 045" (Guo Shui Han [2011] No. 348), which was released by the State Administration of Taxation on 28 June 2011, the responsible party should withhold personal income tax by law from overseas resident individual shareholders on their dividend income deriving from shares in domestic non-foreign invested companies issued in Hong Kong. However, the overseas resident individual shareholders who hold shares of domestic non-foreign invested companies issued in Hong Kong may be entitled to the relevant favorable tax treatments based on the tax treaties between the countries in which they are domiciled and China and the tax arrangements between Mainland China and Hong Kong (or Macau).

Based on the tax regulation mentioned above, the Bank will withhold personal income tax of the dividend at 10% tax rate for the overseas individual H shareholders. However, where there are different requirements otherwise specified in relevant tax regulations and tax agreements, the Bank will follow such requirements of the tax authorities.

The Bank will withhold 10% enterprise income tax of the dividend for non-resident corporate overseas H shareholders based on the "Law of the People's Republic of China on Enterprise Income Tax" and relevant implementation rules which have been effective since 1 January 2008.

If the overseas H shareholders of the Bank have any queries regarding the tax arrangements mentioned above, please consult your tax consultants regarding the tax implications in Mainland China, Hong Kong and other countries (regions) for holding and disposing the Bank's H shares.

Chapter VI Report of the Board of Directors

6.25 TAX DEDUCTION (Continued)

6.25.2 Mainland's shareholders of Shanghai-Hong Kong stock connect and Shenzhen-Hong Kong stock connect

Pursuant to the "Notice on the Tax Policies Concerning the Pilot Program of the Shanghai-Hong Kong Stock Connect" (Cai Shui [2014] No. 81) and the "Notice on the Tax Policies Concerning the Pilot Program of the Shenzhen-Hong Kong Stock Connect" (Cai Shui [2016] No. 127), which were jointly released by the Ministry of Finance, the State Administration of Taxation and the CSRC on 31 October 2014 and 5 November 2016, respectively, for dividends obtained by the mainland individual investors from H shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, such H-share companies shall apply to China Securities Depository and Clearing Corporation Limited (hereinafter referred to as the "CSDC") for providing the register of mainland individual investors and withhold personal income tax at 20% tax rate from mainland individual investors. While for dividends obtained by the mainland individual investors from non-H shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the CSDC will withhold personal income tax at 20% tax rate. Individual investors may, by producing valid tax payment certificates, apply to the competent tax authority under the CSDC for tax credit relating to the withholding tax already paid abroad.

For dividend income obtained by the mainland security investment funds from shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, personal income tax shall be withheld according to the above regulations.

For dividend income obtained by the mainland corporate investors from shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, such income shall be included in their total revenue and enterprise income tax shall be withheld by law. Meanwhile, for dividend income obtained by mainland resident enterprises from holding H shares for 12 consecutive months, enterprise income tax shall be exempted by law. H-share companies listed on Hong Kong Stock Exchange shall apply to the CSDC for providing the register of the mainland enterprise investors. The H-share companies shall not withhold income tax of dividends for mainland enterprise investors and such investors shall declare and pay relevant tax themselves.

6.26 PERMITTED INDEMNITY PROVISIONS

The Bank has maintained appropriate director liability insurance to indemnify the directors for liabilities arising from corporate affairs.

6.27 DONATION

In 2019, the Bank had no donation.

Chapter VI Report of the Board of Directors

6.28 MANAGEMENT CONTRACTS

Except for the service contracts of the management of the Bank, the Bank did not enter into any other contract with any individual, company or body corporate to manage or deal with the whole part or any significant part of the Bank's business.

6.29 STOCK-LINKED AGREEMENTS

The Bank did not enter into any stock-linked agreement in 2019, and there was no stock-linked agreement remaining effective by the end of 2019.

6.30 ISSUE OF DEBENTURES

To supplement capital of the Bank and expand the sources of liabilities of the Bank to enhance the maturity matching of assets and liabilities, the Bank issued various types of debentures, the details of which are presented as follows:

6.30.1 The Bank issued RMB4 billion of 2011 subordinated debts on 2 April 2011 in China's inter-bank bond market, with a maturity of 15 years and a fixed coupon rate of 6.55%, paid annually. The Bank has an option to redeem all of this tranche of bonds at face value on the last day of the tenth year of interest accrued of this tranche of bonds.

Claims on subordinated debts are subordinate to other liabilities but superior to the Bank's share capital. From 1 January 2013, they are qualified for inclusion as tier 2 capital in the calculation of capital adequacy ratio in accordance with "The Trial Measures for Capital Management of Commercial Banks".

6.30.2 The Bank issued RMB0.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.35%, paid annually.

6.30.3 The Bank issued RMB8.0 billion of tier 2 capital bonds on 11 September 2015 in China's inter-bank bond market, with a maturity of 10 years and a fixed coupon rate of 4.69%, paid annually. The Bank has an option to redeem part or all of these bonds at face value on the last day of the fifth year of interest accrued of bonds, subject to the approval from relevant regulatory authorities.

Tier 2 capital bond's right of recourse is subordinate to depositors and ordinary creditors and is superior to equity, other tier 1 capital instruments and mixed capital debts.

6.30.4 The Bank issued RMB0.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.1%, paid annually.

6.30.5 The Bank issued RMB7.0 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 2.98%, paid annually, which were matured on 12 August 2019.

6.30.6 The Bank issued RMB3.0 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.09%, paid annually.

6.30.7 The Bank issued RMB1 billion of green financial bonds on 8 September 2017 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.49%, paid annually.

Chapter VI Report of the Board of Directors

6.30 ISSUE OF DEBENTURES (Continued)

- 6.30.8** In 2019, the Bank issued 126 zero-coupon interbank certificates of deposit in total face value of RMB194.43 billion, with maturities ranging from one month to one year, and the total face value of due interbank certificates of deposits of the Bank in 2019 amounted to RMB192.98 billion. As at 31 December 2019, the aggregate face value of undue interbank certificates of deposit issued amounted to RMB153.93 billion.
- 6.30.9** The Bank issued RMB4 billion of green financial bonds on 29 May 2018 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.50%, paid annually.
- 6.30.10** The Bank issued RMB9 billion of financial bonds on 8 March 2019 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 3.52%, paid annually.
- 6.30.11** The Bank issued RMB1 billion of financial bonds on 8 March 2019 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.80%, paid annually.
- 6.30.12** The Bank had issued perpetual bonds in China's national inter-bank bond market with an offering size of RMB10 billion on 3 December 2019, with a coupon rate of 4.90%, which was payable once a year. The coupon rate of the bonds may be adjusted at different intervals, subject to adjustment in every five years. In any adjusted coupon rate period, the interests of the bonds will be paid at the same prescribed interest rate. The Bank may redeem the bonds in whole or in part on each distribution payment date after 5 years (including the distribution payment date of the fifth year) after the issuance date of the bonds.

By order of the Board

Wu Xuemin

Chairman

31 March 2020



Chapter VII Changes in Share Capital and Particulars of Shareholders

7.1 CHANGES IN ORDINARY SHARES OF THE BANK DURING THE REPORTING PERIOD

	31 December 2019		Changes during the Reporting Period	31 December 2018	
	Number of shares (share)	Percentage (%)	Number of shares (share)	Number of shares (share)	Percentage (%)
Domestic Shares	8,676,051,211	71.38	0	8,676,051,211	71.38
H Shares	3,478,750,000	28.62	0	3,478,750,000	28.62
Total number of ordinary shares	12,154,801,211	100	0	12,154,801,211	100

Note: As of 31 December 2019, the Bank had a total of 17,794 shareholders of ordinary shares, including 1,549 shareholders of H Shares and 16,245 shareholders of Domestic Shares.

7.2 INFORMATION ON THE SHAREHOLDINGS OF THE TOP TEN HOLDERS OF ORDINARY SHARES

As of 31 December 2019, the order of the top ten holders of ordinary shares of the Bank was sorted by: (1) (for H Shares) the aggregate of the H Shares of the Bank held by investors which were deposited into the Central Clearing and Settlement System of the Hong Kong Stock Exchange and registered under the name of HKSCC NOMINEES LIMITED, a wholly-owned subsidiary of the Hong Kong Stock Exchange, representing 28.59% of the total share capital of ordinary shares and representing 99.88% of the total H Shares issued; and (2) for Domestic Shares, the order was based on the number of shares held directly under the domestic shareholders register kept by China Securities Depository and Clearing Co., Ltd.

No.	Name of shareholder	Nature of shareholder	Number of shares held as at the end of the Reporting Period (share)	Percentage to total share capital of ordinary shares (%)	Type of shares	Increase/decrease during the Reporting Period (share)	Pledged or frozen (share)
1	HKSCC Nominees Limited	⁽¹⁾	3,474,645,278	28.59	H Share	89,200	⁽¹⁾
2	Anhui Energy Group Co., Ltd.	State-owned legal person	843,363,819	6.94	Domestic Share	0	0
3	Anhui Guoyuan Financial Holding Group Co., Ltd.	State-owned legal person	837,810,695	6.89	Domestic Share	127,882,931	0
4	Anhui Credit Guaranty Group Co., Ltd.	State-owned legal person	827,658,091	6.81	Domestic Share	0	413,829,020
5	Anhui Transportation Holding Group Co., Ltd.	State-owned legal person	515,935,874	4.24	Domestic Share	0	0
6	Zhongjing Sihai Co., Ltd.	Domestic non-state-owned legal person	506,102,476	4.16	Domestic Share	16,936,700	0 ⁽²⁾
7	Hefei Xingtai Financial Holding Group Co., Ltd.	State-owned legal person	378,395,999	3.11	Domestic Share	445,368	0
8	Wuhu Construction Investment Co., Ltd.	State-owned legal person	294,012,833	2.42	Domestic Share	0	0
9	CCB Trust Co., Ltd.	State-owned legal person	248,102,994	2.04	Domestic Share	0	0
10	Anhui Hengtai Real Estate Development Co., Ltd.	Domestic non-state-owned legal person	234,675,695	1.93	Domestic Share	0	234,675,695

Notes:

- (1) The relevant information has not yet been obtained by the Bank, nor can it be verified based on the existing information.
- (2) Zhongjing Sihai Co., Ltd. pledged its 199,120,000 Domestic Shares held in the Bank in January 2020.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES

According to the relevant requirements of the Interim Measures for the Equity Management of Commercial Banks of CBIRC, based on the register of members maintained by trustee agency of ordinary shares of the Bank and the information publicly disclosed and submitted by substantial shareholders to the Bank, etc., the substantial shareholders of the Bank as at the end of the Reporting Period are as follows:

No.	Name of shareholder	Number of shares held at the end of the Reporting Period (Share)	Individual shareholding ratio (%)	Joint shareholding ratio (%)
1	Zhongjing Xinhua Asset Investment Management Co., Ltd.	224,781,227	1.85	12.1
	Wealth Honest Limited	532,415,400	4.38	
	Golden Harbour Investments Management Limited	440,000,000	3.62	
	Zhongjing Xinhua Property Management (Hong Kong) Co., Limited	273,449,000	2.25	
2	Anhui Energy Group Co., Ltd.	843,363,819	6.94	11.08
	Anhui Wenergy Company Limited	150,814,726	1.24	
	Xing An Holding Limited	329,973,600	2.71	
	Anhui Natural Gas Development Co., Ltd.	22,729,899	0.19	
3	Wkland Finance Holding Company Limited	562,254,000	4.63	8
	Wkland Finance Holding II Company Limited	410,130,600	3.37	
4	Anhui Guoyuan Financial Holding Group Co., Ltd.	837,810,695	6.89	7.19
	Anhui Guoyuan Trust Co., Ltd.	35,751,470	0.29	
	Anhui Guoyuan Ma'anshan Asset Management Co., Ltd.	361,662	0.00	
5	Anhui Credit Guaranty Group Co., Ltd.	827,658,091	6.81	6.83
	Anhui Guaranteed Asset Management Co., Ltd.	2,524,326	0.02	
6	Hefei Xingtai Financial Holding Group Co., Ltd.	378,395,999	3.11	5.15
	CCB Trust Co., Ltd.	248,102,994	2.04	
7	Sunshine Life Insurance Corporation Limited	598,094,200	4.92	4.92
8	Anhui Transportation Holding Group Co., Ltd.	515,935,874	4.24	4.26
	Anhui Transportation Holding Group (H.K.) Limited	2,999,700	0.02	
9	Zhongjing Sihai Co., Ltd.	506,102,476	4.16	4.16
10	Wuhu Construction Investment Co., Ltd.	294,012,833	2.42	2.42
11	Anhui Publishing Group Co., Ltd.	103,693,815	0.85	0.85

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

- (1) Zhongjing Xinhua Asset Investment Management Co., Ltd. was established on 14 June 2003. It was registered in Huangshan of Anhui Province with a registered capital of RMB2.875 billion. Its legal representative is GAO YANG. Its scope of business includes enterprise investment management; enterprise management, enterprise mergers and acquisitions as well as asset restructuring planning; project investment consultation, economic information consultation, business information consultation, market information consultation and research, asset operation, industrial investment, investment consultation, technology consultation, and technical service. According to the information submitted by shareholders, its controlling shareholder is Jing'An Shanghai Silver Investment Co., Ltd., its de facto controller is Shanghai Soong Ching Ling Foundation. Its ultimate beneficiaries are women and children who received charitable donations from Shanghai Soong Ching Ling Foundation across the country and it does not have any persons acting in concert. As at the end of the Reporting Period, Zhongjing Xinhua Asset Investment Management Co., Ltd. did not pledge any shares of the Bank.

Wealth Honest Limited was incorporated in British Virgin Islands on 30 March 2006. Its legal representative is GAO YANG. Its scope of business includes investment. According to the information submitted by shareholders, its controlling shareholder is Zhongjing Xinhua Property Management (Hong Kong) Co., Limited, its de facto controller is Shanghai Soong Ching Ling Foundation, its ultimate beneficiaries are women and children who received charitable donations from Shanghai Soong Ching Ling Foundation across the country and it does not have any persons acting in concert. As at the end of the Reporting Period, Wealth Honest Limited did not pledge any shares of the Bank.

Golden Harbour Investments Management Limited was incorporated in British Virgin Islands on 28 October 2016. Its general manager is Zhang Qinbao. Its scope of business includes investment. According to the information submitted by shareholders, its controlling shareholder is Wealth Honest Fund LP, its de facto controller is Shanghai Soong Ching Ling Foundation, its ultimate beneficiaries are women and children who received charitable donations from Shanghai Soong Ching Ling Foundation across the country and it does not have any persons acting in concert. As at the end of the Reporting Period, Golden Harbour Investments Management Limited did not pledge any shares of the Bank.

Zhongjing Xinhua Property Management (Hong Kong) Co., Limited was incorporated in Hong Kong on 28 January 2014. Its legal representative is GAO YANG. Its scope of business includes investment. According to the information submitted by shareholders, its controlling shareholder is Zhongjing Xinhua Asset Investment Management Co., Ltd., its de facto controller is Shanghai Soong Ching Ling Foundation, its ultimate beneficiaries are women and children who received charitable donations from Shanghai Soong Ching Ling Foundation across the country and it does not have any persons acting in concert. As at the end of the Reporting Period, Zhongjing Xinhua Property Management (Hong Kong) Co., Limited did not pledge any shares of the Bank.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

- (2) Anhui Energy Group Co., Ltd. was established on 9 April 1990. It was registered in Hefei of Anhui Province with a registered capital of RMB4.375 billion. Its legal representative is Zhu Yicun. Its scope of business includes state-owned assets operation, project investment and management, economic and technological cooperation, exchanges and services with foreign countries, business information and investment information consultation services, and investment evaluation of construction projects. According to the information submitted by shareholders, its controlling shareholder is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is Anhui Energy Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Energy Group Co., Ltd. did not pledge any shares of the Bank. Anhui Energy Group Co., Ltd. has appointed Zhu Yicun to the Bank as a director.

Anhui Wenergy Company Limited was established on 13 December 1993. It was registered in Hefei of Anhui Province with a registered capital of RMB2,266,863,331. Its legal representative is Zhu Yicun. Its scope of business includes investment and operation of electricity, energy-saving and related projects; development of raw materials related to electricity power construction; development, investment and operation of high and new technology and export-oriented foreign exchange generating projects. According to the information submitted by shareholders, its controlling shareholder is Anhui Energy Group Co., Ltd., its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is Anhui Wenergy Company Limited and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Wenergy Company Limited did not pledge any shares of the Bank.

Xing An Holdings Limited was incorporated in Hong Kong in June 2004. Its legal representative is Zhu Yicun. Its scope of business includes electricity investment. According to the information submitted by shareholders, its controlling shareholder is Anhui Energy Group Co., Ltd., its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is Anhui Energy Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Xing An Holdings Limited did not pledge any shares of the Bank.

Anhui Natural Gas Development Co., Ltd. was established on 14 February 2003. It was registered in Hefei of Anhui Province with a registered capital of RMB336,000,000. Its legal representative is Jia Huabin. Its scope of business includes construction, operation and management of the natural gas trunk and branch pipeline network in the province; participation in the development, construction, operation and management of urban natural gas pipeline network; purchase of natural gas resources upstream on behalf of Anhui Province, and sale of natural gas to urban pipeline network and major users; development of natural gas and coal seam gas and other energy applications and related projects, including liquefied natural gas (LNG), compressed natural gas (CNG), natural gas vehicle refuelling stations; engagement in other businesses related to or supporting the above. According to the information submitted by shareholders, its controlling shareholder is Anhui Energy Group Co., Ltd., its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is Anhui Natural Gas Development Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Natural Gas Development Co., Ltd. did not pledge any shares of the Bank.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

- (3) Wkland Finance Holding Company Limited was incorporated in British Virgin Islands on 28 October 2013. It has two directors, namely Zhang Xu and Mo Fan. According to the information submitted by shareholders, its controlling shareholder is Wkland Limited, its de facto controller is China Vanke Co., Ltd., its ultimate beneficiary is China Vanke Co., Ltd. and it acts in concert with Wkland Finance Holding II Company Limited. As at the end of the Reporting Period, Wkland Finance Holding Company Limited did not pledge any shares of the Bank.

Wkland Finance Holding II Company Limited was incorporated in British Virgin Islands on 28 October 2013. It has two directors, namely Zhang Xu and Mo Fan. According to the information submitted by shareholders, its controlling shareholder is Wkland Limited, its de facto controller is China Vanke Co., Ltd., its ultimate beneficiary is China Vanke Co., Ltd. and it acts in concert with Wkland Finance Holding Company Limited. As at the end of the Reporting Period, Wkland Finance Holding II Company Limited did not pledge any shares of the Bank. Wkland Finance Holding II Company Limited has appointed Wang Wenjin to the Bank as a director.

- (4) Anhui Guoyuan Financial Holding Group Co., Ltd. was established on 30 December 2000. It was registered in Hefei of Anhui Province with a registered capital of RMB3 billion. Its legal representative is Fang Xu. Its scope of business includes the operation of all state-owned assets and state-owned shares of state-authorized group companies and their holding companies, capital operations, asset management, mergers and acquisitions, asset restructuring and investment consultation. According to the information submitted by shareholders, its controlling shareholder is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Guoyuan Financial Holding Group Co., Ltd. did not pledge any shares of the Bank and has appointed Wu Tian to the Bank as a director. In addition, according to the information provided by Anhui Guoyuan Financial Holding Group Co., Ltd. to the Bank and the publicly disclosed information, the company completed the change of business registration information on 25 March 2020 and its registered capital was changed to RMB6 billion.

Anhui Guoyuan Trust Co., Ltd. was established on 14 January 2004. It was registered in Hefei of Anhui Province with a registered capital of RMB3 billion. Its legal representative is Xu Bin. Its scope of business includes fund trusts, movable property trusts, real estate trusts, negotiable securities trusts, other property or property rights trusts, as promoters of investment fund or fund management company to be engaged in investment fund business, restructuring, mergers and acquisitions and project financing of enterprise assets; financial management, financial advisory and other services for companies; entrusted to operate the securities underwriting business approved by the relevant departments of the State Council; handle intermediation, consulting, credit investigation and other business, custody service and safe deposit box service business, utilization of inherent property by way of deposits at banks and other financial institutions, call loans to banks and other financial institutions, loans, leasing and investments, providing guarantees for others with inherent property, engaged in interbank lending, and other business required by the laws and regulations or approved by the CBRC. According to the information submitted by shareholders, its controlling shareholder is Anhui Guoyuan Financial Holding Group Co., Ltd., its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Guoyuan Trust Co., Ltd. did not pledge any shares of the Bank.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

Anhui Guoyuan Ma'anshan Asset Management Co., Ltd. was established on 31 March 2004. It was registered in Ma'anshan of Anhui Province with a registered capital of RMB65 million. Its legal representative is Zhou Min. Its scope of business includes financial investment; asset management; entrusted wealth management; entrusted investment, investment (real estate, enterprise shareholding, national debt, trust products, stocks); non-financial guarantee business; corporate mergers and acquisitions consulting, financial consulting; housing leasing, automobiles Leasing (excluding operators), rental of machinery and equipment; wholesale and retail of metal materials, building materials, chemical products (excluding dangerous goods and precursor chemicals), mechanical and electrical products, home appliances, and general merchandises. According to the information submitted by shareholders, its controlling shareholder is Anhui GuoYuan Investment Co., Ltd., its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Guoyuan Ma'anshan Asset Management Co., Ltd. did not pledge any shares of the Bank.

- (5) Anhui Credit Guaranty Group Co., Ltd. was established on 25 November 2005. It was registered in Hefei of Anhui Province with a registered capital of RMB18.686 billion. Its legal representative is Yan Chen. Its scope of business includes performance guarantee business such as loan guarantee, promissory notes guarantee, trade finance guarantee, project financing guarantee, letter of credit guarantee; re-guarantee and bond issuance guarantee business; procedural preservative guarantee, tender guarantee, prepayment guarantee, project performance guarantee, final payment guarantee, etc.; financing consultancy, financial advisory services and business information consultation relating to the provision of guarantee; investment with self-own capital. According to the information submitted by shareholders, its controlling shareholder is the People's Government of Anhui Province, its de facto controller is the People's Government of Anhui Province, its ultimate beneficiary is Anhui Credit Guaranty Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Credit Guaranty Group Co., Ltd. has pledged 413,829,020 Domestic Shares of the Bank. Anhui Credit Guaranty Group Co., Ltd. has appointed Yan Chen to the Bank as a director.

Anhui Guaranteed Asset Management Co., Ltd. was established on 9 July 2015. It was registered in Hefei of Anhui Province with a registered capital of RMB1.5 billion. Its legal representative is Xu Wenqing. Its scope of business includes entrusted disposal of guaranteed non-performing assets, acquisition of guaranteed non-performing assets, idle capital operation, house leasing, and guarantee business consulting. According to the information submitted by shareholders, its controlling shareholder is Anhui Credit Guaranty Group Co., Ltd., its de facto controller is the People's Government of Anhui Province, its ultimate beneficiary is Anhui Guaranteed Asset Management Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Guaranteed Asset Management Co., Ltd. did not pledge any shares of the Bank.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

- (6) Hefei Xingtai Financial Holding Group Co., Ltd. was established on 18 January 1999. It was registered in Hefei of Anhui Province with a registered capital of RMB6 billion. Its legal representative is Cheng Rulin. Its scope of business includes operation of state-owned assets within the authorization, corporate planning, management consultation, financial advisory, company wealth management, industrial investment as well as other approved operating activities. According to the information submitted by shareholders, its controlling shareholder is the State-owned Assets Supervision and Administration Commission of Hefei City, its de facto controller is the State-owned Assets Supervision and Administration Commission of Hefei City, its ultimate beneficiary is Hefei Xingtai Financial Holding Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Hefei Xingtai Financial Holding Group Co., Ltd. did not pledge any shares of the Bank and has appointed Chen Rui to the Bank as a supervisor.

CCB Trust Co., Ltd. was established on 31 December 2003. It was registered in Hefei of Anhui Province with a registered capital of RMB2,466,866,069. Its legal representative is Wang Baokui. Its scope of business includes fund trusts, movable property trusts, real estate trusts, negotiable securities trusts, other property or property rights trusts, as promoters of investment fund or fund management company to be engaged in investment fund business, restructuring, mergers and acquisitions and project financing of enterprise assets; financial management, financial advisory and other services for companies; entrusted to operate the securities underwriting business approved by the relevant departments of the State Council; handle intermediation, consulting, credit investigation and other business, custody service and safe deposit box service business, utilization of inherent property by way of deposits at banks and other financial institutions, call loans to banks and other financial institutions, loans, leasing and investments, providing guarantees for others with inherent property, engaged in interbank lending, and other business required by the laws and regulations or approved by the CBRC. According to the information submitted by shareholders, its controlling shareholder is China Construction Bank Corporation, its de facto controller is Central Huijin Investment Co., Ltd, its ultimate beneficiary is CCB Trust Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, CCB Trust Co., Ltd. did not pledge any shares of the Bank.

- (7) Sunshine Life Insurance Corporation Limited was established on 17 December 2007. It was registered in Sanya of Hainan Province with a registered capital of RMB18,342.50 million. Its legal representative is Li Ke. Its scope of business includes personal insurance business such as life insurance, health insurance, and accident insurance; re-insurance business of the aforesaid businesses; the scope of use of insurance funds permitted by the national laws and regulations; sales of securities investment funds; other business approved by CIRC. According to the information submitted by shareholders, its controlling shareholder is Sunshine Insurance Group Corporation Limited, it does not have any de facto controller, its ultimate beneficiary is Sunshine Life Insurance Corporation Limited and it does not have any persons acting in concert. As at the end of the Reporting Period, Sunshine Life Insurance Corporation Limited did not pledge any shares of the Bank and has appointed Zhao Zongren to the Bank as a director.

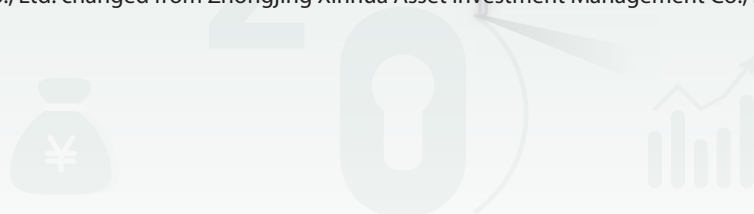
Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

- (8) Anhui Transportation Holding Group Co., Ltd. was established on 27 April 1993. It was registered in Hefei of Anhui Province with a registered capital of RMB16 billion. Its legal representative is Xiang Xiaolong. Its scope of business includes building, supervision, inspection, design, construction, technical consultation and service of road and related infrastructure; investment and asset management; real estate development and management; road transportation; logistics services; operation and management of service areas alongside highways; tolling, road maintenance, operation and management of road properties and rights of road; production and distribution of advertisements. According to the information submitted by shareholders, its controlling shareholder is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is Anhui Transportation Holding Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Transportation Holding Group Co., Ltd. did not pledge any shares of the Bank and has appointed Qian Dongsheng to the Bank as a director.

Anhui Transportation Holding Group (H.K.) Limited was incorporated in Hong Kong in September 2013 with a registered capital of US\$24.80 million. Its legal representative is Xie Xinyu. Its scope of business includes investment, planning, design, construction, supervision, operation, technical consultation and supporting services for high-class highway; investment, development and operation as well as sales of real estate, property management, house rental; import and export of construction materials, automobile spare parts, mechanical equipment and technology, trade agency, storage; equity investment, etc. According to the information submitted by shareholders, its controlling shareholder is Anhui Transportation Holding Group Co., Ltd., its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is Anhui Transportation Holding Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Transportation Holding Group (H.K.) Limited did not pledge any shares of the Bank.

- (9) Zhongjing Sihai Co., Ltd. was established on 28 June 1995. It was registered in Huangshan of Anhui Province with a registered capital of RMB1,261.9757 million. Its legal representative is Zheng Ju. Its scope of business includes industrial investment, asset management, investment operation management, and investment consultation service; sales of office supplies, hotel supplies, metal materials, and automobile and motorcycle accessories. According to the information submitted by shareholders, its controlling shareholder is Shanshan Group Co., Ltd, its de facto controller is Zheng Yonggang, its ultimate beneficiaries are natural persons, Zheng Yonggang and Zhou Jiqing, and it does not have any persons acting in concert. As at the end of the Reporting Period, Zhongjing Sihai Co., Ltd. did not pledge any shares of the Bank. In addition, Zhongjing Sihai Co., Ltd. pledged 199,120,000 Domestic Shares of the Bank in January 2020, accounting for 1.64% of the total share capital of ordinary shares of the Bank. Zhongjing Sihai Co., Ltd. assigned GAO YANG, a director to the Bank. According to the information provided by Zhongjing Sihai Co., Ltd. to the Bank and reported to the banking regulators, the company completed the change of business registration information on 29 August 2019 and Shanshan Group Co., Ltd.'s shareholding in Zhongjing Sihai changed from 48.3476% to 100%. As a result, the controlling shareholder of Zhongjing Sihai Co., Ltd. changed from Zhongjing Xinhua Asset Investment Management Co., Ltd. to Shanshan Group Co., Ltd.



Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

- (10) Wuhu Construction Investment Co., Ltd. was established on 16 February 1998. It was registered in Wuhu of Anhui Province with a registered capital of RMB7,122.5 million. Its legal representative is Xia Feng. Its scope of business includes investment, financing, construction, operation and management of urban infrastructure and public utilities projects; industrial investment and management; house leasing; authorized operation of state-owned assets, capital operation and asset restructuring; performing the duties as the state-owned assets contributor of the wholly-owned subsidiaries, controlling enterprises and enterprises in which it has shareholdings. According to the information submitted by shareholders, its controlling shareholder is the State-owned Assets Supervision and Administration Commission of Wuhu City, its de facto controller is the State-owned Assets Supervision and Administration Commission of Wuhu City, its ultimate beneficiary is Wuhu Construction Investment Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Wuhu Construction Investment Co., Ltd. did not pledge any shares of the Bank and has appointed Li Ruifeng to the Bank as a supervisor.
- (11) Anhui Publishing Group Co., Ltd. was established on 26 October 2005. It was registered in Hefei of Anhui Province with a registered capital of RMB1,031.704 million. Its legal representative is Wang Min. Its scope of business includes: engaged in asset management, capital operation and investment business according to the relevant requirements of the Country, as well as providing asset or equity management services and financing consultation services to wholly-owned and controlling subsidiaries according to the laws; management of the domestic and international publishing, sales, logistics and distribution, chain operation of books, journals, newspaper, electronic publications, audio and video products as well as online publications produced by subsidiaries, consultation services for book rental and leasing. According to the information submitted by shareholders, its controlling shareholder is the People's Government of Anhui Province, its de facto controller is the People's Government of Anhui Province, its ultimate beneficiary is Anhui Publishing Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Publishing Group Co., Ltd. did not pledge any shares of the Bank and has appointed Hu Jing to the Bank as a supervisor.

- Notes: (1) Particulars of substantial shareholders of ordinary shares are based on the information submitted to the Bank or the public disclosure information published by substantial shareholders.
- (2) The pledge of Domestic Shares of the Bank is based on the relevant information provided by China Securities Depository and Clearing Corporation Limited and the pledge of H Shares is based on the information submitted by the shareholders.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

Notes: (Continued)

- (3) For the detailed definitions of substantial shareholders, controlling shareholders, de facto controllers, parties acting in concert and ultimate beneficial owners, please see the relevant requirement of the Interim Measures for the Shareholding Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by CBIRC.
- (4) Pursuant to the Enterprise Accounting Standard No. 36 – Disclosure of Related Party, related parties refer to the enterprises controlled or jointly controlled by one party or exerting significant influence on the other party, or controlled, jointly controlled or significantly influenced by two or more parties under the same control of the same party, but the enterprises controlled by the state not only have related relationship because they are jointly controlled by the state; the Interim Measures for the Shareholding Management of Commercial Banks requires commercial banks to manage major shareholders, its controlling shareholders, de facto controllers, related parties, parties acting in concert and ultimate beneficiaries as related parties of commercial banks in accordance with the principle of penetration.

As at the end of the Reporting Period, the Bank has approximately 676 related legal entities and approximately 11,589 related natural persons with the total balance of related transactions of approximately RMB28.841 billion. According to the relevant information publicly disclosed and submitted to the Bank by substantial shareholders, the related legal entities and related natural persons of substantial shareholders of the Bank amounts to approximately 617 in aggregate. As at the end of the Reporting Period, details of the related parties of substantial shareholders and the related transactions under relevant accounting standards are set out in Note 50 to the financial statements. Due to limitations on space, this annual report does not provide the list of related parties of all substantial shareholders.



Chapter VII Changes in Share Capital and Particulars of Shareholders

7.4 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS

As of 31 December 2019, the following persons (other than the directors, supervisors and chief executive (as defined in the Hong Kong Listing Rules) of the Bank) had interests and short positions in the shares of the Bank as recorded in the register required to be kept by the Bank pursuant to section 336 of the SFO. In view of the Bank's profit distribution plan for 2017, where bonus shares were issued to shareholders on the basis of 1 share for every 10 shares, implemented in 2018, the number of shares held by shareholders in the table below reflects the number of shares held by shareholders after the issue of bonus shares.

Name of shareholder	Type of share	Long/short position	Capacity	Number of shares (share)	Percentage of the underlying shares in issue (%)	Percentage of all issued ordinary shares (%)	Note
Anhui Energy Group Co., Ltd.	H Share	Long	Interest of controlled corporation	329,973,600	9.49	2.71	1
	Domestic Share	Long	Interest of controlled corporation	173,544,625	2.00	1.43	1
	Domestic Share	Long	Beneficial owner	843,363,819	9.72	6.94	1
Xing An Holdings Limited	H Share	Long	Beneficial owner	329,973,600	9.49	2.71	1
Anhui Credit Guaranty Group Co., Ltd.	Domestic Share	Long	Interest of controlled corporation	2,524,326	0.03	0.02	2
	Domestic Share	Long	Beneficial owner	827,658,091	9.54	6.81	2
Anhui Guoyuan Financial Holding Group Co., Ltd.	Domestic Share	Long	Beneficial owner	837,810,695	9.66	6.89	3
	Domestic Share	Long	Interest of controlled corporation	36,113,132	0.42	0.30	3
Anhui Transportation Holding Group Co., Ltd.	H Share	Long	Interest of controlled corporation	2,999,700	0.09	0.02	4
	Domestic Share	Long	Beneficial owner	515,935,874	5.95	4.24	4
China Vanke Co., Ltd.	H Share	Long	Interest of controlled corporation	972,384,600	27.95	8.00	5
Wkland Finance Holding Company Limited	H Share	Long	Beneficial owner	562,254,000	16.16	4.63	5
Wkland Finance Holding II Company Limited	H Share	Long	Beneficial owner	410,130,600	11.79	3.37	5
Sunshine Insurance Group Corporation Limited	H Share	Long	Interest of controlled corporation	598,094,200	17.19	4.92	6
Sunshine Life Insurance Corporation Limited	H Share	Long	Beneficial owner	598,094,200	17.19	4.92	6
Shanghai Soong Ching Ling Foundation	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	8, 9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	224,781,227	2.59	1.85	7, 11
Zhongjing Industry (Group) Limited	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	8, 9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	224,781,227	2.59	1.85	7, 11
Modern Innovation Holdings Co., Limited	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	8, 9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	224,781,227	2.59	1.85	7, 11

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.4 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

Name of shareholder	Type of share	Long/short position	Capacity	Number of shares (share)	Percentage of the underlying shares in issue (%)	Percentage of all issued ordinary shares (%)	Note
Jing'An Shanghai Silver Investment Co., Ltd.	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	8, 9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	224,781,227	2.59	1.85	7, 11
Zhongjing Xinhua Asset Investment Management Company Ltd.	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	8, 9, 10, 11
	Domestic Share	Long	Beneficial owner	224,781,227	2.59	1.85	7, 11
Zhongjing Xinhua Property Management (Hong Kong) Co., Limited	H Share	Long	Interest of controlled corporation	972,415,400	27.95	8.00	9, 10, 11
	H Share	Long	Beneficial owner	273,449,000	7.86	2.25	8
Wealth Honest Limited	H Share	Long	Interest of controlled corporation	440,000,000	12.65	3.62	10, 11
	H Share	Long	Beneficial owner	532,415,400	15.30	4.38	9
Wealth Honest Cayman Holdings Company Limited	H Share	Long	Interest of controlled corporation	440,000,000	12.65	3.62	10, 11
Qingdao State-owned Assets Supervision & Administration Commission	H Share	Long	Security interest	440,000,000	12.65	3.62	10
Qingdao City Construction Investment (Group) Limited	H Share	Long	Security interest	440,000,000	12.65	3.62	10
Qingdao City Construction Financial Holding Group Co., Ltd.	H Share	Long	Security interest	440,000,000	12.65	3.62	10
China Golden Harbour (Holdings) Group	H Share	Long	Security interest	440,000,000	12.65	3.62	10
Golden Harbour Global Holdings Limited	H Share	Long	Security interest	440,000,000	12.65	3.62	10
Wealth Honest Fund LP	H Share	Long	Interest of controlled corporation	440,000,000	12.65	3.62	10
Golden Harbour Investments Management Limited	H Share	Long	Beneficial owner	440,000,000	12.65	3.62	10, 11

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.4 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

Name of shareholder	Type of share	Long/short position	Capacity	Number of shares (share)	Percentage of the underlying shares in issue (%)	Percentage of all issued ordinary shares (%)	Note
Zheng Yonggang	Domestic Share	Long	Interest of controlled corporation	730,883,703	8.42	6.01	11
Zhou Jiqing	Domestic Share	Long	Interest of controlled corporation	730,883,703	8.42	6.01	11
Ningbo Qinggang Investment Co., Ltd.	Domestic Share	Long	Interest of controlled corporation	730,883,703	8.42	6.01	11
Shanshan Holdings Co., Ltd.	Domestic Share	Long	Interest of controlled corporation	506,102,476	5.83	4.16	11
	Domestic Share	Long	Beneficial owner	224,781,227	2.59	1.85	11
	H Share	Long	Interest of acting in concert	1,245,864,400	35.81	10.25	12
Shanshan Group Co., Ltd.	Domestic Share	Long	Interest of controlled corporation	506,102,476	5.83	4.16	11
Zhongjing Sihai Co., Ltd.	Domestic Share	Long	Beneficial owner	506,102,476	5.83	4.16	11
DRAGON SOUND INVESTMENT LIMITED	Domestic Share	Long	Interest of acting in concert	730,883,703	8.42	6.01	12
	H Share	Long	Beneficial owner	273,449,000	7.86	2.25	11
JOY GLORY HOLDINGS LIMITED	Domestic Share	Long	Interest of acting in concert	730,883,703	8.42	6.01	12
	H Share	Long	Beneficial owner	532,415,400	15.30	4.38	11
SUPERIOR LOGIC INVESTMENTS LIMITED	Domestic Share	Long	Interest of acting in concert	730,883,703	8.42	6.01	12
	H Share	Long	Beneficial owner	440,000,000	12.65	3.62	11
CITIC Securities Company Limited	H Share	Long	Interest of controlled corporation	237,660,000	6.83	1.96	13
	H Share	Short	Interest of controlled corporation	237,660,000	6.83	1.96	13

Notes:

- (1) Xing An Holdings Limited holds 329,973,600 H Shares (long position) of the Bank. Xing An Holdings Limited is a wholly-owned subsidiary directly controlled by Anhui Energy Group Co., Ltd. As such, Anhui Energy Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Xing An Holdings Limited.

At the same time, Anhui Energy Group Co., Ltd. directly holds 843,363,819 Domestic Shares (long position) of the Bank. Anhui Energy Group Co., Ltd. also effectively controls 150,814,726 Domestic Shares and 22,729,899 Domestic Shares of the Bank that were held by its controlling subsidiaries, Anhui Wenergy Company Limited (安徽省皖能股份有限公司) and Anhui Natural Gas Development Co., Ltd. (安徽省天然氣開發股份有限公司), respectively.

- (2) During the Reporting Period, the 2,524,326 Domestic Shares (long position) of the Bank held by Anhui Jinrun Information Technology Co., Ltd. were transferred to Anhui Guarantee Asset Management Co., Ltd., a wholly-owned subsidiary of Anhui Credit Guaranty Group Co., Ltd. As such, Anhui Credit Guaranty Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Anhui Guarantee Asset Management Co., Ltd. Meanwhile, Anhui Credit Guaranty Group Co., Ltd. holds 827,658,091 Domestic Shares (long position) of the Bank.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.4 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

- (3) Anhui Guoyuan Financial Holding Group Co., Ltd. was formerly known as Anhui Guoyuan Holding (Group) Co., Ltd. The shareholdings of Anhui Guoyuan Financial Holding Group Co., Ltd. in the Bank include the Domestic Shares of the Bank held by its controlling subsidiaries, including Anhui Guoyuan Ma'anshan Asset Management Co., Ltd. (安徽國元馬鞍山投資管理有限責任公司) and Anhui Guoyuan Trust Co., Ltd. (安徽國元信託有限責任公司).
- (4) Anhui Transportation Holding Group (H.K.) Limited (安徽省交通控股集團(香港)有限公司) holds 2,999,700 H Shares (long position) of the Bank. Anhui Transportation Holding Group (H.K.) Limited is a wholly-owned subsidiary directly controlled by Anhui Transportation Holding Group Co., Ltd. As such, Anhui Transportation Holding Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Anhui Transportation Holding Group (H.K.) Limited. At the same time, Anhui Transportation Holding Group Co., Ltd. holds 515,935,874 Domestic Shares (long position) of the Bank.
- (5) China Vanke Co., Ltd. is deemed to be interested in a total of 972,384,600 H Shares (long position) of the Bank by virtue of its control over the following corporations which directly hold interests in the Bank:
 - 5.1 Wkland Finance Holding Company Limited holds 562,254,000 H Shares (long position) of the Bank. Wkland Finance Holding Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.
 - 5.2 Wkland Finance Holding II Company Limited holds 410,130,600 H Shares (long position) of the Bank. Wkland Finance Holding II Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.
- (6) Sunshine Life Insurance Corporation Limited holds 598,094,200 H Shares (long position) of the Bank. Sunshine Life Insurance Corporation Limited is a subsidiary directly controlled by Sunshine Insurance Group Corporation Limited. As such, Sunshine Insurance Group Corporation Limited is deemed to be interested in the shares of the Bank held by Sunshine Life Insurance Corporation Limited.
- (7) Zhongjing Xinhua Asset Investment Management Co., Ltd. ("Zhongjing Xinhua") directly holds 224,781,227 Domestic Shares (long position) of the Bank. Zhongjing Xinhua is a subsidiary directly controlled by Jing'An Shanghai Silver Investment Co., Ltd. ("Jing'An Silver"). Jing'An Silver is a wholly-owned subsidiary directly controlled by Modern Innovation Holdings Co., Limited ("Modern Innovation"). Modern Innovation is a subsidiary directly controlled by Zhongjing Industry (Group) Limited ("Zhongjing Industry"). The 97.5% shares of Zhongjing Industry are held by Shanghai Soong Ching Ling Foundation ("Shanghai Soong Ching Ling Foundation"). As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry, Modern Innovation and Jing'An Silver are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua.
- (8) Zhongjing Xinhua Property Management (Hong Kong) Co., Limited ("Zhongjing Xinhua Hong Kong") holds 273,449,000 H Shares (long position) of the Bank.

Zhongjing Xinhua Hong Kong is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua. As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver and Zhongjing Xinhua are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua Hong Kong.
- (9) Wealth Honest Limited ("Wealth Honest") holds 532,415,400 H Shares (long position) of the Bank. Wealth Honest is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua Hong Kong, which in turn is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua. As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver, Zhongjing Xinhua and Zhongjing Xinhua Hong Kong are deemed to be interested in the shares of the Bank held by Wealth Honest.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.4 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

- (10) Golden Harbour Investments Management Limited ("Golden Harbour") holds 440,000,000 H Shares (long position) of the Bank. The Bank was further informed by Zhongjing Xinhua by email that Wealth Honest Fund LP (a limited partnership established in the Cayman Islands) holds 100% equity interests in Golden Harbour; and Wealth Honest Cayman Holdings Company Limited (a direct wholly-owned subsidiary of Wealth Honest) is the sole general partner of Wealth Honest Fund LP and has absolute control over the operations of the partnership. Accordingly, Wealth Honest can 100% indirectly control Golden Harbour. For information about Wealth Honest, please refer to note (9) above. As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver, Zhongjing Xinhua, Zhongjing Xinhua Hong Kong, Wealth Honest, Wealth Honest Cayman Holdings Company Limited and Wealth Honest Fund LP are deemed to be interested in the shares of the Bank held by Golden Harbour.

According to the disclosure of interests forms submitted to the Hong Kong Stock Exchange by the State-owned Assets Supervision and Administration Commission of Qingdao City and its subsidiaries, Golden Harbour Global Holdings Limited, a wholly-owned subsidiary directly controlled by China Golden Harbour (Holdings) Group, holds 70% equity interests in Wealth Honest Fund LP; China Golden Harbour (Holdings) Group is a wholly-owned subsidiary directly controlled by Qingdao City Construction Financial Holding Group Co., Ltd.; Qingdao City Construction Financial Holding Group Co., Ltd. is a wholly-owned subsidiary directly controlled by Qingdao City Construction Investment (Group) Limited; Qingdao City Construction Investment (Group) Limited is wholly-owned by the State-Owned Assets Supervision & Administration Commission of Qingdao City. The State-owned Assets Supervision and Administration Commission of Qingdao City, Qingdao City Construction Investment (Group) Limited, Qingdao City Construction Financial Holding Group Co., Ltd., China Golden Harbour (Holdings) Group and Golden Harbour Global Holdings Limited are deemed to be interested in the shares of the Bank held by Golden Harbour.

- (11) Zhongjing Sihai Co., Ltd. ("Zhongjing Sihai") holds 506,102,476 Domestic Shares of the Bank. According to the relevant shareholding table from the Hong Kong Stock Exchange:

During the Reporting Period, Zhongjing Xinhua transferred its equity interests of 51.6524% in Zhongjing Sihai to Shanshan Group Co., Ltd. ("Shanshan Group"), upon which Shanshan Group owned 100% equity interests in Zhongjing Sihai. Shanshan Group is the subsidiary of Shanshan Holdings Co., Ltd. ("Shanshan Holdings") which owns its equity interests of 73.46%, which in turn is the subsidiary of Ningbo Qinggang Investment Co., Ltd. ("Ningbo Qinggang") which holds its equity interests of 61.81%. Zheng Yonggang and Zhou Jiqing hold the equity interests of 51% and 49% in Ningbo Qinggang, respectively. As such, Zheng Yonggang, Zhou Jiqing, Ningbo Qinggang, Shanshan Holdings and Shanshan Group are deemed to be interested in the shares of the Bank held by Zhongjing Sihai.

