晉商银行
Jinshang Bank

# JINSHANG BANK CO., LTD.*
# 晉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: 2558)**

## 2019 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "**Board of Directors**") of Jinshang Bank Co., Ltd.* (the "**Bank**") is pleased to announce the audited consolidated annual results of the Bank and its subsidiary (the "**Group**") for the year ended December 31, 2019 (the "**Reporting Period**"). The content of this results announcement has been prepared in accordance with applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**") in relation to preliminary announcements of annual results and the International Financial Reporting Standards (the "**IFRSs**") promulgated by the International Accounting Standards Board (the "**IASB**"). Such annual results have also been reviewed and confirmed by the Board and the audit committee of the Board. Unless otherwise indicated, the financial information set out in this announcement is on a consolidated basis and presented in Renminbi.

### 1. CORPORATE INFORMATION

#### 1.1 Basic Information

| | |
|---|---|
| Legal Chinese Name | 晉商銀行股份有限公司 |
| Abbreviation in Chinese | 晉商銀行 |
| Legal English Name | Jinshang Bank Co., Ltd. |
| Abbreviation in English | Jinshang Bank |
| Legal Representative | YAN Junsheng[1] |
| Authorized Representatives | YAN Junsheng[2], YEUNG Ching Man |
| Listing Place of H shares | The Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**") |
| Stock Name | JINSHANG BANK |
| Stock Code | 2558 |

1 On January 8, 2020, Mr. YAN Junsheng has tendered his resignation as the chairman of the Board and legal representative of the Company. Procedures will be followed to make changes to the industrial and commercial registration with the Shanxi Administration for Market Regulation.

2 On January 8, 2020, Mr. YAN Junsheng has tendered his resignation as the authorized representative, and Mr. TANG Yiping, the vice chairman and president, will temporarily perform the duty of the authorized representative.

### 1.2 Contact Persons and Contact Details

| | |
|---|---|
| Secretary to the Board of Directors | LI Weiqiang |
| Joint Company Secretaries | HAO Qiang, YEUNG Ching Man |
| Registered Address and Address of Head Office | No. 59 Changfeng Street, Xiaodian District, Taiyuan City, Shanxi Province, the PRC |
| Principal Place of Business in Hong Kong | 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong |
| Tel | 0351-6819503 |
| Fax | 0351-6819503 |
| E-mail | shangshiban@jshbank.com |
| Website | www.jshbank.com |

## 2. SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2019** | 2018 | Rate of change (%) |
| | *(Expressed in millions of RMB, unless otherwise stated)* | | |
| **Results of operations** | | | |
| Interest income | **8,741.0** | 8,345.0 | 4.7 |
| Interest expense | **(5,496.2)** | (5,166.2) | 6.4 |
| **Net interest income** | **3,244.8** | 3,178.8 | 2.1 |
| Fee and commission income | **710.6** | 490.3 | 44.9 |
| Fee and commission expense | **(85.8)** | (66.6) | 28.8 |
| **Net fee and commission income** | **624.8** | 423.7 | 47.5 |
| Net trading gains | **435.4** | 231.8 | 87.8 |
| Net gains arising from investment securities | **746.2** | 887.4 | (15.9) |
| Other operating income [(1)] | **37.7** | 31.1 | 21.2 |
| **Operating income** | **5,088.9** | 4,752.8 | 7.1 |
| Operating expense | **(1,836.8)** | (1,750.8) | 4.9 |
| Impairment losses on assets | **(1,665.5)** | (1,535.5) | 8.5 |
| Share of profits of associate | **20.9** | 33.2 | (37.0) |
| **Profit before tax** | **1,607.5** | 1,499.7 | 7.2 |
| Income tax | **(125.1)** | (186.1) | (32.8) |

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2019** | 2018 | Rate of change (%) |
| | *(Expressed in millions of RMB, unless otherwise stated)* | | |
| **Net profit for the period** | **1,482.4** | 1,313.6 | 12.9 |
| **Net profit attributable to:** | | | |
| Equity shareholders of the Bank | **1,483.6** | 1,310.3 | 13.2 |
| Non-controlling interests | **(1.2)** | 3.3 | (136.4) |
| **Earnings per share attributable to equity shareholders of the Bank (RMB per share)** | | | |
| －Basic | **0.28** | 0.27 | 3.7 |
| －Diluted | **0.28** | 0.27 | 3.7 |

*Note:*

(1) Consists primarily of net gains from disposal of self-used property and equipment, default penalty income and penalty income.

| | **As of December 31, 2019** | As of December 31, 2018 | Rate of change (%) |
|---|---|---|---|
| | *(Expressed in millions of RMB, unless otherwise stated)* | | |
| **Key indicators for assets/liabilities** | | | |
| **Total assets** | **247,571.2** | 227,247.8 | 8.9 |
| Of which: net loans and advances to customers | **111,712.6** | 98,118.1 | 13.9 |
| **Total liabilities** | **227,411.9** | 211,251.9 | 7.6 |
| Of which: deposits from customers | **155,322.2** | 144,896.8 | 7.2 |
| Share capital | **5,838.7** | 4,868.0 | 19.9 |
| Equity attributable to equity shareholders | **20,135.2** | 15,969.9 | 26.1 |
| **Total equity** | **20,159.3** | 15,995.9 | 26.0 |

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| **Profitability indicators (%)** | | | |
| Return on average assets [(1)] | **0.62** | 0.61 | 0.01 |
| Return on average equity [(2)] | **8.20** | 8.70 | (0.50) |
| Net interest spread [(3)] | **1.68** | 1.68 | 0.00 |
| Net interest margin [(4)] | **1.61** | 1.70 | (0.09) |
| Net fee and commission income to operating income | **12.28** | 8.91 | 3.37 |
| Cost-to-income ratio [(5)] | **34.79** | 35.75 | (0.96) |

| | As of December 31, | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| **Asset quality indicators (%)** | | | |
| NPL ratio [(6)] | **1.86** | 1.87 | (0.01) |
| Allowance coverage ratio [(7