Shanshan Holdings Co., Ltd. ("Shanshan Holdings") entered into an agreement with Zhongjing Xinhua on 20 August 2019, pursuant to which Shanshan Holdings acquired 224,781,227 Domestic Shares of Huishang Bank held by Zhongjing Xinhua, which have not been transferred. Pursuant to relevant requirements of the Securities and Futures Ordinance, during the period from the entering of the agreement to prior to the completion of the transfer of shares, both Shanshan Holdings and Zhongjing Xinhua shall be deemed to be interested in such shares acquired or disposed and both of them are beneficial owners. Zheng Yonggang, Zhou Jiqing and Ningbo Qinggang are deemed to be interested in the above shares of the Bank held by Shanshan Holdings.

- (12) DRAGON SOUND INVESTMENT LIMITED, JOY GLORY HOLDINGS LIMITED and SUPERIOR LOGIC INVESTMENTS LIMITED acquired 273,449,000, 532,415,400 and 440,000,000 H Shares of the Bank. Zhongjing Xinhua Hong Kong, Wealth Honest and Golden Harbour have entered into agreements with aforesaid parties for selling the shares in which they are interested. The transfer of such share interests has not been completed. Pursuant to relevant requirements of the Securities and Futures Ordinance, during the period from the entering of the agreement to prior to the completion of the transfer of shares, DRAGON SOUND INVESTMENT LIMITED, JOY GLORY HOLDINGS LIMITED, SUPERIOR LOGIC INVESTMENTS LIMITED, Zhongjing Xinhua Hong Kong, Wealth Honest and Golden Harbour shall be deemed to be interested in such shares they have purchased or disposed of and all of them are beneficial owners.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.4 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

- (13) According to the shareholding disclosure submitted by Shanshan Holdings and other companies to the Hong Kong Stock Exchange, Shanshan Holdings has entered into the concerted party agreement with SUPERIOR LOGIC INVESTMENTS LIMITED, DRAGON SOUND INVESTMENT LIMITED and JOY GLORY HOLDINGS LIMITED.
- (14) CITIC Securities Company Limited is interested in a total of 237,660,000 H Shares (long position) and 237,660,000 H Shares (short position) of the Bank. These equity interests are all interests of derivatives.

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

7.5 INITIAL PUBLIC OFFERING OF A SHARES

On 28 December 2018, the Resolution on the Proposal for the Initial Public Offering and Listing of the A Shares of Huishang Bank Corporation Limited was considered and approved at the forty-sixth meeting of the third session of the Board of the Bank. On 26 April 2019, various proposals related to the offering of A shares were considered and approved at the fifth meeting of the fourth session of the Board of the Bank. The Bank held the 2018 Annual General Meeting on 30 June 2019, at which the resolution on the initial public offering of A shares, amongst others, was considered and approved proposing to issue no more than 1,500,000,000 A shares. The A share offering is expected to proceed by the Board exercising the general mandate of share offering authorized at the Bank's general meeting. The price of the A shares to be issued will be determined after taking into full account the interests of the existing shareholders as a whole, and the actual conditions of the capital markets and the Bank at the time of the A share offering, and will be in full compliance with Rule 13.36(5) of the Hong Kong Listing Rules.

For details of the A share offering of the Bank, please refer to the announcements dated 30 December 2018 and 1 July 2019 and the circular dated 15 May 2019 of the Bank. The obligations shall be disclosed in due course by the Bank pursuant to the requirements of the Hong Kong Listing Rules.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.6 OVERSEAS PREFERENCE SHARES

7.6.1 ISSUANCE AND LISTING OF OVERSEAS PREFERENCE SHARES

On 10 November 2016, the Bank issued 44,400,000 Overseas Preference Shares on the offshore market through non-public offering at the issue price of US\$20 per share and raised US\$888 million. The Overseas Preference Shares were listed on the Hong Kong Stock Exchange on 11 November 2016. After deducting the issue expenses, the Bank applied all the proceeds raised from the issuance of the Overseas Preference Shares to replenish its additional tier 1 capital according to applicable laws and regulations and the approval from relevant regulatory authorities.

7.6.2 NUMBER OF HOLDERS OF OVERSEAS PREFERENCE SHARES AND THEIR SHAREHOLDINGS

As at the end of the Reporting Period, the Bank recorded one holder of Overseas Preference Shares (or depository). Particulars of its shareholding are presented as follows:

Name of holder of overseas preference shares	Nature of shareholder	Type of shares	Increase/decrease during the Reporting Period	Shareholding percentage (%)	Total number of shares held	Number of shares held subject to selling restrictions	Number of pledged or frozen shares
DB Nominees (Hong Kong) Limited	Foreign legal person	Overseas Preference Shares	–	100	44,400,000	–	Unknown

Notes:

- Particulars of the shareholding of the holder of Overseas Preference Shares are based on the information in the Bank's register of holders of Overseas Preference Shares.
- As the issuance was an offshore non-public offering, the register of holders of Overseas Preference Shares presented information on the Overseas Preference Shares held by DB Nominees (Hong Kong) Limited as the depository on behalf of the placee in the clearing systems of Euroclear Bank S.A./N.V. and Clearstream Banking S.A. as at the end of the Reporting Period.

7.6.3 PROFIT DISTRIBUTION OF OVERSEAS PREFERENCE SHARES

The Board of the Bank passed a resolution on 28 August 2019, to pay dividends to the holders of the Preference Shares in accordance with the relevant laws and regulations, the Articles of Associates and the issuance terms and conditions of the Preference Shares. The total amount of dividends on the Overseas Preference Shares to be distributed shall be US\$54,266,666.67, of which, US\$48,840,000 shall be actually paid to the holders of the Preference Shares at a coupon rate of 5.5%; and US\$5,426,666.67 shall be withheld and paid as the income tax at a rate of 10% according to relevant laws and regulations. The dividend distribution date shall be 10 November 2019, and the dividend calculation period shall begin on 10 November 2018 (inclusive) and end on 10 November 2019 (exclusive). Recipients shall be the persons registered on the register of members of the Overseas Preference Shares as of the closing of such clearing systems on 8 November 2019. For more details, please refer to the announcement of the Bank dated 28 August 2019.

On 10 November 2019, the Bank completed the third payment of dividends for the issuance of Overseas Preference Shares.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.6 OVERSEAS PREFERENCE SHARES (Continued)

7.6.4 REDEMPTION OR CONVERSION OF OVERSEAS PREFERENCE SHARES

During the Reporting Period, there was no redemption or conversion of Overseas Preference Shares issued by the Bank.

7.6.5 RESTORATION OF VOTING RIGHTS OF OVERSEAS PREFERENCE SHARES

During the Reporting Period, there was no restoration of voting rights of Overseas Preference Shares issued by the Bank.

7.6.6 ACCOUNTING POLICY ADOPTED FOR OVERSEAS PREFERENCE SHARES AND GROUNDS

Pursuant to the requirements of Accounting Standards for Enterprises No. 22 – Financial Instruments Recognition and Measurement, Accounting Standards for Enterprises No. 37 – Financial Instruments Presentation, Difference between Financial Liabilities and Equity Instruments and Relevant Accounting Requirements, and the requirements of International Accounting Standard 39 Financial Instruments: Recognition and Measurement and International Accounting Standard 32 Financial Instruments: Presentation made by the International Accounting Standards Board, the terms of the outstanding Overseas Preference Shares issued by the Bank conform to the accounting requirements for equity instruments, and are accounted for as equity instruments.



Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name of current directors	Gender	Date of birth	Position held	Start of term of office	Total remuneration from the Bank during the Reporting Period before tax (RMB10 thousand) ⁽²⁾
Wu Xuemin	Male	February 1968	Executive Director	28 November 2018	67.1
			Chairman	30 January 2019	
Zhang Renfu	Male	March 1962	Executive Director	28 December 2018	66.6
			President	30 January 2019	
He Jiehua	Male	March 1966	Executive Director	8 August 2019	36
Zhu Yicun	Male	October 1961	Non-executive Director	28 December 2018	–
Yan Chen	Male	August 1972	Non-executive Director	19 December 2019	–
Wu Tian	Male	October 1964	Non-executive Director	28 December 2018	–
Qian Dongsheng	Male	October 1967	Non-executive Director	28 December 2018	–
Gao Yang	Male	June 1966	Non-executive Director	28 November 2018	–
Wang Wenjin	Male	December 1966	Non-executive Director	28 December 2018	–
Zhao Zongren	Male	February 1956	Non-executive Director	28 November 2018	–
Dai Peikun	Male	April 1953	Independent Non-executive Director	28 December 2018	–
Zhou Yana	Female	January 1954	Independent Non-executive Director	28 November 2018	24
Liu Zhiqiang	Male	September 1956	Independent Non-executive Director	28 December 2018	24
Yin Jianfeng	Male	December 1969	Independent Non-executive Director	28 December 2018	24
Huang Aiming	Female	December 1969	Independent Non-executive Director	21 January 2019	24

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

					Total remuneration from the Bank during the Reporting Period before tax (RMB10 thousand) ⁽²⁾
Name of current Supervisor	Gender	Date of birth	Position held	Start of term of office	
Zhang Youqi	Male	October 1965	Employee Supervisor	26 October 2018	65.3
			Chairman of the Board of Supervisors	13 December 2018	
Tang Chuan	Male	November 1962	Employee Supervisor, Chairman of Labor Union	26 October 2018	196.8
Zhong Qiushi	Male	February 1965	Employee Supervisor, General Manager of the Risk Management Department	26 October 2018	140.8
Chen Rui	Male	November 1977	Shareholder Supervisor	28 November 2018	–
Li Ruifeng	Male	February 1970	Shareholder Supervisor	28 November 2018	–
Hu Jing	Female	May 1975	Shareholder Supervisor	28 November 2018	–
Pan Shujuan	Female	October 1955	External Supervisor	28 November 2018	18.5
Yang Mianzhi	Male	July 1969	External Supervisor	28 November 2018	20
Dong Xiaolin	Female	September 1963	External Supervisor	28 November 2018	20

					Total remuneration from the Bank during the Reporting Period before tax (RMB10 thousand) ⁽²⁾
Name of current senior management	Gender	Date of birth	Position held	Start of term of office	
Zhang Renfu	Male	March 1962	Executive Director	28 December 2018	66.6
			President	30 January 2019	
Gao Guangcheng	Male	January 1964	Executive Vice President	30 January 2019	55.9
Yi Feng	Male	August 1963	Vice President	26 September 2019	98.9
Xia Min	Male	April 1971	Assistant to President	30 January 2019	215.9
Ni Jianxiang	Male	November 1962	Director of Retail Banking	30 January 2019	205.9
Huang Xiaoyan	Female	December 1971	Director of Investment and Wealth Management	30 January 2019	221.8
Zhou Tong	Female	September 1965	Director of Compliance and Risk Management	30 January 2019	194.9
Li Dawei	Male	July 1964	Financial Controller	30 January 2019	210.7
Gao Chunming	Female	April 1964	Director of Corporate Banking	30 January 2019	201.0
Lian Baohua	Male	August 1965	Secretary to the Board	30 January 2019	193.9

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Name of resigned personnel	Gender	Date of birth	Position held	Term of office	Total remuneration from the Bank during the Reporting Period before tax (RMB10 thousand) ⁽²⁾
Ci Yaping	Male	May 1959	Former Executive Director, Former Vice President	28 November 2018 – 18 July 2019	41.2
Qian Li	Male	March 1974	Former Non-executive Director	28 November 2018 – 28 March 2019	–
Hu Jun	Male	October 1973	Former Independent Non-executive Director	28 December 2018 – 25 October 2019	18

Notes:

- (1) For details of the position changes of above directors, supervisors and senior management, please refer to “CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK” under section 8.2 of this annual report.
- (2) This report only disclosed the remuneration of the above executive directors, employee supervisors and senior management during their term of office in the Bank. Pursuant to the requirements of the relevant PRC authorities, the remuneration payable to the executive directors, employee supervisors and senior management of the Bank above is still subject to final confirmation. Further disclosure will be made after the confirmation of the final remuneration. The total remuneration before tax from the Bank during the Reporting Period includes the “five insurances and housing provident fund” and the portion of corporate contribution to enterprise annuity.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

1. The Bank convened the 2018 first extraordinary general meeting on 28 November 2018 and elected the fourth session of the Board of Directors, including the re-election of Mr. Wu Xuemin, Mr. Gao Yang, Mr. Zhao Zongren and Ms. Zhou Yana as directors, with effect from the same date; and the election of Mr. Zhang Renfu, Mr. Zhu Yicun, Mr. Wu Tian, Mr. Qian Dongsheng, Mr. Wang Wenjin, Mr. Dai Peikun, Mr. Liu Zhiqiang, Mr. Yin Jianfeng and Ms. Huang Aiming as new directors, whose qualifications are subject to the approval of CBIRC Anhui Office. The Bank published announcements on 3 January and 21 January 2019, respectively, announcing that the qualifications of the above directors were approved by CBIRC Anhui Office.

The Bank made an announcement on 3 January 2019, announcing that, given that the appointments of the members of the fourth session of the Board of Directors had become effective, the members of the third session of the Board of Directors of the Bank, including Mr. Zhang Feifei, Mr. Zhu Jiusheng, Ms. Lu Hui, Mr. Qiao Chuanfu, Mr. Dai Genyou, Mr. Wang Shihao, Mr. Zhang Shenghuai, Mr. Au Ngai, Daniel and Mr. Zhu Hongjun retired as directors of the Bank and from the respective position in the Board committees.

2. The Bank convened the first meeting of the fourth session of the Board of Directors on 30 January 2019 to elect Mr. Wu Xuemin as the chairman of the fourth session of the Board of Directors and appointed the fourth session of senior management of the Bank. The tenure of Mr. Wu Xuemin, Mr. Zhang Renfu, Mr. Gao Guangcheng, Mr. Yi Feng, Mr. Xia Min, Mr. Ni Jianxiang, Ms. Huang Xiaoyan, Ms. Zhou Tong, Mr. Li Dawei, Ms. Gao Chunming and Mr. Lian Baohua shall take effect on the same date.
3. The Bank convened the third meeting of the fourth session of the Board of Directors on 27 March 2019 and passed the resolution to appoint Mr. Yi Feng, an assistant to president of the Bank, as the vice president of the Bank. The Bank made an announcement on 29 September 2019, announcing that the qualification of Mr. Yi Feng as the vice president has been approved by the CBIRC Anhui Office with effect from 26 September 2019.
4. The Bank made an announcement on 28 March 2019 that as at the date of the announcement, Mr. Qian Li, a non-executive director of the Bank, had tendered his resignation to the Bank as a non-executive director, a member of the Strategic Development and Consumer Rights Protection Committee and a member of the Audit Committee of the Bank due to work re-arrangement. His resignation took effect from the date of the announcement.
5. The Bank convened the 2018 annual general meeting on 30 June 2019 to elect Mr. He Jiehua and Mr. Yan Chen as directors of the fourth session of the Board of Directors. The Bank made announcements on 8 August and 19 December 2019, announcing that the qualifications of the above two directors have been approved by the CBIRC Anhui Office.
6. The Bank made an announcement on 18 July 2019, announcing that Mr. Ci Yaping, an executive director of the Bank, tendered his resignation to the bank on the date of the announcement as an executive director, the vice president and the chairman of the Risk Management Committee of the Bank as he reached the retirement age, with effect from the date of the announcement.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK (Continued)

7. The Bank made an announcement on 14 October 2019, announcing that Ms. Pan Shujuan, an external supervisor, with a term of six years tendered her resignation to the Bank as an external supervisor of the Bank, the chairman and a member of the Nomination Committee due the expiry of her term of office. Her resignation as an external supervisor and a member of the Nomination Committee will take effect on the date upon the formal appointment of her successor of external supervisor by the Bank, while her resignation of the chairman of the Nomination Committee took effect from the date of the announcement.
8. The Bank made an announcement on 25 October 2019, announcing that Mr. Hu Jun, an independent non-executive director of the Bank, due to his desire to devote more time to his other business commitments, tendered his resignation to the Bank on the date of the announcement as an independent non-executive director of the Bank, a member of Nomination and Remuneration Committee, a member of Risk Management Committee and the chairman of Related Party Transaction Control Committee with effect from the date of the announcement.
9. Save as disclosed above, pursuant to the requirement of Rule 13.51B(1) of the Hong Kong Listing Rules, the changes in the information of directors, supervisors and senior management of the Bank during the Reporting Period are as follows:
 - (1) Mr. Li Ruifeng, a supervisor of the Bank, is currently a director of Wuhu Antai Investment Guidance Fund Management Co., Ltd. (蕪湖市安泰投資引導基金管理有限公司), Chery Holding Co., Ltd. (奇瑞控股集團有限公司) and Chery Automobile Co., Ltd. (奇瑞汽車股份有限公司).
 - (2) Mr. Chen Rui, a supervisor of the Bank, was newly appointed as a director of CCB Trust Co., Ltd.

Save as disclosed above, during the Reporting Period, the Bank was not aware of any change in the information of directors, supervisors or senior management which required to be disclosed pursuant to the requirements of the Rule 13.51B(1) of the Hong Kong Listing Rules.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors



Mr. Wu Xuemin, joined the Bank in October 2010, is currently an executive director and the chairman of the Bank. His primary working experience includes: deputy director of the newspaper and theories department of China Construction Bank, deputy director of the administration office of China UnionPay Co., Ltd., general manager of Anhui Branch of China UnionPay Co., Ltd., general manager of the strategic development department and legal compliance department of China UnionPay Co., Ltd. and the president of the Bank. Mr. Wu, a senior economist, obtained a master's degree in economics from Renmin University of China and a master's degree in business administration for senior management from Fudan University.



Mr. Zhang Renfu, joined the Bank in December 2005. He is currently an executive director and the president of the Bank. His primary working experience includes: the deputy director of the liaison division, a researcher at the third division of the secretariat, the deputy director of the fifth division, the deputy director of the secretariat and the deputy director of the second division of the secretariat of the general office of Anhui Provincial Government, and the deputy director in charge of the work of the finance office of Anhui Provincial Government as well as an executive director, employee supervisor and the chairman of the Board of Supervisors of the Bank. Mr. Zhang, a senior economist, obtained a master's degree in law from Renmin University of China.



Mr. He Jiehua, joined the Bank in March 2019, is currently an executive director of the Bank. He held various positions in the Audit Department of Anhui Province, including the deputy section chief and section chief of the treasury division, the assistant to director (section-chief grade) and deputy director of the finance division, director of the finance and audit division, director of the human resources and education division, and chief of retired cadre office, auditor-general and deputy director-general. He obtained a master's degree in management from Hefei University of Technology. He is a senior auditor and certified public accountant.



Mr. Zhu Yicun, joined the Bank in December 2018, is currently a non-executive director of the Bank. His primary working experience includes: the head of Liuqiao No.1 Mine of Wanbei Mining Bureau, the chairman and the general manager of Anhui Hengyuan Coal-Electricity Group Co., Ltd., the deputy general manager of Wanbei Coal-Electricity Group Co., Ltd., and the deputy general manager of Anhui Province Energy Group Company Limited. He is currently the chairman and the general manager of Anhui Province Energy Group Company Limited, chairman of Anhui Wenergy Company Limited and a director of Guoyuan Securities Co., Ltd. Mr. Zhu, a senior engineer, obtained a master's degree in control engineering from China University of Mining and Technology.



Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Directors (Continued)



Mr. Yan Chen, joined the Bank in December 2019, is currently a non-executive director of the Bank. He was a section-chief grade clerk of the planning division of the comprehensive planning bureau, the deputy director of the general division of the propaganda department of the party committee, and the deputy director of the rating methods and standards division of the credit administration bureau of the China Development Bank, the deputy director of the SME Development Bureau of Anhui Province, the deputy director of the Anhui Provincial Economic Commission, the deputy director of the Anhui Economic and Information Technology Commission, the deputy mayor of Chizhou City, a member of the Standing Committee of the Xuancheng Municipal Committee, a minister of the Organization Department of Xuancheng City and the deputy secretary of the Xuancheng Municipal Committee. He is currently the chairman of Anhui Credit Guaranty Group Co., Ltd. and holds a doctorate in economics from Renmin University of China, and is an economist.



Mr. Wu Tian, joined the Bank in December 2018, is currently a non-executive director of the Bank. His primary working experience includes: the counsellor and deputy secretary of Communist Youth Party Committee at Anhui Technical Institute, the director of the third division of the general office and the deputy chief (director-level) of the second division of the general office of Anhui Provincial Government, the deputy general manager, the general counsel, a director and the general manager of Anhui Expressway Holding Corporation and the deputy general manager of Anhui Guoyuan Holding (Group) Co., Ltd. He is currently the general manager of Anhui Guoyuan Financial Holding Group Co., Ltd. He obtained a master's degree in engineering from Zhejiang University.



Mr. Qian Dongsheng, joined the Bank in December 2018, is currently a non-executive director of the Bank. His primary working experience includes: deputy chief of supervision division, chief of construction division of Anhui Provincial High Grade Highway Administration Bureau, the director of engineering construction division of Anhui Expressway Holding Corporation, and the deputy general manager of Anhui Expressway Holding Group Company Limited. He is currently the general manager and a director of Anhui Transportation Holding Group Co., Ltd. Mr. Qian, a senior engineer, obtained a master's degree in engineering from the University of Science and Technology of China.



Mr. Gao Yang, joined the Bank in December 2009, is currently a non-executive director of the Bank. Mr. Gao was the chairman of the board of directors of China Strategic Holdings Limited, and is the chairman of Zhongjing Industry (Group) Co., Ltd., Zhongjing Sihai Co., Ltd., and Zhongjing Xinhua Asset Investment Management Co., Ltd., director of WEALTH HONEST LIMITED and Zhongjing Xinhua Asset Investment Management (Hong Kong) Co., Ltd. and the chairman of Guosheng Huaxing Investment Co., Ltd. Mr. Gao studied hotel management at Meinl Vocational School in Vienna from March 1985 to March 1987 as a guest student.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Directors (Continued)



Mr. Wang Wenjin, joined the Bank in December 2018, is currently a non-executive director of the Bank. Mr. Wang was the general manager of financial management department, the financial controller, the executive vice chairman, the chief financial officer and the chief risk officer of Vanke. He is currently a director and a group partner of China Vanke Co., Ltd. Mr. Wang, a non-practising member of the Chinese Institute of Certified Public Accountants, obtained a master's degree from Zhongnan University of Economics and Law.



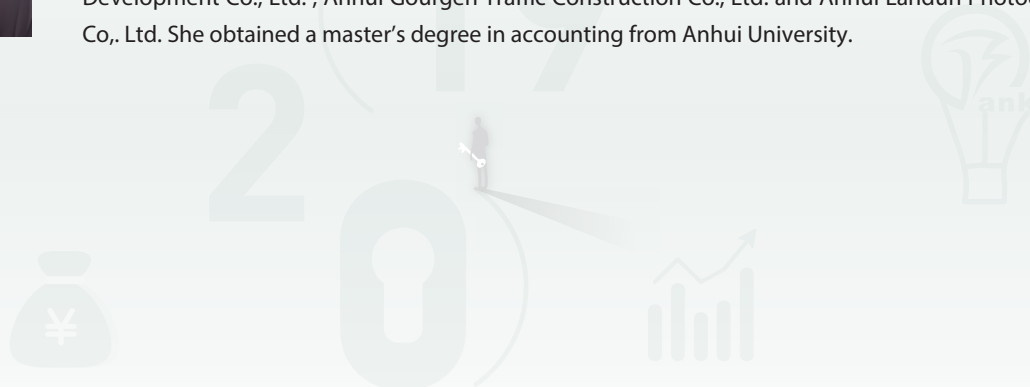
Mr. Zhao Zongren, joined the Bank in October 2014, is currently a non-executive director of the Bank. His primary working experience includes: director of the office of Jining Branch, president of Qufu Sub-branch, vice president of Jining Branch, and chief of the planning office and the finance planning office of Shandong Branch of China Construction Bank Corporation Limited, deputy general manager of Shandong Branch and general manager of Guangxi Branch of China Cinda Asset Management Co., Ltd., and assistant to the president and chief supervisor of Sunshine Insurance Group Corporation Limited. Mr. Zhao is a vice chairman and executive director of Sunshine Insurance Group Corporation Limited. Mr. Zhao, a senior economist, obtained a master's degree from the investment department of Dongbei University of Finance and Economics.



Mr. Dai Peikun, joined the Bank in December 2018, is currently an independent non-executive director of the Bank. His primary working experience includes: the deputy director (deputy director-level) of industrial economics research division of Anhui Economic and Cultural Research Center, the deputy head, the head, an assistant to the director, the deputy director and an inspector (department level) of the Finance and Trade Economics Division and International Economics Division of the Development Research Center of Anhui Provincial Government. He obtained a master's degree in economics from Peking University.



Ms. Zhou Yana, joined the Bank in August 2018, is currently an independent non-executive director of the Bank. Ms. Zhou was a lecturer, an associate professor and a professor, and the department head, the vice president, the executive vice president of the School of Economics of Anhui University and the dean of the School of Business Administration of Anhui University. She is currently a professor of the School of Business of Anhui University, and an independent director of Hefei Urban Construction Development Co., Ltd., Anhui Gourgen Traffic Construction Co., Ltd. and Anhui Landun Photoelectron Co., Ltd. She obtained a master's degree in accounting from Anhui University.



Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Directors (Continued)



Mr. Liu Zhiqiang, joined the Bank in December 2018, is currently an independent non-executive director of the Bank. His primary working experience includes: the deputy director and the director of the planning bureau and the statistics and analysis department of the People's PBOC, and the director of Hong Kong-Macau-Taiwan financial affair office of the PBOC, the deputy head of the economics department of Xinhua News Agency, Hong Kong Branch, the deputy general manager of Guangdong International Trust Investment Corporation, the president of Guangdong Development Bank, the vice president of China CITIC Bank, a director and the vice president of CITIC Holdings, a director of CITIC Group, the chairman of CITIC Asset Management Corporation and the chairman of CITIC Xinbang Asset Management Corporation Ltd. He obtained a doctorate degree in economics from Zhongnan University of Economics and Law.



Mr. Yin Jianfeng, joined the Bank in December 2018, is currently an independent non-executive director of the Bank. Mr. Yin was the executive vice president of CEIBS Lujiazui Institute of International Finance, and the deputy director of the Finance Institute of Chinese Academy of Social Sciences. He is currently a professor of the finance department and an instructor of doctorate students (entitled to the "special government allowance" granted by the State Council) at the University of International Business and Economics and the chief economist of China Zheshang Bank Co., Ltd. He obtained a doctorate degree in finance from Chinese Academy of Social Sciences.



Ms. Huang Aiming, joined the Bank in January 2019, is currently an independent non-executive director of the Bank. She had worked for Agricultural Bank of China, Shenzhen Branch and Shenzhen Zhuojun Wangcai Investment Management Co., Ltd. She is currently the president of China International Capital Limited and the chairman of Shenzhen Huichuang Equity Investment Fund Management Co., Ltd. She obtained a master's degree in economics at the Department of Political Science of Xiamen University and a Finance EMBA degree from Cheung Kong Graduate School of Business.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Supervisors



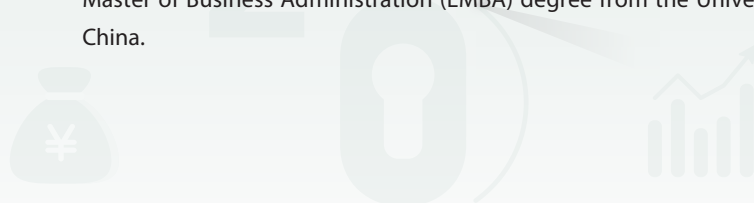
Mr. Zhang Youqi, joined the Bank in December 2005, is currently the chairman of the Board of Supervisors and an employee supervisor of the Bank, as well as a director and the vice chairman of Chery Huiyin Motor Finance Service Co., Ltd. He served as the deputy manager and principal staff member of the business department of the foreign exchange swap center and section head of the general section of the international balance of payments division, section head of the cooperation section of the banking division, assistant to the director of finance division in Anhui branch of the PBOC; deputy division head of the operations division of Anhui Branch of China Unicom, vice president of Hefei Sub-branch of China Everbright Bank, deputy general manager (in charge of general operations) of Tongling Branch and general manager of Fuyang Branch of China Unicom; chairman of the board of directors of Tongling Urban Credit Cooperatives; a director, the president of Tongling Branch, the general manager of the business department and the institutional management department of the head office, the secretary to the Board of Directors and a vice president of the Bank. Mr. Zhang, a senior economist, and an Executive Master of Business Administration (EMBA) degree from Renmin University of China.



Mr. Tang Chuan, joined the Bank in January 2006, is currently an employee supervisor and the chairman of labor union. Mr. Tang once worked as deputy director of the comprehensive planning section and manager of the international business department of Ma'an Shan Sub-branch of China Construction Bank, director of the construction office, deputy director of the home loans department and deputy director (leading role of the section) of the housing office of the Ma'an Shan Branch of China Construction Bank, manager of the credit business department and vice president of Ma'an Shan City Commercial Bank, as well as vice president (in charge of operations) and president of Ma'an Shan Branch of the Bank, general manager of human resources department of the Bank, chairman of labor union and general manager of the human resources department of the Bank. Mr. Tang, a senior economist, obtained an Executive Master of Business Administration (EMBA) degree from the University of Science and Technology of China.



Mr. Zhong Qiushi, joined the Bank in January 2002, is currently an employee supervisor and the general manager of the risk management department of the Bank, as well as a shareholder supervisor of Huishang Bank Financial Leasing Co., Ltd. He once served as the vice president of Feixi County Sub-branch, vice president (in charge of operations) and person-in-charge of the credit operation department of Hefei branch of China Construction Bank, president of the Sipailou Branch and the Youth Road Branch of Hefei City Commercial Bank Corporation Limited, and the general manager of the corporate banking department of the Hefei Branch of the Bank, an assistant to the president of the Huaibei Branch, and the deputy general manager and deputy general manager (in charge of general operations) and the general manager of the credit assessment department of the head office, the president of the Bengbu Branch of the Bank. Mr. Zhong, a senior economist, obtained an Executive Master of Business Administration (EMBA) degree from the University of Science and Technology of China.



Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Supervisors (Continued)



Mr. Chen Rui, joined the Bank in November 2018, is currently a shareholder supervisor of the Bank. He had served as the secretary, the deputy director and the director of the president office of Hefei Xingtai Holdings Group Co., Ltd., the deputy general manager, the general manager and the chairman of Hefei Xingtai Asset Management Co., Ltd., and a director of Hefei Department Store Group Co., Ltd. He is currently a director and the deputy general manager of Hefei Xingtai Financial Holdings (Group) Co., Ltd., the chairman of Hefei Xingtai Financing Guarantee Group Co., Ltd., the chairman of Hefei Xingtai Guarantee Industry Security Operating Co., Ltd. and a director of CCB Trust Co., Ltd. Mr. Chen, a senior economist, obtained a master's degree in political economics from the School of Economics of Anhui University.



Mr. Li Ruifeng, joined the Bank in June 2017, is currently a shareholder supervisor of the Bank. He served as a director (director of State-owned Assets Office) of the finance department under the Management Committee of Wuhu Economic and Technology Development Zone (蕪湖市經濟技術開發區管委會財政局). He also served as general manager of Wuhu Economic and Technology Development Zone Construction and Investment Company (蕪湖經濟技術開發區建設投資公司). Mr. Li is currently a deputy general manager of Wuhu Construction Investment Co., Ltd (蕪湖市建設投資有限公司). He is also the chairman of Wuhu Binjiang Construction and Development Co., Ltd. (蕪湖市濱江建設發展有限公司), and serves as a director of Wuhu Yuanda Venture Capital Company Limited (蕪湖遠大創業投資有限公司), Hua Ya Wuhu Plastic Co., Ltd. (華亞蕪湖塑膠有限公司), Wuhu Jincai Pawnshop Co., Ltd. (蕪湖金財典當有限責任公司), Guoyuan Agricultural Insurance Co., Ltd. (國元農業保險股份有限公司), Wuhu Jincai Financing Guarantee Co., Ltd. (蕪湖金財融資擔保有限責任公司), Wuhu Min Qiang Financing Guarantee (Group) Co., Ltd. (蕪湖市民強融資擔保(集團)有限公司) and Wuhu Jiangdong Venture Capital Management Co., Ltd. (蕪湖市江東創業投資管理有限公司), Chery Holding Co., Ltd. (奇瑞控股有限公司) and Chery Automobile Co., Ltd. (奇瑞汽車股份有限公司) respectively. Mr. Li also acts as a supervisor of Chery Huiyin Motor Finance Service Co., Ltd. (奇瑞徽銀汽車金融股份有限公司) and Wuhu Huicheng Squatter Settlement and Construction Co., Ltd. (蕪湖市惠城棚改建設有限公司), respectively. He obtained his bachelor's degree in economics from the Central Institute of Finance (currently known as the Central University of Finance and Economics).



Ms. Hu Jing, joined the Bank in November 2018, is currently a shareholder supervisor of the Bank. She was an accountant of Anhui Education Press, the manager of the finance department of Anhui Dianshi Information Technology Co., Ltd., and an audit manager of Anhui Jiutong Certified Public Accountants. She is currently the director of the finance and accounting department of Anhui Publishing Group Co., Ltd. Ms. Hu, a Chinese certified public accountant and a senior accountant, obtained a master's degree in business management from the University of Science and Technology of China.

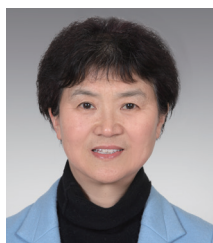
Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Supervisors (Continued)



Mr. Yang Mianzhi, joined the Bank in June 2017, is currently an external supervisor of the Bank. He served as a head of the Department of Finance and an associate dean at the School of Business, Anhui University. Currently, he serves as the dean, a professor and an instructor of doctorate students of the School of Business Administration of China University of Petroleum, a member of the Accounting Professional Education Advisory Committee of Colleges under the Ministry of Education, a legislative adviser of the Financial and Economic Affairs Committee and Budgetary Affairs Committee of the People's Congress in Anhui Province, and is concurrently an independent director of Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司) and Guoyuan Securities Co., Ltd. (國元證券股份有限公司). He obtained his doctorate degree in management from Renmin University of China.



Ms. Pan Shujuan, joined the Bank in July 2013, is currently an external supervisor of the Bank. She is a professor in Anhui University of Finance & Economics. Her primary working experience includes: deputy head of Department of Finance, vice dean of the School of Economics and Finance and dean of the School of Finance of Anhui University of Finance & Economics, member of the Academic Committee and the Educational Committee of Anhui University of Finance & Economics, and director of the Professor Committee of the School of Finance of Anhui University of Finance & Economics. Ms. Pan is currently an independent director of Anhui Guang De Rural Commercial Bank. She got a bachelor's degree from Anhui Finance and Economics University (formerly known as Anhui Institute of Finance and Trade).



Ms. Dong Xiaolin, joined the Bank in November 2018, is currently an external supervisor of the Bank. Her primary working experience includes: a teaching assistant, a lecturer and an associate professor of Nanjing Agricultural University and an independent director of Jiangsu Gaochun Rural Commercial Bank Corporation Limited, Jiangsu Donghai Rural Commercial Bank and Jiangsu Lishu Rural Commercial Bank. She is currently a professor and an instructor of doctorate students in the college of finance in Nanjing Agricultural University, and is concurrently a director of Key Research Base of Philosophy and Society Science in Jiangsu Province, namely, Rural Financial Development Research Center of Jiangsu Province in Nanjing Agricultural University, and she is a member of the Finance Institute of Nanjing City, a member of Expert Committee of Nanjing Finance Promotion Council and an independent director of Anhui Langxi Rural Commercial Bank (安徽郎溪農村商業銀行). She obtained a doctorate degree majoring in the management of agricultural economy from Nanjing Agricultural University.



Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Senior management

Mr. Zhang Renfu is an executive director and the president of the Bank. Please refer to “Directors” section in this chapter for details of his biography.



Mr. Gao Guangcheng, joined the Bank in February 1997, is currently an executive vice president of the Bank. His primary working experience includes: president of Sub-branch of Hefei City Commercial Bank Corporation Limited, assistant to the president, vice president and then president of Hefei City Commercial Bank Corporation Limited, and president of Hefei Branch of the Bank. Mr. Gao, a senior economist, obtained a bachelor’s degree in economics from Anhui University of Finance and Economics.



Mr. Yi Feng, joined the Bank in May 2009, is currently a vice president of the Bank. His primary working experience includes: deputy director of the administration office of CCB Anhui Branch, president of CCB Huangshan Branch, director of the entrustment loan department of CCB Anhui Branch, general manager of the institution and investment banking department of CCB Anhui Branch, president of CCB Hefei Sanxiaokou Sub-branch, and president of CCB Hefei City West Sub-branch, and president of Hefei Branch, assistant to president and president of Hefei Branch of the Bank and assistant to the president and secretary to the board. Mr. Yi, a senior economist, obtained a master’s degree in arts from Xiamen University.



Mr. Xia Min, joined the Bank in February 1997, is currently an assistant to the president of the Bank. His primary working experience includes: assistant to the president of Changjiang Middle Road Sub-branch of Hefei City United Bank, vice president of Xiaoyaojin Sub-branch of Hefei City Commercial Bank Corporation Limited, general manager of the fund and planning department of Hefei City Commercial Bank Corporation Limited, assistant to the president, vice president of Hefei City Commercial Bank Corporation Limited, assistant to the president and general manager of the planning and finance department of the Bank, assistant to the president and general manager of the assets and liabilities department of the Bank, and assistant to the president and president of Hefei Branch of the Bank. Mr. Xia, an economist, obtained a doctoral degree in economics from the Research Institute for Fiscal Science of the Ministry of Finance.



Mr. Ni Jianxiang, joined the Bank in January 2006, is currently the director of retail banking of the Bank. He previously served as the deputy director of the Xijiao Office of Bengbu Branch of CCB; manager of Bengbu Office of Anhui Provincial Trust and Investment Company, president of the High and New Technology District Sub-branch and vice president of Bengbu Branch; vice president and president of Bengbu City Commercial Bank; president of Fuyang Branch of the Bank, general manager of the organizational management department, president of Wuhu Branch, general manager of Credit Card Center, the director of retail banking and general manager of Credit Card Center. Mr. Ni, an economist, obtained a bachelor’s degree in management from Anhui University of Finance and Economics.



Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Senior management (Continued)



Ms. Huang Xiaoyan, joined the Bank in February 1997, is currently the director of investment and wealth management of the Bank. She previously served as the general manager of the capital operation department of Hefei City Commercial Bank Corporation Limited; deputy general manager in charge of the work of the capital operation department of the Bank, general manager of the financial market department, general manager of the asset and liability management department and general manager of the financial market department, general manager of the assets management department, and director of investment and wealth management and general manager of the asset and liability management department of the Bank. Ms. Huang, a senior economist, obtained an executive master of business administration (EMBA) degree from the University of Science and Technology of China.



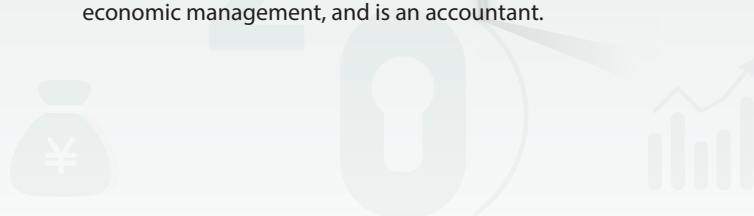
Ms. Zhou Tong, joined the Bank in February 1997, is currently the director of compliance and risk management of the Bank. She previously served as director of Treasury Securities Services Department and deputy director of the Finance Bureau of Xishi District, Hefei City; president of Meng Cheng Road Sub-branch of Hefei City Commercial Bank Corporation Limited; president of Changjiangxi Road Sub-branch of Hefei Branch of the Bank; an assistant to the president, vice president and president of Anqing Branch; general manager of the Compliance Department and an employee supervisor of the Bank, director of compliance and risk management and general manager of the compliance department of the Bank. She graduated with an EMBA degree from University of Science and Technology of China, and is an accountant and a senior economist.



Mr. Li Dawei, joined the Bank in February 1997 and is currently the financial controller of the Bank. He previously served as an assistant to the president of Hefei Branch of the Bank, deputy general manager of the planning and finance department, deputy general manager (in charge of work) and general manager of the accounting management department of the Bank, general manager of the accounting management department and general manager of the operations management department as well as general manager of the financial accounting department and general manager of the operations management department, financial controller and general manager of the financial accounting department of the Bank. He obtained a bachelor's degree in economics from Shanghai University of Finance and Economics, and is an accountant and a certified public accountant.



Ms. Gao Chunming, joined the Bank in March 2006 and is currently the director of Corporate Banking of the Bank. She previously served as director of business department in Tongling City Credit Union; general manager in corporate banking operation department, general manager in corporate banking operation department and general manager in retail banking department, an assistant to the president, deputy president, deputy president (in charge of operation) and president of Tongling Branch of the Bank, and the director of Corporate Banking and general manager of the corporate banking department of the Bank. She graduated from Party School of the Central Committee of C.P.C in foreign economic management, and is an accountant.



Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Senior management (Continued)



Mr. Lian Baohua, joined the Bank in July 2014, is currently the secretary to the board of the Bank. He previously served as deputy section officer and section officer of the department of industrial economics and an assistant to the director of international economic affairs division of Development Research Center of Anhui Provincial Government; deputy director of the planning committee of Tongling City; director of international economic affairs division and finance division of Development Research Center of Anhui Provincial Government; director of Decision-Making magazine; director and deputy general manager of Anhui BBKA Pharmaceuticals Co., Ltd., general manager of the research and development department, secretary to the board and general manager of the research and development department of the Bank. He obtained a doctorate degree in economics from Nanjing University and was an assistant researcher.

8.4 THE ASSESSMENT INCENTIVE MECHANISM AND ANNUAL REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank provides remunerations to independent directors and external supervisors according to the Proposals on Subsidies to Independent Directors of the Bank and Subsidies to External Supervisors of the Bank, and provides remuneration to executive directors, employee supervisors and senior management according to the "Measures of Huishang Bank on Directors' Remuneration", the "Measures of Huishang Bank on Supervisors' Remuneration", and the "Measures of Huishang Bank on Senior Management's Remuneration".

The non-executive directors and shareholder supervisors do not receive any remuneration from the Bank.

According to the "Performance Appraisal Measures of the Board of Supervisors of Huishang Bank on the Board of Directors and Directors (Amended)", the "Performance Appraisal Measures of the Board of Supervisors of Huishang Bank on Senior Management and its Members (Amended)", and the "Performance Appraisal Measures on the Board of Supervisors and Supervisors of Huishang Bank (Amended)", the Board of Supervisors of the Bank assesses annually the duties performance by directors, supervisors and the senior management.

Mr. Dai Peikun, an independent non-executive director of the Bank, voluntarily gives up the remuneration from the Bank. Other than Mr. Dai Peikun, no director of the Bank gave up or agreed to give up any remuneration from the Bank during the Reporting Period as described in Rule 24A of Appendix 16 to the Hong Kong Listing Rules. The details of directors, supervisors' and senior management's remunerations received from the Bank for the year are stated in section 8.1 "Directors, Supervisors and Senior Management" of this annual report. The top five highest paid individuals of the year are listed in Note 13 of the financial statements.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.5 EMPLOYEES

As of 31 December 2019, the Bank had a total of 9,499 employees in service. The composition of employees is as follows:

1. Responsibilities:

		Number of employees	% of total
Responsibilities	Management	2,268	23.88
	Marketing	5,226	55.02
	Supporting	2,005	21.10

2. Academic distribution:

		Number of employees	% of total
Academic structure	Master and above	1,736	18.28
	Bachelor	6,952	73.18
	Diploma degree and below	811	8.54

Staff remuneration policy

The Bank's remuneration policy aims to establish a well-developed, scientific and efficient incentive and control mechanisms to give full play to the orientation of the remuneration in operation and management and risk control, and stimulate stable operation and sustainable development. The Bank sticks to the management strategy which is conducive to the achievement of strategic goals, the enhancement of competitiveness, talent cultivation and risk control, and regards the efficiency as the paramount role while following the principle of fairness. Within the unified framework, the Bank takes advantages of its initiatives and creativity.

The Bank manages remuneration through three levels, namely the Board of Directors, senior management, and head office and branches. The Board of Directors manages the total amount of remuneration and senior management's remuneration. Under the Board's request, the senior management allocates the total amount of remuneration and drafts policy management of all branches. All branches manage employee salary within the scope of unified rules and framework.

Staff training plan

2019 is the 70th anniversary of the founding of the People's Republic of China and a key year for the Bank to implement the three-year action plan of "One Body, Two Wings (一體兩翼)". The training work focused on central task, served the strategy and firmly carried out the Party committee's deployment tasks on education and training. Based on firm political ideals and convictions, comprehensively strengthening the "four capabilities" as its goal, it comprehensively used the three major online and offline platforms to strengthen ideological control, improve institutional mechanisms and processes, focus on business value creation and successfully completed annual training tasks which effectively promoted the improvement of cadres and employees' ability and quality throughout the Bank, and provides a strong talent guarantee for "high-quality development of modern banks".

The Bank conducted more than 1,200 concentrated training sessions in 2019, amounting to 986,636.4 training hours with a total enrolment of 106,467. For the year, the hours and sessions per capita were 103.86 and 11.21 respectively.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

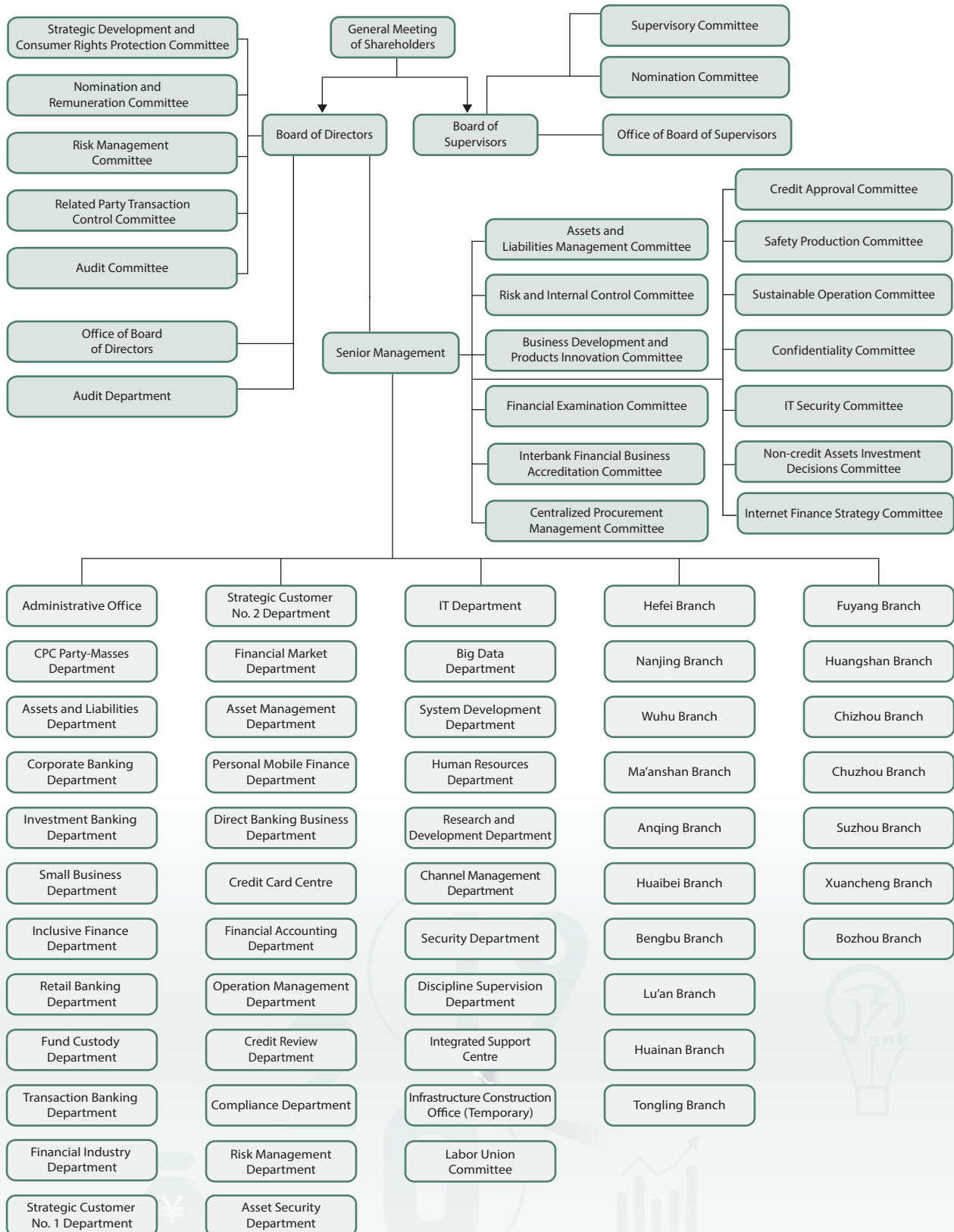
8.6 BRANCHES

As of 31 December 2019, the composition of branches of the Bank is as follows:

Region	Name of the Institution	Address (China)	Postcode	Number of Branch
Head Office	Head Office	No. 79, Anqing Road, Hefei	230001	1
Anhui Province	Hefei Branch	No. 626, Huangshan Road, Gaoxin District, Hefei	230000	98
	Wuhu Branch	No. 1, Beijing Road, Wuhu	241000	36
	Ma'anshan Branch	No. 3663, Taibai Road, Yushan District, Ma'anshan	243000	26
	Anqing Branch	No. 528, Renmin Road, Anqing	246000	33
	Huaibei Branch	No. 253, Renmin Zhong Road, Xiangshan District, Huaibei	235000	21
	Bengbu Branch	No. 1018, Huaihe Road, Bengbu	233000	29
	Lu'an Branch	Kaixuan International Square, Meishan Nan Road, Lu'an	237000	31
	Huainan Branch	No. 39, Shungeng Xi Road, Huainan	232000	20
	Tongling Branch	No. 999, Yangjiashan Road, Tongling	244000	15
	Fuyang Branch	No. 666, Yidaohe Road, Fuyang	236000	28
	Huangshan Branch	No. 2, Tuguang Avenue, Tunxi District, Huangshan	245000	11
	Chizhou Branch	No. 515, Changjiang Zhong Road, Chizhou	247000	13
	Chuzhou Branch	No. 95, Longpan Main Road, Chuzhou	239000	14
	Suzhou Branch	No. 123, Yinheyi Road, Suzhou	234000	16
	Xuancheng Branch	No. 109, Meiyuan Road, Xuanzhou District, Xuancheng	242000	17
	Bozhou Branch	Xiangzhang Mansion, West Shaohua Road, Bozhou	236000	12
Jiangsu Province	Nanjing Branch	No. 231, Zhongyang Road, Nanjing	210000	12
Total				433

Chapter IX Corporate Governance Report

9.1 CORPORATE GOVERNANCE STRUCTURE



Chapter IX Corporate Governance Report

9.2 CORPORATE GOVERNANCE

The Bank believes that maintaining high standards of corporate governance mechanisms and high quality corporate governance is one of the key factors to improve our core competitiveness and to build a modern commercial bank. Therefore, the Bank focuses on high quality of corporate governance, abides by the best domestic and international corporate governance practice, to ensure the rights and interests of shareholders and improve the value of the enterprise.

The Bank has established a relatively comprehensive corporate governance structure, clearly setting forth the responsibilities of general meeting, the Board of Directors, the Board of Supervisors and senior management, constantly improving the Bank's decision-making, execution and supervision mechanism so as to ensure the independent operation of various parties and an effective check and balance.

During the Reporting Period, apart from paragraphs A.4.2 and A.5.1 of the code provisions of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules, the Bank has strictly complied with the provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and conforms to substantially all of the recommended best practices set forth therein. For the deviation by the Bank from code provisions of the Corporate Governance Code, please refer to the descriptions in Sections 9.4.2 and 9.5.2 of this Chapter.

The Bank has incorporated the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules and the Guidelines on Corporate Governance of Commercial Banks issued by CBRC into the Bank's governance structure and policies. The Code and Guidelines are well reflected in the Bank's Articles of Association and the Terms of Reference of general meeting, Board of Directors and special committees. The general meeting, Board of Directors, Board of Supervisors and management performed their respective duties, and formed good corporate governance structure. The Bank ensured regulated operation according to the requirements of Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, and Guidelines on the Corporate Governance of Commercial Banks.

The Bank has also strictly complied with the management of insider information required by the relevant laws and regulations and the Hong Kong Listing Rules.

The Bank will review the corporate governance and strengthen management constantly to ensure compliance with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and meet the higher expectations from the shareholders and investors.

Nomination of directors and Board diversity policy

The Bank understands and believes that the diversity of the members of the Board of Directors could improve the performance of the Bank. It is critical to have a diversified Board of Directors for the Bank to achieve sustainable development, achieve its strategies and maintain good corporate governance.

In respect of appointing the Board of Directors, the Bank will consider the diversity of the members in several aspects including but not limited to gender, age, culture, education background, region, professional experience, skills, knowledge, service term and other regulatory requirements, etc.

Chapter IX Corporate Governance Report

9.2 CORPORATE GOVERNANCE (Continued)

Nomination of directors and Board diversity policy (Continued)

The Board members were appointed on the basis of their skills by taking into consideration the skills and experience required for overall smooth growth of the Board. In addition, the Bank thoroughly considers the goals and requirements for having a diversified Board of Directors.

The Nomination and Remuneration Committee of the Board is responsible for reviewing the structure, number of members, and composition of the Board of Directors. In addition, the Committee makes recommendations to the Board relating to the size and structure of the Board of Directors based on the Bank's strategic plans, business operations, asset size and shareholding structure. The Committee also discusses and reviews the selection standard, the nomination and appointment process of relevant directors, and makes recommendations to the Board of Directors. The candidates will be approved by the Board of Directors.

This policy needs to be followed when the Nomination and Remuneration Committee of the Board makes recommendations on the candidates or when the Board of Directors makes nomination. The Nomination and Remuneration Committee of the Board is responsible for monitoring the implementation of this policy and reviewing this policy at the appropriate time to ensure its effectiveness. The Nomination and Remuneration Committee will discuss any amendments when necessary and make recommendations to the Board of Directors for final approval.

During the Reporting Period, this policy was followed when the Nomination and Remuneration Committee made recommendations on the candidates and when the Board made nomination. Taking the composition of the fourth session of the Board of Directors of the Bank as an example, in identifying candidates, the Bank solicits candidates through publicly, referrals by existing directors, and recommendation by shareholders of the Bank in accordance with the Articles of Association. The current Board of Directors includes 2 female members and 13 male members, ranging in age from 47 to 66. The directors' residences are located in Hefei, Beijing, Shanghai, Shenzhen, Hong Kong and other places, and occupations include senior managers, university professors, think tank experts and other types. These directors have educational background and professional experiences covering management, economics, finance, accounting, engineering and other fields, and fully satisfied the requirements of the diversity of board members in terms of gender, age, regional, educational background, professional experiences and other aspects.

Chapter IX Corporate Governance Report

9.3 GENERAL MEETINGS

On 30 June 2019, the Bank held the 2018 annual general meeting in Hefei, at which the following resolutions were considered and approved:

To consider and approve the resolution on the final financial accounts of the Bank for 2018

To consider and approve the resolution on the financial budget of the Bank for 2019

To consider and approve the resolution on the profit distribution plan of the Bank for 2018

To consider and approve the resolution on the appointment of external auditors of the Bank for 2019

To consider and approve the resolution on the Work Report of the Board of Directors for 2018

To consider and approve the resolution on the Work Report of the Board of Supervisors for 2018

To consider and approve the resolution on the determination of the remuneration standard for the executive directors of the Bank for 2016

To consider and approve the resolution on the determination of the remuneration standard for the executive directors of the Bank for 2017

To consider and approve the resolution on the determination of the remuneration standard for the former chairman of the Board of Supervisors for 2016

To consider and approve the resolution on the determination of the remuneration standard for the former chairman of the Board of Supervisors for 2017

To consider and approve the resolution on the amendments to the Rules of Procedure of General Meetings of Huishang Bank Corporation Limited

To consider and approve the resolution on the amendments to the Rules of Procedure of the Board of Directors of Huishang Bank Corporation Limited

To consider and approve the resolution on the amendments to the Rules of Procedure of the Board of Supervisors of Huishang Bank Corporation Limited

To consider and approve the resolution on the election of Mr. He Jiehua as an Executive Director of the fourth session of the Board of Directors of the Bank

To consider and approve the resolution on the election of Mr. Yan Chen as a Non-Executive Director of the fourth session of the Board of Directors of the Bank

To consider and approve the resolution on the general mandate for the issuance of shares by the Bank

Chapter IX Corporate Governance Report

9.3 GENERAL MEETINGS (Continued)

To consider and approve the plan on the initial public offering and listing of A Shares ("A Share Offering") of the Bank

- (a) Class of shares
- (b) Nominal value per share
- (c) Proposed stock exchange for the listing
- (d) Offering size
- (e) Target subscribers
- (f) Strategic placing
- (g) Mode of offering
- (h) Pricing methodology
- (i) Form of underwriting
- (j) Conversion into a joint stock company with limited liability with domestic and overseas listed shares
- (k) Term of the offering plan

To consider and approve the resolution on the authorization of the Board to deal with specific matters in respect of the A Share Offering

To consider and approve the resolution on the use of proceeds from the A Share Offering

To consider and approve the resolution on the accumulated profit distribution plan before the A Share Offering

To consider and approve the resolution on the three-year dividend plan after the A Share Offering

To consider and approve the resolution on the price stabilization plan of A Shares within three years after the A Share Offering

To consider and approve the resolution on the undertakings on the disclosure of information in the prospectus published in connection with the A Share Offering

To consider and approve the resolution on the dilution of current returns as a result of the A Share Offering and remedial measures

Chapter IX Corporate Governance Report

9.3 GENERAL MEETINGS (Continued)

To consider and approve the resolution on the status report on the use of previously raised proceeds

To consider and approve the resolution on the amendments to the Articles of Association of Huishang Bank Corporation Limited in connection with the A Share Offering

To consider and approve the resolution on the amendments to the Rules of Procedure of General Meetings of Huishang Bank Corporation Limited in connection with the A Share Offering

To consider and approve the resolution on the amendments to the Rules of Procedure of the Board of Directors of Huishang Bank Corporation Limited in connection with the A Share Offering

To consider and approve the resolution on the amendments to the Rules of Procedure of the Board of Supervisors of Huishang Bank Corporation Limited in connection with the A Share Offering

To consider and approve the resolution on the amendments to the Administrative Measures for the Control of Related Party Transactions of Huishang Bank Corporation Limited in connection with the A Share Offering

The convening, notification, holding and voting procedures of the above meetings are in compliance with the Hong Kong Listing Rules, the Company Law, other relevant laws and regulations of the People's Republic of China and the relevant provision of the Articles of Association of the Bank.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS

The Board of Directors is core to the corporate governance. The Bank adopts the president accountability system under the leadership of the Board of Directors. The Board is the independent decision-making body, which is responsible for implementing the resolution of the general meetings, formulating the Bank's major strategy, policy and development plan, approving the operation plan, investment plan and the Bank's internal management setup, formulating the annual financial budget, final accounts and profit distribution plan, appointing the senior management. The senior management has the rights to make decision in daily operation independently and the Board of Directors will not intervene specific daily affairs.

The Bank's Board of Directors emphasizes similarity in both externality and internality in system establishment and practical operation. With respect to the establishment of the Board's structure, the Bank makes the Board's decision more scientific and reasonable through the establishment of a diversified board structure, and improves the Board's efficiency in decision-making and operation through the efficient operation of the special committees. It adheres to grasping key points, direction and strategy. During the Reporting Period, there were a total of 12 meetings convened and 121 resolutions considered. Constantly strengthening balanced, sound and sustainable development concept, the Board of Directors ensures the rapid, sustainable and sound development of the Bank through the effective management of the strategy, risk, capital, compensation and audit.

9.4.1 Members of the Board of Directors

The Bank elects its directors based on the qualification requirements and election procedures set out in the Articles of Association. As of the end of the Reporting Period, the Board of Directors consists of 15 directors, including 3 executive directors, namely Wu Xuemin (chairman of the Board), Zhang Renfu (president of the Bank) and He Jiehua; 7 non-executive directors, namely Zhu Yicun, Yan Chen, Wu Tian, Qian Dongsheng, Gao Yang, Wang Wenjin and Zhao Zongren; 5 independent non-executive directors, namely Dai Peikun, Zhou Yana, Liu Zhiqiang, Yin Jianfeng and Huang Aiming. The number of directors and the composition of the Board are in compliance with relevant laws and regulations. The decision making, authorization and voting procedures strictly follow the relevant rules and regulations of regulatory authorities and the Bank's Articles of Association. During the Reporting Period, the Board of Directors discharged its duties diligently, carefully reviewed all matters that were significant to the Bank's future development, improved the Board operation mechanism, strengthened the corporate governance framework, implemented organizational changes, facilitated prudent decision making, ensured financial stability and protected the interests of the Bank and its shareholders.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.2 Appointment, re-election and removal of directors

According to the Bank's Articles of Association, directors shall be elected or removed from office by shareholders at a general meeting. The term of office of a director shall be three (3) years, and a director may be re-elected and re-appointed upon expiry of his/her term of office. Subject to the relevant laws and administrative regulations, a director whose term of office has not expired may be removed by shareholders' ordinary resolution, without prejudice to any claim which may be instituted under any contract.

The term of service of non-executive directors and independent non-executive directors shall be the same as that of other directors of the Bank and they may be re-elected and re-appointed upon the expiration of their term of office, provided that such term of office of independent non-executive directors shall not be more than six (6) years on an accumulative basis.

The directors' appointment, re-election and removal procedures of the Bank are set forth in the Articles of Association. The Nomination and Remuneration Committee is responsible for discussing and reviewing the qualification and experience of each candidate and recommending the suitable candidates to the Board of Directors. After the approval from the Board of Directors, the selected candidates will be recommended for further approval by the general meeting of shareholders. Except for the independent non-executive directors who have to be treated separately due to the expiration of office, the other new directors will be re-elected by general meeting at the expiration of the term of that Board session (each session has a term of three years), instead of being elected during the first general meeting after his/her appointment.

According to the code provision in paragraph A.4.2 of the Corporate Governance Code in Appendix 14 of the Hong Kong Listing Rules, each director (including directors with a specified term) shall be subject to retirement by rotation at least once every three years. During the Reporting Period, the re-election of the fourth session of the Board of Directors, the Board of Supervisors and senior management of the Bank has been successfully completed.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.3 Responsibility of directors

During the Reporting Period, all the Bank's directors are prudent, earnest, and diligent to exercise their rights granted by the Bank and domestic and overseas regulatory authorities. The Bank's directors have spent adequate time and effort to deal with the Bank's affairs, ensuring the compliance of Bank's operation with the requirement of national laws, administrative regulations and the requirements of national economic policies. The Bank's directors have treated all the shareholders equally, informed themselves of the status of the Bank's business operation and management in a timely manner, implemented the laws and administrative regulations, departmental rules and other diligence obligations prescribed by the Articles of Association. The directors confirmed that they are responsible for the preparation of the annual financial report for the year ended 31 December 2019.

The independent non-executive directors of the Bank make full use of their respective professional expertise to provide professional and independent advices on the corporate governance, operation and management of the Bank in various Board committees, including the Strategic Development and Consumer Rights Protection Committee, Nomination and Remuneration Committee, Risk Management Committee, Related Party Transaction Control Committee and Audit Committee, ensuring that scientific decision-making could be made by the Board of Directors.

The Bank also pays attention to the ongoing training of directors, to make sure they have proper understanding of the operation and business of the Bank and the duties and responsibilities conferred by the relevant laws and regulatory requirements of the CBIRC, the CSRC, the Hong Kong Stock Exchange and the Articles of Association of the Bank. The Bank has bought the director liability insurance for all directors.

During the Reporting Period, the Bank carried out evaluation of the performance of Board of Directors and directors by the Board of Supervisors, evaluation of the performance of senior management and its members by the Board of Supervisors, evaluation of the performance of Supervisors by the Board of Supervisors and mutual assessment of external supervisors.



Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.4 The chairman and president

The roles and work of the Chairman and President of the Bank are held by different individuals. Their respective responsibilities are clearly defined and meet the requirements of the Hong Kong Listing Rules. Mr. Wu Xuemin, chairman of the Bank, leading and managing the Board of Directors, is responsible for managing the operation of the Board, ensuring that all directors are aware of the current issues within the Board of Directors meeting and that all important and relevant matters could be discussed by the Board in a timely and constructively manner. To assist the Board of Directors to discuss all important or other related matters, the chairman of the Board fully communicate with senior management to ensure that all directors receive timely, appropriate, complete and reliable information for their consideration and review. Mr. Zhang Renfu serves as the president of the Bank, who is responsible for business operations, implementing the Bank's strategy and operation plan.

9.4.5 Summary of the directors attending the general meetings, board meetings and board committee meetings

Directors		General Meeting ⁽¹⁾⁽²⁾	Board of Directors ⁽³⁾	Committees under the Board of Directors				
		Attendance of 2018 annual general meeting	Strategic Development and Consumer Rights Protection Committee	Nomination and Remuneration Committee	Risk Management Committee	Related Party Transaction Control Committee	Audit Committee	
Actual attendance/Required attendance								
Executive Directors	Wu Xuemin	✓	12/12	6/6	5/5	6/6	–	–
	Zhang Renfu	✓	11/12 ⁽⁴⁾	6/6	3/5 ⁽⁴⁾	–	7/9 ⁽⁴⁾	–
	Ci Yaping	–	6/6	–	–	4/4	–	–
	He Jiehua	✓	6/6	–	–	2/2	–	–
Non-executive Directors	Zhu Yicun	–	10/12 ⁽⁴⁾	6/6	–	4/6 ⁽⁴⁾	–	–
	Qian Li	–	2/3 ⁽⁴⁾	3/4 ⁽⁴⁾	–	–	–	2/3 ⁽⁴⁾
	Yan Chen	–	2/2	–	–	–	–	–
	Wu Tian	–	12/12	6/6	–	6/6	–	–
	Qian Dongsheng	–	11/12 ⁽⁴⁾	6/6	–	5/6	–	–
	Gao Yang	✓	8/12 ⁽⁴⁾⁽⁵⁾	4/6 ⁽⁴⁾	3/5 ⁽⁴⁾⁽⁵⁾	–	–	–
	Wang Wenjin	–	12/12	–	5/5	–	–	5/5
	Zhao Zongren	–	11/12 ⁽⁴⁾	5/6 ⁽⁴⁾	–	–	9/9	–
Independent Non-executive Directors								
Directors	Dai Peikun	✓	12/12	–	5/5	–	–	5/5
	Zhou Yana	✓	11/12 ⁽⁴⁾	–	4/5 ⁽⁴⁾	–	–	4/5 ⁽⁴⁾
	Liu Zhiqiang	–	8/12 ⁽⁴⁾	–	–	2/6 ⁽⁴⁾	5/9 ⁽⁴⁾	–
	Yin Jianfeng	–	10/12 ⁽⁴⁾	4/6 ⁽⁴⁾	3/5 ⁽⁴⁾	–	0/1 ⁽⁴⁾	–
	Huang Aiming	–	12/12	–	5/5	–	9/9	5/5
	Hu Jun	–	7/8 ⁽⁴⁾	–	3/3	4/5 ⁽⁴⁾	5/6 ⁽⁴⁾	–

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.5 Summary of the directors attending the general meetings, board meetings and board committee meetings (Continued)

Notes:

- (1) The Bank held the 2018 annual general meeting on 30 June 2019 in Hefei City, Anhui Province.
- (2) For directors who were unable to attend the 2018 annual general meeting due to personal reasons, all of them have completed the formalities for leave application in writing.
- (3) During the Reporting Period, the Bank held 12 Board meetings in total.
- (4) If the actual attendance is lower than required attendance, it represents the proxy attendance when the above directors are absent from Board meeting in person.
- (5) If the actual attendance is lower than required attendance, it represents the above directors are absent from Board meeting in person, with director, Gao Yang absent from 1 Board meeting, 1 Nomination and Remuneration Committee meeting.
- (6) For details of the changes in the positions held by Mr. Ci Yaping, Mr. He Jiehua, Mr. Qian Li, Mr. Yan Chen, Mr. Hu Jun, please refer to Section 8.2 "Changes in Directors, Supervisors and Senior Management of the Bank" in this annual report.

9.4.6 Securities transaction by directors, supervisors and senior management

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuer set out in Appendix 10 to the Hong Kong Listing Rules as its codes of conduct regulating securities transactions by the directors, the supervisors and the related employees (having the same meaning as defined in Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules) of the Bank. Having made specific enquiry of all directors, supervisors and the staff of senior management, the Bank confirmed that they had complied with the Model Code during the Reporting Period.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.7 Performance of the independent non-executive directors

The Bank's Board of Directors consists of 5 independent non-executive directors and the qualification, number and proportion are in accordance with the regulations of the CBIRC, the CSRC and the Hong Kong Listing Rules. The 5 independent non-executive directors are not involved in any conflict with the independence issue described in the Rule 3.13 of the Hong Kong Listing Rules. The Bank has received from each of the independent non-executive director the annual independence confirmation in accordance with the Rule 3.13 of the Hong Kong Listing Rules. Therefore, the Bank confirms that all the independent non-executive directors complied with the Hong Kong Listing Rules in respect of their independence. During the Reporting Period, independent non-executive directors represent the majority of the Bank's Audit Committee and Related Party Transaction Control Committee under the Board and serve as chairman of these committees. During the Reporting Period, the independent non-executive directors of the Bank kept in touch with the Bank through various means such as attending the meetings and symposiums. They earnestly participated in meetings of the Board of Directors and the Board committees and actively gave their opinions and emphasized on the interests of minority shareholders. The independent non-executive directors have fully discharged their responsibilities.

During the Reporting Period, the Bank's independent non-executive directors issued independent opinions on the Bank's related party transactions.

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS

The Bank's Board of Directors has delegated some of its responsibilities to the different Board committees. The Bank has set up 5 special committees under the Board, including the Strategic Development and Consumer Rights Protection Committee, Audit Committee, Nomination and Remuneration Committee, Risk Management Committee and Related Party Transaction Control Committee according to the relevant PRC laws, regulations, the Bank's Articles of Association and the Hong Kong Listing Rules.

During the Reporting Period, the Board committees exercised their respective authorities and powers in an independent, standardized and effective manner. In 2019, they held a total of 31 meetings, at which 111 resolutions that are significant to the sustainable development of the Bank and improvement of corporate governance, were studied and considered, improving the efficiency and scientific decision-making ability of the Board while promoting the sound development of the businesses of the Bank.

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.1 Strategic Development and Consumer Rights Protection Committee

As of the end of the Reporting Period, our Strategic Development and Consumer Rights Protection Committee consists of 2 executive directors, namely Mr. Wu Xuemin and Mr. Zhang Renfu; 6 non-executive directors, namely Mr. Zhu Yicun, Mr. Yan Chen, Mr. Wu Tian, Mr. Qian Dongsheng, Mr. Gao Yang and Mr. Zhao Zongren; and 1 independent non-executive director, namely Mr. Yin Jianfeng. Mr. Wu Xuemin is the chairman of the committee.

The principal responsibilities of the Strategic Development and Consumer Rights Protection Committee include:

- (I) formulating operational and management goals, medium to long-term development strategy and listing plans of the Bank and making recommendations to the Board;
- (II) reviewing the strategic capital allocation and management objectives of assets and liabilities and making recommendations to the Board;
- (III) preparing plans for the overall development of various financial businesses and making recommendations to the Board;
- (IV) reviewing strategic development plans for human resources and making recommendations to the Board;
- (V) supervising and examining the implementation of annual operating plans and investment proposals;
- (VI) reviewing annual financial budgets and final reports and making recommendations to the Board;
- (VII) considering plans for significant institutional restructuring and re-organization and making recommendations to the Board;
- (VIII) reviewing the plan of significant investment and financing and relevant proposals submitted by the senior management, and making recommendations to the Board;
- (IX) reviewing the design of merger and acquisition plans and relevant proposals submitted by the senior management, and making recommendations to the Board;
- (X) reviewing plans for information technology development and other special strategic development plans and making recommendations to the Board;
- (XI) reviewing and evaluating the effectiveness of corporate governance structure so as to ensure that the financial reporting, risk management and internal control meet our standards for corporate governance;
- (XII) formulating the strategy, policy and objective for protection of consumer rights and interests across the whole Bank, and making recommendations to the Board;

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.1 Strategic Development and Consumer Rights Protection Committee (Continued)

- (XIII) reviewing the organizational structure and operating mechanism of works on protection of consumer rights and interests across the whole Bank, as well as the internal control system, and making recommendations to the Board;
- (XIV) guiding the senior management in conducting works on protection of consumer rights and interests from the perspective of overall planning, supervising and evaluating the comprehensiveness, promptness and effectiveness of the works on protection of consumer rights and interests across the whole Bank and relevant duty performance of senior management, listening to special reports of senior management in respect of the progress of works on protection of consumer rights and interests on regular basis, and treating relevant works as an important part of information disclosure;
- (XV) other issues as required by law, regulation and other regulatory documents;
- (XVI) other issues authorized by the Board.

During the Reporting Period, our Strategic Development and Consumer Rights Protection Committee held 6 meetings in total, at which resolutions on the annual final financial report, annual financial budget plan and annual general business operation plan, etc. were considered and approved.

9.5.2 Nomination and Remuneration Committee

As of the end of the Reporting Period, our Nomination and Remuneration Committee consists of 2 executive directors, namely Mr. Wu Xuemin and Mr. Zhang Renfu; 2 non-executive directors, namely Mr. Gao Yang and Mr. Wang Wenjin; and 4 independent non-executive directors, namely Mr. Dai Peikun, Ms. Zhou Yana, Mr. Yin Jianfeng, and Ms. Huang Aiming. Currently, Mr. Dai Peikun is the chairman of the committee. For the changes in the office of directors, please refer to Section 8.2 "Changes in Directors, Supervisors and Senior Management of the Bank" of this annual report.

The principal responsibilities of the Nomination and Remuneration Committee include:

- (I) determining the selection and appointment process and standard of directors and senior managements, and making recommendations to the Board;
- (II) preliminarily reviewing the qualifications of candidates for directors and candidates for senior management, and making recommendations to the Board;
- (III) making recommendations to the Board on the structure, number, size and composition (including the skills, knowledge and experience) of the Board based on our business operation, asset scale and shareholding structure;
- (IV) identifying candidates with suitable qualifications to serve as directors and senior management, and establishing a mechanism for key talents pool;
- (V) evaluating the independence of independent directors;
- (VI) developing appraisal criteria for directors and senior management, organizing performance appraisals for directors and senior management on a regular basis, and submitting the appraisal results to the Board;

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.2 Nomination and Remuneration Committee (Continued)

- (VII) considering our remuneration management system and policies, preparing the appraisal and remuneration proposals for directors and senior management, making recommendations to the Board, and monitoring the implementation of such plans;
- (VIII) making recommendations to the Board on the remuneration package of directors and senior management;
- (IX) reviewing compensation payable to executive directors and senior management for any loss or termination of office or appointment, and making recommendations to the Board;
- (X) reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct, and making recommendations to the Board;
- (XI) ensuring that no director or any of his or her associates (defined under the Hong Kong Listing Rules) is involved in deciding his or her own job fulfillment assessment remuneration except for the self-assessment on job fulfillment;
- (XII) other issues as required by law, regulation and other regulatory documents;
- (XIII) other issues authorized by the Board.

During the Reporting Period, our Nomination and Remuneration Committee held 5 meetings in total, at which resolutions on the performance report of directors and senior management by the Board, the 2018 annual performance results of executive directors and senior management and review of candidates' qualifications for directors, etc. were considered and approved.

As the former independent non-executive director, Mr. Hu Jun, ceased to serve as an independent non-executive director and a member of the Nomination and Remuneration Committee of the Bank since 25 October 2019, our Nomination and Remuneration Committee had 8 members, of which only four members were independent non-executive directors, which did not meet the requirements of the majority members as independent non-executive directors in the Nomination and Remuneration Committee required by Rule 3.25 and paragraph A.5.1 of the Corporate Governance Code of Appendix 14 of the Hong Kong Listing Rules. The Board will use its best endeavors to identify a suitable candidate to fill the relevant vacancy as soon as possible to comply with the Hong Kong Listing Rules and the Corporate Governance Code set out in Appendix 14 as soon as practicable. For details of changes in duties and positions held by Mr. Hu Jun, please refer to "Changes in Directors, Supervisors and Senior Management of the Bank" under section 8.2 of this annual report.

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.3 Risk Management Committee

As of the end of the Reporting Period, our Risk Management Committee consists of 2 executive directors, namely Mr. Wu Xuemin and Mr. He Jiehua; 4 non-executive directors, namely Mr. Zhu Yicun, Mr. Yan Chen, Mr. Wu Tian and Mr. Qian Dongsheng; and 1 independent non-executive director, namely Mr. Liu Zhiqiang. Mr. He Jiehua is the chairman of the committee. For the changes in the office of directors, please refer to Section 8.2 “Changes in Directors, Supervisors and Senior Management of the Bank” of this annual report.

The principal responsibilities of the Risk Management Committee include:

- (I) reviewing our risk management policies to ensure they are in line with our overall strategy, supervising and evaluating their implementation and effectiveness, and making relevant recommendations to our Board. Risk management policies include but not limited to:
 - 1. risk scope intended or confined to involve by the Bank;
 - 2. risk limitations and overall risk tolerance standard, including market risks, credit risks, liquidity risks, operation risks, compliance risks and reputation risks, etc;
 - 3. risk management skills intended to adopt by the Bank;
 - 4. procedures and standards of risk authorization of the Bank.
- (II) providing guidance on establishing our risk management systems;
- (III) supervising and evaluating the establishment, organizational structure, working procedures and effects of the risk management department, and making suggestions for improvement;
- (IV) considering our risk report, conducting regular assessments on risk policy, management status and risk tolerance of the Bank, and making suggestions on improving our risk management and internal control;
- (V) supervising and assessing the risk control by our senior management in respect of credit, market and operation risks;
- (VI) examining and approving significant risk management matters or transaction items that are beyond the license rights of the president or submitted by the president to the Risk Management Committee for consideration, in accordance with the authorization of the Board;
- (VII) other issues as required by law, regulation and other regulatory documents;
- (VIII) other issues authorized by the Board.

During the Reporting Period, our Risk Management Committee held 6 meetings in total, at which issues related to risk supervision evaluation report, asset quality analysis report, compliance risk management report and credit policy execution report, etc. were studied.

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.4 Related Party Transaction Control Committee

As of the end of the Reporting Period, our Related Party Transaction Control Committee consists of 1 executive director, namely Mr. Zhang Renfu, 1 non-executive director, namely Mr. Zhao Zongren, 3 independent non-executive directors, namely Ms. Huang Aiming, Mr. Liu Zhiqiang, and Mr. Yin Jianfeng. Ms. Huang Aiming is the chairwoman of the committee. For the changes in the office of directors, please refer to Section 8.2 “Changes in Directors, Supervisors and Senior Management of the Bank” of this annual report.

The principal responsibilities of the Related Party Transaction Control Committee include:

- (I) identifying related parties, connected relationships and connected transactions, and controlling risks of connected transactions, timely making announcement on related parties recognized;
- (II) identifying and reviewing significant related party transactions and submitting the same to the Board for consideration;
- (III) recording common connected transactions;
- (IV) formulating our rules for the management of connected transactions, submitting to the Board for consideration and supervising its implementation;
- (V) submitting to the Board, upon completion of each year, a detailed report on the implementation of connected transaction management system of the Bank for the year and our connected transactions (including overall status, risk analysis and structure) that occurred in the year shall be submitted to the Board.
- (VI) law, administrative regulations, department regulations and other regulatory documents, and other issues as required by securities supervision authority on which the shares of the Bank listed or as authorized by the Board.

During the Reporting Period, our Related Party Transaction Control Committee held 9 meetings in total, at which it considered resolutions including business plans related to ordinary connected transactions and status report of the connected transactions.

9.5.5 Audit Committee

As of the end of the Reporting Period, our Audit Committee consists of 1 non-executive director, namely Mr. Wang Wenjin; and 3 independent non-executive directors, namely Ms. Zhou Yana, Mr. Dai Peikun and Ms. Huang Aiming. Ms. Zhou Yana is the chairwoman of the committee. For the changes in the office of directors, please refer to Section 8.2 “Changes in Directors, Supervisors and Senior Management of the Bank” of this annual report.

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.5 Audit Committee (Continued)

The principal responsibilities of the Audit Committee include:

- (I) examining our financial statements, annual report and accounting records, interim report and quarterly reports (if drafted for publication), reviewing significant opinion on financial reporting contained in accounting statements and financial reports and other information related to our business operation, and conducting an audit on our operating efficiency, profit distribution and capital utilization;
- (II) checking the letter of recommendations for management (or any equivalent document) given by an external auditor to the senior management and ensuring that the Board responds to it in a timely manner, and reviewing any major questions raised by the external auditor to the senior management with respect to our accounting records, financial accounts or monitoring system, and any responses given by the senior management;
- (III) reviewing our disclosure made at the general meeting and to the public, and verifying the truthfulness, legality, completeness, and accuracy of our financial reports, capital utilization reports and major events;
- (IV) reviewing our internal control and financial control systems, and auditing our significant related party transactions, monitoring the implementation of our risk management system and its compliance, discussing the internal control system with the senior management and reporting it to the Board. Reviewing major investigation findings on matters relating to the internal control system as delegated by the Board or on its own initiative and the senior management's response to these findings;
- (V) overseeing the implementation of our internal audit system;
- (VI) organizing and guiding the internal audit under the authorization of the Board;
- (VII) taking in charge of our annual audit, making recommendations to the Board on the appointment, reappointment or removal of the external auditor, and preparing reports confirming the truthfulness, accuracy, completeness and timeliness of information contained in the audited financial statements based on its own judgment, and submitting them to the Board for discussion and consideration. The Audit Committee should require the appointed external auditor to give an explanation on their services provided, terms of appointment, fees charged and other relationships or matters that may affect the independence of such external auditor, make an evaluation on the independence of external auditor and submit it to the Board for approval. The Audit Committee should deal with any issue related to the resignation or removal of the external auditor;
- (VIII) reviewing our financial and accounting policies and practice;

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.5 Audit Committee (Continued)

- (IX) taking charge of the communication and coordination between the internal auditor and external auditor, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Bank;
- (X) evaluating the mechanisms for our employees to make whistle blowing on financial statements, internal control or other irregularities, and conducting independent and fair investigations on matters relating to whistle blowing by us, and adopting any mechanism for appropriate actions;
- (XI) other issues as required by law, regulation and other regulatory documents;
- (XII) other issues authorized by the Board.

During the Reporting Period, our Audit Committee held 5 meetings in total, at which it considered resolutions on the 2018 annual report, the 2018 annual profit distribution plan, the 2019 interim report, appointment of external auditors and the 2019 audit plan etc. The Audit Committee reviewed the 2018 annual report and the 2019 interim report, discussed the key accounting policies, accounting estimates and internal control with the management. Besides, it also communicated with the external auditors and the management regarding the audit opinion and suggestions for internal control as proposed by the external auditors, reviewed and approved the 2018 annual report and the 2019 interim report of the Bank and then submitted them to the Board for consideration.

9.6 CORPORATE GOVERNANCE FUNCTION

During the Reporting Period, the Board of Directors took the responsibilities of corporate governance as follows:

- revising and improving rules and regulations related to the Bank's corporate governance, and making necessary changes to ensure the effectiveness of the policy;
- supervising the training of directors and senior management and their sustained performance;
- supervising the policies and practice of the Bank with respect to the compliance with laws and regulations;
- supervising the code of conduct and compliance manual applicable to directors and employees;
- reviewing the Bank's compliance with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and the disclosures set out in the corporate governance report.

Chapter IX Corporate Governance Report

9.7 MANAGEMENT

The Bank shall have one president and may have several vice presidents and other members of senior management identified by the regulatory authorities. They shall be appointed or dismissed by the Board of Directors. The president shall be accountable to the Board of Directors.

The president of the Bank shall perform and exercise the following functions and powers:

- take charge of the daily 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;
- submit annual business plans and investment proposals to the Board of Directors and organize the implementation upon approval by the Board of Directors;
- 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 engage or dismiss the vice presidents of the Bank and other members of senior management identified by the regulatory authorities;
- engage or dismiss persons in charge of the internal departments and branches of the Bank other than those to be engaged or dismissed by the Board of Directors;
- authorize members of senior management and persons in charge of internal departments and branches to conduct operational activities;
- draw up the Bank's proposals on annual financial budgets and final accounts, profit distribution plan and loss remedial plan, increase or reduction of registered capital, issue and listing of bonds or negotiable securities, and put forward the proposals to the Board of Directors;
- review and approve general related transactions;
- decide on the appointment and dismissal of the Bank's staff, and approve proposals on their wages, benefits, rewards and punishment;
- formulate plans on emergency treatment and risk prevention; adopt emergency measures when any major emergency arises and promptly report them to the Board of Directors, the Board of Supervisors and the banking regulatory authority;
- and other powers and rights conferred by the laws, administrative regulations, departmental rules, the regulations of the relevant regulatory authorities, the Articles of Association and by the Board of Directors.

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS

The Board of Supervisors, our supervisory body, aims to guarantee the legitimate interests of the Bank, shareholders, employees, creditors and other stakeholders and has the obligation to oversee our financial activities, risk management and internal control, discharge of duties by the Board and its members and the senior management, and is accountable to the general meeting of shareholders.

9.8.1 Composition of the Board of Supervisors

As at the end of the Reporting Period, our Board of Supervisors currently consists of 9 supervisors, of whom 3 are employee supervisors, 3 are shareholder supervisors and 3 are external supervisors. The structure of our Board of Supervisors is reasonable, and is sufficiently professional and independent to ensure the effective performance of its supervisory role. For the biographical details of members of the Board of Supervisors, please see “Profile of Directors, Supervisors and Senior Management” under section 8.3 of this annual report.

During the Reporting Period, the Board of Supervisors fulfilled its duties diligently, supervised the legal compliance of performance of duties by directors and the senior management. They also performed resignation audit to the executive directors and the senior management as required. They audited and supervised the financial activities, risk management and internal control and investigated any abnormal operating activities.

9.8.2 Responsibilities and operating model of the Board of Supervisors

The principal responsibilities of our Board of Supervisors include:

- reviewing periodic reports of the Bank prepared by the Board and providing written review opinions;
- supervising the discharge of duties by the Board of Directors and the senior management;
- monitoring the due diligence of directors, the chairman of the Board of Directors and the senior management and their violation of laws, administrative regulations as well as the Articles of Association when discharging their duties;
- conducting resignation audits of our directors and the senior management when necessary;
- requesting directors and the senior management to rectify any acts that are detrimental to the interest of the Bank;
- examining and supervising financial activities of the Bank;
- supervising and examining our capital management, business decision-making, risk management and internal control and monitoring rectification of the deficiencies;
- proposing to remove, or instituting proceedings according to law, against directors and the senior management who are in violation of laws, administrative regulations or the Articles of Association or any resolutions adopted by shareholders' general meetings;

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.2 Responsibilities and operating model of the Board of Supervisors (Continued)

- proposing for an extraordinary meeting of shareholders; convening and presiding over shareholders' general meetings when the Board of Directors fails to perform its duties in accordance with the Company Law;
- putting forward proposals to shareholders' general meetings;
- proposing for an extraordinary meeting of the Board;
- reviewing the financial report, business report and profit distribution plans and other financial information submitted to shareholders' general meetings. The Board of Supervisors may conduct investigation when any question or abnormal operation of the Bank is identified; it may, at the expenses of the Bank, hire an accounting firm, law firm or other professional personnel to assist its investigation when necessary;
- making remuneration arrangement of supervisors;
- other functions and powers granted by laws, administrative regulations, departmental rules, relevant regulators and the Articles of Association, as well as shareholders' general meetings.

Our Board of Supervisors fulfils their supervisory responsibilities mainly in the following manners: convening regular supervisor meetings, attending shareholders' general meetings, attending the Board meetings and some Board committee meetings, attending the relevant meetings of the senior management, review of various kinds of documents and materials from the senior management, listening to work report and project report of the senior management, evaluating the annual performance of directors and the senior management, conducting resignation audits of our executive directors and the senior management, conducting supervision and inspection of subsidiary institution annually, conducting investigation and research on branches, carrying out a variety of special investigation etc. Through the above work, the Board of Supervisors monitors and evaluates our operation and management, risk management and internal control, as well as the performance of directors and the senior management.

During the Reporting Period, the Board of Supervisors assessed the annual performance of the Board of Directors, directors, the senior management and supervisors of the Bank, and held the symposiums of shareholders' representatives and persons in charge of the head office and sub-branch offices to elicit various comments and conduct on-site evaluation. Based on the foregoing, the Board of Supervisors prepared a performance evaluation report and feedback for the Board of Directors and the senior management as well as relevant banking regulatory bodies.

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.3 Meetings of the Board of Supervisors during the Reporting Period

During the Reporting Period, the Board of Supervisors duly fulfilled its duties under the Articles of Association of the Bank and held 9 meetings, of which 4 were on-site, 5 were by written resolutions, at which 36 resolutions were considered.

During the Reporting Period, there was no objection to the matters concerning the supervision of the Board of Supervisors.

The attendance of supervisors at meetings during the Reporting Period

	No. of Required Attendance	Attendance in Person	Attendance through Proxy
Zhang Youqi	9	9	0
Tang Chuan	9	8	1
Zhong Qiushi	9	8	1
Chen Rui	9	8	1
Li Ruifeng	9	7	2
Hu Jing	9	8	1
Pan Shujuan	9	8	1
Yang Mianzhi	9	9	0
Dong Xiaolin	9	9	0

9.8.4 Attendance at the general meetings during the Reporting Period

During the Reporting Period, the Board of Supervisors designated representatives to attend the general meeting of the Bank. Chairman of the Board of Supervisors as the chief scrutineer, supervised legal compliance of the content of meetings, procedures of meetings, as well as the voting process on-site. The Board of Supervisors presented its annual report on work and results of performance appraisal of Supervisors, which were approved at the meeting.

9.8.5 Attendance at the meetings of the Board and the senior management

During the Reporting Period, the Board of Supervisors designated representatives to attend on-site meetings and some meetings of the special committees of the Board of Directors, and supervised legal compliance of the meetings, procedures of voting, as well as the attendance, speech and voting of directors. The Board of Supervisors also designated representatives to attend the relevant meetings of the senior management and supervised the execution of Board resolutions by the senior management and the operating management activities conducted according to the Articles of Association and the authorization by the Board of Directors.

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.6 Operation of the committees of the Board of Supervisors

The Board of Supervisors has a Nomination Committee and a Supervisory Committee, compositions of which are as follows:

Committees of the Board			
No.	of Supervisors	Chairman	Members
1	Nomination Committee	Dong Xiaolin	Zhang Youqi, Li Ruifeng, Pan Shujuan, Tang Chuan
2	Supervisory Committee	Yang Mianzhi	Zhang Youqi, Chen Rui, Hu Jing, Zhong Qiushi

Note: At the Bank's 2019 third meeting of the fourth session of the nomination committee of the Board of Supervisors and the tenth meeting of the Board of Supervisors held on 14 November 2019, Ms. Dong Xiaolin was elected as the chairwoman of the fourth session of the nomination committee of the Board of Supervisors with effective from the same date.

Nomination Committee of the Board of Supervisors

The principal responsibilities of the Nomination Committee include:

- formulating the selection standards and procedures of supervisors, and making recommendations to the Board of Supervisors;
- preliminarily reviewing the qualifications and conditions of candidates for supervisors and making recommendations to the Board of Supervisors;
- improving market-oriented selection and appointment mechanism, and making reservation of candidates for supervisors;
- conducting a comprehensive assessment and evaluation of duties performance of directors and senior management, and reporting it to the Board of Supervisors;
- supervising the process of election and appointment of directors;
- supervising the scientificity and reasonableness of the remuneration management system and policies of the Bank and the remuneration proposal for its senior management;
- determining the remuneration standards for supervisors and subsidy standards for external supervisors, and making recommendations to the Board of Supervisors in respect thereof;
- establishing and improving the incentive and control system, conducting an assessment and evaluation of duties performance of supervisors, and making recommendations to the Board of Supervisors in respect thereof;

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.6 Operation of the committees of the Board of Supervisors (Continued)

Nomination Committee of the Board of Supervisors (Continued)

- ensuring that supervisors shall not participate in the decision-making process in connection with the evaluation of their duties performance and remuneration (or subsidies), save for the self-assessment in the evaluation of duties performance;
- other matters authorized by the Board of Supervisors.

The Nomination Committee held a total of 3 meetings during the Reporting Period, at which 15 resolutions were considered and approved.

Supervisory Committee of the Board of Supervisors

The principal responsibilities of the Supervisory Committee include:

- formulating plans for supervision of duties performance of Board of Directors and the senior management of the Bank, and supervising the adoption by the Board of Directors of prudent business philosophy, value standards and formulating development strategies that are in line with the actual situations of the Bank;
- formulating plans for supervision of the due diligence of directors and the senior management of the Bank;
- formulating plans for resignation audits of executive directors and the senior management of the Bank;
- formulating plans for the inspection and supervision of financial activities of the Bank;
- formulating plans for supervision and inspection of the business decision-making, risk management and internal control of the Bank;
- formulating plans for assessing the scientificity, reasonableness and effectiveness of development strategies set by the Board of Directors;
- taking charge of the organization and implementation of the above plans;
- other matters authorized by the Board of Supervisors.

During the Reporting Period, the Supervisory Committee held 8 meetings in total, at which 21 resolutions were considered.

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.7 External supervisors work report

Chairman of the Board of Supervisors committees are served by external supervisors, which strengthens the role of external supervisors in performance assessment, internal control and other aspects of independent oversight functions, and plays a positive role in improving the management quality and governance structure of the Bank.

In 2019, external supervisors actively participated in meetings, carefully studied and actively participated in discussions and decision-making of each issue, considered each issue from the perspective of the sustainable development of the Bank and protection of its shareholders' interests, carefully gave independent opinions, and fulfilled the responsibilities of external supervisors according to laws.

9.9 TRAINING AND RESEARCH OF DIRECTORS AND SUPERVISORS DURING THE REPORTING PERIOD

Training and research of directors

Some directors took part in a training session held by the Bank in February 2019 on commercial banks management and corporate governance.

Some directors took part in a listing tutoring lecture on the basic system and procedures for A-share IPO and information disclosure guided by CITIC Securities Company Limited and Guoyuan Securities Co., Ltd., which was held by the Bank in October 2019.

Investigation, research and training of the Board of Supervisors

The Board of Supervisors commenced special supervision and investigation on the quality of the internal audit of the Bank, and then prepared the investigation report. Part of the Bank's supervisors participated in the supervision investigation.

The Board of Supervisors launched special investigations on the operation and management of the inclusive finance outlets of the Bank and then prepared the investigation report; launched special research on Jinzhai Huiyin Rural Bank Co., Ltd., Huishang Bank Financial Leasing Co., Ltd. and Wuwei Huiyin Rural Bank Co., Ltd.; held the special seminars on the comprehensive reform of rural finance of Jinzhai village and the practice of inclusive finance of Huishang Bank. Part of the Bank's supervisors participated in the research.

During the Reporting Period, the Board of Supervisors organized and invited Ernst & Young Hua Ming LLP(Special General Partnership) and DeHeng Law Offices to provide training on the "key points of audit and supervision of the Bank's annual report and relevant requirements on internal audit of commercial banks" and A-share IPO for supervisors, respectively, and all supervisors of the Bank participated in the training.

Part of the Bank's supervisors participated in the listing tutoring lecture related to the basic system and procedures for A-share IPO and information disclosure given by CITIC Securities Company Limited and Guoyuan Securities Co., Ltd. and held by the Bank in October 2019.

Chapter IX Corporate Governance Report

9.10 COMPANY SECRETARY UNDER HONG KONG LISTING RULES

Dr. Ngai Wai Fung is the Bank's company secretary under the Hong Kong Listing Rules. Dr. Ngai Wai Fung is a director and the chief executive officer of SWCS Corporate Services Group (Hong Kong) Limited. Dr. Ngai took part in relevant professional trainings for no less than 15 hours during the Reporting Period. Mr. Lian Baohua, secretary to the Board of the Bank, was the primary contact of Dr. Ngai during the Reporting Period.

9.11 MATERIAL ILLEGAL ACT REPORTS AND ALLEGATIONS

During the Reporting Period, the Bank did not have any material internal disputes.

9.12 COMMUNICATION WITH SHAREHOLDERS

Investors relationship

We place great importance over the Bank's shareholders' opinions and suggestions. We actively take part in all kinds of communication activities with investors and analysts in order to maintain a good relationship, and meet reasonable requirements by the shareholders in a timely manner.

For investors inquiries, please contact the Board of Directors at:

The Office of the Board of Directors of Huishang Bank Corporation Limited
Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, PRC
Telephone: +86-551-62667729
Fax: +86-551-62667787
E-mail: djb@hsbank.com.cn

Investors can read this annual report from our website (www.hsbank.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

Information disclosure

The Board of Directors and senior management of the Bank place great importance to the information disclosure. They rely on good corporate governance and sound internal control to provide timely, accurate and fair information for the investors. During the Reporting Period, no insider dealing of the Bank's shares was identified.

In accordance with the requirement of "Measures for the Information Disclosure of Commercial Banks", the Bank continuously improved the timeliness, accuracy and completeness of the information disclosure. During the Reporting Period, the full texts of the annual report and interim report in both English and Chinese are available on the website of the Bank. Meanwhile, the Chinese and English versions of the annual report and interim report are available for review by the investors and stakeholders in the Board of Directors' office of the Bank.

Chapter IX Corporate Governance Report

9.13 SHAREHOLDERS' RIGHTS

Convening extraordinary general meetings

When individual or joint shareholders of the Bank who have more than 10% of the total voting right present a written request, the Board of Directors shall hold an extraordinary general meeting within 2 months from the date of the request:

The shareholders who presented such requests shall put forward proposals to the Board in writing. The Board of Directors shall, in accordance with laws, administrative regulations and the Articles of Association of the Bank, give a written feedback expressing an opinion of agreements or disagreements with the convening of an extraordinary general meeting or a class shareholders' meeting within 10 days from the date of receiving the proposal.

If the Board of Directors agrees to convene an extraordinary general meeting or class shareholders' meeting, it should issue a notice to call for a shareholders' general meeting within 5 days from the date on which the relevant Board resolution is made. Any amendments to the original proposal in the notice should obtain the consent from the shareholders of the Bank who initiated such proposals.

Proposing resolutions at shareholders' general meeting

Shareholders individually or jointly holding more than 3% of the voting shares of the Bank may make provisional proposal to the shareholders' general meeting and submit written request to the convener 10 days before the meeting. The convener shall issue a supplementary notice of the shareholders' general meeting within 2 days after receiving the proposal. The contents of the provisional proposal shall be announced.

Shareholders individually or jointly holding more than 3% of the total issued voting shares of the Bank may propose candidates for directors to the Board of Directors or to propose candidates for supervisors to the Board of Supervisors.

Shareholders individually or jointly holding more than 1% of the total outstanding voting shares of the Bank may nominate candidates for independent directors to the Board, who can be elected at shareholders' general meeting as independent directors. Those shareholders who have nominated directors shall not nominate independent directors.

Shareholders individually or jointly holding more than 1% of the total outstanding voting shares of the Bank may nominate candidates for external supervisors, who will be elected at shareholders' general meeting as external supervisors.

Convening extraordinary Board meetings

When shareholders individually or jointly holding more than 10% of the total voting shares of the Bank raise a proposal, the chairman of the Board of Directors shall, within 10 days after receiving the proposal, calls for and presides over an extraordinary Board meeting.



Chapter IX Corporate Governance Report

9.13 SHAREHOLDERS' RIGHTS (Continued)

Making inquiries to the Board

Our shareholders are entitled to supervise the business activities of the Bank, make recommendations or inquiries.

Shareholders of the Bank are entitled to access to the following information in accordance with the laws, administrative regulations, departmental rules, normative documents, relevant regulations of the securities regulatory authorities of the place(s) where the shares of the Bank are listed, and the provisions of the Articles of Association of the Bank, including:

1. Obtaining the Articles of Association of the Bank upon the payment of costs;
2. Inspecting, free of charge, or having the right to inspect and copy the following documents upon the payment of reasonable costs:
 - (1) the register of all shareholders;
 - (2) personal information of directors, supervisors and the senior management of the Bank;
 - (3) the Bank's share capital;
 - (4) report showing the total nominal value, quantity, highest and lowest prices of each class of shares repurchased by the Bank since the previous financial year and all costs paid by the Bank in this regard;
 - (5) minutes of shareholders' general meetings;
 - (6) the latest audited financial statements, and reports of the Board of Directors, auditors and the Board of Supervisors of the Bank.

Shareholders who request to inspect or obtain any such information shall provide written documentation to the Bank, certifying the type of shares they held in the Bank as well as the number of their shareholdings. The Bank shall provide such documentation as required by shareholders after their identities are verified.

Chapter IX Corporate Governance Report

9.14 APPOINTMENT OF CERTIFIED PUBLIC ACCOUNTANTS

The resolution on the Appointment of External Auditors of the Bank for 2019 was considered and approved at the 2018 annual general meeting held on 30 June 2019. The Bank has reappointed Ernst & Young Hua Ming LLP (Special General Partnership) as our domestic auditor and Ernst & Young as our international auditor for the year of 2019, respectively.

In 2019, the total remuneration paid to Ernst & Young Hua Ming LLP (Special General Partnership) and Ernst & Young for review of the financial statements and audit of the annual financial statements as agreed by the Bank and the total remuneration from other services (special audit of A-share IPO, financial investigation on shareholders' eligibility, issuance of bonds and special service of asset-backed securities) amounted to RMB3.60 million and RMB3.73 million, respectively.

In accordance with the relevant requirements of the Administrative Measures for the Appointment of Accounting Firms by Financial Enterprises (《金融企業選聘會計師事務所管理辦法》) (Caijin [2016] No.12) issued by the Ministry of Finance of the PRC on the consecutive appointment of the same auditor engaged by a financial enterprise, the tenure of the former auditor of the Bank, PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership), has reached the prescribed time limit. Accordingly, PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) ceased to serve as external auditors of the Bank since 2017. Save as disclosed above, the Bank had not changed accounting firms over the past three years.

9.15 AMENDMENTS TO THE ARTICLES OF ASSOCIATIONS OF THE BANK

At the 43rd meeting of the third session of the Board held on 27 September 2018, the Resolution on the Amendment of the Articles of Associations of Huishang Bank Corporation Limited was considered and approved. The resolution was also considered and approved at the 2018 first extraordinary general meeting held on 28 November 2018. According to the Interim Measures for the Shareholding Management of Commercial Banks (China Banking Regulatory Commission [2018] No.1), other relevant regulatory rules and its practical circumstances, the Bank amended some provisions in the Articles of Associations of Huishang Bank Corporation Limited. The Bank has received the "Approval from the China Banking and Insurance Regulatory Commission Anhui Office on the Amendments to the Articles of Association of Huishang Bank Corporation Limited" (Wan Yin Bao Jian Fu [2019] No. 58) on 22 January 2019, approving the amended Articles of Association. For details, please refer to the Bank's announcement dated 22 January 2019.

At the 5th meeting of the fourth session of the Board held on 26 April 2019, the Resolution on the Amendment of the Articles of Associations of Huishang Bank Corporation Limited (A+H Share) was considered and approved. The resolution was also considered and approved at the 2018 annual general meeting held on 30 June 2019. The Bank has made amendments to some provisions of the existing Articles of Association of Huishang Bank Corporation Limited in accordance with the requirements of the relevant laws, regulations and regulatory documents such as the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Guidance for the Articles of Association of Listed Companies, as well as the relevant requirements of the CSRC in relation to listed companies, and in line with the actual conditions of the Bank. Such amendments shall take effect upon the A Shares Listing of the Bank.

Chapter IX Corporate Governance Report

9.16 COMPLIANCE AND RISK MANAGEMENT

1. Procedures for identification, evaluation and management of material risks

Pursuant to the Administrative Measures for the Capital of Commercial Banks (Trial) and its attachments issued by the CBRC, the definition of risk and relevant terminology issued by Basel Committee and practices of other banks in the PRC and overseas, the Bank has made overall identification of a series of potential quantifiable and non-quantifiable risks arising from the coupled effect of business strategies, product mix, clients' needs and external macro-economy environment and measurement and control of existing risks based on its own actual circumstances.

Through collecting and issuing risk alerts, setting examples of and identifying, gathering and evaluating risk events and specifying key risks based on capital allocation to risk categories, regulatory identification of potential risks and regulatory requirements on capital for banks and identification and evaluation of risk events, the Bank annually identifies and evaluates major risks, and makes supplement or revision to relative systems according to the evaluation results. Such key potential risks to identify include credit risk, market risk, operational risk, liquidity risk, bank account interest rate risk, compliance risk, legal risk, reputation risk and strategic risk, which were quantified and evaluated through specific measurement methods and tools.

2. Key features of risk management system of the Bank

(I) Systemic structure

The Bank has a comprehensive risk management information system mainly comprised of three layers, namely business application, risk analysis and midway data.

1. The business application includes: the core system, credit management system, credit card related systems, capital transaction system and risk mitigation management system.
2. The risk analysis includes: the internal rating system on corporate clients, retail internal rating/rule engine tools, market risk management information system, asset and liability management system, portfolio risk quota management system, debt rating system, intelligent analysis cloud platform and tools for measuring associated risks among the systems.
3. The midway data includes: corporate database for storing and pooling business-related data of the whole Bank for easy indexing data in details.

Chapter IX Corporate Governance Report

9.16 COMPLIANCE AND RISK MANAGEMENT (Continued)

2. Key features of risk management system of the Bank (Continued)

(II) Key features

The risk management system of the Bank was designed and developed by customizing practices of advanced domestic banks based on its strategic development planning and practical circumstances, with key features as follows:

1. Sound systems and data supported mechanisms under the comprehensive risk management system to underpin relevant decision-making on risk management of the Bank;
2. Collection, records and storage of relevant data to a certain breadth and depth with emphasis on completeness, accuracy and truthfulness to support the internal rating system, calculation of capital and relevant management and regulatory reporting of the Bank;
3. Tools improving systems of the Bank to support risk measurement and calculation of capital;
4. A sound data management system of the Bank to ensure the accuracy, completeness and adequacy of all kinds of risk management data.

3. Key features of internal control system of the Bank

The Bank attaches great importance to the implementation of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines and the “Guidelines for Internal Control of Commercial Banks” in a consistent manner, and has continued establishing the internal control management system from five key aspects in three layers, including corporate governance, business line management and procedural operation – which horizontally cover our business processes and management activities of various business lines and vertically cover the managing bodies of the head office, branches and sub-branches and all employees. The internal control management structure was equipped with well-defined and reasonable duties and responsibilities which clarified internal control management duties of the Board of Directors, the Board of Supervisors and senior management and three defense lines. Under the structure, the Board of Directors was responsible for ensuring the Bank to establish and implement adequate and effective internal control system, the Board of Supervisors was responsible for overseeing the establishment and implementation of internal control by the Board of Directors and senior management, and the senior management was responsible for organizing the day-to-day internal control operation of the Bank. The Bank strengthened its management of the operation of the internal control system and organized internal balanced process of internal control as well as operation evaluation of internal control to identify the issues and deficiencies in the design and implementation thereof. Through prompt rectifications and corrections on internal control, the Bank continuously improved and optimized its internal control system so as to support its business development. The Bank has also established an internal control compliance risk management system covering three key modules, namely internal control management, compliance management and legal affairs, which enables the Bank to basically achieve a new compliance management model featured by systems, procedures and information technologies. The use of such systems has enabled the Bank to make use of information and digital technologies in its internal control management, strongly supporting the breadth and depth of internal control compliance analysis.



Chapter IX Corporate Governance Report

9.16 COMPLIANCE AND RISK MANAGEMENT (Continued)

4. Risk management and internal control duties of the Board

The Board of Directors of the Bank has formulated the “Measures on Market Risk Management for Huishang Bank (for Trial Implementation)”, “Basic Requirements on Internal Control for Huishang Bank” and other rules on the basis of laws and regulations such as the “Guidelines for Internal Control of Commercial Banks” and other laws and regulations, as well as the relevant requirements of the Hong Kong Stock Exchange in order to establish and implement a risk management and internal control system and undertake prompt review of the effectiveness of such systems. The Board of Directors of the Bank is of the view that, the risk management and internal control system established and implemented by the Bank are sufficient and effective. The purpose of the risk management and internal control system of the Bank is to manage rather than eliminate such risks as would prevent the Bank from achieving its business goals, and such system reasonably (rather than absolutely) ensures that there would not be any material misrepresentation or loss.

9.17 PROCEDURES AND SUPERVISORY MEASURES FOR HANDLING INSIDER INFORMATION

The Bank places great importance on insider information management. In order to strengthen relevant confidentiality of insider information and protect the legitimate interests of investors by maintaining fairness with regard to information disclosure, the Bank formulated the Insider Information and Insider Management System of Huishang Bank Corporation Limited and the Measures on Information Disclosure Management of Huishang Bank Corporation Limited pursuant to domestic and offshore laws and regulations such as the Company Law of the People’s Republic of China, the Securities Law of the People’s Republic of China, Rules on Establishment of Insider Registration and Management System of Listed Companies, Measures for the Information Disclosure of Commercial Banks, the Hong Kong Listing Rules and other regulatory documents including laws and regulations and listing rules on securities or other regulatory documents of places and stock exchanges where the securities of the Bank are listed.

Pursuant to laws and regulations of places where the securities of the Bank are listed, the Insider Information and Insider Management System of Huishang Bank Corporation Limited expressly provides for the scope of operational, financial or other information that may have a material impact on the market price of securities of the Bank but has not yet been made available on any media for information disclosure designated by securities regulating authorities and the definition of insiders in connection thereof, as well as detailed requirements on management of insiders, confidentiality of such information and punishment measures for divulgence thereof.

The Bank discloses its information in strict accordance with regulatory requirements. The Measures on Information Disclosure Management of Huishang Bank Corporation Limited expressly provides for basic principles of information disclosure, including the disclosure principles in prospectuses, offering circulars, listing documents, regular reports and interim reports, and explicitly requires that information disclosure of the Bank be unifiedly managed and undertaken by the Board, while the chairman and the president be the persons ultimately responsible and the secretary to the Board be the main person-in-charge. The Measures also provide for detailed requirements on information disclosure management duties of directors, supervisors, senior management and persons-in-charge of branches.

As the general administrative body with respect to information disclosure of the whole Bank, the office of the Board of Directors has always strictly complied with domestic and offshore regulatory requirements, kept strengthening system management and promptly and appropriately disclosed relevant information, since the conducting of information disclosure.

Chapter X Internal Control

10.1 INTERNAL CONTROL

10.1.1 Internal control system and operation

Operating in compliance with regulations and under stable development, the Bank followed the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines, internal and external laws and regulations such as the “Guidelines for Internal Control of Commercial Banks” and “Basic Norms of Internal Control for Huishang Bank”, as well as the relevant requirements of the Hong Kong Stock Exchange to set up an internal control system comprised of five key elements, namely the internal environment, risk assessment, control activities, information and communication, and internal monitoring. The Bank has clearly defined the objectives, principles and organizational system of internal control through internal control system infrastructure; exerted full control over the whole process of various management activities of the Bank; and in the course of carrying out internal control, continued to enhance our internal control system so as to ensure the compliant and steady development of the Bank.

Pursuant to the relevant national laws and regulations, the Bank established a standard corporate governance structure and rules of procedure; and formed a scientific and effective segregation of duties as well as a checks and balances mechanism. The Board of Directors of the Bank takes ultimate responsibility for the establishment of the internal control system as well as the effectiveness of its implementation. The Board of Supervisors is in charge of overseeing the Board of Directors and senior management to establish and improve the internal control system; and overseeing the Board of Directors and the directors, senior management and senior officers to perform their duties of internal control. Senior management is responsible for execution of the internal control system and policies approved by the Board of Directors. The operational management departments at all levels and sales networks form the “first-line defense of internal control” of the Bank, which takes on the primary responsibility of developing and implementing internal control. The internal control management positioned in each functional department of the head office and branches and the compliance management departments at all levels comprise the “second-line defense of internal control”, providing guidance and supervision on the development and implementation of the first-line defense of internal control as well as reporting to the management on the establishment and implementation of the internal control system of the Bank. Being the “third-line defense of internal control”, the audit department monitors and assesses the effectiveness of internal control.

During the Reporting Period, the Bank launched campaigns such as “Better Quality Year”, “consolidation of results from governance on disorder situation to promote compliance” and “Three bases and four implementation”, continuously developed the assessment on compliance risk management for 2019, the assessment on anti-money laundering works for 2019 and identification of non-performing loan liabilities. In coordination with CBIRC Anhui Office, the Bank completed series works of rectification and implementation of regulatory opinions, and further improved the market risk, credit risk and operational risk management mechanisms. Therefore, the internal control system operated effectively. In addition, all management units in the head office and branches and all sub-branches of the Bank conducted self-assessment on the internal control for 2019. After inspection by the Board of the Bank, no significant deficiencies regarding the integrity, rationality and effectiveness of the internal control were identified.

Chapter X Internal Control

10.1 INTERNAL CONTROL (Continued)

10.1.2 Implementation of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines in a consistent manner

The Bank places great importance to the implementation of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines in a consistent manner. Firstly, it has defined internal control and management systems and internal control and management duties of the operational department, business lines management department and compliance department to further clarify the relevant organizational structure and duty allocation of internal control and management. Secondly, the Bank formulated a risk control manual of basic business. It defined over 300 key risk points in business, and further clarified the internal connections among business risk points, control measures, execution positions and regulatory frameworks to guide all the employees of the Bank to carry out business operations in compliance with laws. Thirdly, the Bank established and improved the management system of employee conduct, formulated the “Management Measures for Employees of Huishang Bank”, and revised the “Management Measures for Abnormal Conduct of Employees of Huishang Bank” to define the prohibited conduct of employees, initiate the building of monitoring system for abnormal conduct of employees of Huishang Bank and gradually improve the management effectiveness of abnormal conduct of employees. Fourthly, it has organized bank-wide assessments on internal control for 2019, covering 9 business lines and 17 branches of the Bank. Based on results of the assessment, the design and execution of the internal control of the Bank were good, with basically sound internal control mechanisms and effective execution of control measures.

Chapter X Internal Control

10.2 INTERNAL AUDIT

We have implemented an internal audit system, set up an internal audit department which consists of four audit segments by region, and established an independent and vertical management system for audit as well as the corresponding reporting system and lines for internal audit, which enabled the establishment of a complete internal audit system comprised of detailed standards, internal requirements and work manuals based on internal control audit rules. We have established an audit model which combines on-site audit with off-site monitoring. We have formulated audit plan and annual audit plan and carried auditing activities efficiently in accordance with the audit plan and annual plan approved by the Board of Directors.

The internal audit department is responsible for auditing and supervising our financial revenue and expenditures and business activities, investigating, evaluating and facilitating our business activities, risk profile, internal control and corporate governance status through systematic and standardized methods with a view to promoting our sound development. The internal audit department shall report to the Board of Directors, the Board of Supervisors and the senior management regularly on audit work.

In 2019, the internal audit department continued to adhere to the audit philosophy of “risk-oriented, service- tended and appreciation-aiming” and act around our overall development strategy of “One Body, Two Wings (一體兩翼)”, focus on “three fundamental tasks” in management, “four fundamental tasks” in business, and “five stabilizing tasks” in development, improve the audit organizational structure, make overall arrangements on auditing activities, enhance the audit and supervision capacity and play the role of internal audit. We have conducted on-site audit through various audit forms such as agency audit, special audit, economic responsibility audit and specific audit investigation, and implemented off-site monitoring through information analysis and inspection of suspicious circumstances to strengthen supervision over fundamental risks such as credit risk and operational risk. In addition, our internal audit department has put forward certain specific opinions on rectifications and recommendations for improvements, and enhanced the follow-up work to implement rectification measures, apply findings of the audit and further promote enhancement of our internal control and risk management as well as refinement of our management.

10.3 EVALUATION ON EFFECTIVENESS OF INTERNAL CONTROL SYSTEM

In 2019, under the guidance of the Audit Committee under the Board, the Bank formulated the “Appraisal Measures on Internal Control of Huishang Bank” and initiated the internal control assessment for 2019 to carry out a comprehensive evaluation on the business, institutions, and risk management policies of the Bank pursuant to the requirements on internal control assessment of commercial banks under the “Guidelines for Internal Control of Commercial Banks” issued by the CBRC.

Chapter XI Report of the Board of Supervisors

During the Reporting Period, the Board of Supervisors supervised the Bank's internal control, risk management, financial activities, legal compliance of operations, as well as the performance of duties of the Board of Directors and senior management in accordance with the Company Law of the People's Republic of China, Guidelines for the Corporate Governance of Commercial Banks, Guidelines for the Work of the Board of Supervisors in Commercial Banks and the responsibilities defined by the Bank's Articles of Association.

The Board of Supervisors has expressed an independent opinion on following matters:

1. The operation in compliance with laws

During the Reporting Period, the Bank's business management activities were in compliance with the Company Law of the People's Republic of China, other relevant laws and regulations and regulatory requirements and the relevant provision of the Articles of Association of the Bank, the Board's decision-making procedures were standardized, and the content was legal and compliant; the senior management conducted business management activities in accordance with laws and regulations, the authorization of the Board of Directors, and the rules and regulations of the Bank.

2. The actual facts of the financial report

The 2019 financial report of the Bank had been audited by Ernst & Young in accordance with IFRS and a standard unqualified audit report had been issued. The Board of Supervisors concluded after review that the financial report reflected the Bank's financial activities and operating results in a true, objective and accurate manner.

3. Related party transaction

During the Reporting Period, the Board of Supervisors did not identify any related party transaction in the Bank that harmed the interests of the shareholders and the Bank.

4. Internal control

During the Reporting Period, the Bank strived to put internal control as its priority, implemented regulatory requirements, actively built a scientific, coordinated, and efficient internal monitoring system, comprehensively promoted interbank business reform, optimized non-credit asset business risk control processes, continued to consolidate the achievements of chaos rectifying, conducted activities including "Better Quality Year" and "Case Warning Education" and further strengthened the construction of internal control system. No significant deficiencies regarding the integrity and rationality of the internal control of the Bank were identified.

5. Risk management

During the Reporting Period, the Bank adhered to categorizing policies, addressing both root causes and symptoms, focused on the implementation of responsibilities, strengthening risk management and control in key areas, improving the risk management organizational structure, orderly advancing the risk dispatch system, improving the risk management system, optimizing risk management processes, and innovating and upgrading risk management tool, continued to promote the construction of a comprehensive risk management system. All regulatory indicators remain continuous and stable, the overall risk situation is controllable, and new achievements have been made in high quality development.

Chapter XI Report of the Board of Supervisors

6. Implementation of resolutions of shareholders' general meetings

The Board of Supervisors has no objection to the reports and proposals submitted by the Board of Directors of the Bank to the shareholders' general meetings for consideration in 2019, supervised the implementation of the resolutions of the shareholders' general meetings, and was of the view that the Board of Directors and the senior management have well implemented the relevant resolutions of shareholders' general meetings.

By Order of the Board of Supervisors

Zhang Youqi

Chairman of the Board of Supervisors

31 March 2020



Chapter XII Financial Report Independent Auditor's Report



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To the Board of Directors of Huishang Bank Corporation Limited

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

OPINION

We have audited the consolidated financial statements of Huishang Bank Corporation Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 171 to 316 which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 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") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Chapter XII Financial Report Independent Auditor's Report

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 year. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<i>Impairment assessment of loans and advances to customers and financial investment at amortised cost</i>	
IFRS 9 requires that the impairment measurement for financial assets be changed from "incurred loss model" to "expected credit loss model". The Group uses a number of models and assumptions in the measurement of expected credit losses, for example:	We evaluated and tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems.
Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans with longer remaining periods to maturity;	We adopted a risk-based sampling approach in our loan review procedures and financial investments at amortised cost. We assessed the debtors' repayment capacity and evaluated the Group's loan grading and financial investments at amortised cost, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.
Model and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions;	With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects:
Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact to expected credit losses under multiple economic scenarios given different weights; and	
Individual impairment assessment – Identifying credit impaired loans requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows.	

Chapter XII Financial Report Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
<i>Impairment assessment of loans and advances to customers and financial investment at amortised cost (continued)</i>	
Since loan impairment assessment involves many judgement and assumptions, and in view of the significance of the amount (as at 31 December 2019, net loans and advances to customers amounted to RMB450.42 billion, representing 39.80% of the total assets; financial investment at amortised cost amounted to RMB278.85 billion, representing 24.64% of total assets; loan impairment amounted to RMB14.52 billion, and allowance for impairment losses on financial investment at amortised cost amounted RMB11.4 billion), impairment of loans and advances and financial investment at amortised cost is considered a key audit matter. Relevant disclosures are included in Note 23, Note 24, Note 52.1.5 and Note 52.1.6 to the consolidated financial statements.	1. Expected credit loss model: - Assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and any significant increase in credit risk; - Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumption of multiple macroeconomic scenarios; - Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral. 2. Design and operating effectiveness of key controls: - Evaluated and tested the data and processes used to determine expected credit losses, including loan business data, internal credit rating data, macroeconomic data, impairment program computational logic, as well as inputs and outputs; - Evaluated and tested key controls over the expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.

Chapter XII Financial Report Independent Auditor's Report

Key Audit Matter	How our audit addressed the key audit matter
<i>Consolidation and assessment of structured entities</i>	
The Group has established various structured entities, such as bank wealth management products, funds, trust plans, in conducting asset management business and investments. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking into consideration the power arising from rights, variable returns, and the link between power and returns. The assessment of the Group's control over structured entities involves significant judgement and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, the performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. As at 31 December 2019, the balance of unconsolidated wealth management products managed by the Group was RMB180.69 billion, and the amount of investments in unconsolidated structured entities invested by the Group was RMB286.77 billion. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, consolidation assessment of structured entities is considered a key audit matter. Relevant disclosures are included in Note 47 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls a structured entity. We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has the obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities. Furthermore, we assessed and tested the design and operating effectiveness of the Group's controls over its unconsolidated structured entities.

Chapter XII Financial Report

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE BANK'S 2019 ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises 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 THE DIRECTORS 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 of the Bank 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 of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

Chapter XII Financial Report 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.

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.

Chapter XII Financial Report Independent Auditor's Report

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 year 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 Choi Kam Cheong, Geoffrey.

Ernst & Young

Certified Public Accountants

Hong Kong,

31 March 2020

Consolidated Income Statement

For the year ended 31 December 2019

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

	Notes	2019	2018
Interest income	7	47,828,806	39,668,107
Interest expense	7	(23,102,774)	(21,701,242)
Net interest income		24,726,032	17,966,865
Fee and commission income	8	4,476,933	3,840,984
Fee and commission expense	8	(312,998)	(134,521)
Net fee and commission income		4,163,935	3,706,463
Net trading gains/(losses)	9	2,099,853	4,973,467
Net gains/(losses) on financial investments	10	85,331	105,685
Dividend income		1,200	880
Other operating income/(loss), net	11	82,967	197,249
Operating income		31,159,318	26,950,609
Operating expenses	12	(7,091,775)	(6,204,914)
Impairment losses on assets	15	(11,920,086)	(10,064,367)
Operating profit		12,147,457	10,681,328
Share of results of associates		153,360	139,577
Profit before income tax		12,300,817	10,820,905
Income tax expense	16	(2,239,218)	(1,960,532)
Profit for the year		10,061,599	8,860,373
Attributable to:			
Equity holders of the Bank		9,818,780	8,747,031
Non-controlling interests		242,819	113,342
		10,061,599	8,860,373
Earnings per share attributable to the ordinary shareholders of the Bank (expressed in RMB per share)			
Basic/Diluted	17	0.78	0.69

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

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

	Notes	2019	2018
Profit for the year		10,061,599	8,860,373
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Net gains on investments in equity instruments designated at fair value through other comprehensive income	42	37,857	110,577
Less: associated impact of income tax	42	(9,464)	(27,644)
Subtotal		28,393	82,933
Items that may be reclassified subsequently to profit or loss			
– Net gains on investments in debt instruments measured at fair value through other comprehensive income	42	279,544	2,871,091
Less: associated impact of income tax	42	(69,886)	(717,773)
Subtotal		209,658	2,153,318
Other comprehensive income for the year, net of tax		238,051	2,236,251
Total comprehensive income for the year		10,299,650	11,096,624
Total comprehensive income attributable to:			
Equity holders of the Bank		10,056,831	10,983,282
Non-controlling interests		242,819	113,342
		10,299,650	11,096,624

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

Consolidated Statement of Financial Position

As at 31 December 2019

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

	Notes	As at 31 December 2019	As at 31 December 2018
Assets			
Cash and balances with central bank	18	91,971,254	88,144,324
Deposits with banks and other financial institutions	19	14,254,228	7,964,464
Placements with banks and other financial institutions	20	4,737,805	5,022,470
Derivative financial assets	21	235,406	208,979
Financial assets held under resale agreements	22	28,651,227	26,286,656
Loans and advances to customers, net	23	450,419,777	370,661,381
Financial Investments			
– Financial assets at fair value through profit or loss	24	95,225,453	106,479,561
– Financial assets at fair value through other comprehensive income	24	103,176,393	105,805,594
– Financial assets at amortised cost	24	278,852,511	292,359,948
Investment in associates	25	1,242,338	1,100,008
Property, plant and equipment	26	2,059,114	2,231,716
Right-of-use assets	27	1,058,243	–
Deferred income tax assets	38	8,161,629	5,749,437
Finance lease receivables	28	43,949,191	35,624,476
Other assets	29	7,726,669	2,867,295
Total assets		1,131,721,238	1,050,506,309
Liabilities			
Borrowings from central bank		40,688,546	40,720,519
Deposits from banks and other financial institutions	31	111,335,636	117,696,068
Placements from banks and other financial institutions	32	36,303,061	28,778,584
Financial liabilities at fair value through profit or loss	33	–	87,598,791
Derivative financial liabilities	21	281,329	137,938
Financial assets sold under repurchase agreements	34	50,364,962	27,844,684
Deposits from customers	35	603,454,819	573,798,311
Taxes payable	36	3,222,545	3,242,863
Debt securities issued	39	183,242,708	91,443,925
Other liabilities	37	13,334,003	8,967,167
Total liabilities		1,042,227,609	980,228,850
Equity			
Share capital	40	12,154,801	12,154,801
Other equity instruments	40	15,989,901	5,990,090
Capital reserve	40	6,760,445	6,760,445
Surplus reserves	41	11,365,283	9,553,466
General reserves	41	11,115,027	9,117,707
Other comprehensive income	42	1,825,127	1,587,076
Retained earnings		27,998,413	23,048,940
Equity attributable to shareholders of the bank		87,208,997	68,212,525
Non-controlling interests		2,284,632	2,064,934
Total equity		89,493,629	70,277,459
Total equity and liabilities		1,131,721,238	1,050,506,309

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

Approved and authorized for issue by the Board of Directors on 31 March 2020.

Wu Xuemin
Chairman

Zhang Renfu
President

Li Dawei
Financial Controller

Fang Lixin
Head of Finance Department

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

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

	Equity attributable to shareholders of the Bank							Non-controlling interests	Total equity
	Share capital Note 40	Other equity instruments Note 40	Capital reserve Note 40	Surplus reserves Note 41	General reserves Note 41	Other comprehensive income Note 42	Retained earnings		
As at 1 January 2019	12,154,801	5,990,090	6,760,445	9,553,466	9,117,707	1,587,076	23,048,940	2,064,934	70,277,459
(1) Comprehensive income									
Profit for the year	-	-	-	-	-	-	9,818,780	242,819	10,061,599
Other comprehensive income, net of tax	-	-	-	-	-	307,909	-	-	307,909
Asset impairment through other comprehensive income	-	-	-	-	-	(69,858)	-	-	(69,858)
Total comprehensive income for the year	-	-	-	-	-	238,051	9,818,780	242,819	10,299,650
(2) Profit distribution									
Dividends	-	-	-	-	-	-	(1,060,170)	(23,121)	(1,083,291)
Additional capital stock	-	9,999,811	-	-	-	-	-	-	9,999,811
Appropriation to surplus reserve	-	-	-	1,811,817	-	-	(1,811,817)	-	-
Appropriation to general reserve	-	-	-	-	1,997,320	-	(1,997,320)	-	-
(3) Changes in share capital									
As at 31 December 2019	12,154,801	15,989,901	6,760,445	11,365,283	11,115,027	1,825,127	27,998,413	2,284,632	89,493,629
As at 1 January 2018	11,049,819	5,990,090	6,751,041	7,953,301	7,722,527	(649,175)	19,055,505	1,508,781	59,381,889
(1) Comprehensive income									
Profit for the year	-	-	-	-	-	-	8,747,031	113,342	8,860,373
Other comprehensive income, net of tax	-	-	-	-	-	1,902,064	-	-	1,902,064
Asset impairment through other comprehensive income	-	-	-	-	-	334,187	-	-	334,187
Total comprehensive income for the year	-	-	-	-	-	2,236,251	8,747,031	113,342	11,096,624
(2) Profit distribution									
Dividends	-	-	-	-	-	-	(653,269)	(5,665)	(658,934)
Additional capital stock	1,104,982	-	-	-	-	-	(1,104,982)	-	-
Appropriation to surplus reserve	-	-	-	1,600,165	-	-	(1,600,165)	-	-
Appropriation to general reserve	-	-	-	-	1,395,180	-	(1,395,180)	-	-
(3) Changes in share capital									
Capital injection to a subsidiary	-	-	9,404	-	-	-	-	448,476	457,880
As at 31 December 2018	12,154,801	5,990,090	6,760,445	9,553,466	9,117,707	1,587,076	23,048,940	2,064,934	70,277,459

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

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

	2019	2018
Cash flows from operating activities:		
Profit before income tax	12,300,817	10,820,905
Adjustments:		
Impairment losses on assets	11,920,086	10,064,367
Recovery of written-off loans	582,663	504,161
Depreciation and amortization	730,661	435,444
Net (gains)/losses on disposals of property, plant and equipment	(7,893)	1,174
Net gains on de-recognition of investment securities	(85,331)	(105,685)
Fair value changes in financial assets at fair value through profit or loss and derivatives	304,813	(394,575)
Share of results of associates	(153,360)	(139,577)
Dividend income	(1,200)	(880)
Interest income from investment securities	(20,515,680)	(17,936,291)
Interest expense from lease liabilities	39,976	–
Interest expense from debt securities issued	4,799,737	4,721,273
Net changes in operating assets:		
Net decrease in balances with central bank	3,935,540	11,264,229
Net (increase)/decrease in deposits and placements with banks and other financial institutions	(2,724,222)	45,850
Net (increase)/decrease in financial assets at fair value through profit or loss	(11,375,987)	1,245,961
Net (increase)/decrease in financial assets held under resale agreements	(2,375,783)	9,677,697
Net increase in loans and advances to customers	(84,155,794)	(68,755,712)
Net increase in finance lease receivables	(8,902,768)	(9,648,418)
Net increase in other assets	(9,857,973)	(4,214,891)
Net changes in operating liabilities:		
Net increase in deposits and placements from banks and other financial institutions	1,400,666	23,980,475
Net (decrease)/increase in financial liabilities at fair value through profit or loss	(555,716)	555,716
Net (decrease)/increase in borrowings from central bank	(288,963)	5,138,401
Net increase/(decrease) in financial assets sold under repurchase agreements	22,559,061	(13,430,810)
Net increase in deposits from customers	27,873,180	53,152,743
Net increase in other liabilities	6,611,181	1,803,334
Income taxes paid	(4,867,163)	(3,497,126)
Net cash flow from operating activities	(52,809,452)	15,287,765

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

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

	2019	2018
Cash flows from investing activities:		
Dividends received	1,200	880
Proceeds from disposal of property, plant and equipment, intangible assets and other long-term assets	20,646	5,824
Purchase of property, plant and equipment, intangible assets and other long-term assets	(443,700)	(757,900)
Cash received from interest income on investment securities	20,537,476	18,094,480
Cash received from sale and redemption of investment securities	275,127,516	366,507,451
Purchase of investment securities	(240,527,944)	(449,015,807)
Net cash flow from investing activities	54,715,194	(65,165,072)
Cash flows from financing activities:		
Proceeds from issuance of debt securities	204,430,000	259,220,000
Cash received from investment	9,999,811	457,880
Dividends and interests paid on debt issued	(5,279,712)	(5,015,655)
Cash paid relating to lease liabilities	(316,954)	–
Cash paid relating to debt repayment	(199,062,931)	(197,805,197)
Net cash flow from financing activities	9,770,214	56,857,028
Impact on cash and cash equivalents resulted from exchange rate changes	(48,929)	(191,012)
Net increase in cash and cash equivalents	11,627,027	6,788,709
Cash and cash equivalents at beginning of year	34,069,155	27,280,446
Cash and cash equivalents at end of year (Note 48)	45,696,182	34,069,155

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

Notes to the Consolidated Financial Statements

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

1 GENERAL INFORMATION

Huishang Bank Corporation Limited (the "Bank") is a joint stock commercial bank registered in Anhui Province, the People's Republic of China (the "PRC"). The Bank was formerly known as Hefei City Cooperatives Bank, which was established on 4 April 1997 with the approval of the People's Bank of China ("the PBOC"), Anhui Branch and Anhui Economic Reform Committee and was renamed as Hefei Commercial Bank Co., Ltd. on 28 July 1998. The Bank was further renamed as Huishang Bank Corporation Limited on 30 November 2005 with the approval of the general office of China Banking Regulatory Commission ("CBRC") and CBRC Anhui Branch. As approved by CBRC Anhui Branch, the Bank acquired five former city commercial banks in Wuhu, Ma'anshan, Anqing, Huaibei and Bengbu and seven city credit cooperatives in Lu'an, Huainan, Tongling and Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda on 28 December 2005. The Bank holds the financial institution licence B0162H234010001 from CBRC Anhui Branch and the business license of legal enterprise with unified social credit code No. 913400001489746613. The registered address of the Bank is No. 79, Anqing Road, Hefei, China. In November 2013, the Bank's H shares were listed on the Hong Kong Stock Exchange (Stock Code: 3698). As at 31 December 2019, the registered and paid-in capital of the Bank was RMB12.16 billion.

The principal activities of the Bank and its subsidiaries (collectively, the "Group") include Renminbi ("RMB") and foreign currency deposits, loans, clearing and settlement services, asset custody services, finance leasing services, and the provision of services as approved by the respective regulators.

Information of the Bank's subsidiaries:

Company name	Place of operation	Place of incorporation	Principal activity	Registered capital	Equity held
Jinzhai Huiyin Village and Township Bank Co., Ltd. (a)	Jinzhai	Jinzhai	Financial services	80,000	41%
Wuwei Huiyin Village and Township Bank Co., Ltd. (b)	Wuwei	Wuwei	Financial services	100,000	40%
Huiyin Financial Leasing Co., Ltd (c).	Hefei	Hefei	Financial services	3,000,000	54%

- (a) The Bank invested 41% of the total capital contribution to establish Jinzhai Huiyin Village and Township Bank Co., Ltd. ("Jinzhai Huiyin") on 28 June 2013. The Bank and the other three shareholders who invested a total 30% of the capital contribution signed the Acting in Concert Agreement. These shareholders agreed to act in concert with the Bank when voting for material decisions regarding financial and operation policies. The Bank has control over Jinzhai Huiyin and consolidates it.

In May 2017, one of the three shareholders who signed the Acting in Concert Agreement transferred its stake to external shareholders, its Acting in Concert Agreement expired, the Bank and the rest of the two shareholders who signed the Acting in Concert Agreements are persons acting in concert, these shareholders agreed to act in concert with the Bank when voting for material decisions regarding financial and operating policies. The Bank has control over Jinzhai Huiyin, so the Bank consolidates Jinzhai Huiyin.

Notes to the Consolidated Financial Statements

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

1 GENERAL INFORMATION (Continued)

- (b) The Bank established Wuwei Huiyin Village and Township Bank Co., Ltd. ("Wuwei Huiyin") in 2010. The registered capital of Wuwei Huiyin is RMB0.1 billion. The Group invested RMB40 million, which is accounted for 40%. Wuwei Huiyin officially commenced its business on 8 August 2010 with the approval of the CBRC. Although the Bank has no absolute controlling interest in Wuwei Huiyin, the company's operating activities in four years after its incorporation indicated that the Bank has a dominant position and control over operating and financing activities of Wuwei Huiyin by taking into full account of various factors. The Bank consolidated Wuwei Huiyin from 31 December 2014.
- (c) The Bank invested 51% to establish Huiyin Financial Leasing Co., Ltd. on 29 April 2015. The Bank has control over Huiyin Financial Leasing Co., Ltd. and consolidates it. In March 2018, the Bank invested RMB687 million to participate in the capital increase and expansion of Huiyin Financial Leasing Co., Ltd., the registered capital of Huiyin Financial Leasing Co., Ltd. increased from RMB2 billion to RMB3 billion, and the Bank's shareholding ratio increased to 54%.

These consolidated financial statements have been approved by the Board of Directors on 31 March 2020.

2 BASIS OF PREPARATION

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to the reporting period presented unless otherwise stated.

2.1 Basis of preparation and critical accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations promulgated by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, have been adopted by the Group in the preparation of the financial statements throughout the reporting period.

Financial assets at fair value through profit or loss (including derivative financial instruments), financial assets and financial liabilities at fair value through other comprehensive income are measured at their fair values in the consolidated financial statements. Assets held for sale are measured at the lower of their fair value less estimated costs and the carrying amount when the conditions for sale are met. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

2.1.1 On 1 January 2019, the Group adopted the following new standards, amendments and interpretations.

On 1 January 2019, the Group adopted the following new standards, amendments and interpretations.

IFRS 16	<i>Leases</i>
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>
IAS 19 Amendments	<i>Plan amendment, curtailment or settlement</i>
IAS 28 Amendments	<i>Long-term Interests in Associates and Joint Ventures</i>
Annual Improvements to IFRSs 2015-2017 Cycle (issued in December 2017)	

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for “significant market fluctuations” in the absence of a plan amendment, curtailment or settlement.

IAS 28 Amendments clarify that an entity applies IFRS 9 Financial Instruments (“IFRS 9”) to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions.

Annual Improvements to IFRSs 2015-2017 Cycle was issued in December 2017. Those amendments affect IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

The adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

2.1.1 On 1 January 2019, the Group adopted the following new standards, amendments and interpretations. (Continued)

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 Leases, which replaced IAS 17 and IFRIC 4. Under IFRS 16, the classifications of finance lease and operating lease for lessees are removed, and lessees recognise right-of-use assets and lease liabilities for all leases (except short-term leases and leases of low-value assets elected to be accounted for using a practical expedient) and recognise depreciation and interest expense respectively. The Group has adopted IFRS 16 since 1 January 2019 (refer to the 2018 annual report for the accounting policies related to leases of the Group in 2018) and applied the modified retrospective approach without restating comparative figures. The Group has not reassessed the existing contracts before 1 January 2019 (date of initial application) and has used practical expedients. As a lessee, the Group has elected to exercise the recognition exemption not to recognise the right-of-use assets and lease liabilities for leases of which the underlying assets are of low value or for which the contract would end within 12 months from the date of initial application, and has recognised the profit or loss on a straight-line basis over the lease term. Therefore, the financial information for the year ended 31 December 2019 related to leasing presented on the financial information is not comparable with the comparative financial information presented in the 2018 financial statements in accordance with the former lease standards.

For the outstanding minimum lease payment for operating leases disclosed in the financial statements of 2018, the Group used its incremental borrowing interest rate as at 1 January 2019 to discount the lease payment, and the reconciliation to the opening balance for the lease liabilities in the statement of financial position as at 1 January 2019 is as follows:

Minimum lease payment for operating leases as at 31 December 2018	1,162,793
Less:	
Commitments relating to short-term leases	(28,674)
Commitments relating to those leases with a remaining lease term ending on or before 31 December 2019	(26,508)
Commitments relating to leases of low-value assets	(47)
Operating lease commitments as at 1 January 2019	1,107,564
Weighted average incremental borrowing rate as at 1 January 2019	4.33%
Discounted operating lease commitments as at 1 January 2019	(149,103)
Lease liabilities as at 1 January 2019	958,461

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

2.1.1 On 1 January 2019, the Group adopted the following new standards, amendments and interpretations. (Continued)

IFRS 16 – Leases (Continued)

Impact on the consolidated statement of financial position as at 1 January 2019:

	As at 31 December 2018	Adjustments	As at 31 December 2019
Right-of-use assets	–	1,182,914	1,182,914
Lease liabilities	–	958,461	958,461
Other assets	2,867,295	(77,885)	2,789,410
Other liabilities	8,967,167	(24,295)	8,942,872

2.1.2 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 3 Amendments	Definition of a Business	1 January 2020
IAS 1 and IAS 8 Amendments	Definition of Material	1 January 2020
IFRS 9, IAS 39 and IFRS 7 Amendments	Interest Rate Benchmark Reform	1 January 2020
IFRS 10 and IAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective date has been deferred indefinitely

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

2.1.2 **Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019.** (Continued)

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest-rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest-rate benchmark reform. The amendments must be applied retrospectively.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

The adoption of the above standards, amendments and interpretations will have no material impact on the financial statements.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

3.1 Subsidiaries

Subsidiaries are all entities (including corporates, divided parts of associates and joint ventures, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If the changes of the relevant facts and circumstances resulting in the definition of control involved in the changes of relevant elements, the Group will re-evaluate whether subsidiaries are controlled.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.1 Subsidiaries (Continued)

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income from subsidiaries. The Group assesses at each financial reporting date whether there is objective evidence that investments in subsidiaries are impaired. An impairment loss is recognised for the amount by which the investments in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investments in subsidiaries' fair value less costs to sell and value in use.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to the income statement.

3.2 Associates

Associates are all entities over which the Group has significant influence but no control or joint control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in associates are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investments in associates" includes goodwill.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in associates and joint ventures' carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.3 Foreign currency translations

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 translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognised in the income statement.

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. Translation differences on non-monetary financial assets at fair value through other comprehensive income are recognised in other comprehensive income. Translation differences on non-monetary financial assets and financial liabilities at fair value through profit and loss are recognised in exchange gains of the income statement.

3.4 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 and reverse repurchase agreements with original maturity of less than three months.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments

3.5.1 Initial recognition and measurement

An entity shall recognise a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument, which is the trade date.

At initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. For a financial asset or financial liability at fair value through profit or loss, transaction costs are directly recognised in profit or loss.

The fair value of a financial instrument at initial recognition is normally the transaction price. If an entity determines that the fair value at initial recognition differs from the transaction price, and if that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the entity shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.

3.5.2 Classification and subsequent measurement

3.5.2.1 Financial assets

An entity shall classify financial assets as at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- (a) the entity's business model for managing the financial assets; and
- (b) the contractual cash flow characteristics of the financial asset.

Business models

An entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model for the financial assets is 'other'. The entity's assessment of the business model is performed on a financial asset portfolio basis, and determined on a reasonable expected scenario, taking into account: how to generate cash flows in the past, how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and how managers of the business are compensated.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments (Continued)

3.5.2 Classification and subsequent measurement (Continued)

3.5.2.1 Financial assets (Continued)

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to identify whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

(1) Financial assets at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets that the Group hold mainly include loans and advances to customers, cash and due from banks and other financial institutions, Placements with and loans to banks and other financial institutions and debt securities, and are subsequently measured at amortised cost.

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

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments (Continued)

3.5.2 Classification and subsequent measurement (Continued)

3.5.2.1 Financial assets (Continued)

(2) Financial assets at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets that the Group hold mainly include bills discounted and debt securities, and are subsequently measured at fair value. A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Expected credit losses of such financial assets shall be recognised in other comprehensive income. The impairment gain or loss shall not adjust the carrying amount of such financial assets and be recognised in profit or loss.

(3) Financial assets at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income, which includes financial assets held for trading, financial assets designated as at fair value through profit or loss and other financial assets at fair value through profit or loss in accordance with IFRS.

Such financial assets that the Group hold mainly include debt securities and fund investments, and are subsequently measured at fair value. A gain or loss on a financial asset that is measured at fair value shall be recognised in profit or loss unless it is part of a hedging relationship. Qualified dividends generated by such equity instruments, which the Group is entitled to collect, shall be recognised in the income statement.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments (Continued)

3.5.2 Classification and subsequent measurement (Continued)

3.5.2.1 Financial assets (Continued)

(4) Equity instruments

The Group may, at initial recognition, irrevocably designate an equity instrument except trading equity instrument as financial asset measured at fair value through other comprehensive income when it meets the definition of equity instruments under IAS 32 Financial Instruments: Presentation. When the equity instrument is derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from other comprehensive income to undistributed profits under equity. Qualified dividends generated by such equity instruments, which the Group is entitled to collect, shall be recognised in the income statement. Such equity instruments do not recognise impairment losses.

Only if the Group changes the business model for financial assets, the Group shall reclassify the affected financial assets. The reclassification shall be effective from the first day of the first reporting period after the change of its business model.

3.5.2.2 Financial liabilities

An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

- (a) financial liabilities at fair value through profit or loss. Such liabilities, including financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.
- (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- (c) Financial guarantee contracts and loan commitments which rates are lower than market's.

Such financial liabilities measured at amortised cost that the Group hold mainly include due to customers, placements from banks and other financial institutions and bonds issued and are subsequently measured at amortised cost.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments (Continued)

3.5.2 Classification and subsequent measurement (Continued)

3.5.2.2 Financial liabilities (Continued)

Such financial liabilities at fair value through profit or loss that the Group hold mainly include Interbank certificates of deposit issued and rental of precious metal and are subsequently measured at fair value. A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in profit or loss unless:

- (a) it is part of a hedging relationship;
- (b) it is a financial liability designated as at fair value through profit or loss and the entity is required to present the effects of changes in the liability's credit risk in other comprehensive income; When the financial liability is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from the other comprehensive income to undistributed profits under equity.

An entity shall not reclassify any financial liability.

3.5.2.3 Financial assets and financial liabilities held for trading

An entity shall classify financial assets or liabilities as financial assets or financial liabilities held for trading if one of the following conditions are met:

A financial asset or financial liability that:

- (a) is acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- (b) on initial recognition, is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments (Continued)

3.5.2 Classification and subsequent measurement (Continued)

3.5.2.4 Financial assets and financial liabilities designated as at fair value through profit or loss

An entity may, at initial recognition, irrevocably designate a financial instrument as measured at fair value through profit or loss when doing so results in more relevant information, because either:

- (a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- (b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel; or
- (c) if a contract contains one or more embedded derivatives unless the embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract; or separation of the embedded derivative(s) is prohibited.

According to the above conditions, the financial assets and financial liabilities designated by the group mainly include debt securities, due to and placements from banks and other financial institutions and bonds issued valued at fair value.

3.5.3 Financial guarantees 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 other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantees were given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the expenditure determined by the expected credit loss model that is required to settle any financial obligation arising at the financial reporting date, and any increase in the liability relating to guarantees is taken to the income statement.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments (Continued)

3.5.3 Financial guarantees and loan commitments (Continued)

Loan commitment is a commitment provided by the Group to the customers to grant loans under the established contract terms during certain period. The Group generally shall not commit to issuing loans with an interest rate lower than market or providing customers with a loan commitment to pay cash or to settle on a net basis through delivery or issuance of other financial instruments. The impairment losses on loan commitments are measured using the expected credit loss model. The Group discloses the impairment allowances for financial guarantee contracts and loan commitments in the contingent "Provision".

3.5.4 Determination of fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

3.5.5 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired, or when the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in equity through other comprehensive income is recognised in the income statement.

Financial liabilities are de-recognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability de-recognised and the consideration paid is recognised in the income statement.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments (Continued)

3.5.6 Impairment measurement for losses on assets

On the financial reporting date, the Group evaluates and confirms the relevant impairment provisions for financial assets measured at amortised cost, measured at fair value with changes taken to other comprehensive income, and loan commitments and financial guarantee contracts on the basis of anticipated credit losses. See Note 52.1 for specific information.

3.5.7 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, the Group has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.6 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. The Group adjusts to credit risk of over-the-counter derivatives to reflect credit risk of counterparties and the Group itself. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3.7 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

If a hybrid contract contains a host that is an asset within the scope of this Standard, the Group applies the requirements of classification and measurement to the entire hybrid contract. If a hybrid contract contains a host that is not an asset within the scope of this Standard, the Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.7 Embedded derivatives (Continued)

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

The Group will regard entire hybrid instrument which cannot be separately measured initially, or subsequently as financial assets or financial liabilities recognized at fair value in profit or loss.

3.8 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metals deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metal market making and trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

Consistent with the substance of the transaction, if the precious metal swaps are for financing purposes, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not de-recognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions". If precious metal swaps are for trading purposes, they are accounted for as derivative transactions.

3.9 Repurchase and reverse repurchase transactions

Repurchase financial assets refer to the funds leased out from the financial assets which are purchased by the Group under agreements and sold at a fixed price. Reverse repurchase financial assets refer to the funds arise from the financial assets which are sold by the Group under agreements and repurchased at a fixed price. The actual payments or cash received in repurchase and reverse repurchase transactions are recognized in consolidated statement of financial position. The target assets purchased in repurchase transactions are not recognized; the target assets sold in reverse repurchase transactions are recognized in consolidated statement of financial position.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the income statement over the life of the agreements using the effective interest method.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.10 Property, plant and equipment

Fixed assets refer to the tangible assets held by the Group for business management and whose useful life exceeds one fiscal year. Construction in progress refers to the houses, buildings, machinery and equipment that are under construction or being installed, and when they are ready for their intended use, they are transferred to the corresponding fixed assets.

(a) Cost of fixed assets

Fixed assets are initially recognized at cost. The cost of purchased fixed assets includes the purchase price, related taxes and fees, and the costs attributable to the asset before the asset is ready for its intended use. The cost of self-constructed fixed assets consists of the necessary expenses incurred before the construction of the asset reaches its intended usable condition.

Subsequent expenses for fixed assets, including expenses related to the replacement of a component of fixed assets, are included in the cost of fixed assets when the conditions for recognition of fixed assets are met; at the same time, the carrying amount of the replaced portion is deducted. Expenditure related to the routine maintenance of fixed assets is recognized in profit or loss when incurred.

(b) Depreciation and impairment of fixed assets

The Group's amount of the original asset's estimated net residual value (if any) is depreciated on the straight-line method over the estimated useful lives of the assets and is recognized in profit or loss. For fixed assets that have been withdrawn for impairment, the accumulated amount of provision for impairment of fixed assets is deducted when depreciation is provided. Construction in progress is not depreciated.

The estimated useful lives, depreciation rates and estimated residual value rate of fixed assets are as follows:

	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	20 years	3%	4.85%
Motor vehicles	5 years	3%	19.40%
Equipment	3-10 years	3%	9.70%-32.33%

The residual values and useful lives of assets are reviewed at least annually.

The impairment of the Group's fixed assets is treated in accordance with Note 3.13

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.10 Property, plant and equipment (Continued)

(c) Disposal of fixed assets

The gain or loss arising from the retirement or disposal of the fixed assets is the difference between the net disposal proceeds and the carrying amount of the assets and is recognized in profit or loss on the date of retirement or disposal.

(d) Construction in progress

The cost of construction in progress is determined based on actual project expenditure, including all necessary engineering expenses incurred during construction and other related expenses.

Construction in progress is transferred to fixed assets when it is ready for its intended use.

3.11 Intangible assets

Intangible assets mainly include computer software, which is initially recognized at cost. The Group's amount of the intangible asset's estimated net residual value (if any) is amortised on the straight-line method and recognised in profit or loss. When it is amortised, the intangible assets that have been withdrawn for impairment are deducted from the accumulated amount of impairment provision.

The impairment of the Group's intangible assets is treated as described in Note 3.13.

3.12 Repossessed assets

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans, advances and interest receivable. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

3.13 Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. The recoverable amount is estimated for assets with signs of impairment. If there are indications that an asset is impaired, but it is difficult to estimate the recoverable amount of the individual asset, the Group will assess the recoverable amount based on cash-generating unit that the asset belongs to. The cash-generating unit is the smallest portfolio of assets that the Group can identify, and the cash flow generated is essentially independent of other assets or portfolios of assets.

The recoverable amount refers to the higher value between the fair value of the assets (or cash-generating units, cash-generating unit groups) minus the disposal expenses and the present value of the estimated future cash flows of the assets. When estimating the present value of future cash flows of the assets, the Group considers factors such as the estimated future cash flows, useful life spans and discount rates.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.14 Employee benefits

Employee benefits refer to the various forms of remuneration and other relevant payments given to employees due to the services they provide. The Group recognises the wages payable in operation and management fees during the employees provide service.

(a) *Defined contribution plans and defined benefit plans*

In accordance with the policies of relevant state and local governments, employees in Mainland China participate in various defined contribution retirement schemes administered by local labour and social security bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Above pension and insurance expenses are recognized in current profits and losses in accordance with accrual basis principle. Upon retirement, the local labour and social security bureaus are responsible for the payment of the basic retirement benefits to the retired employees.

In addition to these basic staff pension schemes, employees in Mainland China who retired can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

(b) *Housing funds and other social insurance expenses*

The Group pays housing funds, basic medical insurances, unemployment insurances, employment injury insurances and maternity insurance etc. for in-service employees pursuant to relevant laws, regulations and policies. The Group pays housing funds and above social insurance expense monthly based on a certain proportion of payment basis to relevant departments and recognizes them in current profits and losses in accordance with accrual basis principle.

The Group participates social security schemes established by government, such as medical insurances, housing funds and other social security schemes. The Group has also participated medical insurance schemes issued by commercial insurance companies since October 2012.

(c) *Early retirement benefits*

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date. The differences arise from changes in evaluation assumptions and adjustments to benefits standards are recognized in current profits and losses when they occur.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.15 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount initially recognised as a provision should be the best estimate of the expenditure required to settle the present obligation.

3.16 Contingent liabilities

A contingent liability is a possible obligation that arises from past transactions or events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events 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.

3.17 Fiduciary activities

The asset custody services of the Group refer to the service that the Group signs custody agreements with clients such as commercial banks, securities companies, fund companies, insurance companies, and annuity plans, etc. and manage assets for clients as trustee. The entrusted loans services refer to the service that the Group signs entrusted loans agreements with clients, and the clients provide fund ("entrusted loans fund") to the Group, and the Group issues loans ("entrusted loans") to the third parties according to the instructions of clients. 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.

3.18 Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank'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 Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as an event after the reporting period.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.19 Interest income and expense

The “interest income” and “interest expense” in the Group’s income statement are the interest income and expense from financial assets using the effective interest rate method at amortised cost, financial assets at fair value with changes recognised through other comprehensive income and financial liabilities at amortised cost.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

For the financial assets acquired or originated with credit impairment, the Group calculates the interest income according to the amortized cost of the financial assets and the effective interest rate after credit adjustment since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flows of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortized cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortized cost and the effective interest rate of the financial assets.

3.20 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are accrued in accordance with the actual progress. For other services, fee and commission income are recognised when the transactions are completed.

3.21 Current and deferred income tax

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the current income statement as income expense or revenue except to the extent that it relates to transactions or items directly recognised in equity. In these cases, tax is also directly recognised in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.21 Current and deferred income tax (Continued)

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation of Property, plant and equipment, provisions for pension, retirement benefits and salary payables.

“Deferred income tax assets” are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.22 Leases (effective from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In order to determine whether the contract transfers the right to control the use of the identified assets within a certain period of time, the Group assesses whether the customers in the contract are entitled to receive almost all of the economic benefits arising from the use of the identified assets and have the right to dominate the use of identified assets during the period of use.

3.22.1 Recognition of individual leases

At inception of a contract, the Group assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

3.22.2 Spin-off of leased and non-leased parts

For a contract that is, or contains, a lease, the Group account for each lease component within the contract as a lease separately from non-lease components of the contract.

3.22.3 Evaluation of lease term

The lease term is the period during which the Group is entitled to use the leased asset and the right is irrevocable. If the Group has the option to renew the lease, that is, it has the right to choose to extend the lease and it is reasonably determined that the option will be exercised, the lease term includes the period covered by the renewal option. If the Group has the option to terminate the lease, that is, has the right to choose to terminate the lease of the asset, but it is reasonably expected that the option will not be exercised, the lease period does not exclude the period covered by the termination lease option. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.22 Leases (effective from 1 January 2019) (Continued)

3.22.4 Group as a lessee

3.22.4.1 Right-of-use assets

The Group's right-of-use assets consist of buildings and vehicles.

Right-of-use assets are recognised at the commencement date of the lease. right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

3.22.4.2 Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term, except short-term leases and leases of low-value assets. In calculating the present value of lease payments, the Group uses internal interest rate, or incremental borrowing rate when internal interest rate is not obtainable. The Group uses fixed interest rate to calculate interest expense on lease liabilities, and recognises profit or loss. Variable lease payments, not included in lease liabilities, are recognized as profit or loss when made.

After the commencement date, the carrying amount of lease liabilities is remeasured if there is a change in lease payments, estimated payable amounts of guarantee residual value, discount rate, or situations that influence the Group's decision whether to exercise purchase options, extension options, or termination options.

3.22.4.3 Changes in leases

Changes in lease are the changes in the lease scope, lease consideration, and lease duration. Lease changes include the addition or termination of the right to use one or more leased assets, and the extension or shortening of the lease term in the contract.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.22 Leases (effective from 1 January 2019) (Continued)

3.22.4 Group as a lessee (Continued)

3.22.4.3 Changes in leases (Continued)

When the following conditions are met, the Group regards the change as a separate lease change in the process of accounting treatment.

- 1) The lease change expands the scope of the lease by adding the right to use one or more leased assets;
- 2) The increase in consideration is equivalent to the price of the additional part of the lease scope.

If the lease change is not regarded as a separate change, on the effective date of the lease change, the Group re-determines the lease term and calculates the present value of the lease payment to remeasure the lease liability. In the process of calculating the present value of lease payments after the change, the Group refers to the interest rate implicit in lease in the remaining lease period as the discount rate. If the leased interest rate is not available, the Group adopts incremental borrowing rate to calculate the present value of lease payment. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Based on the above lease adjustment, the Group distinguishes the following situations for accounting treatment.

- 1) If the lease change leads to a short lease term or small lease scope, the Group reduces the book value of right-of-use assets to represent the partial or complete termination of lease. The relevant gain or loss of termination are included in current profits and losses.
- 2) In terms of other lease changes, the Group adjusts the book value of the right-of-use asset accordingly.

3.22.4.4 Short-term leases and leases of low-value assets

The Group recognises leases without purchase options that do not exceed 12 months as short-term leases; Leases are regarded as low-value asset leases if the cost of a single leased asset does not exceed RMB30,000. In each period of the lease term, the relevant asset costs or expenses are calculated in accordance with the straight-line method, and the contingent rent is included in the current profit and loss when it actually occurs.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.22 Leases (effective from 1 January 2019) (Continued)

3.22.5 Group as a lessor

A lease that essentially transfers almost all the risks and returns associated with the ownership of the leased asset on the start date of the lease is a finance lease. All other leases are operating leases.

As a lessor of financial leases

Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Variable lease payments that are not included in lease receivables are recorded in the profit or loss for the period when they actually occur.

3.23 Leases (effective in 2018)

A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

- ***As a lessee under operating leases***

Lease payments under an operating lease are recognized in profit or loss by a lessee on a straight-line basis over the lease term. Initial direct cost is also charged to profit or loss. Contingent rents are recorded into profit or loss of the period in which they actually arise.

- ***As a lessor under finance leases***

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognized over the term of the lease using an interest rate which reflects a constant rate of return, as interest income in the comprehensive income statement. Contingent rents are recorded into profit or loss of the period in which they actually arise. The differences between the finance lease receivables less the unearned finance income are presented in "Finance lease receivables". When making the judgment of de-recognition or impairment measurement, finance lease receivables are considered as loans and receivables.

- ***As a lessor under operating lease***

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. The rents from operating leases shall be recorded in the profits and losses of the current period by using the straight-line method over each period of the lease term, the initial direct costs incurred to a lessor shall be recorded into the profits and losses of the current period. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.24 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 an associate or joint venture of 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 venture of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
 - (viii) the legal person or other organization which is directly, indirectly or jointly controlled by the board of director, senior management of the Group and their closely related family members, or in which the person identified above is in charge of board of directors or senior management

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.25 Segment reporting

The Group determines the operating divisions based on the internal organizational structure, management requirements and internal reporting system, and determines the reporting divisions based on the operating divisions and discloses the information of the divisions.

The operating divisions are components in the Group where all of the following conditions apply:

- (1) the division generates income and expense in daily activities;
- (2) the management of the Group decides the resources allocation to the division and assessment of division's performance by regularly evaluating the operating performance;
- (3) the Group has access to relevant accounting information such as financial situation, operating performance, cash flow, etc.;

Two or more operating divisions are able to consolidate if they have similar economic characteristics and satisfy certain conditions.

4. 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 use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

Impairment loss on financial assets

The Group measures the impairment losses on all financial assets in accordance with IFRS 9 including many estimates and judgments in the process, especially in determining the amount of impairment losses, estimating future contractual cash flows, the value of collateral and judging the significant increase in credit risk. The Group is affected by various factors in the measurement of impairment, which will result in different levels of impairment provision.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs.

Notes to the Consolidated Financial Statements

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Impairment loss on financial assets (Continued)

The accounting judgments and estimates used in the expected credit loss model include:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECLs
- Forward-looking information
- Modification of contractual cash flows

Impairment of non-financial assets

The Group judges whether there are indications of impairment of non-financial-and-non-current assets at balance sheet date. Besides annual impairment tests, additional impairment tests will be carried out for intangible assets with indefinite operational life spans where exist indications of impairments. Other non-current assets are tested for impairment when there is an indication that the carrying amounts are not recoverable. When estimating the present value of future cash flows, management must estimate the future cash flows of the asset or asset group and select an appropriate discount rate to determine the present value of future cash flows.

Fair value of derivatives and other financial instruments

The Group establishes the fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible, these models use observable market inputs and data including, for example, interest rate yield curves, foreign exchange rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

Notes to the Consolidated Financial Statements

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Fair value of derivatives and other financial instruments (Continued)

With respect to the PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms in similar transactions in which the PRC government engages or which are directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

Early retirement benefit obligations

The Bank has established liabilities in connection with benefits payable to early retired employees. These amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, inflation rates, and other factors. Actual results that differ from the assumptions are recognized immediately and, therefore, affect recognized expense in the year in which the differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Bank's expense related to its employee early retirement benefit obligations.

Income tax

Determining income tax provisions requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that whether adequate future taxable profits will be available for the deferred income tax assets to be recovered.

Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

Notes to the Consolidated Financial Statements

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes account of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as direct investment income, remuneration and exposure to loss from providing credit enhancement or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

5 TAXATION

The principal income and other taxes to which the Group is subject are listed below:

Taxes	Tax basis	Statutory rates
Corporate income tax	Taxable income	25%
Value-added tax	Taxable added value (tax payable is calculated by multiplying taxable sales revenue with applicable tax rate, then deducting input tax that can be credited of this period)	3%, 5%, 6%, 10%, 16% (before April 1, 2019); 3%, 5%, 6%, 9%, 13% (after April 1, 2019)
City construction and maintenance tax	VAT payable	5%, 7%
Education surcharges	VAT payable	3%

Notes to the Consolidated Financial Statements

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

6 THE BANK'S STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY

	As at 31 December 2019	As at 31 December 2018
Assets		
Cash and balances with central bank	91,561,272	87,764,181
Deposits with banks and other financial institutions	10,657,970	5,882,055
Placements with banks and other financial institutions	6,469,648	5,575,389
Derivative financial assets	235,406	208,979
Financial assets held under resale agreements	28,651,227	26,286,656
Loans and advances to customers	448,006,168	368,288,372
Financial Investments		
– Financial assets at fair value through profit or loss	95,225,453	106,479,561
– Financial assets at fair value through other comprehensive income	103,176,393	105,805,594
– Financial assets at amortised cost	278,852,511	292,359,948
Investments in subsidiaries	1,809,133	1,809,133
Investments in associates	1,242,338	1,100,008
Property, plant and equipment	2,018,990	2,188,905
Right-of-use assets	1,051,405	–
Deferred tax assets	7,655,355	5,623,236
Other assets	7,545,675	2,799,483
Total assets	1,084,158,944	1,012,171,500
Liabilities		
Borrowings from central bank	40,658,530	40,720,519
Deposits from banks and other financial institutions	111,445,482	117,929,527
Placements from banks and other financial institutions	2,642,868	813,684
Financial liabilities at fair value through profit or loss	–	87,598,791
Derivative financial liabilities	281,329	137,938
Financial assets sold under repurchase agreements	50,364,962	27,844,684
Deposits from customers	599,699,128	570,112,432
Taxes payable	3,045,070	3,106,099
Debt securities issued	183,242,708	91,443,925
Other liabilities	6,388,240	4,791,102
Total liabilities	997,768,317	944,498,701
Equity		
Share capital	12,154,801	12,154,801
Other equity instruments	15,989,901	5,990,090
Capital reserve	6,751,041	6,751,041
Surplus reserve	11,365,283	9,553,466
General reserve	10,791,391	8,881,346
Other comprehensive Income	1,825,127	1,587,076
Retained earnings	27,513,083	22,754,979
Total equity	86,390,627	67,672,799
Total equity and liabilities	1,084,158,944	1,012,171,500

Wu Xuemin

Chairman

Zhang Renfu

President

Li Dawei

Financial Controller

Fang Lixin

Head of Finance Department

Notes to the Consolidated Financial Statements

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

6 THE BANK'S STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY (Continued)

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
As at 1 January 2019	12,154,801	5,990,090	6,751,041	9,553,466	8,881,346	1,587,076	22,754,979	67,672,799
(1) Comprehensive income								
Profit for the year	-	-	-	-	-	-	9,540,136	9,540,136
Other comprehensive income, net of tax	-	-	-	-	-	307,909	-	307,909
Asset impairment through other comprehensive income	-	-	-	-	-	(69,858)	-	(69,858)
Total comprehensive income for the year	-	-	-	-	-	238,051	9,540,136	9,778,187
(2) Profit distribution								
Dividends	-	-	-	-	-	-	(1,060,170)	(1,060,170)
Perpetual bonds issued	-	9,999,811	-	-	-	-	-	9,999,811
Appropriation to surplus reserve	-	-	-	1,811,817	-	-	(1,811,817)	-
Appropriation to general reserve	-	-	-	-	1,910,045	-	(1,910,045)	-
As at 31 December 2019	12,154,801	15,989,901	6,751,041	11,365,283	10,791,391	1,825,127	27,513,083	86,390,627
As at 31 December 2017	11,049,819	5,990,090	6,751,041	7,953,301	7,637,817	(869,997)	18,829,913	57,341,984
Changes in accounting policies								
- Impact of adopting IFRS 9	-	-	-	-	-	220,822	(51,019)	169,803
As at 1 January 2018	11,049,819	5,990,090	6,751,041	7,953,301	7,637,817	(649,175)	18,778,894	57,511,787
(1) Comprehensive income								
Profit for the year	-	-	-	-	-	-	8,578,030	8,578,030
Other comprehensive income, net of tax	-	-	-	-	-	1,902,064	-	1,902,064
Asset impairment through other comprehensive income	-	-	-	-	-	334,187	-	334,187
Total comprehensive income for the year	-	-	-	-	-	2,236,251	8,578,030	10,814,281
(2) Profit distribution								
Dividends	-	-	-	-	-	-	(653,269)	(653,269)
Additional capital stock	1,104,982	-	-	-	-	-	(1,104,982)	-
Appropriation to surplus reserve	-	-	-	1,600,165	-	-	(1,600,165)	-
Appropriation to general reserve	-	-	-	-	1,243,529	-	(1,243,529)	-
As at 31 December 2018	12,154,801	5,990,090	6,751,041	9,553,466	8,881,346	1,587,076	22,754,979	67,672,799

Notes to the Consolidated Financial Statements

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

7 NET INTEREST INCOME

	2019	2018
Interest income		
Balances with central bank	1,068,235	1,158,459
Deposits and placements with banks and other financial institutions	1,096,054	1,264,953
Loans and advances to customers	22,498,759	17,463,866
Investment securities	20,515,680	17,936,291
Finance lease	2,650,078	1,844,538
Total	47,828,806	39,668,107
Unwinding of discount on allowance	41,157	48,266
Interest expense		
Borrowings from central bank ^(a)	(916,205)	(814,403)
Deposits and placements from banks and other financial institutions	(6,793,645)	(7,725,508)
Deposits from customers	(10,593,187)	(8,440,058)
Debt securities issued	(4,799,737)	(4,721,273)
Total	(23,102,774)	(21,701,242)
Net interest income	24,726,032	17,966,865

(a) Borrowings from the central bank include general borrowings from the PBOC, rediscounted bills held under repurchase agreements, closed anti-repo and lending facilities with the PBOC.

8 NET FEE AND COMMISSION INCOME

	2019	2018
Fee and commission income		
Settlement and clearing fees	82,445	54,103
Guarantee and commitment fees	276,668	210,853
Investment banking fees	732,277	913,920
Custody fees	504,213	466,894
Bank card fees	767,897	629,269
Acquiring business fees	19,896	26,061
Agency commissions	1,371,053	1,080,899
Finance lease fees	590,817	363,150
Others	131,667	95,835
Total	4,476,933	3,840,984
Fee and commission expense	(312,998)	(134,521)
Net fee and commission income	4,163,935	3,706,463

Notes to the Consolidated Financial Statements

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

9 NET TRADING GAINS/(LOSSES)

	2019	2018
Net (losses)/gains from foreign exchange	122,268	162,143
Net gain from interest rate instruments	1,977,585	4,811,324
Total	2,099,853	4,973,467

Net gains/(losses) from financial investments mainly include gains arising from fair value changes of financial assets and liabilities at fair value through profit or loss.

10 NET GAINS/(LOSSES) ON FINANCIAL INVESTMENTS

	2019	2018
Net losses from financial assets at fair value through profit or loss	(56,743)	22,844
Net gains from financial assets at fair value through other comprehensive income	134,312	94,779
Net gains from financial assets at amortised cost	3,279	(6,808)
Other	4,483	(5,130)
Total	85,331	105,685

All the net gains recognised from the derecognition of financial assets measured at amortised cost are resulted from trading for the year ended 31 December 2019.

11 OTHER OPERATING INCOME, NET

	2019	2018
Net gains on bills	6,067	(8,707)
Others	76,900	205,956
Total	82,967	197,249

12 OPERATING EXPENSES

	2019	2018
Staff cost (Note 13)	(4,155,177)	(3,557,304)
Business tax and surcharges	(273,089)	(217,774)
General operating and administrative expenses	(1,789,126)	(1,570,624)
Operating lease rental expenses	(55,689)	(374,762)
Depreciation of property, plant and equipment (Note 26)	(288,298)	(282,662)
Depreciation for right-of-use assets (Note 27)	(275,082)	–
Amortization expenses for long-term prepaid expenses	(100,577)	(89,226)
Amortization expenses for intangible assets (Note 29(d))	(66,704)	(54,806)
Amortization expenses for land use rights (Note 29(c))	–	(8,750)
Auditors' remuneration	(7,330)	(4,125)
– Audit services	(3,600)	(3,800)
– Non-audit services	(3,730)	(325)
Others	(80,703)	(44,881)
Total	(7,091,775)	(6,204,914)

Notes to the Consolidated Financial Statements

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

13 STAFF COST

	2019	2018
Salaries, bonuses, allowances and subsidies	(2,953,087)	(2,511,639)
Pension costs	(481,725)	(435,776)
Labor union fee and staff education fee	(97,133)	(85,629)
Other social insurance and welfare costs	(623,232)	(524,260)
	(4,155,177)	(3,557,304)

(a) Five highest paid individuals

The five highest paid individuals of the Group are members of the bank, who are not the directors or supervisors listed in Note 14(a). Their emoluments are determined by and referred to current market level in the region where the bank is located. Details of the five highest paid individuals' emoluments are as follow:

	2019	2018
Salaries, allowances and benefits	4,971	6,909
Contribution to pension schemes	301	218
Discretionary bonuses	7,657	6,122
	12,929	13,249

The number of these individuals, other than supervisors and directors, whose emoluments fell within the following bands:

	2019	2018
RMB2,000,001 – RMB5,000,000	5	5
RMB5,000,001 – RMB10,000,000	–	–
RMB10,000,001 – RMB15,000,000	–	–
	5	5

No emolument was paid 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.

Notes to the Consolidated Financial Statements

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

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS

(a) Details of the Directors' and Supervisors' emoluments are as follows:

		2019			
		Salaries, allowances and benefits in kind	Contribution to pension schemes	Discretionary bonuses	
Name	Fees				Total
Executive Directors					
Wu Xuemin ^{(1) (*)}	–	443	143	85	671
Zhang Renfu ^{(2)(7) (*)}	–	443	143	80	666
Ci Yaping ^{(3)(*)}	–	222	122	68	412
He Jiehua ⁽⁴⁾	–	290	70	–	360
Non-executive Directors					
Yan Chen ⁽⁴⁾	–	–	–	–	–
Zhang Feifei ⁽⁵⁾	–	–	–	–	–
Gao Yang	–	–	–	–	–
Zhu Jiusheng ⁽⁵⁾	–	–	–	–	–
Zhao Zongren	–	–	–	–	–
Lu Hui ⁽⁵⁾	–	–	–	–	–
Qiao Chuanfu ⁽⁵⁾	–	–	–	–	–
Au Ngai, Daniel ⁽⁵⁾	–	–	–	–	–
Dai Genyou ⁽⁵⁾	–	–	–	–	–
Wang Shihao ⁽⁵⁾	–	–	–	–	–
Zhang Shenghuai ⁽⁵⁾	–	–	–	–	–
Fung Weiquan ⁽⁵⁾	–	–	–	–	–
Zhu Hongjun ⁽⁵⁾	–	–	–	–	–
Zhou Yana ⁽⁶⁾	240	–	–	–	240
Zhu Yicun ⁽⁷⁾	–	–	–	–	–
Wu Tian ⁽⁷⁾	–	–	–	–	–
Qian Dongsheng ⁽⁷⁾	–	–	–	–	–
Wang Wenjin ⁽⁷⁾	–	–	–	–	–
Dai Peikun ⁽⁷⁾	–	–	–	–	–
Yin Jianfeng ⁽⁷⁾	240	–	–	–	240
Huang Aiming ⁽⁷⁾	240	–	–	–	240
Liu Zhiqiang ⁽⁷⁾	240	–	–	–	240
Hu Jun ⁽⁷⁾⁽¹⁶⁾	180	–	–	–	180
Qian Li ⁽¹⁷⁾	–	–	–	–	–
Supervisors					
Xu Chongding ⁽⁸⁾	–	–	–	–	–
Zhou Tong ⁽⁹⁾	–	–	–	–	–
Cheng Rulin ⁽¹⁰⁾	–	–	–	–	–
Cheng Junpei ⁽¹¹⁾	–	–	–	–	–
Li Ruifeng	–	–	–	–	–
Pan Shujuan	185	–	–	–	185
Yang Mianzhi	200	–	–	–	200
Zhang Youqi ^{(12) (*)}	–	443	143	67	653
Tang Chuan ^{(13) (*)}	–	1,200	117	650	1,967
Zhong Qiushi ⁽¹⁴⁾	–	1,090	94	224	1,408
Chen Rui ⁽¹⁵⁾	–	–	–	–	–
Hu Jing ⁽¹⁵⁾	–	–	–	–	–
Dong Xiaolin ⁽¹⁵⁾	200	–	–	–	200
Total	1,725	4,131	832	1,174	7,862

(*) The total compensation packages for executive directors and supervisors for the year ended 31 December 2019 including discretionary bonuses have not yet been finalised in accordance with relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's 2019 financial statements.

Notes to the Consolidated Financial Statements

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

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS (Continued)

(a) Details of the Directors' and Supervisors' emoluments are as follows: (Continued)

2018					
Name	Fees	Salaries, allowances and benefits in kind	Contribution to pension schemes	Discretionary bonuses	Total
Executive Directors					
Wu Xuemin ^{(1) (*)}	—	437	96	170	703
Zhang Renfu ^{(2)(7) (*)}	—	437	96	159	692
Ci Yaping ^{(3)(*)}	—	368	84	136	588
Non-executive Directors					
Zhang Feifei ⁽⁵⁾	—	—	—	—	—
Gao Yang	—	—	—	—	—
Zhu Jiusheng ⁽⁵⁾	—	—	—	—	—
Zhao Zongren	—	—	—	—	—
Qian Li	—	—	—	—	—
Lu Hui ⁽⁵⁾	—	—	—	—	—
Qiao Chuanfu ⁽⁵⁾	—	—	—	—	—
Au Ngai, Daniel ⁽⁵⁾	156	—	—	—	156
Dai Genyou ⁽⁵⁾	156	—	—	—	156
Wang Shihao ⁽⁵⁾	156	—	—	—	156
Zhang Shenghuai ⁽⁵⁾	156	—	—	—	156
Fung Weiquan ⁽⁵⁾	—	—	—	—	—
Zhu Hongjun ⁽⁵⁾	144	—	—	—	144
Zhou Yana ⁽⁶⁾	100	—	—	—	100
Zhu Yicun ⁽⁷⁾	—	—	—	—	—
Wu Tian ⁽⁷⁾	—	—	—	—	—
Qian Dongsheng ⁽⁷⁾	—	—	—	—	—
Wang Wenjin ⁽⁷⁾	—	—	—	—	—
Dai Peikun ⁽⁷⁾	—	—	—	—	—
Yin Jianfeng ⁽⁷⁾	—	—	—	—	—
Huang Aiming ⁽⁷⁾	—	—	—	—	—
Liu Zhiqiang ⁽⁷⁾	—	—	—	—	—
Hu Jun ⁽⁷⁾⁽¹⁶⁾	—	—	—	—	—
Supervisors					
Xu Chongding ⁽⁸⁾	—	4	117	—	121
Zhou Tong ⁽⁹⁾	—	—	—	—	—
Cheng Rulin ⁽¹⁰⁾	—	—	—	—	—
Cheng Junpei ⁽¹¹⁾	34	—	—	140	174
Li Ruifeng	—	—	—	—	—
Pan Shujuan	64	—	—	140	204
Yang Mianzhi	49	—	—	140	189
Zhang Youqi ^{(12) (*)}	—	393	84	133	610
Tang Chuan ^{(13) (*)}	—	999	50	288	1,337
Zhong Qiushi ⁽¹⁴⁾	—	606	35	98	739
Chen Rui ⁽¹⁵⁾	—	—	—	—	—
Hu Jing ⁽¹⁵⁾	—	—	—	—	—
Dong Xiaolin ⁽¹⁵⁾	27	—	—	—	27
Total	1,042	3,244	562	1,404	6,252

Notes to the Consolidated Financial Statements

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

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS (Continued)

(a) Details of the Directors' and Supervisors' emoluments are as follows: (Continued)

- (1) Wu Xuemin has been elected to be the chairman, an executive director, the chairman of the Development Strategy and Consumer Protection Committee and a member of Personnel Nomination and Remuneration Committee on 12 December 2017.
- (2) Zhang Renfu resigned as the chairman of the board of supervisors, a member of the nomination committee of the board of supervisors and a member of the supervisory committee of the board of supervisors and the employee supervisor in July 2018.
- (3) The Bank issued an announcement on July 18, 2019. Mr. Ci Yaping, the executive director of the Bank, retired due to his age. The post of chairman of the Risk Management Committee, whose resignation has become effective on the date of announcement.
- (4) The Bank held the 2018 Annual General Meeting on June 30, 2019, and Mr. He Jiehua and Mr. Yan Chen has been elected as directors of the fourth board of directors. According to the announcements on August 8, 2019 and December 19, 2019 issued by the bank, qualifications of the two directors have been approved by the Anhui Banking and Insurance Regulatory Commission.
- (5) Zhang Feifei, Zhu Jiusheng, Lu Hui, Qiao Chuanfu, Au Ngai(Daniel), Dai Genyou, Wang Shihao, Zhang Shenghuai, Fung Weiquan and Zhu Hongjun ceased to be directors due to the change of the board of directors in December 2018.
- (6) Zhou Yana was elected to be an independent non-executive director effective from August 2018.
- (7) Huishang Bank held an extraordinary general meeting on 28th November 2018. The proposals submitted by the meeting regarding the reelection of the board of directors and the election of members of the fourth board of directors have been passed. Zhang Renfu, Zhu Yicun, Wu Tian, Qian Dongsheng, Wang Wenjin, Dai Peikun, Yin Jianfeng, Huang Aiming, Liu Zhiqiang and Hu Jun were elected to be new directors of fourth session of the Board of Directors.
- (8) Xu Chongding resigned as the employee supervisor and a member of the nomination committee of the board of supervisors on 15 June 2018.
- (9) Zhou Tong ceased to be the employee supervisor and a member of the nomination committee of the board of supervisors on 6 March 2018.
- (10) Cheng Rulin ceased to be shareholder supervisor due to the change of the board of supervisors in December 2018.
- (11) Cheng Junpei ceased to be the external supervisor due to the change of the board of supervisors in December 2018.
- (12) Zhang Youqi resigned as the vice president of the bank on 25 July 2018 due to the bank's internal job reallocation. The third Board of Supervisors of the Bank held 37th meetings on 27 July 2018 and elected Zhang Youqi as the chairman of board of supervisors of the third board of supervisors. The fourth board of supervisors held the first meeting on 13 December 2018 and elected Zhang Youqi as the chairman of the board of supervisors of the fourth board of supervisors.

Notes to the Consolidated Financial Statements

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

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS (Continued)

(a) Details of the Directors' and Supervisors' emoluments are as follows: (Continued)

- (13) Tang Chuan was elected to be the employee supervisor of the third board of supervisors on 6 March 2018 in accordance with the democratic election procedure of the bank. This report only discloses the emolument of Tang Chuan as a supervisor.
- (14) Zhong Qiushi was elected to be the employee supervisor of the third board of supervisors on 15 June 2018 in accordance with the democratic election procedure of the bank. This report only discloses the emolument of Zhong Qiushi as a supervisor.
- (15) Huishang Bank held an extraordinary general meeting on 28 November 2018. The proposals submitted in the meeting regarding the reelection of the board of supervisors and the election of members of the fourth board of supervisors have been passed. Chen Rui and Hu Jing were elected as the new shareholder supervisors of the fourth board of supervisors. Dong Xiaolin was elected as the new external supervisor of the fourth board of supervisors. The emoluments in the report cover the actual emoluments of the members of the third board of supervisors and the new external supervisor Dong Xiaolin in 2018.
- (16) The Bank issued an announcement on October 25, 2019. Mr. Hu Jun, an independent non-executive director of the Bank, resigned as an independent non-executive director of the Bank on the date of publication because he wanted to devote more time to other matters. Resignations of members of the Personnel Nomination and Remuneration Committee, members of the Risk Management Committee, and chairman of the Related Party Transaction Control Committee have taken effect on the date of the announcement.
- (17) The Bank issued an announcement on March 28, 2019. Mr. Qian Li, a non-executive director of the Bank, submitted his resignation to the Bank on the date of publication of the announcement due to job transfer. The resignations of members of the Committee and the Audit Committee have taken effect on the date of the announcement.

(b) Retirement benefits for directors and supervisors

For the year ended 31 December 2019, no retirement benefits were paid to the directors or supervisors by a defined benefit pension plan operated by the Group (2018: none).

(c) Termination benefits for directors and supervisors

For the year ended 31 December 2019, no early termination compensations were paid to the directors or supervisors by the Group (2018: none).

(d) Consideration provided to third parties

For the year ended 31 December 2019, no consideration was paid to third parties that previously hired the Group's current directors and supervisors (2018: none).

(e) Material interests in transactions, arrangements or contracts of directors and supervisors.

For the year ended 31 December 2019, the Group has not entered into any significant transactions, arrangements or contracts in which the directors and supervisors of the Group have material interests directly or indirectly in the Group's business (2018: none).

Notes to the Consolidated Financial Statements

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

15 IMPAIRMENT LOSSES ON ASSETS

	2019	2018
Loans and advances		
– At amortised cost	(4,591,446)	(4,602,665)
– Stage 1	(1,271,030)	(456,320)
– Stage 2	(1,018,452)	(2,364,789)
– Stage 3	(2,301,964)	(1,781,556)
– At fair value through other comprehensive income	10,884	(93,977)
– Stage 1	10,884	(93,977)
Financial investments		
– Financial assets at amortised cost	(5,485,037)	(4,556,359)
– Financial assets at fair value through other comprehensive income	82,259	(351,606)
Credit commitments	(72,250)	(150,651)
Deposits with banks and other financial institutions	(707,367)	(7,075)
Placements with and loans to banks and other financial institutions	8,864	(17,319)
Financial assets held under resale agreements	(7,522)	28,151
Finance lease receivables (note 28)	(755,018)	(298,849)
Reposessed assets	(22,824)	(26,887)
Other assets	(380,629)	12,870
Total	(11,920,086)	(10,064,367)

Notes to the Consolidated Financial Statements

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

16 INCOME TAX EXPENSE

	2019	2018
Current income tax		
– Chinese mainland income tax	(4,730,760)	(3,787,500)
Deferred tax (Note 38)	2,491,542	1,826,968
Total	(2,239,218)	(1,960,532)

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	2019	2018
Profit before tax	12,300,817	10,820,905
Tax calculated at the applicable statutory tax rate of 25%	(3,075,204)	(2,705,226)
Tax effect arising from income not subject to tax (a)	1,030,654	923,356
Tax effect of items such as expenses not deductible for tax purposes (b)	(169,049)	(141,097)
Tax filing differences from previous years	1,170	4,113
Unrecognized impact of deductible temporary differences	(26,789)	(41,678)
Income tax expense	(2,239,218)	(1,960,532)

- (a) Non-taxable income mainly represents interest income arising from PRC treasury bonds which are tax free according to PRC tax regulations.
- (b) The items that are not deductible for tax purposes mainly represent marketing and entertainment expenses deductible loss and non-deductible written off loan in excess of the relevant deductible threshold under the relevant PRC tax regulations.
- (c) The subsidiary of the Group, Wuwei Huiyin Village and Township Bank Co., Ltd, incurred tax losses for the current year, and the Group cannot reasonably predict that the subsidiary will have sufficient taxable income to return to the tax loss in the future, so the deferred tax assets of the tax loss are not recognized.

Notes to the Consolidated Financial Statements

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

17 EARNINGS PER SHARE (BASIC AND DILUTED)

- (a) Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the reporting period.

	2019	2018
Net profit attributable to shareholders of the Bank (in RMB thousands)	9,818,780	8,747,031
Proposed dividends for preference shares (in RMB thousands)	379,502	377,024
Weighted average number of ordinary shares in issue (in thousands)	12,154,801	12,154,801
Basic earnings per share (in RMB)	0.78	0.69

Equity information is in Note 40(a). The number of ordinary shares of the Bank increased this year due to the distribution of stock dividends, which had no impact on the amount of owner's equity. Therefore, basic earnings per share of the Bank for 2018 was recalculated on the basis of adjusted shares.

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding for the year ended 31 December 2019 and ended 31 December 2018.

When calculating basic earnings per share for ordinary shares, the dividend of preference shares issued in the current year shall be deducted from the net profit attributable to the shareholders of the Bank. In 2016, the bank issued non-cumulative preference shares. As at 31 December 2019, the declared dividend of Offshore Preference Shares amounted to USD54.27 million, equivalent to RMB379.50 million before tax. (As at 31 December 2018, the declared dividend of Offshore Preference Shares amounted to USD54.27 million, equivalent to RMB377.02 million before tax.)

The preference shares are potentially convertible to ordinary shares available. As of 31 December, 2019, the trigger conditions for the conversion had not occurred, and the convertible features of preference shares had no impact on the calculation of basic and diluted earnings per share for year ended 31 December 2019.

Notes to the Consolidated Financial Statements

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

18 CASH AND BALANCES WITH CENTRAL BANK

	As at 31 December 2019	As at 31 December 2018
Cash	1,025,001	1,109,950
Statutory reserves ^(a)	58,308,358	62,243,898
Surplus reserves ^(b)	32,602,248	24,754,888
Subtotal	91,935,607	88,108,736
Interest receivable	35,647	35,588
Total	91,971,254	88,144,324

- (a) The Group places statutory deposit reserves with the People's Bank of China ("the PBOC"). The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting year, the statutory deposit reserve rates of the bank were as follows:

	As at 31 December 2019	As at 31 December 2018
Statutory reserve rate for RMB deposits	9.5%	11.0%
Statutory reserve rate for foreign currency deposits	5.0%	5.0%

As at 31 December 2019, statutory reserve rates for Jinzhai Huiyin Village and Township Bank Co., Ltd. ("Jinzhai Huiyin") and Wuwei Huiyin Village and Township Bank Co., Ltd. ("Wuwei Huiyin") were 6.5% and 7.5% (31 December 2018: 9% and 8%).

- (b) Surplus deposit reserves maintained with the PBOC are mainly for clearing purposes.

Notes to the Consolidated Financial Statements

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

19 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2019	As at 31 December 2018
Banks in Mainland China	10,942,449	5,289,329
Other financial institutions in Mainland China	48,538	47,367
Banks in other countries and regions	3,496,165	2,615,924
Subtotal	14,487,152	7,952,620
Interest receivable	143,485	26,473
Less: allowances for impairment losses	(376,409)	(14,629)
Total	14,254,228	7,964,464

The carrying amounts of banks and other financial institutions in Stage 1 and Stage 3 were RMB14,019.59 million and RMB467.56 million (31 December 2018: RMB7,952.62 million in Stage 1, Nil in Stage 3), and the allowances for impairment losses in Stage 1 and Stage 3 were RMB39.52 million and RMB336.89 million (31 December 2018: RMB14.63 million in Stage 1, Nil in Stage 3).

20 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2019	As at 31 December 2018
Banks in Chinese mainland	1,348,834	1,828,271
Other financial institutions in Chinese mainland	3,268,157	3,100,000
Other financial institutions in other countries and regions	120,000	100,000
Subtotal	4,736,991	5,028,271
Interest receivable	14,201	16,450
Less: allowances for impairment losses	(13,387)	(22,251)
Total	4,737,805	5,022,470

Placements with banks and other financial institutions were in Stage 1, and allowances for impairment losses were RMB13.39 million (31 December 2018: RMB22.25 million).

Notes to the Consolidated Financial Statements

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

21 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2019		
	Notional Amount	Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	252,999	2,829	(2,032)
– Currency swaps	9,724,597	182,257	(72,022)
– Interest rate swaps	11,830,000	50,320	(207,275)
– Credit risk mitigation tools issued-financial guarantee contracts	650,000	–	–
Total	22,457,596	235,406	(281,329)

	As at 31 December 2018		
	Notional Amount	Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	730,732	3,365	(407)
– Currency swaps	6,349,245	156,699	(67,976)
– Interest rate swaps	9,130,000	48,915	(69,555)
Total	16,209,977	208,979	(137,938)

22 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 31 December 2019	As at 31 December 2018
By collateral type:		
Debt securities	28,725,573	26,150,179
Bills	–	199,611
Subtotal	28,725,573	26,349,790
Interest receivable	10,128	13,818
Less: allowances for impairment losses	(84,474)	(76,952)
Total	28,651,227	26,286,656

Financial assets held under resale agreements were in Stage 1, and allowances for impairment losses were RMB84.47 million, (31 December 2018: RMB76.95 million).

Notes to the Consolidated Financial Statements

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

23 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers:

	As at 31 December 2019	As at 31 December 2018
Loans and advances measured at amortised cost		
– Corporate loans	263,782,663	223,163,204
– Personal loans	178,332,291	145,245,686
Subtotal	442,114,954	368,408,890
Loans and advances measured at fair value through other comprehensive income		
– Discounted bills	21,870,165	13,356,764
Subtotal	21,870,165	13,356,764
Total	463,985,119	381,765,654
Interest receivable	956,051	803,160
Total loans and advances	464,941,170	382,568,814
Less: allowance for loans at amortised cost	(14,521,393)	(11,907,433)
Loans and advances to customers, net	450,419,777	370,661,381
Allowance for loans at fair value through other comprehensive income	(108,455)	(119,339)

(b) Loans and advances to customers are assessed as follows (excluding accrued interest):

	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 31 December 2019				
Total loans and advances to customers	447,337,963	11,832,498	4,814,658	463,985,119
Allowance for impairment losses Loans and advances measured at amortised cost	(5,377,937)	(4,814,007)	(4,329,449)	(14,521,393)
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 31 December 2018				
Total loans and advances to customers	362,192,170	15,593,960	3,979,524	381,765,654
Allowance for impairment losses Loans and advances measured at amortised cost	(3,504,296)	(4,862,848)	(3,540,289)	(11,907,433)

Notes to the Consolidated Financial Statements

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

23 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Reconciliation of allowance for impairment losses on loans and advances to customers

(1) Reconciliation of allowance for impairment losses measured at amortised cost

	Year ended 31 December 2019			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	
As at 1 January 2019	3,504,296	4,862,848	3,540,289	11,907,433
Impairment losses for the year	1,271,030	1,018,452	2,301,964	4,591,446
Stage conversion				
Transfers to Stage 1	635,379	(622,129)	(13,250)	–
Transfers to Stage 2	(12,798)	39,637	(26,839)	–
Transfers to Stage 3	(19,970)	(484,801)	504,771	–
Write-off and transfer out	–	–	(2,518,992)	(2,518,992)
Recovery of loans and advances				
written off	–	–	582,663	582,663
Unwinding of discount on allowance	–	–	(41,157)	(41,157)
As at 31 December 2019	5,377,937	4,814,007	4,329,449	14,521,393

In this year, the domestic branch adjusted the five-level classification and customer rating of customer loans and advances, and the loan principal of stage 1 was transferred to stage 2 and stage 3 of RMB2,600 million, the loan principal from stage 2 to stage 3 is RMB1,400 million, the principal of the loan transferred from stage 2 to stage 1 is RMB4,000 million. The principal of the loan transferred from stage 3 to stage 1 and stage 2 is not significant.

	Year ended 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	
Opening balance under IFRS 9	2,926,494	3,305,258	2,789,962	9,021,714
Impairment losses for the year	456,320	2,364,789	1,781,556	4,602,665
Stage conversion				
Transfers to Stage 1	227,556	(212,803)	(14,753)	–
Transfers to Stage 2	(77,925)	88,697	(10,772)	–
Transfers to Stage 3	(28,149)	(683,093)	711,242	–
Write-off and transfer out	–	–	(2,172,841)	(2,172,841)
Recovery of loans and advances				
written off	–	–	504,161	504,161
Unwinding of discount on allowance	–	–	(48,266)	(48,266)
As at 31 December 2018	3,504,296	4,862,848	3,540,289	11,907,433

Notes to the Consolidated Financial Statements

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

23 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)

- (2) Reconciliation of allowance for impairment losses measured at fair value through other comprehensive income:

	Year ended 31 December 2019			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	
As at 1 January 2019	119,339	–	–	119,339
Impairment losses for the year	(10,884)	–	–	(10,884)
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Write-off and transfer out	–	–	–	–
Recovery of loans and advances written off	–	–	–	–
Unwinding of discount on allowance	–	–	–	–
As at 31 December 2019	108,455	–	–	108,455

	Year ended 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	
Opening balance under IFRS 9	25,362	–	–	25,362
Impairment losses for the year	93,977	–	–	93,977
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Write-off and transfer out	–	–	–	–
Recovery of loans and advances written off	–	–	–	–
Unwinding of discount on allowance	–	–	–	–
As at 31 December 2018	119,339	–	–	119,339

Notes to the Consolidated Financial Statements

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

24 INVESTMENT SECURITIES

	As at 31 December 2019	As at 31 December 2018
Financial assets at fair value through profit or loss		
Listed outside Hong Kong		
– Government bonds	1,146,087	868,255
– Other debt securities	1,388,746	499,835
– Interbank certificates of deposits	49,676	159,180
Subtotal	2,584,509	1,527,270
Unlisted		
– Beneficial rights in trust and asset management plans	70,973,827	74,697,756
– Non-guaranteed wealth management products managed by other banks	20,220,583	28,909,989
Subtotal	91,194,410	103,607,745
Interest receivable	1,446,534	1,344,546
Total	95,225,453	106,479,561

As at 31 December 2019 and 31 December 2018, there was no significant limitation on the ability of the Group and the Bank to dispose of financial assets at fair value through profit or loss. Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

	As at 31 December 2019	As at 31 December 2018
Financial assets at fair value through other comprehensive income		
Debt securities		
Listed outside Hong Kong		
– Debt securities	95,905,662	85,906,546
– Interbank certificates of deposits	5,511,326	18,415,455
Subtotal	101,416,988	104,322,001
Equity securities		
Unlisted		
– Equity investment	180,876	143,019
Interest receivable	1,578,529	1,340,574
Total	103,176,393	105,805,594

Notes to the Consolidated Financial Statements

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

24 INVESTMENT SECURITIES (Continued)

	As at 31 December 2019	As at 31 December 2018
Financial assets at amortised cost		
Listed outside Hong Kong		
– Debt securities	75,095,015	62,084,168
– Interbank certificates of deposits	–	993,706
Unlisted		
– Beneficial rights in trust and asset management plans	210,290,122	233,068,480
Subtotal	285,385,137	296,146,354
Interest receivable	4,881,651	4,092,442
Less: allowance for impairment losses	(11,414,277)	(7,878,848)
Financial assets at amortised cost, net	278,852,511	292,359,948

Beneficial rights in trust and asset management plans invested by the Group are the usufruct in trusts or asset management plans organized by security companies. The investment decisions of these products are made by the third-party asset managers or custodians. They mainly invest in collective investment products including: (a) liquid assets: deposits, repurchase agreements, money market funds and other cash management products, bond funds; bonds traded in exchange and inter-bank market, convertible bonds, ABS and ABN, or other qualified highly-liquid assets.(b) financing assets: the financing forms including entrusted loans, loan assets bought from other financial institutions, specific asset usufruct and etc. and (c) products issued by other financial institutions mainly including non-cash management fixed return products issued by investment funds, trusts, insurance companies, securities companies, commercial banks and etc. The details of unconsolidated structured entities invested by the Group are set out in Note 47.

Investment securities analyzed by issuer are as follows:

	As at 31 December 2019	As at 31 December 2018
Financial assets at FVTPL		
By issuers		
– Government	1,146,087	868,255
– Banks and other financial institutions	92,596,462	104,167,224
– Legal entities	36,370	99,536
Interest receivable	1,446,534	1,344,546
Total	95,225,453	106,479,561

Notes to the Consolidated Financial Statements

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

24 INVESTMENT SECURITIES (Continued)

	As at 31 December 2019	As at 31 December 2018
Financial assets at FVOCI		
Debt instruments		
By issuers		
– Government	59,198,502	52,410,960
– Banks and other financial institutions	26,210,435	37,303,896
– Legal entities	16,008,051	14,607,145
Subtotal	101,416,988	104,322,001
Equity instruments	180,876	143,019
Subtotal	180,876	143,019
Interest receivable	1,578,529	1,340,574
Total	103,176,393	105,805,594

	As at 31 December 2019	As at 31 December 2018
Financial assets at AC		
By issuers		
– Government	57,790,899	45,943,320
– Banks and other financial institutions	219,810,470	241,568,969
– Legal entities	7,783,768	8,634,065
Subtotal	285,385,137	296,146,354
Interest receivable	4,881,651	4,092,442
Less: Allowance for impairment losses	(11,414,277)	(7,878,848)
Financial assets at AC, net	278,852,511	292,359,948

Notes to the Consolidated Financial Statements

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

25 INVESTMENTS IN ASSOCIATES

Investments in associates of the Group comprising of ordinary shares of unlisted companies are as follows:

As at 31 December 2019

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of shares
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	43,400,477	37,188,789	2,061,709	766,801	20%

As at 31 December 2018

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of shares
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	36,932,770	31,432,734	1,657,913	697,886	20%

	Year ended 31 December 2019	Year ended 31 December 2018
Balance at beginning of the year	1,100,008	971,050
Additions	–	–
Cash dividends received	(11,030)	(10,620)
Share of results, net of tax	153,360	139,578
Balance at end of the year	1,242,338	1,100,008

Chery Huiyin Motor Finance Service Co., Ltd. was established in 2009, with a registered capital of RMB500 million, among which the Group accounted for RMB100 million or 20%. With the approval of CBRC Anhui Branch on 24 December 2012, the authorised registered capital of Chery Huiyin Motor Finance Service Co., Ltd. was increased to RMB1 billion. As at 31 December 2014, the Group's share in this associate was RMB200 million or 20%. On 30 September 2014, this associate has completed its shareholding reform, and renamed as Chery Huiyin Motor Finance Service Corporation Limited. In December 2017, the three shareholders of the associate subscribed for 500 million shares in the associate with capital injection of RMB1.52 billion, in proportion to their respective shareholding ratio. After the capital increase, the registered capital of the associate increased from RMB1 billion to RMB1.5 billion, and the remaining part enters into capital reserves. After the capital increase, the Group's share in this associate was RMB300 million or 20% of the total capital.

Notes to the Consolidated Financial Statements

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

26 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Electronic and other equipment	Construction-in-progress	Total
Cost					
As at 1 January 2019	1,644,522	61,961	1,594,867	876,562	4,177,912
Additions	5,044	582	186,699	187,753	380,078
Transfers in/(out)	92,810	278	172	(349,051)	(255,791)
Disposals	(9,401)	(7,190)	(72,016)	–	(88,607)
Other transfers out	–	–	–	(5,438)	(5,438)
As at 31 December 2019	1,732,975	55,631	1,709,722	709,826	4,208,154
Accumulated depreciation					
As at 1 January 2019	(859,173)	(55,460)	(1,031,563)	–	(1,946,196)
Depreciation charge	(79,274)	(2,743)	(206,281)	–	(288,298)
Disposals	3,648	6,975	74,831	–	85,454
As at 31 December 2019	(934,799)	(51,228)	(1,163,013)	–	(2,149,040)
Net book value	798,176	4,403	546,709	709,826	2,059,114

	Buildings	Motor vehicles	Electronic and other equipment	Construction-in-progress	Total
Cost					
As at 1 January 2018	1,515,308	67,294	1,482,040	610,952	3,675,594
Additions	65,526	–	173,105	366,908	605,539
Transfers in/(out)	72,102	–	1,849	(93,895)	(19,944)
Disposals	(8,414)	(5,333)	(62,127)	–	(75,874)
Other transfers out	–	–	–	(7,403)	(7,403)
As at 31 December 2018	1,644,522	61,961	1,594,867	876,562	4,177,912
Accumulated depreciation					
As at 1 January 2018	(788,726)	(56,007)	(887,531)	–	(1,732,264)
Depreciation charge	(78,309)	(4,626)	(199,727)	–	(282,662)
Disposals	7,862	5,173	55,695	–	68,730
As at 31 December 2018	(859,173)	(55,460)	(1,031,563)	–	(1,946,196)
Net book value	785,349	6,501	563,304	876,562	2,231,716

All lands and buildings of the Group are located outside Hong Kong.

Notes to the Consolidated Financial Statements

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

27 RIGHT-OF-USE ASSETS

	Buildings	Motor vehicles	Land use rights	Total
Cost				
As at 1 January 2019	1,009,086	2,965	170,863	1,182,914
Additions	183,534	2,381	922	186,837
Disposals and transfers out	(10,142)	–	–	(10,142)
Revaluation of lease liabilities	(6,015)	–	–	(6,015)
As at 31 December 2019	1,176,463	5,346	171,785	1,353,594
Accumulated depreciation				
As at 1 January 2019	–	–	(22,023)	(22,023)
Depreciation charge	(264,257)	(2,069)	(8,756)	(275,082)
Transfers out	1,754	–	–	1,754
As at 31 December 2019	(262,503)	(2,069)	(30,779)	(295,351)
Net book value	913,960	3,277	141,006	1,058,243

All lands and buildings of the Group are located outside Hong Kong.

28 FINANCE LEASE RECEIVABLES

(a) The Group's finance lease receivables are analysed by maturity date as follows:

As at 31 December 2019	Within 1 year	1 to 3 years	Over 3 years	Total
Finance lease receivables	17,684,384	23,312,041	9,887,093	50,883,518
unearned finance income	(3,376,451)	(2,172,150)	(326,742)	(5,875,343)
Allowance	(478,825)	(20,966)	(1,022,331)	(1,522,122)
Interest receivable of finance leases	463,138	–	–	463,138
Net	14,292,246	21,118,925	8,538,020	43,949,191

As at 31 December 2018	Within 1 year	1 to 3 years	Over 3 years	Total
Finance lease receivables	13,445,640	19,431,976	7,739,122	40,616,738
unearned finance income	(1,908,426)	(496,893)	(2,023,171)	(4,428,490)
Allowance	(240,522)	(396,220)	(213,203)	(849,945)
Interest receivable of finance leases	286,173	–	–	286,173
Net	11,582,865	18,538,863	5,502,748	35,624,476

Notes to the Consolidated Financial Statements

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

28 FINANCE LEASE RECEIVABLES (Continued)

(b) The Group's finance lease receivables are analysed by stages as follows:

	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 31 December 2019				
The carrying value of finance lease receivables	42,611,231	1,204,735	1,192,209	45,008,175
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 31 December 2018				
The carrying value of finance lease receivables	34,530,484	740,491	917,273	36,188,248

In this year, the stage conversion of the carrying value of finance lease receivables was not significant.

(c) The changes of the allowance for the financing lease receivables are as follows:

	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 1 January 2019	251,977	5,687	592,281	849,945
Impairment losses for the year (Note 30)	229,627	20,482	504,909	755,018
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(2,612)	2,612	–	–
Transfers to Stage 3	(167)	(7,815)	7,982	–
Write-off and transfer out	–	–	(82,841)	(82,841)
As at 31 December 2019	478,825	20,966	1,022,331	1,522,122
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
Opening balance under IFRS 9	311,121	118,057	121,918	551,096
Impairment losses for the year (Note 30)	(195,184)	(22,958)	516,991	298,849
Stage conversion				
Transfers to Stage 1	179,422	(95,572)	(83,850)	–
Transfers to Stage 2	(6,160)	6,160	–	–
Transfers to Stage 3	(37,222)	–	37,222	–
As at 31 December 2018	251,977	5,687	592,281	849,945

Notes to the Consolidated Financial Statements

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

28 FINANCE LEASE RECEIVABLES (Continued)

(c) The changes of the allowance for the financing lease receivables are as follows: (Continued)

The Group's finance lease receivables are all managed by its subsidiary, Huishang Bank Financial Leasing Co., Ltd. For the year ended 31 December 2019, the principal of the Group's five largest finance lease receivables and the related allowance were RMB1,731,020 thousand and RMB15,618 thousand, respectively, which accounted for 3.85% and 1.03% of the total balance, respectively (31 December 2018: the principal of the Group's five largest finance lease receivables and the related allowance were RMB2,288,638 thousand and RMB45,086 thousand, respectively, which accounted for 6.32% and 5.30% of the total balance, respectively).

29 OTHER ASSETS

	As at 31 December 2019	As at 31 December 2018
Interest receivable (a)	32,077	45,020
Other receivables (b)	4,779,171	980,691
Less: impairment allowance (b)	(451,472)	(96,958)
Funds to be settled	1,829,125	839,691
Long-term prepaid expenses	242,803	255,862
Land use rights (c)	–	148,840
Foreclosed assets	568,266	441,872
Less: impairment allowance	(199,949)	(177,125)
Intangible assets (d)	418,285	181,089
Continued involvement in assets	304,024	–
Others	206,939	249,527
Less: impairment allowance	(2,600)	(1,214)
Total	7,726,669	2,867,295

(a) Interest receivable

	As at 31 December 2019	As at 31 December 2018
Investment securities and financial assets at fair value through profit or loss	–	18,977
Loans and advances to customers	24,664	24,651
Placements with and loans and advances to banks, other financial institutions and the central bank	–	1,392
Finance leases	7,413	–
Total	32,077	45,020

The interest receivable disclosed by the Group during the year was interest receivable on the relevant financial instruments that are due but not received at the end of reporting period, and interest on financial instruments based on the effective interest rate method is included as part of the carrying value of the financial assets.

Notes to the Consolidated Financial Statements

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

29 OTHER ASSETS (Continued)

(b) Other receivables

The Group's other receivables are analysed by age as follows:

As at 31 December 2019	Within 1 year	1 to 3 years	Over 3 years	Total
Other receivables	4,018,107	662,350	98,714	4,779,171
Allowance for impairment losses	(47,045)	(311,599)	(92,828)	(451,472)
Net	3,971,062	350,751	5,886	4,327,699

As at 31 December 2018	Within 1 year	1 to 3 years	Over 3 years	Total
Other receivables	753,309	179,252	48,130	980,691
Allowance for impairment losses	(8,221)	(44,982)	(43,755)	(96,958)
Net	745,088	134,270	4,375	883,733

The carrying amounts of other receivables in other assets in Stage 1, 2 and 3 were RMB4,018.11 million, RMB662.35 million, RMB98.71 million (31 December 2018: RMB753.31 million, RMB179.25 million, RMB48.13 million), and the allowances for impairment losses in Stage 1, 2 and 3 were RMB47.05 million, RMB311.60 million and RMB92.83 million (31 December 2018: RMB8.22 million, RMB44.98 million and RMB43.76 million).

(c) Land use rights

	As at 31 December 2019	As at 31 December 2018
Cost		
Balance at beginning of the year	–	170,863
Additions	–	–
Balance at end of the year	–	170,863
Accumulated amortisation		
Balance at beginning of the year	–	(13,273)
Additions	–	(8,750)
Balance at end of the year	–	(22,023)
Net book value		
At end of the year	–	148,840

Notes to the Consolidated Financial Statements

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

29 OTHER ASSETS (Continued)

(d) Intangible assets

Intangible assets of the Group are mainly computer software.

	As at 31 December 2019	As at 31 December 2018
Cost		
Balance at beginning of the year	446,618	380,164
Additions	59,462	51,936
Transfers-ins	255,792	19,944
Disposals	(26,379)	(5,426)
Balance at end of the year	735,493	446,618
Accumulated amortisation		
Balance at beginning of the year	(265,529)	(216,149)
Additions	(66,704)	(54,806)
Disposals	15,025	5,426
Balance at end of the year	(317,208)	(265,529)
Net book value		
At end of the year	418,285	181,089

30 IMPAIRMENT ALLOWANCE (EXCEPT FOR LOANS AND ADVANCES)

	As at 1 January 2019	Additions/ Deductions	Recovery	Utilised	As at 31 December 2019
Deposits with banks and other financial institutions	(14,629)	(707,367)	–	345,587	(376,409)
Placements with banks and other financial institutions	(22,251)	8,864	–	–	(13,387)
Financial assets held under resale agreements	(76,952)	(7,522)	–	–	(84,474)
Financial investments measured at fair value and whose changes are included in other comprehensive income	(613,259)	82,259	–	–	(531,000)
Financial assets at amortised cost	(7,878,848)	(5,485,037)	–	1,949,608	(11,414,277)
Finance lease receivables	(849,945)	(755,018)	–	82,841	(1,522,122)
Foreclosed assets	(177,125)	(22,824)	–	–	(199,949)
Other assets – bad debts	(98,172)	(380,629)	–	24,729	(454,072)
Total	(9,731,181)	(7,267,274)	–	2,402,765	(14,595,690)

Notes to the Consolidated Financial Statements

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

30 IMPAIRMENT ALLOWANCE (EXCEPT FOR LOANS AND ADVANCES) (Continued)

	As at 1 January 2018 (After standard conversion)	Additions/ Deductions	Recovery	Utilised	As at 31 December 2018
Deposits with banks and other financial institutions	(7,554)	(7,075)	–	–	(14,629)
Placements with banks and other financial institutions	(4,932)	(17,319)	–	–	(22,251)
Financial assets held under resale agreements	(105,103)	28,151	–	–	(76,952)
Financial investments measured at fair value and whose changes are included in other comprehensive income	(261,653)	(351,606)	–	–	(613,259)
Financial assets at amortised cost	(4,132,558)	(4,556,359)	–	810,069	(7,878,848)
Finance lease receivables	(551,096)	(298,849)	–	–	(849,945)
Foreclosed assets	(150,238)	(26,887)	–	–	(177,125)
Other assets – bad debts	(145,588)	12,870	–	34,546	(98,172)
Total	(5,358,722)	(5,217,074)	–	844,615	(9,731,181)

31 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2019	As at 31 December 2018
Banks in Chinese mainland	23,656,487	21,870,183
Other financial institutions in Chinese mainland	87,049,801	94,794,329
Interest payable	629,348	1,031,556
Total	111,335,636	117,696,068

32 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2019	As at 31 December 2018
Banks in Chinese mainland	35,917,364	28,558,474
Interest payable	385,697	220,110
Total	36,303,061	28,778,584

Notes to the Consolidated Financial Statements

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

33 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2019	As at 31 December 2018
Interbank certificates of deposit issued	–	86,218,858
Precious metal contracts	–	555,716
Interest payable	–	824,217
Total	–	87,598,791

As at December 31, 2019, there are no unexpired interbank certificates of deposit at fair value through profit or loss.

34 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 31 December 2019	As at 31 December 2018
Securities sold under repurchase agreements	25,145,563	23,295,368
Bills sold under repurchase agreements	6,147,584	–
Precious metals sold under repurchase agreements	18,690,252	4,128,970
Interest payable	381,563	420,346
Total	50,364,962	27,844,684

35 DEPOSITS FROM CUSTOMERS

Items	As at 31 December 2019	As at 31 December 2018
Demand deposits		
– Corporate deposits	249,095,682	256,455,273
– Personal deposits	59,252,469	57,781,700
Time deposits(including deposits at call)		
– Corporate deposits	135,545,639	133,975,554
– Personal deposits	117,714,469	90,361,078
Pledged deposits held as collateral	32,007,196	27,073,461
Remittances payable	143,719	217,120
Other deposits	74,930	96,738
Interest payable	9,620,715	7,837,387
Total	603,454,819	573,798,311

Notes to the Consolidated Financial Statements

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

36 TAXES PAYABLE

	As at 31 December 2019	As at 31 December 2018
Corporate income tax	2,657,050	2,793,452
Value-added tax	457,505	371,659
Business tax and surcharges	54,647	52,964
Others	53,343	24,788
Total	3,222,545	3,242,863

37 OTHER LIABILITIES

	As at 31 December 2019	As at 31 December 2018
Dividends payable (a)	137,486	126,527
Unearned rent and deposits under lease arrangements (b)	3,548,920	2,528,094
Funds to be settled	475,480	442,261
Continued involvement in liabilities	304,024	–
Asset securitisation	512,236	451,835
Salary and welfare payable (c)	2,399,451	1,809,482
Entrusted services	113,278	219,654
Long term suspension of customer deposits	199	133
Provision	688,288	603,193
– Allowance for litigation losses (Note 44)	230,372	230,372
– Provision for impairment of credit commitments (d)	432,809	360,559
Project funds payable	68,606	36,352
Lease liabilities	851,241	–
Others	4,234,794	2,749,636
Total	13,334,003	8,967,167

(a) Dividends payable

As at 30 June 2019, the 2018 Annual general meetings of shareholders were held and it decided to distribute cash dividends to all shareholders. Details are listed in note 43.

(b) Unearned rent and deposits under lease arrangements

As at 31 December 2019, the Group's unearned rent and deposits under lease arrangements are all related to its subsidiary, Huishang Bank Financial Leasing Co., Ltd., which included the deposits and deferred income on finance leases.

Notes to the Consolidated Financial Statements

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

37 OTHER LIABILITIES (Continued)

(c) Salary and welfare payable

	As at 31 December 2019	As at 31 December 2018
Short-term employee benefits	2,345,511	1,754,461
Termination benefits	13,071	10,637
Defined contribution plans	40,869	44,384
Total	2,399,451	1,809,482

Short-term employee benefits

	As at 1 January 2019	Increase in current year	Decrease in current year	As at 31 December 2019
Wages, bonuses, allowances and subsidies	1,398,132	2,953,087	(2,386,932)	1,964,287
Employee benefits	–	271,438	(271,363)	75
Social insurance	916	156,620	(156,690)	846
Including:				
Medical insurance	830	150,251	(150,331)	750
Occupational injury insurance	36	1,229	(1,219)	46
Maternity insurance	50	5,140	(5,140)	50
Housing fund	2,284	188,729	(183,967)	7,046
Labour union fee and staff education fee	39,361	97,133	(77,006)	59,488
Other short-term employee benefits	313,768	15	(14)	313,769
Total	1,754,461	3,667,022	(3,075,972)	2,345,511

	As at 1 January 2018	Increase in current year	Decrease in current year	As at 31 December 2018
Wages, bonuses, allowances and subsidies	1,289,370	2,517,796	(2,409,034)	1,398,132
Employee benefits	213	180,304	(180,517)	–
Social insurance	810	167,060	(166,954)	916
Including:				
Medical insurance	161	159,706	(159,037)	830
Occupational injury insurance	35	2,126	(2,125)	36
Maternity insurance	614	5,228	(5,792)	50
Housing fund	1,223	171,210	(170,149)	2,284
Labour union fee and staff education fee	25,220	85,629	(71,488)	39,361
Other short-term employee benefits	313,813	14	(59)	313,768
Total	1,630,649	3,122,013	(2,998,201)	1,754,461

Notes to the Consolidated Financial Statements

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

37 OTHER LIABILITIES (Continued)

(c) Salary and welfare payable (Continued)

Defined contribution plans

	As at 1 January 2019	Increase in current year	Decrease in current year	As at 31 December 2019
Basic pension insurance	6,150	232,833	(232,801)	6,182
Unemployment Insurance	237	6,430	(6,453)	214
Annuity scheme	4,250	248,892	(246,467)	6,675
Total	10,637	488,155	(485,721)	13,071

	As at 1 January 2018	Increase in current year	Decrease in current year	As at 31 December 2018
Basic pension insurance	7,235	242,384	(243,469)	6,150
Unemployment Insurance	396	5,672	(5,831)	237
Annuity scheme	10,683	193,392	(199,825)	4,250
Total	18,314	441,448	(449,125)	10,637

Notes to the Consolidated Financial Statements

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

37 OTHER LIABILITIES (Continued)

(d) Provision – Provision for impairment of credit commitments

	As at 31 December 2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 1 January 2019	292,381	68,060	118	360,559
Impairment losses for the year	58,962	5,590	7,698	72,250
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	(165)	(1)	166	–
As at 31 December 2019	351,178	73,649	7,982	432,809

	As at 31 December 2018			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
Opening balance under IFRS 9	205,486	3,531	891	209,908
Impairment losses for the year	18,626	132,055	(30)	150,651
Stage conversion				
Transfers to Stage 1	68,277	(67,534)	(743)	–
Transfers to Stage 2	(8)	8	–	–
Transfers to Stage 3	–	–	–	–
As at 31 December 2018	292,381	68,060	118	360,559

Notes to the Consolidated Financial Statements

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

38 DEFERRED INCOME TAXES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority. The movements in the deferred income tax account are as follows:

	2019	2018
Balance at beginning of the year	5,749,437	4,724,487
The impacts of transition to IFRS 9		
– Effect on the income statement	–	17,006
– Effect on other comprehensive income	–	(73,607)
Charged to the income statement	2,491,542	1,826,968
Credited to other comprehensive income	(79,350)	(745,417)
Balance at end of the year	8,161,629	5,749,437

Items included in deferred tax assets and liabilities are as follows:

	As at 31 December 2019	As at 31 December 2018
Deferred income tax assets		
Impairment allowance for assets	7,480,096	5,430,243
Salary and welfare payable	499,427	429,254
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	42,067	–
Impairment of financial assets at fair value through other comprehensive income	132,750	153,315
Fair value changes of customer loans and advances made at fair value and whose changes are included in other comprehensive income	12,475	–
Impairment of loans and advances to customers at fair value through other comprehensive income	27,114	29,835
Credit commitment impairment	108,202	90,140
Others	480,348	177,638
Total deferred income tax assets	8,782,479	6,310,425

Notes to the Consolidated Financial Statements

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

38 DEFERRED INCOME TAXES (Continued)

	As at 31 December 2019	As at 31 December 2018
Deferred income tax liabilities		
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	–	(31,962)
Fair value changes of financial assets at fair value through other comprehensive income	(460,986)	(345,603)
Fair value changes of customer loans and advances made at fair value and whose changes are included in other comprehensive income	–	(273)
Impairment of financial assets at fair value through other comprehensive income	(132,750)	(153,315)
Impairment of loans and advances to customers at fair value through other comprehensive income	(27,114)	(29,835)
Total deferred income tax liabilities	(620,850)	(560,988)
Net	8,161,629	5,749,437

Deferred taxes recorded in the income statements for the year comprise the following temporary differences:

	2019	2018
Impairment allowance for assets	2,049,853	1,840,150
Salary and welfare payable	700,173	42,855
Fair value changes of financial instruments and derivative financial instruments at fair value through profit or loss	74,029	(309,487)
Fair value changes of financial assets at fair value through other comprehensive income	(20,565)	87,902
Fair value changes of loans and advances to customer at fair value through other comprehensive income	(2,721)	72,088
Credit commitment impairment	18,062	90,140
Others	302,711	3,320
Total	2,491,542	1,826,968

Notes to the Consolidated Financial Statements

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

39 DEBT SECURITIES ISSUED

	As at 31 December 2019	As at 31 December 2018
11 Subordinated debts with fixed rate ^(a)	3,995,079	3,994,608
15 Financial bonds 02 ^(b)	499,898	499,867
15 Tier 2 capital bonds ^(c)	7,990,915	7,990,012
15 Financial bonds 04 ^(d)	499,888	499,857
16 Financial bonds 01 ^(e)	–	6,999,800
16 Financial bonds 02 ^(f)	2,999,860	2,999,773
17 Green financial bonds ^(g)	999,960	999,901
18 Green financial bonds ^(h)	3,999,980	3,999,966
19 Financial bonds 01 ⁽ⁱ⁾	9,000,000	–
19 Financial bonds 02 ^(j)	1,000,000	–
Interbank certificates of deposit issued ^(k)	151,476,020	62,891,889
Interest payable	781,108	568,252
Total	183,242,708	91,443,925

- (a) The Group issued RMB4 billion of subordinated debts on 2 April 2011 on China's inter-bank bond market, with a maturity of 15 years and a fixed coupon rate of 6.55%, paid annually. The Group has an option to redeem these debts at face value on 2 April 2021.

Claims on subordinated debts are posterior to other liabilities but prior to the Group's share capital. From 1 January 2013, they have been qualified for inclusion as Tier 2 capital in the calculation of capital adequacy ratio in accordance with "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC.

- (b) The Group issued RMB0.5 billion of financial bonds on 30 July 2015 on the China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.35%, paid annually.
- (c) The Group issued RMB8 billion of tier 2 capital bonds on 11 September 2015 on the China's inter-bank bond market, with a maturity of 10 years and a fixed coupon rate of 4.69%, paid annually. The Group has an option to redeem part or all of the bonds at face value on 11 September 2020, subject to regulatory approval. Tier 2 capital bond's right of recourse is subordinate to depositors and ordinary debts and is superior to equity, other tier 1 capital instruments and mixed capital debts.
- (d) The Group issued RMB0.5 billion of financial bonds on 24 September 2015 on the China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.10%, paid annually.
- (e) The Group issued RMB7 billion of financial bonds on 12 August 2016 on the China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 2.98%, paid annually.
- (f) The Group issued RMB3 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.09%, paid annually.
- (g) The Group issued RMB1 billion of financial bonds on 8 September 2017 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.49%, paid annually.

Notes to the Consolidated Financial Statements

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

39 DEBT SECURITIES ISSUED (Continued)

- (h) The Group issued RMB4 billion of financial bonds on 29 May 2018 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.5%, paid annually.
- (i) The Group issued RMB9 billion of financial bonds on 8 March 2019 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 3.52%, paid annually.
- (j) The Group issued RMB1 billion of financial bonds on 8 March 2019 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.8%, paid annually.
- (k) The Group issued 126 interbank certificates of deposit at discount with a total face value of RMB194.43 billion with maturity ranging from one month to one year. As at 31 December 2019, the face value of the undue interbank certificates of deposit issued was RMB153.93 billion.

As at 31 December 2019, there were no defaults on principal and interest or other breaches to the agreements with respect to these debt securities.

40 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE

(a) Share capital

The Bank's share capital is comprised of fully paid ordinary shares in issue, with par value of RMB1 per share. The number of shares is as follows:

	As at 31 December 2019	As at 31 December 2018
Number of authorized shares fully paid in issue (in thousands)	12,154,801	12,154,801

According to the annual profit distribution plan for 2018 reviewed and adopted at the 2018 annual general meeting held on 30 June 2019, 1 share for every 10 shares and RMB0.56 for every 10 shares shall be sent to all shareholders based on the total shares of 12,154,801,211. The final dividend for 2018 has been distributed on August 26, 2019.

Notes to the Consolidated Financial Statements

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

40 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE (Continued)

(b) Other equity instruments

1. Preference shares outstanding as at 31 December 2019 and 31 December 2018

Preference shares	Issue date	Classification	Initial interest rate	Issue price	Quantity (million)	Original currency (USD)	(RMB)	Maturity date	Conversion conditions
Offshore Preference Shares	10 November 2016	Equity instruments	5.50%	\$20/share	44.4	888,000	6,028,188	No maturity date	None
Total amount							6,028,188		
Less: issuance fee							(38,098)		
Carrying amount							5,990,090		

Changes in preference shares outstanding

	1 January 2019		Increase		31 December 2019	
	Amount (million shares)	Carrying value (RMB million)	Amount (million shares)	Carrying value (RMB million)	Amount (million shares)	Carrying value (RMB million)
Offshore Preference Shares	44.4	5,990,090	–	–	44.4	5,990,090

	1 January 2018		Increase		31 December 2018	
	Amount (million shares)	Carrying value (RMB million)	Amount (million shares)	Carrying value (RMB million)	Amount (million shares)	Carrying value (RMB million)
Offshore Preference Shares	44.4	5,990,090	–	–	44.4	5,990,090

The key terms are as follows:

(1) Dividend

The initial annual dividend rate is 5.50%, which will be reset according to the agreement during the duration. Subject to a resolution to be passed at a shareholders' general meeting of the Bank, the Bank may elect to cancel (in whole or in part) any dividend otherwise scheduled to be paid on a dividend payment date. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness that is due and payable. Dividend payment method is non-cumulative. The dividend distribution of Offshore Preference Shares amounting to USD54.27 million (USD48.84 million payable to preference shareholders at the coupon rate of 5.5% net of USD5.43 million of withholding tax at the rate of 10%).

Notes to the Consolidated Financial Statements

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

40 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE (Continued)

(b) Other equity instruments (Continued)

1. Preference shares outstanding as at 31 December 2019 and 31 December 2018 (Continued)

(2) Redemption

The Bank may, subject to obtaining CBIRC approval and compliance with the redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem in whole or in part of the Offshore Preference Shares on the first reset date and on any dividend payment date thereafter. The redemption price for the Offshore Preference Shares shall be the aggregate of its liquidation priority amount and any declared but unpaid dividends.

(3) Compulsory conversion of preference shares

If any trigger event occurs, the Bank shall (having notified and obtained the consent of the CBIRC but without the need for the consent of holders of preference shares or the holders of ordinary shares): irrevocably and compulsorily convert all or some of the Offshore Preference Shares into such number of H Shares.

Offshore preference shares issued by the Bank are classified as equity instruments and listed in equity of the condensed consolidated statement of financial position. The capital raised by the aforesaid overseas preference shares is used to supplement other first class capital of the Bank and to increase the capital adequacy ratio of the Bank after deducting the issuance expenses.

2. Perpetual bonds issued on December 31, 2019

Perpetual bonds	Issue date	Classification	Initial interest rate	Issue price (yuan)	Amount		Maturity date	Method
					(100 million yuan)	RMB (thousand)		
31 December 2019	29 November 2019	Equity instruments	4.90%	¥100/share	100	10,000,000	No maturity date	floating interest rates
Total amount						10,000,000		
Less: issuance fee						(189)		
Carrying amount						9,999,811		

Huishang Bank separately obtained approval on August 5 and November 5, 2019, from the Anhui office of China Banking and Insurance Regulatory Commission and the People's Bank of China to issue capital bonds with fixed maturities of no more than RMB10 billion in the national interbank bond market; at the end of November 2019, Huishang Bank successfully issued Huishang Bank Co., Ltd. 2019 No Fixed-Term Capital Bonds, and completed bond registration and custody at the Central Government Bonds Registration and Clearing Co., Ltd. The bond was filed on November 29, 2019, and was issued on December 3, 2019. The bond issuance has a scale of RMB10 billion, and the unit face value is RMB100. It is issued at par with par value and coupon rate is 4.9%.

Notes to the Consolidated Financial Statements

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

40 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE (Continued)

(b) Other equity instruments (Continued)

2. Perpetual bonds issued on December 31, 2019 (Continued)

The duration of the bond is consistent with the Bank's continuing operations. Five years after the date of issuance, the bank has the right to redeem all or part of the bond at annual interest payment date (including the interest payment date of the fifth year after the date of issuance) on the premise that the redemption prerequisites are met and the CBIRC is approved. When the write-down triggering conditions are met, the bank has the right to write down all or part of the above-mentioned bonds that have been issued and surviving according to the total face value of the bonds if they are reported to the CBIRC and agreed, but without the consent of the bondholders. The principal of the bond is settled in the order of depositors, general creditors and subordinated debts higher than the bonds, but before all classes of shares held by shareholders; the bonds are in the same order as other tier 1 capital instruments with the same repayment order be compensated.

The aforesaid bonds are paid by non-cumulative interest, and the Bank has the right to cancel part or all of the dividends of the bonds, which does not constitute a default event. The Bank is free to dispose of the proceeds of the cancellation of dividends for repayment of other due debts, but the Bank will not distribute profits to ordinary shareholders until the full interest payment is resumed.

Related information attributable to equity instrument holders:

	As at 31 December 2019	As at 31 December 2018
1. Total equity attributable to equity holders of the Bank	87,208,997	68,212,525
(1) Equity attributable to ordinary equity holders of the Bank	71,219,096	62,222,435
(2) Equity attributable to other equity holders of the Bank	15,989,901	5,990,090
2. Total equity attributable to non-controlling interests	2,284,632	2,064,934

Notes to the Consolidated Financial Statements

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

40 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE (Continued)

(c) Capital reserve

Transactions of the following natures are recorded in the capital reserve:

- (i) share premium arising from the issuance of shares at prices in excess of their par value;
- (ii) donations received from shareholders; and
- (iii) any other items required by the PRC regulations.

Capital surplus can be utilized for the issuance of stock dividends or increasing paid-up capital as approved by the shareholders meeting.

The Group's capital surplus is as follows:

	As at 31 December 2019	As at 31 December 2018
Share premium	6,760,445	6,760,445

41 SURPLUS RESERVES AND GENERAL AND REGULATORY RESERVES

	Surplus reserves ^(a)	General reserves ^(b)
As at 1 January 2018	7,953,301	7,722,527
Appropriation to surplus reserves ^(a)	1,600,165	–
Appropriation to general reserves ^(b)	–	1,395,180
As at 31 December 2018	9,553,466	9,117,707
Appropriation to surplus reserves ^(a)	1,811,817	–
Appropriation to general reserves ^(b)	–	1,997,320
As at 31 December 2019	11,365,283	11,115,027

(a) Surplus reserves

Pursuant to the "Company Law of the PRC" and the Group's Articles of Association, the Group is required to appropriate 10% of its net profit in the statutory consolidated financial statements to the non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. The group in the withdrawal of statutory surplus reserve, can be withdrawn arbitrary surplus reserve. Subject to the approval of the shareholders' meeting, any surplus reserve can be used to make up the loss of previous years or to increase the share capital.

As at 31 December 2019 and 31 December 2018, the Group's statutory surplus reserve balances were RMB6,368.98 million and RMB5,414.97 million. The others were discretionary surplus reserve.

Notes to the Consolidated Financial Statements

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

41 SURPLUS RESERVES AND GENERAL AND REGULATORY RESERVES (Continued)

(b) General reserve

Pursuant to Cai Jin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirements") issued by the Ministry of Finance on 20 March 2012, the general reserve should not be less than 1.5% of the aggregate amount of risk assets, and shall be raised within five years. The Requirements were effective from 1 July 2012.

42 OTHER COMPREHENSIVE INCOME

	Fair value change of equity instruments at FVOCI		Fair value change of debt instruments at FVOCI		Impairment change of debt instruments at FVOCI		Total
	Amount before tax	income tax impact	Amount before tax	income tax impact	Amount before tax	income tax impact	
As at 1 January 2018	22,942	(5,736)	(1,175,523)	293,881	287,015	(71,754)	(649,175)
Changes in amount for the previous year	110,577	(27,644)	2,425,508	(606,377)	445,583	(111,396)	2,236,251
As at 31 December 2018	133,519	(33,380)	1,249,985	(312,496)	732,598	(183,150)	1,587,076
Changes in amount for the year	37,857	(9,464)	372,687	(93,171)	(93,143)	23,285	238,051
As at 31 December 2019	171,376	(42,844)	1,622,672	(405,667)	639,455	(159,865)	1,825,127

43 DIVIDENDS

(a) Dividends for ordinary shares

	Year ended 31 December 2019	Year ended 31 December 2018
Dividends declared for the year	680,668	276,245
Dividends per ordinary share (in RMB)	0.056	0.025
Dividends paid during the year	669,709	336,857

The final dividend of RMB0.56 for every 10 shares in respect of the year ended 31 December 2019 has been approved by the shareholders in a general meeting.

Notes to the Consolidated Financial Statements

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

43 DIVIDENDS (Continued)

(a) Dividends for ordinary shares (Continued)

Under the “Company Law of the PRC” and the Bank’s Articles of Association, the net profit after tax as reported in the PRC statutory consolidated financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up cumulative losses from prior years, if any;
- (ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank;
- (iii) Appropriation to general reserve;
- (iv) Payment of preference shares dividends; and
- (iii) Allocations to the discretionary reserve with approval from the general meetings of shareholders. These reserves form part of the shareholders’ equity.

In accordance with the relevant regulations, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with the PRC Generally Accepted Accounting Principles and (ii) the retained profits determined in accordance with IFRS.

(b) Dividends for preference shares

Based on the shareholders’ resolution and approval, a board of directors meeting was convened on 28 August 2019 to approve the dividend distribution for offshore preference shares. Each offshore preference share shall entitle the holder thereof to receive non-accumulative dividends which have not been otherwise cancelled (the “Dividends”) payable annually in arrears. Based on the relevant provisions, dividends amounting to USD54.267 million was declared (USD48.84 million payable to preference shares holders based on a coupon rate of 5.5% net of withholding tax of USD5.43 million at the rate of 10%). The dividend amounting to RMB379,502 thousand (inclusive of tax) was distributed on 10 November 2019.

The preference shares are potentially convertible to ordinary shares. As at 31 December 2019, the triggering conditions for the conversion of Preference Shares did not take place, and the convertibility of the preference shares did not affect the calculation of basic and diluted earnings per share for the year ended 31 December 2019.

Notes to the Consolidated Financial Statements

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

44 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Financial guarantees and credit commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit commitments:

	As at 31 December 2019	As at 31 December 2018
Bank acceptance	36,775,576	29,745,001
Letters of credit issued	8,514,842	9,079,553
Letters of guarantee issued	20,357,013	18,896,430
Loan commitments	848,660	5,571,942
Unused credit card lines	24,524,237	21,143,614
Total	91,020,328	84,436,540
Impairment allowance for credit commitments (Note 37)	432,809	360,559

(b) Capital commitments

	As at 31 December 2019	As at 31 December 2018
Contracted but not provided for	814,359	220,404

(c) Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings under non-cancellable operating leases are as follows:

	As at 31 December 2019	As at 31 December 2018
Within 1 year	–	315,039
Within 1 year to 5 years	–	675,127
Later than 5 years	–	172,627
Total	–	1,162,793

(d) Treasury bond redemption commitments

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement. As at 31 December 2019 and 31 December 2018, the nominal values of treasury bonds the Group was obligated to redeem prior to maturity were RMB3.92 billion and RMB3.27 billion respectively.

Notes to the Consolidated Financial Statements

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

44 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(e) Legal proceedings

During the reporting year, the Group was involved as defendants in certain lawsuits arising from its normal business operations. At 31 December 2019, provision for litigation losses as advised by in-house or external legal professionals was RMB0.23 billion (31 December 2018: RMB0.23 billion). Based on legal advice, the management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

45 COLLATERAL

(a) Pledged assets

The Group uses the following financial assets as collateral for selling repurchase transactions and borrowing from the Central Bank. At the balance sheet date, the face value of financial assets used as collateral for a liability or contingent liability is shown below:

	As at 31 December 2019	As at 31 December 2018
Fair value changes of financial assets at fair value through other comprehensive income	50,826,734	29,752,590
Financial assets at amortised cost	40,908,576	22,883,870
Fair value changes of financial assets at fair value through profit or loss	3,360,000	2,040,000
Discounted bills	6,150,500	–
Total	101,245,810	54,676,460

The carrying value of financial assets sold under repurchase agreements by the Group as at 31 December 2019 was RMB50.37 billion (as at 31 December 2018: RMB27.85 billion) as set out in Note 34. Repurchase agreements are primarily due within 12 months from the effective dates of these agreements.

For financial assets sold under repurchase agreements, the related security rights have been transferred to the counterparty. The debt securities with title transferred to counterparties recorded in financial assets sold under repurchase agreements that the Group did not derecognize amounted to zero as at 31 December 2019 (as at 31 December 2018: none).

In addition, the Group has no debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions.

Notes to the Consolidated Financial Statements

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

45 COLLATERAL (Continued)

(b) Collateral accepted

The Group accepted debt securities, bills and other assets as collateral in the purchase of assets under resale agreements. Certain collaterals can be resold or re-pledged. The Group has accepted collateral that can be resold or re-pledged with a carrying amount of RMB11.00 billion as at 31 December 2019 (31 December 2018: RMB7.00 billion). The Group has no collateral that is re-pledged and obligated to return as at 31 December 2019 (31 December 2018: none).

46 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT COMMITMENTS

	As at 31 December 2019	As at 31 December 2018
Financial guarantees and credit related commitments	35,576,210	30,615,812

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and credit related commitments.

47 STRUCTURED ENTITIES

(a) Unconsolidated structured entities managed by the Group

The unconsolidated structure entities managed by the Group are mainly wealth management products ("WMP") issued and managed by the Bank. The Group had not provided any guarantee or undertaking with regard to principal or returns for these products. Wealth management products were mainly invested in money market instruments, bonds and loan assets. The raised funds were invested in related financial markets or financial products in accordance with the product contracts. Returns would be allocated to investors based on the performance of the assets. The Group receives management fee as the manager of these wealth management products. As at 31 December 2019 and 31 December 2018, total wealth commission income the Group received were RMB1,292.50 million and RMB893.27 million respectively. The Group considered its variable returns from the structured entities are insignificant and hence they were not consolidated.

As at 31 December 2019, the carrying value of non-guaranteed wealth management products that the Group issued and managed was RMB180.69 billion (31 December 2018: RMB101.39 billion). As at 31 December 2019 the Group's maximum exposure to these unconsolidated structured entities was zero (31 December 2018: none). In 2019, the Group purchased financial assets from wealth management products not included in the scope of consolidation for a total of RMB2.29 billion.

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group's risk or reduce its interest in WMP vehicles disclosed above. The Group is not required to absorb any losses incurred by WMPs before other parties. In the first half of 2019, no loss was incurred by the WMP vehicles relating to the Group's interests in the WMP vehicles, and the WMP vehicles did not experience difficulty in financing their activities.

Notes to the Consolidated Financial Statements

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

47 STRUCTURED ENTITIES (Continued)

(b) Unconsolidated structured entities invested by the Group

To maximize the usage of capital, the Group enters into transactions with unconsolidated structured entities which include wealth management products, the trust fund and asset management plan schemes issued and managed by other independent third parties during the year ended 31 December 2019 and 31 December 2018. The Group classifies these assets into "debt instruments classified as receivables" or "available-for-sale financial assets" based on their nature. As the investor of these entities, the Group earns interest from these transactions. The Group has not provided any liquidity support to these unconsolidated structured entities during the year ended 31 December 2019 and 31 December 2018.

The table below shows the carrying value and scale of unconsolidated structured entities invested by the Group, as well as its maximum exposure to loss in relation to those interests.

At 31 December 2019	Carrying Value	Maximum Exposure to Loss
Financial investments – at FVTPL		
– Non-guaranteed wealth management products	20,220,583	20,220,583
– Trust fund and asset management plan	67,358,431	67,358,431
Financial assets at amortised cost		
– Trust fund and asset management plan	199,069,467	199,069,467

At 31 December 2018	Carrying Value	Maximum Exposure to Loss
Financial investments – at FVTPL		
– Non-guaranteed wealth management products	28,909,989	28,909,989
– Trust fund and asset management plan	74,697,756	74,697,756
Financial assets at amortised cost		
– Trust fund and asset management plan	225,399,420	225,399,420

The information of total size of the unconsolidated structured entities listed above is not readily available.

(c) Consolidated structured entities

Consolidated structured entities include guaranteed wealth management products established and managed by the Group and the beneficial rights in trust and asset management plans over which the Group exercises investment decisions.

The Group did not provide liquidity support to these consolidated structured entities during the year ended 31 December 2019 and the year ended 31 December 2018.

Notes to the Consolidated Financial Statements

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

48 CASH AND CASH EQUIVALENTS

- (a) For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprises the following balances with an original maturity of less than three months:

	As at 31 December 2019	As at 31 December 2018
Cash	1,025,001	1,109,950
Surplus reserve with the central bank	32,602,248	24,754,888
Deposits with banks and other financial institutions	12,068,933	8,204,317
Total	45,696,182	34,069,155

- (b) Changes in liabilities arising from financing activities

	Debt securities issued	Dividends payable	Lease liabilities
At 1 January 2019	91,443,925	126,527	958,461
Proceeds from issuance of debt securities	204,430,000	–	–
Interest paid on debt issued	(4,586,881)	–	–
Cash paid relating to debt repayments	(199,062,931)	–	–
Dividends paid on debt issued	–	(669,709)	–
Interest expense	4,799,737	–	39,976
Dividends declared	–	680,668	–
Cash paid relating to lease liabilities	–	–	(316,954)
Other changes in lease liabilities	–	–	169,758
Interbank certificates of deposit designated as fair value through profit or loss	86,218,858	–	–
At 31 December 2019	183,242,708	137,486	851,241

	Debt securities issued	Dividends payable	Lease liabilities
At 1 January 2018	115,822,815	187,139	–
Proceeds from issuance of debt securities	259,220,000	–	–
Interest paid on debt issued	(4,296,108)	–	–
Cash paid relating to debt repayments	(197,805,197)	–	–
Dividends paid on debt issued	–	(719,545)	–
Interest expense	4,721,273	–	–
Dividends declared	–	658,933	–
Interbank certificates of deposit designated as fair value through profit or loss	(86,218,858)	–	–
At 31 December 2018	91,443,925	126,527	–

Notes to the Consolidated Financial Statements

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

49 CREDIT ASSETS SECURITIZATION TRANSACTIONS

The Group enters into credit asset transfers in the normal course of business during which it transfers credit assets to special purpose entities which in turn issue asset-backed securities or fund shares to investors. The Group may acquire some asset-backed securities and fund shares at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB0.60 billion as at 31 December 2019 (31 December 2018: RMB0.01 billion), which also approximates the Group's maximum exposure to loss.

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised in the statement of financial position to the extent of the Group's continuing involvement. For the year ended 31 December 2019, the carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB2.46 billion (for the year ended 31 December 2018: None) and the carrying amount of assets that the Group continues to recognise in the statement of financial position was RMB0.30 billion as at 31 December 2019 (31 December 2018: None).

Notes to the Consolidated Financial Statements

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

50 RELATED PARTY TRANSACTIONS

(1) Related parties

The table below lists the major related legal entities of the Group with a shareholding ratio greater than 5% in 2019:

Major related legal entities with the Group	Relationship with the Group	Location of registration	Legal representative	Registered capital	Principal activities	Share percentage (%)
Zhongjing Xinhua asset management Co., Ltd.	Major shareholder	Huangshan, Anhui	GAO YANG	2,875,000	Enterprise investment management, merger and acquisition	12.10%
Anhui Province Energy Group Co., Ltd.	Major shareholder	Hefei, Anhui	Zhu Yicun	4,375,000	Financing and investment management of energy construction	11.08%
China Vanke Co., Ltd.	Major shareholder	Shenzhen, Guangdong	Yu Liang	10,995,210	Real estate development	8.00%
Anhui Guoyuan Financial Holding Group Co., Ltd.	Major shareholder	Hefei, Anhui	Fang Xu	3,000,000	Capital operation and asset management	7.19%
Anhui Credit Guaranty Group Co., Ltd.	Major shareholder	Hefei, Anhui	Yan Chen	18,686,000	Financing guarantee	6.83%

The table below listed major related legal entities of the Group with a shareholding ratio greater than 5% in 2018:

Major related legal entities with the Group	Relationship with the Group	Location of registration	Legal representative	Registered capital	Principal activities	Share percentage (%)
Zhongjing Xinhua asset management Co., Ltd.	Major shareholder	Huangshan, Anhui	GAO YANG	2,875,000	Enterprise investment management, merger and acquisition	16.12%
Anhui Province Energy Group Co., Ltd.	Major shareholder	Hefei, Anhui	Zhang Feifei	4,375,000	Financing and investment management of energy construction	10.89%
China Vanke Co., Ltd.	Major shareholder	Shenzhen, Guangdong	Yu Liang	10,995,210	Real estate development	8.00%
Anhui Guoyuan Financial Holding Group Co., Ltd.	Major shareholder	Hefei, Anhui	Li Gong	3,000,000	Capital operation and asset management	7.19%
Anhui Credit Guaranty Group Co., Ltd.	Major shareholder	Hefei, Anhui	Qian Li	10,766,000	Financing guarantee	6.83%

Note: Anhui Guoyuan Holdings (Group) Co., Ltd. was renamed Anhui Guoyuan Financial Holding Group Co., Ltd. on July 18, 2018.

Notes to the Consolidated Financial Statements

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

50 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances

Related-party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(a) Transactions with major shareholders and balances

As at balance sheet dates stated below, the balances and interest rate ranges of transactions with major shareholders of the Group are as follows:

	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total similar transactions	Amount	Percentage of total similar transactions
Loans and advances to customers	2,362,000	0.52%	1,531,000	0.41%
Financial assets	1,480,000	0.31%	4,141,000	0.82%
Placements from banks and other financial institutions	75,562	0.07%	18,737	0.02%
Deposits from customers	683,472	0.11%	1,335,491	0.23%
Bank acceptance	5,457	0.01%	18,296	0.06%
Letters of guarantee issued	205	0.01%	1,042	0.01%
Letters of credit issued	–	–	125,000	1.38%
Total	4,606,696	0.27%	7,170,566	0.44%

	As at 31 December 2019	As at 31 December 2018
Loans and advances to customers	3.96%-4.75%	3.63%-4.35%
Placements from banks and other financial institutions	0.30%-3.00%	0.72%-3.50%
Deposits from customers	0.3%-2.10%	0.72%-2.10%

As for the years stated below, the interest income and expense of loans and deposits and management fee of asset management plans with respect to major shareholders are as follows:

	2019		2018	
	Amount	Percentage of total similar transactions	Amount	Percentage of total similar transactions
Interest income	105,353	0.22%	110,282	0.28%
Interest expense	4,339	0.02%	3,930	0.02%
Management fee of asset management plans	6,942	2.22%	9,470	7.04%

Notes to the Consolidated Financial Statements

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

50 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

(b) Transactions with other related parties and balances

As at the balance sheet date stated below, the balances and interest rate ranges of transactions with other related parties of the Group are as follows:

	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total similar transactions	Amount	Percentage of total similar transactions
Loans and advances to customers	2,626,573	0.58%	3,065,022	0.83%
Financial assets	1,602,000	0.34%	1,800,000	0.36%
Placements from banks and other financial institutions	73,523	0.07%	176,424	0.15%
Deposits from customers	3,878,552	0.64%	1,405,442	0.24%
Bank acceptance	200,000	0.54%	–	–
Letters of guarantee issued	–	–	–	–
Letters of credit issued	13,723	0.16%	3,410	0.04%
Total	8,394,371	0.49%	6,450,298	0.40%

	As at 31 December 2019	As at 31 December 2018
Loans and advances to customers	3.63%-5.23%	3.81%-4.55%
Placements from banks and other financial institutions	0.30%-1.95%	0.72%-1.08%
Deposits from customers	0.30%-4.53%	0.30%-5.23%

The interest income and expense of loans and deposits with respect to other related parties are as follows:

	2019		2018	
Interest income	113,892	0.24%	117,981	0.30%
Interest expense	56,535	0.24%	4,444	0.02%

Notes to the Consolidated Financial Statements

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

50 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

(c) Transactions with associates

As at balance sheet dates stated below, the balances and interest rate ranges of transactions with associates of the Group are as follows:

	As at 31 December 2019		As at 31 December 2018	
	Amount	Percentage of total similar transactions	Amount	Percentage of total similar transactions
Placements with and loans to banks and other financial institutions	1,300,000	27.44%	400,000	7.96%
Financial assets	102,080	0.02%	62,154	0.01%
Placements from banks and other financial institutions	49,088	0.04%	54,714	0.05%
Total	1,451,168	0.24%	516,868	0.08%

	As at 31 December 2019	As at 31 December 2018
Placements with and loans to banks and other financial institutions	4.48%-5.30%	6.70%
Placements from banks and other financial institutions	0.72%-1.08%	0.72%-1.08%

The interest income and expense of loans and deposits with respect to associates are as follows:

	2019		2018	
Interest expense	67	0.01%	41	0.01%

(d) Balances and transactions between the Group and these major shareholders and entities under their control

	2019	2018
Emoluments for directors, supervisors and senior management	23,850	21,021

	2019	2018
Balances at the end of the year		
Loans and advances to customers	1,168	1,650
Deposits from customers	5,862	3,129

	2019	2018
Transactions during the year		
Interest income	274	82
Interest expense	668	3

Notes to the Consolidated Financial Statements

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

51 SEGMENT ANALYSIS

The Group manages the business from both the business and geographic perspectives. From the business perspective, the Group provides services through four main business segments listed below:

Corporate banking

Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, and wealth management products.

Retail banking

Services to retail customers including savings deposits, personal loans and advances, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury

Conducts securities investment, money market and repurchase transactions. The results of this segment include the intersegment funding income and expenses, resulting from interest bearing assets and liabilities and foreign currency translation gains and losses.

Others

Comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

Geographically, the Group mainly conducts its business in the PRC with its branches open in Anhui Province and the Yangtze River Delta area. When presenting information based on geographic areas, revenue is divided by the location where the branches are located; assets and liabilities and capital expense of segments are divided by the branch they belong to.

Notes to the Consolidated Financial Statements

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

51 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2019				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	17,512,992	9,304,080	21,011,734	–	47,828,806
Net interest expense to external customers	(6,265,076)	(3,828,111)	(13,009,587)	–	(23,102,774)
Intersegment net interest income/(expense)	1,195,372	88,968	(1,284,340)	–	–
Net interest income	12,443,288	5,564,937	6,717,807	–	24,726,032
Net fee and commission income	2,144,093	662,090	1,357,752	–	4,163,935
Net trading gains	–	–	2,099,853	–	2,099,853
Net gains from investment securities	–	–	85,331	–	85,331
Dividend income	–	–	1,200	–	1,200
Other operating income	–	–	17,504	65,463	82,967
Operating expenses	(3,327,900)	(3,104,982)	(628,423)	(30,470)	(7,091,775)
– Depreciation and amortization	(372,051)	(330,697)	(27,147)	(766)	(730,661)
Impairment losses on assets	(4,588,972)	(1,229,833)	(6,101,281)	–	(11,920,086)
Share of profits of associates	–	–	–	153,360	153,360
Profit before income tax	6,670,509	1,892,212	3,549,743	188,353	12,300,817
Capital expenditure	292,847	130,668	19,631	554	443,700

	As at 31 December 2019				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	343,656,728	199,039,583	579,461,389	1,401,909	1,123,559,609
<i>Including: investments in associates</i>	–	–	–	1,242,338	1,242,338
Deferred tax assets					8,161,629
Total assets					1,131,721,238
Segment liabilities	(440,268,953)	(171,477,577)	(425,582,665)	(4,631,557)	1,042,227,609
Off-balance sheet credit commitments	68,796,635	22,223,693	–	–	91,020,328

Notes to the Consolidated Financial Statements

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

51 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2018				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	14,242,126	6,074,740	17,506,704	1,844,537	39,668,107
Net interest expense to external customers	(5,486,037)	(2,954,020)	(13,020,779)	(240,406)	(21,701,242)
Intersegment net interest income/(expense)	3,105,364	658,750	(3,764,114)	–	–
Net interest income	11,861,453	3,779,470	721,811	1,604,131	17,966,865
Net fee and commission income	947,903	621,842	2,043,375	93,343	3,706,463
Net trading gains	–	–	4,973,467	–	4,973,467
Net gains from investment securities	–	–	105,685	–	105,685
Dividend income	–	–	880	–	880
Other operating income	–	–	(1,788)	199,037	197,249
Operating expenses	(2,748,462)	(2,650,430)	(198,101)	(607,921)	(6,204,914)
– Depreciation and amortization	(192,058)	(190,999)	(9,833)	(42,554)	(435,444)
Impairment losses on assets	(4,522,066)	(595,924)	(4,122,290)	(824,087)	(10,064,367)
Share of profits of associates	–	–	–	139,577	139,577
Profit before income tax	5,538,828	1,154,958	3,523,039	604,080	10,820,905
Capital expenditure	334,282	332,439	17,114	74,065	757,900

	As at 31 December 2018				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	285,269,524	170,945,107	587,046,841	1,495,400	1,044,756,872
Including: investments in associates	–	–	–	1,100,008	1,100,008
Deferred tax assets					5,749,437
Total assets					1,050,506,309
Segment liabilities	(431,131,521)	(150,355,272)	(398,017,492)	(724,565)	(980,228,850)
Off-balance sheet credit commitments	63,308,476	21,128,064	–	–	84,436,540

Notes to the Consolidated Financial Statements

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

51 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2019				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Net interest income from external customers	33,250,277	2,917,327	11,661,202	–	47,828,806
Net interest expense to external customers	(16,060,900)	(1,409,158)	(5,632,716)	–	(23,102,774)
Intersegment net interest income/(expense)	1,180,743	103,597	(1,284,340)	–	–
Net interest income	18,370,120	1,611,766	4,744,146	–	24,726,032
Net fee and commission income	2,894,740	253,981	1,015,214	–	4,163,935
Net trading gains	1,459,805	128,080	511,968	–	2,099,853
Net gains from investment securities	59,322	5,204	20,805	–	85,331
Dividend income	834	73	293	–	1,200
Other operating income	57,677	5,062	20,228	–	82,967
Operating expenses	(6,430,156)	(432,564)	(229,055)	–	(7,091,775)
– Depreciation and amortization	(552,739)	(3,974)	(173,948)	–	(730,661)
Impairment losses on assets	(8,286,767)	(727,068)	(2,906,251)	–	(11,920,086)
Share of profits of associates	–	–	153,360	–	153,360
Profit before income tax	8,125,575	844,534	3,330,708	–	12,300,817
Capital expenditure	308,457	27,064	108,179	–	443,700

	As at 31 December 2019				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Segment assets	637,330,969	66,509,544	424,672,116	(4,953,020)	1,123,559,609
Including: investments in associates	–	–	1,242,338	–	1,242,338
Deferred tax assets					8,161,629
Total assets					1,131,721,238
Segment liabilities	(623,220,841)	(65,250,606)	(358,709,182)	4,953,020	(1,042,227,609)
Off-balance sheet credit commitments	87,184,277	3,813,151	22,900	–	91,020,328

Notes to the Consolidated Financial Statements

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

51 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2018				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Net interest income from external customers	13,883,838	1,586,724	24,197,545	–	39,668,107
Net interest expense to external customers	(7,595,435)	(868,050)	(13,237,757)	–	(21,701,242)
Intersegment net interest income/(expense)	3,500,626	263,488	(3,764,114)	–	–
Net interest income	9,789,029	982,162	7,195,674	–	17,966,865
Net fee and commission income	1,297,262	148,259	2,260,942	–	3,706,463
Net trading gains	1,740,713	198,939	3,033,815	–	4,973,467
Net gains from investment securities	36,990	4,227	64,468	–	105,685
Dividend income	308	35	537	–	880
Other operating income	69,037	7,890	120,322	–	197,249
Operating expenses	(2,171,721)	(248,196)	(3,784,997)	–	(6,204,914)
– Depreciation and amortization	(152,405)	(17,418)	(265,621)	–	(435,444)
Impairment losses on assets	(3,522,528)	(402,575)	(6,139,264)	–	(10,064,367)
Share of profits of associates	–	–	139,577	–	139,577
Profit before income tax	7,239,090	690,741	2,891,074	–	10,820,905
Capital expenditure	265,265	30,317	462,318	–	757,900

	As at 31 December 2018				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Segment assets	607,003,744	40,745,520	438,832,730	(41,825,122)	1,044,756,872
<i>Including: investments in associates</i>	–	–	1,100,008	–	1,100,008
Deferred tax assets					5,749,437
Total assets					1,050,506,309
Segment liabilities	(572,096,235)	(38,228,925)	(411,728,812)	41,825,122	(980,228,850)
Off-balance sheet credit commitments	50,387,253	8,053,016	25,996,271	–	84,436,540

There were no material transactions with a single external customer that the Group mainly relies on.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in the business. The Group's aim is therefore to achieve an appropriate balance between risks 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 controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The most important types of risks are credit risk, liquidity risk and market risk which also includes currency risk and interest rate risk.

The Board of Directors is the responsible for establishing the overall risk appetite of the Group. Management establishes corresponding risk management policies and procedures covering areas of credit risk, market risk and liquidity risk under the risk appetite approved by the Board of Directors.

52.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk increases when counterparties are within similar industry segments or geographical regions. Credit exposures arise principally in loans and advances to banks, customers and securities. There is also credit risk in off-balance sheet financial arrangements: such as loan commitments. The Group mainly conducts its business in Anhui Province of the PRC, indicating a concentration risk in the Group's credit portfolio which makes it vulnerable to economic changes in the region. Management therefore carefully manages its exposure to credit risks. The credit risk management and control are centralized in the Risk Management Department of Head Office and reported to management regularly.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.1 Credit risk measurement

The ECL is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to the present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECLs by three stages:

- Stage 1: Financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECLs of the financial instrument for the next 12 months;
- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECLs over the lifetime of the financial instruments;
- Stage 3: Financial assets with objective evidence of impairment at the balance sheet date are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECLs for the lifetime of the financial instruments.

For the previous accounting period, the impairment allowance has been measured at the amount equivalent to the ECLs over the entire lifetime of the financial instrument. However, at the balance sheet date of the current year, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group will measure the impairment allowance for the financial instruments on the balance sheet date of the current year according to the ECL in the next 12 months.

The Group shall measure ECLs on a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- 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 condition.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.1 Credit risk measurement (Continued)

When measuring ECLs, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of occurrence of a credit loss is very low.

The Group conducted an assessment of ECLs according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECLs according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial assets
- Parameters for measuring ECLs
- Forward-looking information
- Modification of contractual cash flows

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the increase in the remaining lifetime probability of default is considered to be significant, comparing with the one at initial recognition

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.1 Credit risk measurement (Continued)

Criteria for judging significant increases in credit risk (Continued)

Qualitative criteria (Continued)

- Significant adverse change in debtor's operation or financial status
- Be classified into Special Mention category within five-tier loan classification
- Be listed on the watch-list

Backstop criteria

- The debtor's contractual payments (including principal or interest) are more than 30 days and no more than 90 days past due

Definition of credit-impaired financial assets

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having 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;
- The disappearance of an active market for that financial asset because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.1 Credit risk measurement (Continued)

Parameters for ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets based on 12-month ECLs or lifetime ECLs. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment;
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss on risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;
- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECLs both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECLs of various business types.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group applied experts' judgement in this process, according to the result of experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Group combines statistical analysis with experts' judgement to determine the weight of other possible scenarios. The Group measures the weighted average ECL of 12 months (stage 1) or life time (stage 2 and stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.1 Credit risk measurement (Continued)

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in the derecognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of the modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL), at the same time, the calculation basis of the loss allowance was changed from the expected credit loss of the entire duration to the expected credit loss of 12 months, when the assets have met specific criteria after a period of observation. As at 31 December 2019, the carrying amount of financial assets with such modified contractual cash flows was not significant.

(i) Loans and advances and off-balance sheet commitments

The Group has developed five-category classification system for credit assets to measure and manage the quality of the Group's credit assets in accordance with the CBRC's guidelines for the classification of loan risks. The five-category classification system and the guidelines for loan risk classification require that credit assets, both within and off the balance sheet, be divided into pass, special mention, sub-standard, doubtful and loss, of which the latter three types of loans are considered non-performing loans.

The core definition of credit asset classification in the guidelines for the classification of loan risks is:

Pass: loans for which borrowers can honor the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Special Mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.1 Credit risk measurement (Continued)

Modification of contractual cash flows (Continued)

(i) Loans and advances and off-balance sheet commitments (Continued)

Sub Standard: loans for which borrowers' ability to service the loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: The borrower is unable to repay the loan principal and interest in full, and even if the guarantee is executed, it will certainly cause a great loss.

Loss: After all possible measures or all necessary legal proceedings have been taken, the principal and interest remain uncollectible or can only be recovered in very few parts.

(ii) Debt securities and other bills

The Group manages the credit risk through restriction on the types of and management of issuers of debt securities and other bills invested. So far, the Group holds no foreign currency bonds.

(iii) Deposits with banks and other financial institutions, Placements with banks and other financial institutions and Financial assets held under resale agreements

The Group's Head Office executes regular review and management of credit risk related to individual financial institutions, and sets credit lines for individual banks and other financial institutions that it conducts business with.

(iv) Other financial assets classified as measured at amortized costs

Other financial assets classified as measured at amortized cost include interbank financial products, fund trust schemes and asset management schemes issued by bank financial institutions. The Group implements a rating access system for cooperating trust companies, securities companies and fund companies, and conducts regular follow-up risk management.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.2 Risk limit control and mitigation policies

The Group manages and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and regions. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Group implements a first-level legal person management system. The Group grants branches and business departments operational authority from Head Office. Based on the status of geographical economy, management level of branches, types of credit products, types of credit rating, collateral type, and scale of customers, Head Office gives dynamic authority to its branches with respect to credit business. Such authorities are monitored on a revolving basis and subject to a regular review to make sure operations of the branches are within limits of authority granted.

(i) Credit risk mitigation policies

The Group employs a range of policies and practices to mitigate credit risk. The most prevalent of these is taken by the Group include the taking of physical or cash collateral, cash deposit and corporate or individual guarantees.

The Group implements guidelines on the acceptability of specific classes of collateral. The principal collateral types are:

- Property and land use rights
- General movable assets
- Time deposit certificates, debt securities and commodity warehouse receipts, etc.

The fair value of collateral should be assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan balances against fair value of collateral) for different collaterals. The principal collateral types and maximum loan-to-value ratio for corporate and personal loans and advances are as follows:

Collateral	Maximum loan-to-value ratio
Residential property, commercial property, and construction land use rights	70%
Office buildings	60%
General movable assets	50%
RMB deposit receipts, bank notes, government bonds	90%
Debt securities issued by financial institutions	80%
Commodity warehouse receipts	60%

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.2 Risk limit control and mitigation policies (Continued)

(ii) Credit-related off-balance sheet commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees are irrevocable commitments made by the Group for which the Group must make payments to the third party when its customers fail to satisfy this obligation. Hence, the Group carries the same credit risks as loans. The Group usually takes cash collateral to mitigate such credit risk. The Group's maximum exposure to credit risk equals the total amount of credit-related off-balance sheet commitments.

52.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December 2019	As at 31 December 2018
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Balances with the central bank	90,946,253	87,034,374
Deposits with banks and other financial institutions	14,254,228	7,964,464
Placements with banks and other financial institutions	4,737,805	5,022,470
Derivative financial assets	235,406	208,979
Financial assets held under resale agreements	28,651,227	26,286,656
Loans and advances to customers	450,419,777	370,661,381
Investment securities – financial assets at fair value through profit or loss	95,225,453	106,479,561
Investment securities – financial assets at fair value through other comprehensive income	102,995,517	105,662,575
Investment securities – financial assets at amortised cost	278,852,511	292,359,948
Finance lease receivables	43,949,191	35,624,476
Other financial assets	6,188,901	1,768,444
Total	1,116,456,269	1,039,073,328
Credit risk exposures in relation to off-balance sheet items are as follows:		
Bank acceptance	36,775,576	29,745,001
Letters of credit	8,514,842	9,079,553
Letters of guarantee	20,357,013	18,896,430
Loan commitments	848,660	5,571,942
Unused credit card lines	24,524,237	21,143,614
Total	91,020,328	84,436,540

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

The above table represents the worst-case scenario of credit risk exposure to the Group at 31 December 2019 and 31 December 2018, without taking into account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

As mentioned above, 40.33% of on-balance-sheet exposure is attributable to loans and advances to customers (31 December 2018: 35.68%).

Management is confident in its ability to continue to control and sustain the Group's minimal exposure to credit risk from its loans and advances portfolio based on the following:

- 97.45% of the loans and advances are categorized as Pass in the five-category system (31 December 2018: 97.43%);
- Collateralized loans and mortgage loans, which represent the largest group in the corporate and retail portfolio respectively, are secured by collateral; and
- 98.55% of the loans and advances are considered to be neither past due nor impaired (31 December 2018: 98.48%)

52.1.4 Deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements

Their credit risk can be evaluated based on the credibility of the counterparties.

	As at 31 December 2019	As at 31 December 2018
Commercial banks in Chinese mainland	29,845,042	31,901,047
Other financial institutions in Chinese mainland	14,189,754	4,665,438
Commercial banks outside Chinese mainland	3,608,464	2,707,105
Total	47,643,260	39,273,590

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.5 Loans and advances to customers

Loans and advances three-staging exposure

Loans and advances to customers (excluding interest receivable) by five-category loan classification and three-staging analysed as follows:

	As at 31 December 2019			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	
Pass	447,337,963	4,836,502	–	452,174,465
Special-mention	–	6,995,996	–	6,995,996
Loss	–	–	4,814,658	4,814,658
Total	447,337,963	11,832,498	4,814,658	463,985,119

	Year ended 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	
Pass	362,192,170	9,766,752	–	371,958,922
Special-mention	–	5,827,208	–	5,827,208
Loss	–	–	3,979,524	3,979,524
Total	362,192,170	15,593,960	3,979,524	381,765,654

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.5 Loans and advances to customers (Continued)

(a) Analysis of loans and advances to customers by industry

Concentrations of credit risk of loans and advances to customers by industry are analysed as follows:

	As at 31 December 2019		As at 31 December 2018	
	Amount	%	Amount	%
Corporate loans				
Commerce and service	50,085,752	10	52,020,203	13
Manufacturing	44,841,449	9	44,886,121	11
Public utilities	96,487,469	20	67,223,479	17
Real estate	18,942,685	4	16,427,847	4
Construction	27,650,318	6	19,306,663	5
Transportation	6,354,974	1	6,434,281	2
Energy and chemistry	10,231,011	2	10,076,064	3
Catering and travelling	1,051,283	1	1,292,070	1
Education and media	1,379,677	1	803,723	1
Financial services	5,316,378	1	3,773,490	1
Others	1,441,667	1	919,263	1
Discounted bills	21,870,165	5	13,356,764	3
Subtotal	285,652,828	61	236,519,968	62
Personal loans and advances				
Mortgages	90,030,552	20	84,977,150	22
Revolving loans for private business	6,634,323	1	6,363,990	2
Others	81,667,416	18	53,904,546	14
Subtotal	178,332,291	39	145,245,686	38
Total loans and advances to customers, before impairment allowance	463,985,119	100	381,765,654	100

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.5 Loans and advances to customers (Continued)

(b) Analysis of loans and advances to customers by collateral type

The contractual amounts of loans and advances to customers are analyzed by security type as follows:

	As at 31 December 2019	As at 31 December 2018
Unsecured	89,147,529	64,924,944
Guaranteed	67,868,488	60,224,033
Collateralized	167,388,733	162,818,536
Pledged	139,580,369	93,798,141
Total loans and advances to customers	463,985,119	381,765,654

(c) Analysis of loans and advances to customers by geographical area

	As at 31 December 2019			As at 31 December 2018		
	Total	%	NPL ratio	Total	%	NPL ratio
Anhui Province	422,457,526	91.05%	1.07%	341,429,935	89.43%	1.13%
Pan Yangtze River Delta	41,527,593	8.95%	0.74%	40,335,719	10.57%	0.32%
Total loans and advances to customers	463,985,119	100.00%	1.04%	381,765,654	100%	1.04%

(d) Analysis of loans and advances to customers by overdue and impaired status

	As at 31 December 2019		As at 31 December 2018	
	Corporate loans	Personal loans and advances	Corporate loans	Personal loans and advances
Neither overdue nor impaired (e)	281,146,371	176,110,637	232,177,556	143,795,478
Overdue but not impaired (f)	669,833	1,243,620	1,098,424	714,672
Impaired (g)	3,836,624	978,034	3,243,988	735,536
Total	285,652,828	178,332,291	236,519,968	145,245,686
Less: impairment allowance	(11,843,606)	(2,677,787)	(9,608,716)	(2,298,717)
Total impairment allowance	(11,843,606)	(2,677,787)	(9,608,716)	(2,298,717)
Net	273,809,222	175,654,504	226,911,252	142,946,969

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.5 Loans and advances to customers (Continued)

(e) Loans and advances neither past due nor impaired

As at 31 December 2019

Neither overdue nor impaired	Five-category classification		
	Pass	Special-mention	Total
Corporate loans			
– Commercial loans	253,167,268	6,108,938	259,276,206
– Discounted bills	21,870,165	–	21,870,165
Subtotal	275,037,433	6,108,938	281,146,371
Personal loans and advances	176,070,597	40,040	176,110,637
Total	451,108,030	6,148,978	457,257,008

As at 31 December 2018

Neither overdue nor impaired	Five-category classification		
	Pass	Special-mention	Total
Corporate loans			
– Commercial loans	213,980,307	4,840,485	218,820,792
– Discounted bills	13,356,764	–	13,356,764
Subtotal	227,337,071	4,840,485	232,177,556
Personal loans and advances	143,741,308	54,170	143,795,478
Total	371,078,379	4,894,655	375,973,034

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.5 Loans and advances to customers (Continued)

(f) Loans and advances overdue but not impaired

Analysis of loans and advances overdue but not impaired by overdue days:

As at 31 December 2019

	Up to 30 days	30 to 60 days	60 to 90 days	Over 90 days	Total
Corporate loans	488,327	181,506	-	-	669,833
Personal loans and advances	1,012,349	231,271	-	-	1,243,620
Total	1,500,676	412,777	-	-	1,913,453

As at 31 December 2018

	Up to 30 days	30 to 60 days	60 to 90 days	Over 90 days	Total
Corporate loans	598,039	383,589	64,796	52,000	1,098,424
Personal loans and advances	431,023	206,305	76,454	890	714,672
Total	1,029,062	589,894	141,250	52,890	1,813,096

The Group is of the view that these past due loans can be recovered by the operating income from borrowers, the payment from guarantors or disposal of collateral and are therefore not impaired.

As at 31 December 2019, the fair value of collateral for corporate loans that were past due but not impaired amounted to RMB692,566 thousand (31 December 2018: RMB470,910 thousand). The fair value for retail loans that were past due but not impaired amounted to RMB644,409 thousand (31 December 2018 RMB722,863 thousand).

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.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.5 Loans and advances to customers (Continued)

(g) Impaired loans and advances

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of the related collateral held by the Group as security, is as follows:

	As at 31 December 2019	As at 31 December 2018
Corporate loans	3,836,624	3,243,988
Personal loans and advances	978,034	735,536
Total	4,814,658	3,979,524
Fair value of collateral		
Corporate loans	4,330,387	3,269,315
Personal loans and advances	636,449	562,163
Total	4,966,836	3,831,478

The fair value of collateral is estimated based on the latest external valuations available, considering the liquidity of the current collateral and the market conditions.

(h) Restructured loans and advances

Restructured loans represent the loans whose original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans according to contractual terms. As at 31 December 2019, the carrying value of the restructured loans held by the Group amounted to RMB392 million (31 December 2018: RMB254 million).

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.5 Loans and advances to customers (Continued)

(i) Overdue loans and advances by overdue days and collateral type

As at 31 December 2019					
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	Total
Unsecured	738,462	254,382	122,941	26	1,115,811
Guaranteed	831,497	858,439	353,654	49,992	2,093,582
Collateralized	1,023,278	1,085,952	1,021,972	74,718	3,205,920
Pledged	4,510	5,140	23,106	–	32,756
Total	2,597,747	2,203,913	1,521,673	124,736	6,448,069

As at 31 December 2018					
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	Total
Unsecured	331,810	157,041	83,525	97	572,473
Guaranteed	771,255	930,433	109,934	50,086	1,861,708
Collateralized	1,046,667	1,822,606	268,685	232,189	3,370,147
Pledged	20,000	4,697	–	–	24,697
Total	2,169,732	2,914,777	462,144	282,372	5,829,025

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.6 Debt securities

The table below presents an analysis of financial investments at amortised cost (excluding interest receivable) by independent credit rating agencies:

	As at 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
AAA	42,231,593	159,922	–	42,391,515
AA- to AA+	1,844,907	–	–	1,844,907
Unrated (a)	227,584,581	8,113,685	5,450,449	241,148,715
Total	271,661,081	8,273,607	5,450,449	285,385,137
Less: allowance for impairment losses	(2,917,406)	(3,592,054)	(4,904,817)	(11,414,277)
Net balance	268,743,675	4,681,553	545,632	273,970,860

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
AAA	30,792,285	159,915	–	30,952,200
AA- to AA+	2,242,103	–	–	2,242,103
Unrated (a)	253,210,725	8,115,925	1,625,401	262,952,051
Total	286,245,113	8,275,840	1,625,401	296,146,354
Less: allowance for impairment losses	(2,820,801)	(3,551,717)	(1,506,330)	(7,878,848)
Net balance	283,424,312	4,724,123	119,071	288,267,506

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.6 Debt securities (Continued)

The movements of financial assets at amortised cost are as follows:

	As at 31 December 2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 1 January 2019	2,820,801	3,551,717	1,506,330	7,878,848
Addition	149,618	945,072	4,390,347	5,485,037
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(53,013)	53,013	–	–
Transfers to Stage 3	–	(957,748)	957,748	–
Write-off and transfer out	–	–	(1,949,608)	(1,949,608)
Recovery of loans and advances written off	–	–	–	–
At 31 December 2019	2,917,406	3,592,054	4,904,817	11,414,277

	As at 31 December 2018			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 1 January 2018	1,435,076	895,882	1,801,600	4,132,558
Addition	1,398,174	2,643,386	514,799	4,556,359
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(12,449)	12,449	–	–
Transfers to Stage 3	–	–	–	–
Write-off and transfer out	–	–	(810,069)	(810,069)
Recovery of loans and advances written off	–	–	–	–
At 31 December 2018	2,820,801	3,551,717	1,506,330	7,878,848

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.6 Debt securities (Continued)

The table below presents an analysis of financial investments at fair value through other comprehensive income (excluding interest receivable) by independent credit rating agencies:

	As at 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
AAA	28,260,907	–	–	28,260,907
AA- to AA+	5,858,262	–	–	5,858,262
A- to A+	89,741	39,879	–	129,620
C	–	–	78,995	78,995
Unrated (b)	66,624,688	450,681	13,835	67,089,204
Total	100,833,598	490,560	92,830	101,416,988
Allowance for impairment losses	(243,265)	(137,251)	(150,484)	(531,000)

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
AAA	23,370,352	497,384	–	23,867,736
AA- to AA+	5,000,916	402,283	–	5,403,199
Unrated (b)	74,991,066	–	60,000	75,051,066
Total	103,362,334	899,667	60,000	104,322,001
Allowance for impairment losses	(269,824)	(288,721)	(54,714)	(613,259)

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.6 Debt securities (Continued)

The movements of debt instruments of financial assets at fair value through other comprehensive income are as follows:

	As at 31 December 2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 1 January 2019	269,824	288,721	54,714	613,259
Addition	(178,537)	2,515	93,763	(82,259)
Stage conversion				
Transfers to Stage 1	153,985	(153,985)	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	(2,007)	–	2,007	–
At 31 December 2019	243,265	137,251	150,484	531,000

	As at 31 December 2018			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 1 January 2018	128,514	133,139	–	261,653
Addition	141,538	155,354	54,714	351,606
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(228)	228	–	–
Transfers to Stage 3	–	–	–	–
At 31 December 2018	269,824	288,721	54,714	613,259

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.6 Debt securities (Continued)

The table below presents an analysis of financial investments at fair value through profit or loss (excluding interest receivable) by independent credit rating agencies:

	As at 31 December 2019	As at 31 December 2018
AAA	69,941	246,953
AA- to AA+	120,108	149,515
A- to A+	–	–
C	16,262	–
Unrated (c)	93,572,608	104,738,548
Total	93,778,919	105,135,016

- (a) The unrated financial assets at amortised cost held by the Group mainly represent investments issued by the Ministry of Finance of the PRC ("MOF"), policy banks and creditworthy issuers in the market, etc., as well as investments of asset management schemes, trusts and principal-guaranteed wealth management products issued by other financial institutions.
- (b) The unrated debt instruments of financial assets at fair value through other comprehensive income held by the Group mainly represent investments issued by the MOF, policy banks, other financial institutions.
- (c) The unrated debt instruments of financial assets at fair value through profit or loss held by the Group mainly represent investments and trading securities issued by the MOF, policy banks and creditworthy issuers in the market, etc., as well as investments of asset management schemes, trusts and wealth management products issued by other financial institutions.

52.1.7 Foreclosed collateral

	As at 31 December 2019	As at 31 December 2018
Property and land use rights	404,664	278,270
Others	163,602	163,602
Total	568,266	441,872
Allowance for impairment losses (Note 29)	(199,949)	(177,125)
Net balance	368,317	264,747

Foreclosed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Foreclosed property cannot be used for operating activities. Foreclosed property is classified within other assets at the balance sheet date.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.8 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

As at 31 December 2019	Chinese mainland	Hong Kong	Others	Total
Financial assets				
Balances with the central bank	90,946,253	–	–	90,946,253
Deposits with banks and other financial institutions	10,850,565	2,220,639	1,183,024	14,254,228
Placements with banks and other financial institutions	4,617,805	–	120,000	4,737,805
Derivative financial assets	235,406	–	–	235,406
Financial assets held under resale agreements	28,651,227	–	–	28,651,227
Loans and advances to customers	450,419,777	–	–	450,419,777
Financial investments				
– financial assets at fair value through profit or loss	95,225,453	–	–	95,225,453
Financial investments				
– financial assets at fair value through other comprehensive income	102,995,517	–	–	102,995,517
Financial investments				
– financial assets at amortised cost	277,485,607	1,366,904	–	278,852,511
Finance lease receivables	43,949,191	–	–	43,949,191
Other financial assets	6,188,901	–	–	6,188,901
Total	1,111,565,702	3,587,543	1,303,024	1,116,456,269

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.1 Credit risk (Continued)

52.1.8 Concentration of risks of financial assets with credit risk exposure (Continued)

Geographical sectors (Continued)

As at 31 December 2018	Chinese mainland	Hong Kong	Others	Total
Financial assets				
Balances with the central bank	87,034,374	–	–	87,034,374
Deposits with banks and other financial institutions	5,258,603	664,104	2,041,757	7,964,464
Placements with banks and other financial institutions	4,922,470	–	100,000	5,022,470
Derivative financial assets	208,979	–	–	208,979
Financial assets held under resale agreements	26,286,656	–	–	26,286,656
Loans and advances to customers	370,661,381	–	–	370,661,381
Financial investments				
– financial assets at fair value through profit or loss	106,479,561	–	–	106,479,561
Financial investments				
– financial assets at fair value through other comprehensive income	105,662,575	–	–	105,662,575
Financial investments				
– financial assets at amortised cost	287,634,169	4,725,779	–	292,359,948
Finance lease receivables	35,624,476	–	–	35,624,476
Other financial assets	1,768,444	–	–	1,768,444
Total	1,031,541,688	5,389,883	2,141,757	1,039,073,328

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.2 Market risk

52.2.1 Overview

The Group has exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from interest rates, foreign exchange rates, stocks, commodities and their implied volatility.

The Group's market risk mainly includes trading risks arising from trading portfolio and interest rate and foreign exchange rate risks for non-trading portfolio resulted from changes in interest rates, foreign exchange rates and term structures.

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management and is responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Within the authorization of the board of directors, the management is fully responsible for implementing the market risk management strategy, policies and decisions that are adopted by the board of directors. The Risk Management Department of the Head Office is the unified management department of market risk, institutionally manages the market risks of the whole bank and supervises the implementation of relevant departments.

52.2.2 Market risk measurement techniques

The Group mainly measures and controls market risk by conducting sensitivity analysis, foreign exchange exposure analysis, gap analysis, duration analysis, stress testing and the VaR (value at risk). The Group establishes strict authorization and exposure limits based on its overall ability to afford market risk, the types of products and the Group's business strategy. The Group sets different exposure limits and takes different quantitative measurements to manage different types of market risk of trading book and banking book. The Group also improves its funding risk management system, adjusts the related risk parameter and refines the risk measurement model in accordance with regulatory requirements.

52.2.3 Interest rate risk

Interest rate risk refers to the risk of fluctuation in interest rates which results in adverse impact on the financial position of the Bank. Interest rate risk of the Bank primarily arises from the structural mismatch of maturity or re-pricing periods for our banking portfolio. Such structural mismatch of durations may cause the Bank interest income to be affected by changes in the prevailing interest rate. In addition, different pricing benchmarks for different products may also lead to interest rate risk for our assets and liabilities within the same re-pricing period. Currently, the Bank primarily assesses its exposure to interest rate risk through gap analysis, sensitivity analysis and duration analysis. The Bank manages its interest rate risk exposure primarily by adjusting the duration of our banking portfolio based on its assessment of potential changes in the interest rate environment.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.2 Market risk (Continued)

52.2.3 Interest rate risk (Continued)

The table below summarizes the Group's exposure to interest rate risk. It includes the Group's on-balance sheet assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

As at 31 December 2019	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest- bearing	Total
Assets							
Cash and balances with central bank	90,910,606	-	-	-	-	1,060,648	91,971,254
Deposits with banks and other financial institutions	9,794,105	-	4,316,638	-	-	143,485	14,254,228
Placements with banks and other financial institutions	-	2,262,310	2,461,294	-	-	14,201	4,737,805
Derivative financial assets	-	-	-	-	-	235,406	235,406
Financial assets held under resale agreements	28,531,183	109,916	-	-	-	10,128	28,651,227
Loans and advances to customers	145,947,022	235,648,788	39,815,860	26,692,029	278,329	2,037,749	450,419,777
Financial Investments							
- financial assets at fair value through profit or loss	30,097,148	28,524,222	18,627,958	5,998,347	1,380,980	10,596,798	95,225,453
- financial assets at fair value through other comprehensive income	1,742,838	5,347,976	9,262,370	61,597,413	23,466,391	1,759,405	103,176,393
- financial assets at amortised cost	4,896,800	4,013,119	36,701,376	137,095,798	91,263,767	4,881,651	278,852,511
Finance lease receivables	38,116,768	1,063,251	2,652,533	1,653,274	227	463,138	43,949,191
Other financial assets	-	-	-	-	-	6,188,901	6,188,901
Total assets	350,036,470	276,969,582	113,838,029	233,036,861	116,389,694	27,391,510	1,117,662,146

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.2 Market risk (Continued)

52.2.3 Interest rate risk (Continued)

As at 31 December 2019	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest- bearing	Total
Liabilities							
Borrowings from central bank	(6,615,680)	(1,711,521)	(32,103,588)	-	-	(257,757)	(40,688,546)
Deposits from banks and other financial institutions	(6,707,691)	(39,618,534)	(38,272,141)	(13,647,320)	(12,460,602)	(629,348)	(111,335,636)
Placements from banks and other financial institutions	(298,473)	-	(13,162,921)	(22,455,970)	-	(385,697)	(36,303,061)
Derivative financial liabilities	-	-	-	-	-	(281,329)	(281,329)
Financial assets sold under repurchase agreements	(32,428,277)	(7,771,323)	(9,783,799)	-	-	(381,563)	(50,364,962)
Deposits from customers	(403,230,324)	(22,822,666)	(65,538,762)	(102,235,548)	(6,804)	(9,620,715)	(603,454,819)
Debt securities issued	(12,261,338)	(23,736,215)	(117,478,213)	(16,999,840)	(11,985,994)	(781,108)	(183,242,708)
Other financial liabilities	(1)	(19)	(11,516)	(443,531)	(396,174)	(1,405,215)	(2,256,456)
Total liabilities	(461,541,784)	(95,660,278)	(276,350,940)	(155,782,209)	(24,849,574)	(13,742,732)	(1,027,927,517)
Total interest rate sensitivity gap	(111,505,314)	181,309,304	(162,512,911)	77,254,652	91,540,120	13,648,778	89,734,629

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.2 Market risk (Continued)

52.2.3 Interest rate risk (Continued)

As at 31 December 2018	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest- bearing	Total
Assets							
Cash and balances with central bank	86,998,786	-	-	-	-	1,145,538	88,144,324
Deposits with banks and other financial institutions	7,102,896	110,000	725,095	-	-	26,473	7,964,464
Placements with banks and other financial institutions	1,394,344	1,597,653	2,014,023	-	-	16,450	5,022,470
Derivative financial assets	-	-	-	-	-	208,979	208,979
Financial assets held under resale agreements	26,272,838	-	-	-	-	13,818	26,286,656
Loans and advances to customers	131,553,028	200,177,940	21,382,068	16,117,707	453,482	977,156	370,661,381
Financial Investments							
– financial assets at fair value through profit or loss	21,097,267	31,370,831	42,602,885	9,307,648	756,384	1,344,546	106,479,561
– financial assets at fair value through other comprehensive income	467,637	2,374,438	18,352,096	54,142,632	28,985,198	1,483,593	105,805,594
– financial assets at amortised cost	2,658,211	4,833,614	38,030,177	181,234,150	61,511,354	4,092,442	292,359,948
Finance lease receivables	29,514,881	1,135,870	2,750,434	1,909,681	27,437	286,173	35,624,476
Other financial assets	-	-	-	-	-	1,768,444	1,768,444
Total assets	307,059,888	241,600,346	125,856,778	262,711,818	91,733,855	11,363,612	1,040,326,297
Liabilities							
Borrowings from central bank	(16,540,214)	(4,203,236)	(19,970,478)	-	-	(6,591)	(40,720,519)
Deposits from banks and other financial institutions	(16,800,280)	(35,995,103)	(45,585,017)	(16,984,112)	(1,300,000)	(1,031,556)	(117,696,068)
Financial liabilities at fair value through profit or loss	(597,822)	(29,605,230)	(56,571,522)	-	-	(824,217)	(87,598,791)
Placements from banks and other financial institutions	(498,473)	(8,486,682)	(19,573,319)	-	-	(220,110)	(28,778,584)
Derivative financial liabilities	-	-	-	-	-	(137,938)	(137,938)
Financial assets sold under repurchase agreements	(23,572,508)	(543,900)	(3,307,930)	-	-	(420,346)	(27,844,684)
Deposits from customers	(354,846,131)	(20,420,436)	(113,643,023)	(73,416,980)	(3,634,354)	(7,837,387)	(573,798,311)
Debt securities issued	(7,164,134)	(8,207,398)	(54,220,157)	(9,299,364)	(11,984,620)	(568,252)	(91,443,925)
Other financial liabilities	-	-	-	-	-	(1,116,081)	(1,116,081)
Total liabilities	(420,019,562)	(107,461,985)	(312,871,446)	(99,700,456)	(16,918,974)	(12,162,478)	(969,134,901)
Total interest rate sensitivity gap	(112,959,674)	134,138,361	(187,014,668)	163,011,362	74,814,881	(798,866)	71,191,396

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.2 Market risk (Continued)

52.2.3 Interest rate risk (Continued)

The Group mainly narrows its interest rate sensitivity gap between assets and liabilities through shorter durations for investments and resetting loan price.

The currency for the majority of Group's interest-bearing assets and liabilities is RMB. The potential impact on net interest income as at the balance sheet date stated below with 100 basis points changes along the yield curve is as follows:

	Estimated changes in net interest income	
	As at 31 December 2019	As at 31 December 2018
100 bps up along the yield curve	2,090,924	1,758,482
100 bps down along the yield curve	(2,090,924)	(1,758,482)

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as Other Comprehensive Income, whose fair values changes are recorded as an element of other comprehensive income. The potential impacts are as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
100 bps up	(3,088,579)	(2,751,254)
100 bps down	3,274,872	2,913,496

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index:

- The fluctuation rates of different interest-bearing assets and liabilities are the same;
- Demand deposits will not be re-priced;
- All assets and liabilities are re-priced in the middle of relevant periods;
- Analysis is based on static gap on balance sheet date, regardless of subsequent changes;
- No consideration of impact on customers' behaviour resulting from interest rate changes;
- No consideration of impact on market price resulting from interest rate changes;
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.2 Market risk (Continued)

52.2.4 Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The major principle for controlling the currency risk of the Group is to match assets and liabilities in different currencies and to keep currency risk within limits. Based on the guidelines provided by the Risk Management Committee, relevant laws and regulations as well as evaluation on the current market, the Group sets its risk limits and minimize the possibility of mismatch through more reasonable allocation of foreign currency source and deployment. Authorization management of foreign currency exposure is categorized by business type and traders' limits of authority.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at balance sheet date. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorized by the original currency:

	RMB	USD	EUR	Others	Total
As at 31 December 2019					
Assets					
Cash and balances with central bank	91,807,128	163,095	401	630	91,971,254
Deposits with banks and other financial institutions	10,081,473	3,803,422	22,140	347,193	14,254,228
Placements with banks and other financial institutions	4,688,972	48,833	-	-	4,737,805
Derivative financial assets	50,320	185,086	-	-	235,406
Financial assets held under resale agreements	28,651,227	-	-	-	28,651,227
Loans and advances to customers	446,989,760	3,339,169	90,848	-	450,419,777
Financial investments					
- financial assets at fair value through profit or loss	95,225,453	-	-	-	95,225,453
- financial assets at fair value through other comprehensive income	103,176,393	-	-	-	103,176,393
- financial assets at amortised cost	277,059,340	1,793,171	-	-	278,852,511
Finance lease receivables	43,949,191	-	-	-	43,949,191
Other financial assets	6,118,545	69,164	-	1,192	6,188,901
Total assets	1,107,797,802	9,401,940	113,389	349,015	1,117,662,146

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.2 Market risk (Continued)

52.2.4 Currency risk (Continued)

	RMB	USD	EUR	Others	Total
Liabilities					
Borrowings from central bank	(40,688,546)	-	-	-	(40,688,546)
Deposits from banks and other financial institutions	(110,161,458)	(1,173,534)	(319)	(325)	(111,335,636)
Placements from banks and other financial institutions	(34,759,543)	(1,543,518)	-	-	(36,303,061)
Derivative financial liabilities	(207,275)	(72,660)	-	(1,394)	(281,329)
Financial assets sold under repurchase agreements	(43,955,651)	(6,409,311)	-	-	(50,364,962)
Deposits from customers	(574,078,446)	(2,953,434)	(12,594)	(26,410,345)	(603,454,819)
Debt securities issued	(183,242,708)	-	-	-	(183,242,708)
Other financial liabilities	(2,253,948)	(2,505)	-	(3)	(2,256,456)
Total liabilities	(989,347,575)	(12,154,962)	(12,913)	(26,412,067)	(1,027,927,517)
Net on-balance sheet financial position	118,450,227	(2,753,022)	100,476	(26,063,052)	89,734,629
Financial guarantees and credit commitments	69,861,125	18,247,484	219,101	2,692,618	91,020,328

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.2 Market risk (Continued)

52.2.4 Currency risk (Continued)

	RMB	USD	EUR	Others	Total
As at 31 December 2018					
Assets					
Cash and balances with the central bank	87,778,426	353,559	57	12,282	88,144,324
Deposits with banks and other financial institutions	4,891,579	1,343,256	86,787	1,642,842	7,964,464
Placements with banks and other financial institutions	2,650,361	2,336,272	20,384	15,453	5,022,470
Derivative financial assets	48,915	157,862	228	1,974	208,979
Financial assets held under resale agreements	26,286,656	–	–	–	26,286,656
Loans and advances to customers	369,460,563	1,189,344	11,474	–	370,661,381
Financial investments					
– financial assets at fair value through profit or loss	106,479,561	–	–	–	106,479,561
– financial assets at fair value through other comprehensive income	105,805,594	–	–	–	105,805,594
– financial assets at amortised cost	287,366,006	4,993,942	–	–	292,359,948
Finance lease receivables	35,624,476	–	–	–	35,624,476
Other financial assets	1,768,444	–	–	–	1,768,444
Total assets	1,028,160,581	10,374,235	118,930	1,672,551	1,040,326,297
Liabilities					
Borrowings from the central bank	(40,720,519)	–	–	–	(40,720,519)
Deposits from banks and other financial institutions	(117,426,175)	(28,585)	–	(241,308)	(117,696,068)
Financial liabilities at fair value through profit or loss	(87,598,791)	–	–	–	(87,598,791)
Placements from banks and other financial institutions	(28,463,173)	(315,411)	–	–	(28,778,584)
Derivative financial liabilities	(69,555)	(51,650)	(67)	(16,666)	(137,938)
Financial assets sold under repurchase agreements	(27,844,684)	–	–	–	(27,844,684)
Deposits from customers	(565,774,117)	(6,366,296)	(16,752)	(1,641,146)	(573,798,311)
Debt securities issued	(91,443,925)	–	–	–	(91,443,925)
Other financial liabilities	(1,115,884)	(194)	(3)	–	(1,116,081)
Total liabilities	(960,456,823)	(6,762,136)	(16,822)	(1,899,120)	(969,134,901)
Net on-balance sheet financial position	67,703,758	3,612,099	102,108	(226,569)	71,191,396
Financial guarantees and credit commitments	63,475,642	14,721,349	389,295	5,850,254	84,436,540

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.2 Market risk (Continued)

52.2.4 Currency risk (Continued)

The Group's foreign currency exposure is not material. The major foreign currency exposure is with USD and EUR. The potential impact on net profits resulted from foreign currency translation gain or loss with 1% fluctuation of foreign currency against RMB is as follows:

	Estimated change in net profit/(loss)	
	As at 31 December 2019	As at 31 December 2018
1% of appreciation of foreign exchange against RMB	(157,725)	26,157
1% of depreciation of foreign exchange against RMB	157,725	(26,157)

During the sensitivity analysis, the Group adopts the following assumptions when determining the business conditions and financial index, regardless of:

- Analysis is based on static gap on the balance sheet date, regardless of subsequent changes;
- No consideration of impact on the customers' behaviour resulted from interest rate changes;
- No consideration of impact on market price resulted from interest rate changes;
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

52.3 Liquidity risk

52.3.1 Overview

Keeping a match between the maturity dates of assets and liabilities and maintaining an effective control over mismatches is of great importance to the Group. Due to the uncertainty of terms and types of business, it is difficult for banks to keep a perfect match. Unmatched position may increase revenues but it also exposes the Group to greater risks of losses.

The match between the maturity dates of assets and liabilities as well as a bank's ability to replace due liabilities with acceptable costs are both key factors when evaluating its exposure to liquidity, interest rate and foreign exchange rate risks.

The Group is exposed to daily calls on its available cash resources from overnight deposits, demand accounts, time deposits fall due, debt securities payable, loan drawdowns, guarantees and other calls on cash-settled derivatives. According to previous experience, a large portion of matured deposits is not withdrawn on the maturity date. The Group sets limits on the minimum proportion of funds to be made available to cover different levels of unexpected withdrawals.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.3 Liquidity risk (Continued)

52.3.2 Cash flow of non-derivatives

The table below presents the cash flows receivable and payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, and the Group manages the liquidity risk based on the estimation of future cash flows.

As at 31 December 2019	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Borrowings from central bank	(6,880,436)	(1,717,021)	(32,997,134)	-	-	(41,594,591)
Deposits from banks and other financial institutions	(7,342,683)	(39,838,371)	(38,829,133)	(16,054,921)	(15,064,301)	(117,129,409)
Placements from banks and other financial institutions	(308,131)	-	(13,636,180)	(22,701,979)	-	(36,646,290)
Financial assets sold under repurchase agreements	(32,482,247)	(8,008,797)	(10,088,283)	-	-	(50,579,327)
Deposits from customers	(417,577,551)	(23,342,758)	(66,833,677)	(110,453,284)	(7,755)	(618,215,025)
Debt securities issued	(12,280,000)	(24,033,728)	(122,223,216)	(20,296,900)	(13,423,200)	(192,257,044)
Other financial liabilities	(1,444,413)	(28,857)	(192,285)	(546,272)	(149,023)	(2,360,850)
Total liabilities (contractual maturity)	(478,315,461)	(96,969,532)	(284,799,908)	(170,053,356)	(28,644,279)	(1,058,782,536)
Assets						
Cash and balances with central bank	91,971,254	-	-	-	-	91,971,254
Deposits with banks and other financial institutions	9,797,967	-	4,467,481	-	-	14,265,448
Placements with banks and other financial institutions	-	2,327,581	2,485,115	-	-	4,812,696
Financial assets held under resale agreements	28,545,854	110,468	-	-	-	28,656,322
Loans and advances to customers	35,309,283	25,504,862	113,688,513	112,927,981	229,759,835	517,190,474
Financial investments						
- financial assets at fair value through profit or loss	40,935,757	29,037,386	19,807,935	10,504,802	10,966,960	111,252,840
- financial assets at fair value through other comprehensive income	3,470,614	5,839,607	13,255,125	80,829,544	28,788,526	132,183,416
- financial assets at amortised cost	10,969,599	6,249,396	48,388,890	175,245,027	98,623,779	339,476,691
Finance lease receivables	38,427,874	1,977,290	4,438,051	4,935,415	4,747	49,783,377
Other financial assets	1,861,202	3,897,606	405,349	18,857	5,887	6,188,901
Financial assets held for managing liquidity risk (contractual maturity)	261,289,404	74,944,196	206,936,459	384,461,626	368,149,734	1,295,781,419
Net liquidity	(217,026,057)	(22,025,336)	(77,863,449)	214,408,270	339,505,455	236,998,883

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.3 Liquidity risk (Continued)

52.3.2 Cash flow of non-derivatives (Continued)

As at 31 December 2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Borrowings from central bank	(16,626,142)	(4,337,440)	(20,583,187)	–	–	(41,546,769)
Deposits from banks and other financial institutions	(18,051,814)	(36,580,330)	(46,658,180)	(19,751,080)	(1,631,939)	(122,673,343)
Financial liabilities at fair value through profit or loss	(1,422,593)	(29,798,250)	(57,737,532)	–	–	(88,958,375)
Placements from banks and other financial institutions	(1,218,583)	(8,693,364)	(19,574,304)	–	–	(29,486,251)
Financial assets sold under repurchase agreements	(23,998,325)	(545,173)	(3,331,220)	–	–	(27,874,718)
Deposits from customers	(355,099,401)	(28,842,022)	(116,167,205)	(83,576,624)	(4,450,014)	(588,135,266)
Debt securities issued	(7,748,338)	(10,565,271)	(56,861,085)	(18,098,800)	(14,548,800)	(107,822,294)
Other financial liabilities	(1,116,081)	–	–	–	–	(1,116,081)
Total liabilities (contractual maturity)	(425,281,277)	(119,361,850)	(320,912,713)	(121,426,504)	(20,630,753)	(1,007,613,097)
Assets						
Cash and balances with central bank	88,144,324	–	–	–	–	88,144,324
Deposits with banks and other financial institutions	7,150,132	110,048	727,193	–	–	7,987,373
Placements with banks and other financial institutions	1,412,273	1,622,373	2,055,495	–	–	5,090,141
Financial assets held under resale agreements	26,296,450	–	–	–	–	26,296,450
Loans and advances to customers	23,817,890	24,808,731	115,052,761	82,938,789	238,575,703	485,193,874
Financial investments						
– financial assets at fair value through profit or loss	27,008,903	37,011,058	46,859,148	19,251,583	8,383,690	138,514,382
– financial assets at fair value through other comprehensive income	8,517,148	2,464,288	19,271,804	61,063,136	29,574,931	120,891,307
– financial assets at amortised cost	10,890,241	7,468,937	48,947,837	210,849,734	68,624,973	346,781,722
Finance lease receivables	150,746	1,150,182	2,393,477	9,890,097	26,861,764	40,446,266
Other financial assets	1,768,444	–	–	–	–	1,768,444
Financial assets held for managing liquidity risk (contractual maturity)	195,156,551	74,635,617	235,307,715	383,993,339	372,021,061	1,261,114,283
Net liquidity	(230,124,726)	(44,726,233)	(85,604,998)	262,566,835	351,390,308	253,501,186

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.3 Liquidity risk (Continued)

52.3.3 Cash flow of derivative financial instruments

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include foreign exchange forward contracts. The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at 31 December 2019 and 31 December 2018 to the contractual maturity date. The figures disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2019						
Foreign exchange derivatives						
– Outflow	(121,586)	(3,459,900)	(6,367,932)	–	–	(9,949,418)
– Inflow	122,110	3,594,229	6,399,789	–	–	10,116,128
Total	524	134,329	31,857	–	–	166,710

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2018						
Foreign exchange derivatives						
– Outflow	(851,660)	(63,633)	(6,211,844)	–	–	(7,127,137)
– Inflow	838,047	63,691	6,330,980	–	–	7,232,718
Total	(13,613)	58	119,136	–	–	105,581

Derivative financial instruments with net delivery

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2019						
Interest rate derivatives	(19,098)	(15,813)	(105,529)	(60,808)	–	(201,248)
As at 31 December 2018						
Interest rate derivatives	(889)	(1,326)	(16,289)	(5,287)	3,489	(20,302)

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.3 Liquidity risk (Continued)

52.3.4 Maturity analysis

The table below analyses the Group's net assets and liabilities into relevant maturity groupings based on the remaining periods at the balance sheet date to the contractual maturity date.

As at 31 December 2019	Repayable on demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with central bank	33,272,199	35,647	-	-	-	-	-	58,663,408	91,971,254
Deposits with banks and other financial institutions	8,710,682	1,085,751	-	4,457,795	-	-	-	-	14,254,228
Placements with banks and other financial institutions	-	-	2,272,501	2,465,304	-	-	-	-	4,737,805
Derivative financial assets	-	2,608	133,778	59,972	39,048	-	-	-	235,406
Financial assets held under resale agreements	-	28,541,311	109,916	-	-	-	-	-	28,651,227
Loans and advances to customers	-	32,992,752	23,499,888	105,908,644	88,892,883	197,045,369	2,080,241	-	450,419,777
Financial investments									
- financial assets at fair value through profit or loss	27,177,446	4,347,910	28,524,222	18,627,958	5,998,347	1,364,718	34,588	9,150,264	95,225,453
- financial assets at fair value through other comprehensive income	-	2,961,496	4,990,297	8,579,418	62,997,915	23,452,556	13,835	180,876	103,176,393
- financial assets at amortised cost	-	8,752,924	3,690,519	37,023,976	137,095,798	91,263,767	1,025,527	-	278,852,511
Finance lease receivables	-	38,058,204	1,526,389	2,652,533	1,653,274	227	58,564	-	43,949,191
Other financial assets	-	1,829,125	3,897,606	405,349	18,857	5,887	32,077	-	6,188,901
Total assets	69,160,327	118,607,728	68,645,116	180,180,949	296,696,122	313,132,524	3,244,832	67,994,548	1,117,662,146
Borrowings from central bank	-	(6,873,437)	(1,711,521)	(32,103,588)	-	-	-	-	(40,688,546)
Deposits from banks and other financial institutions	(3,390,565)	(3,946,474)	(39,618,534)	(38,272,141)	(13,647,320)	(12,460,602)	-	-	(111,335,636)
Placements from banks and other financial institutions	-	(308,103)	-	(13,306,447)	(22,688,511)	-	-	-	(36,303,061)
Derivative financial liabilities	-	(27,544)	(18,339)	(185,107)	(50,339)	-	-	-	(281,329)
Financial assets sold under repurchase agreements	-	(32,473,507)	(7,957,182)	(9,934,273)	-	-	-	-	(50,364,962)
Deposits from customers	(394,782,209)	(18,068,830)	(22,822,666)	(65,538,762)	(102,235,548)	(6,804)	-	-	(603,454,819)
Debt securities issued	-	(12,261,338)	(23,736,215)	(117,514,815)	(17,432,768)	(12,297,572)	-	-	(183,242,708)
Other financial liabilities	-	(1,405,216)	(19)	(11,516)	(443,531)	(396,174)	-	-	(2,256,456)
Total liabilities	(398,172,774)	(75,364,449)	(95,864,476)	(276,866,649)	(156,498,017)	(25,161,152)	-	-	(1,027,927,517)
Net liquidity gap	(329,012,447)	43,243,279	(27,219,360)	(96,685,700)	140,198,105	287,971,372	3,244,832	67,994,548	89,734,629

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.3 Liquidity risk (Continued)

52.3.4 Maturity analysis (Continued)

As at 31 December 2018	Repayable on demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with									
central bank	25,284,873	35,588	-	-	-	-	-	62,823,863	88,144,324
Deposits with banks and									
other financial institutions	5,485,734	1,654,545	109,999	714,186	-	-	-	-	7,964,464
Placements with banks and									
other financial institutions	-	1,410,794	1,597,653	2,014,023	-	-	-	-	5,022,470
Derivative financial assets	-	3,547	2,056	159,844	43,532	-	-	-	208,979
Financial assets held under									
resale agreements	-	26,286,656	-	-	-	-	-	-	26,286,656
Loans and advances to									
customers	-	23,333,088	22,442,827	106,022,905	50,466,747	166,674,294	1,721,520	-	370,661,381
Financial investments									
- financial assets at fair value									
through profit or loss	-	20,192,253	31,370,831	42,602,885	9,307,648	756,384	2,249,560	-	106,479,561
- financial assets at fair value									
through other									
comprehensive income	-	8,297,505	1,600,412	16,355,052	56,913,701	22,495,905	-	143,019	105,805,594
- financial assets at									
amortised cost	-	8,778,844	4,793,817	37,832,711	179,314,477	61,511,354	128,745	-	292,359,948
Finance lease receivables	-	29,146,735	1,422,043	2,750,434	1,909,681	395,583	-	-	35,624,476
Other financial assets	1,484,880	11,591	16,338	46,005	131,374	77,337	919	-	1,768,444
Total assets	32,255,487	119,151,146	63,355,976	208,498,045	298,087,160	251,910,857	4,100,744	62,966,882	1,040,326,297
Borrowings from central bank	(16,540,214)	(6,591)	(4,203,236)	(19,970,478)	-	-	-	-	(40,720,519)
Deposits from banks and other									
financial institutions	(17,032,599)	(798,237)	(35,995,103)	(45,585,017)	(16,984,112)	(1,300,000)	(1,000)	-	(117,696,068)
Financial liabilities at fair value									
through profit or loss	-	(1,422,039)	(29,605,230)	(56,571,522)	-	-	-	-	(87,598,791)
Placements from banks and									
other financial institutions	-	(718,583)	(8,486,682)	(19,573,319)	-	-	-	-	(28,778,584)
Derivative financial liabilities	-	(17,806)	(4,434)	(71,697)	(44,001)	-	-	-	(137,938)
Financial assets sold under									
repurchase agreements	-	(23,992,854)	(543,900)	(3,307,930)	-	-	-	-	(27,844,684)
Deposits from customers	(354,846,131)	(7,837,387)	(20,420,436)	(113,643,023)	(73,416,980)	(3,634,354)	-	-	(573,798,311)
Debt securities issued	-	(7,732,386)	(8,207,398)	(54,220,157)	(9,299,364)	(11,984,620)	-	-	(91,443,925)
Other financial liabilities	-	(1,116,081)	-	-	-	-	-	-	(1,116,081)
Total liabilities	(388,418,944)	(43,641,964)	(107,466,419)	(312,943,143)	(99,744,457)	(16,918,974)	(1,000)	-	(969,134,901)
Net liquidity gap	(356,163,457)	75,509,182	(44,110,443)	(104,445,098)	198,342,703	234,991,883	4,099,744	62,966,882	71,191,396

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.3 Liquidity risk (Continued)

52.3.5 Off-balance sheet items

The Group provides guarantees and letters of credit to customers based on their credit ratings and amounts of cash collaterals. Usually, customers will not withdraw the amount committed by the Group in the guarantees or letters of credit in full, therefore, funds provided for guarantees and letters of credit are commonly lower than other commitments of the Group. Meanwhile, the Group may be discharged of its obligations due to overdue or termination of the commitments. As a result, the contractual amounts for credit commitments do not represent the actual funds required.

As at 31 December 2019	Within 1 year	1 to 5 years	Over 5 years	Total
Bank acceptance	36,775,576	–	–	36,775,576
Letters of credit	8,268,785	246,057	–	8,514,842
Letters of guarantee	11,763,516	8,113,152	480,345	20,357,013
Loan commitments	645,660	203,000	–	848,660
Unused credit card lines	2,880,944	21,581,311	61,982	24,524,237
Total	60,334,481	30,143,520	542,327	91,020,328

As at 31 December 2018	Within 1 year	1 to 5 years	Over 5 years	Total
Bank acceptance	29,745,001	–	–	29,745,001
Letters of credit	7,672,948	1,406,605	–	9,079,553
Letters of guarantee	13,301,817	5,119,562	475,051	18,896,430
Loan commitments	5,466,942	105,000	–	5,571,942
Unused credit card lines	217,443	20,890,661	35,510	21,143,614
Total	56,404,151	27,521,828	510,561	84,436,540

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.4 Fair value of financial assets and liabilities

(a) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts and issued structured debt in the interbank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Thomson Reuters, Bloomberg and China Bond.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt investments with significant unobservable inputs.

(b) Financial instruments not measured at fair value

Fair value estimates are made in accordance with relevant market information and information related to various financial instruments at a particular point in time. The fair value of all kinds of financial instruments is based on the following methods and assumptions:

- (i) Balances with central bank, deposits and placements with banks, financial assets held under resale agreements, deposits and placements from banks, financial assets sold under repurchase agreements, other assets and other liabilities

Since these financial instruments are in short-term or under floating interest rate linked to market interest rate, their carrying value approximates to the fair value.

- (ii) Loans and advances to customers at amortized cost.

Since most loans and advances to customers are repriced at least annually according to market interest rate, their carrying value approximates to the fair value.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.4 Fair value of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value (Continued)

(iii) Deposits from customers

The fair value of a checking account, a savings account and a short-term money market deposit shall be the amount currently payable to customers. The fair value of a time deposit is calculated based on the discounted cash flow method, and the discount rate is the current rate of a time deposit of which the term is similar to the remaining term of the time deposit being valued. At the end of the reporting period, the carrying value of deposits from customers approximates to the fair value.

(iv) Finance lease receivables

The balance of finance lease receivables is calculated based on the effective interest rate method. Since the actual interest rate of a financial leasing is timely adjusted to the interest rates that the PBOC stipulates, the carrying value approximates to the fair value.

The table below summarizes the carrying amounts and the fair values of those financial assets and liabilities not presented at their fair value on the Group's balance sheet date.

		As at 31 December 2019				
		Carrying value	Fair value			
			Level 1	Level 2	Level 3	Total
Financial assets						
Financial investments						
– financial assets at amortised cost						
		278,972,511	–	279,503,658	–	279,503,658
Financial Liabilities						
Debt securities issued						
		(183,242,708)	–	(181,242,458)	–	(181,242,458)
		As at 31 December 2018				
		Carrying value	Fair value			
			Level 1	Level 2	Level 3	Total
Financial assets						
Financial investments						
– financial assets at amortised cost						
		292,359,948	–	292,951,020	–	292,951,020
Financial Liabilities						
Debt securities issued						
		(91,443,925)	–	(91,727,315)	–	(91,727,315)

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.4 Fair value of financial assets and liabilities (Continued)

(b) *Financial instruments not measured at fair value (Continued)*

(i) *Financial assets at amortised cost*

Financial assets at amortised cost whose fair value is based on quoted market prices are included in level 1. As for financial assets at amortised cost, when such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received based on observable yield curves or quoted market prices for products with similar credit, maturity and yield characteristics are used where applicable, the fair value measurement will be included in level 2 or level 3.

(ii) *Debt securities in issued*

If the fair value is based on quoted market prices, the fair value measurement will be included in level 1. When the fair value of debt securities issued is determined by valuation techniques and all significant inputs required to fair value are observable, it is included in level 2.

The other financial instruments not measured at fair value in the consolidated financial statements are calculated as the present value of the estimated future cash flows based on observable yield curves. Due to their short duration or the floating rate which is mark to market, the difference between carrying value and fair value of these financial assets is not significant.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value

As at 31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	2,534,833	–	2,534,833
– Interbank certificates of deposit	–	49,676	–	49,676
– Asset management schemes by securities firms or trust companies	5,534,868	49,333,793	–	54,868,661
– Wealth management products	–	36,325,749	–	36,325,749
Derivative financial assets	–	235,406	–	235,406
Financial assets at fair value through other comprehensive income				
– Debt securities	–	95,905,662	–	95,905,662
– Interbank certificates of deposit	–	5,511,326	–	5,511,326
– Equity securities	–	180,876	–	180,876
Loans and advances to customers at fair value through other comprehensive income				
– Discounted bills	–	21,870,165	–	21,870,165
Total assets	5,534,868	211,947,486	–	217,482,354
Derivative financial liabilities	–	(281,329)	–	(281,329)
Total liabilities	–	(281,329)	–	(281,329)

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	1,368,090	–	1,368,090
– Interbank certificates of deposit	–	159,180	–	159,180
– Asset management schemes by securities firms or trust companies	–	74,697,756	–	74,697,756
– Wealth management products	–	28,909,989	–	28,909,989
Derivative financial assets	–	208,979	–	208,979
Financial assets at fair value through other comprehensive income				
– Debt securities	–	85,906,546	–	85,906,546
– Interbank certificates of deposit	–	18,415,455	–	18,415,455
– Equity securities	–	143,019	–	143,019
Loans and advances to customers at fair value through other comprehensive income				
– Discounted bills	–	13,356,764	–	13,356,764
Total assets	–	223,165,778	–	223,165,778
Financial liabilities at fair value through profit or loss	–	(87,598,791)	–	(87,598,791)
Derivative financial liabilities	–	(137,938)	–	(137,938)
Total liabilities	–	(87,736,729)	–	(87,736,729)

The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available.

Financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivative financial instruments are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available, the fair values will be estimated using the discounted cash flow or pricing models. For debt securities, the fair values are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.5 Capital management

The Group takes sufficient measures of capital management to prevent inherent risks associated with the Group's business for the purpose of meeting external regulators' requirements and shareholders' expectation on returns. Capital management is also aimed to stimulate the expansion of capital scale and to improve risk management.

The Group prudently set the objective of capital ratio, taking into account regulatory requirements and the risk situation the Group faces. The Group takes a variety of actions, limit management for example, to ensure the realization of the objectives and proactively adjust its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes the modification of dividend distribution plan, raising new capital and issuance of new bonds.

Started on 1 January 2013, the Group implemented "The Trial Measures for Capital Management of Commercial Banks" which promulgated by the CBRC on 7 June 2012.

The table below summarizes the Capital Adequacy Ratios of the Group as at 31 December 2019:

		As at 31 December 2019	As at 31 December 2018
Common Equity Tier-one Capital Adequacy Ratio	(a)	8.85%	8.37%
Tier-one Capital Adequacy Ratio	(a)	10.85%	9.18%
Capital Adequacy Ratio	(a)	13.21%	11.65%
Common Equity Tier-one Capital	(b)	72,785,738	63,528,664
Common shares		12,154,801	12,154,801
Capital reserve		8,585,572	8,347,521
Surplus reserve and General reserve		22,480,310	18,671,173
Undistributed profits		27,998,413	23,048,940
Eligible portion of minority interests		1,566,642	1,306,229
Deductible Items from Common Equity Tier-one Capital	(c)	(1,343,168)	(181,089)
Net Common Equity Tier-one Capital		71,442,570	63,347,575
Additional Tier-one Capital	(d)	16,198,787	6,164,254
Net Tier-one Capital		87,641,357	69,511,829
Tier-two capital	(e)	19,066,882	18,683,136
Tier 2 capital instruments issued and related premium		9,200,000	9,600,000
Excess loan loss provisions		9,449,111	8,737,384
Eligible portion of non-controlling interests		417,771	345,752
Net Capital		106,708,239	88,194,965
Risk-weighted Assets	(f)	807,541,926	756,950,968

Notes to the Consolidated Financial Statements

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

52 FINANCIAL RISK MANAGEMENT (Continued)

52.5 Capital management (Continued)

Pursuant to the “Capital Rules for Commercial Banks (Provisional)”:

- (a) The scope of consolidation related to the calculation of the Group’s Capital Adequacy Ratios includes Institutions and affiliated financial subsidiaries specified in the Regulation. The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.
- (b) The Group’s Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), surplus reserve, general reserve, retained earnings and, non-controlling interests, to the extent permitted in the Common Equity Tier-one Capital under the Regulation.
- (c) The Group’s Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.
- (d) The Group’s Additional Tier-one Capital includes preference shares, perpetual bonds and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).
- (e) The Group’s Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).
- (f) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

52.6 Fiduciary activities

The Group provides custodian and trustee services to third parties. These assets arising thereon are excluded from the consolidated financial statements. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the consolidated financial statements either.

	As at 31 December 2019	As at 31 December 2018
Entrusted loans	62,017,917	88,271,304
Entrusted wealth management products	180,689,009	101,387,710

Notes to the Consolidated Financial Statements

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

53 SUBSEQUENT EVENTS

1. Profit distribution:

In accordance with the resolution of the 15th meeting of the fourth session of the Board of Directors held on 31 March 2020, the profit distribution plan of the Bank for the year ended 31 December 2019 (subject to approval by the shareholders' meeting) is as follows:

- (i) An appropriation of 10% of profit for the year 2019 amounting to RMB954.01 million to the statutory surplus reserve;
- (ii) An appropriation of 10% of profit for the year 2019 amounting to RMB954.01 million to the discretionary surplus reserve;
- (iii) An appropriation of RMB1,085.92 million to the general reserve;
- (iv) Cash dividends of RMB1.57 per 10 shares (RMB1,908.30 million in total) When the total share capital has changed on the equity register date of dividend payment as a result of that there is increased share issuance prior to this date, the corresponding adjustments shall be made to dividend per share assuming the aggregate dividend declaration remains unchanged.

After the implementation of the above profit distribution plan, the special dividend arrangement considered and approved by the Bank's 2018 Annual General Meeting of Shareholders will no longer be implemented.

2. Evaluation on the impact of New Coronavirus Pneumonia

Since the nationwide outbreak of new coronavirus pneumonia (hereinafter referred to as "NCP") in January 2020, the prevention and control of the NCP epidemic are continuing nationwide. The Group will earnestly implement the requirements of the "Notice on Further Strengthening Financial Support for Prevention and Control of NCP" issued by the People's Bank of China, the Ministry of Finance, the Banking Insurance Regulatory Commission, the Securities Regulatory Commission and the State Administration of Foreign Exchange, and strengthen financial support for epidemic prevention and control. The NCP has affected the business operations of certain regions or industries, including Hubei Province, and the overall economic operation, which may affect the asset quality or asset return level of the Group's credit assets and investment assets to a certain extent, The extent depends on the situation, duration of the epidemic prevention and control, and the implementation of various regulatory policies. The Group will continue to closely monitor the development of the NCP and assess and actively respond to its impact on the financial position and operating results of the Group.

Notes to the Consolidated Financial Statements

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

53 SUBSEQUENT EVENTS (Continued)

3. The Participation in the Initial Establishment of a Commercial Bank and Acquisition of Part of Assets and Liabilities of Other Banking Financial Institution

The Extraordinary General Meeting of the Bank was held on Saturday, 22 February, 2020, and ordinary resolutions that were proposed at the EGM include the resolution on the consideration and approval of the participation in the initial establishment of a commercial bank and the resolution on acquisition of part of assets and liabilities of other banking financial institution. Please refer to the announcement of the Bank dated 7 January 2020, 22 February 2020 and 19 March 2020, and the circular of the Bank dated 7 February 2020. Save as disclosed above, from 1 January 2020 to the Latest Practicable Date, there has not been any non-financial event that may cause material effects on the results of the Bank.

a. The Participation in the Initial Establishment of a Commercial Bank

The Bank plans to make a one-off capital contribution of no more than RMB3.6 billion in participating in the initial establishment of a new provincial financial institution in the Inner Mongolia Autonomous Region that operates only in the autonomous region. Registered capital: RMB20 billion (proposed).

b. Acquisition of Part of Assets and Liabilities of Other Banking Financial Institution

The Bank proposes to acquire part of assets and liabilities of Baoshang Bank and establish or acquire directly four branches of Baoshang Bank.

The above-mentioned acquisition has not been completed and there are no other significant subsequent events besides events mentioned above up to the reporting date.

Appendix I – Unaudited Supplementary Financial Information

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

According to Hong Kong Listing Rules and disclosure requirements of the banking industry, the Group discloses the following supplementary financial information:

1 LIQUIDITY RATIOS

	As at 31 December 2019	As at 31 December 2018
RMB current assets to RMB current liabilities	43.22%	37.19%
Foreign currency current assets to foreign currency current liabilities	204.09%	92.06%

2 CURRENCY CONCENTRATIONS

	USD	EUR	Other	Total
As at 31 December 2019				
Spot assets	9,401,940	113,389	349,015	9,864,344
Spot liabilities	(12,154,962)	(12,913)	(26,412,067)	(38,579,942)
Forward purchases	8,973,195	–	9,599	8,982,794
Forward sales	(1,083,561)	–	–	(1,083,561)
Net long/(short) position	5,136,612	100,476	(26,053,453)	(20,816,365)
	USD	EUR	Other	Total
As at 31 December 2018				
Spot assets	10,374,235	118,930	1,672,551	12,165,716
Spot liabilities	(6,762,136)	(16,822)	(1,899,120)	(8,678,078)
Forward purchases	5,052,082	36,548	438,000	5,526,630
Forward sales	(1,524,257)	(35,729)	(193,262)	(1,753,248)
Net long/(short) position	7,139,924	102,927	18,169	7,261,020

Appendix I – Unaudited Supplementary Financial Information

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

3 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Chinese Mainland, and regards all the claims on third parties outside Chinese Mainland as cross border claims.

International claims include balances with central bank, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held for trading, financial assets designated at fair value through profit or loss, loans and advances to customers, financial assets held under resale agreements, financial assets at fair value through other comprehensive income and financial assets at amortised cost.

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks and other financial institutions	Non-bank private institutions	Total
As at 31 December 2019			
Asia Pacific excluding Chinese mainland	2,223,156	1,366,904	3,590,060
– Hong Kong	2,220,639	1,366,904	3,587,543
Europe	18,728	–	18,728
North and South America	1,160,685	–	1,160,685
Oceania	1,093	–	1,093
Total	3,403,662	1,366,904	4,770,566
As at 31 December 2018			
Asia Pacific excluding Chinese mainland	2,325,297	4,822,580	7,147,877
– Hong Kong	664,104	4,822,580	5,486,684
Europe	2,539	–	2,539
North and South America	376,516	–	376,516
Oceania	1,509	–	1,509
Total	2,705,861	4,822,580	7,528,441

Appendix I – Unaudited Supplementary Financial Information

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

4 LOANS AND ADVANCES TO CUSTOMERS

4.1 Overdue loans and advances to customers

Total amount of overdue loans and advances to customers:

	As at 31 December 2019	As at 31 December 2018
Total loans and advances to customers which have been overdue:		
Within 3 months	2,597,747	2,169,732
Within 3 to 6 months	987,499	1,945,488
Within 6 to 12 months	1,216,414	969,289
Over 12 months	1,646,409	744,516
Total	6,448,069	5,829,025
By percentage:		
Within 3 months	40.30%	37.22%
Within 3 to 6 months	15.31%	33.38%
Within 6 to 12 months	18.86%	16.63%
Over 12 months	25.53%	12.77%
Total	100.00%	100.00%

Total amount of overdue loans and advances to customers and allowance assessment by geographic segment:

	Anhui Province	Jiangsu Province	Total
As at 31 December 2019			
Overdue loans and advances to customers	5,975,231	472,838	6,448,069
Individually assessed	(4,078,485)	(263,087)	(4,341,572)
	Anhui Province	Jiangsu Province	Total
As at 31 December 2018			
Overdue loans and advances to customers	5,569,016	260,009	5,829,025
Individually assessed	(3,758,948)	(150,685)	(3,909,633)

Fair value of collateral against overdue loans and advances to customers:

	As at 31 December 2019	As at 31 December 2018
Fair value of collateral		
Corporate loans	4,346,979	3,740,225
Personal loans and advances	1,280,858	1,285,026
Total	5,627,837	5,025,251

Appendix I – Unaudited Supplementary Financial Information

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

4 LOANS AND ADVANCES TO CUSTOMERS (Continued)

4.2 Identified impaired loans and advances

	Anhui Province	Jiangsu Province	Total
As at 31 December 2019			
Identified impaired loans and advances for			
which allowance is:			
Individually assessed	4,508,358	306,300	4,814,658
	(4,077,116)	(252,333)	(4,329,449)
As at 31 December 2018			
Identified impaired loans and advances for			
which allowance is:			
Individually assessed	3,849,680	129,844	3,979,524
	(3,416,506)	(123,783)	(3,540,289)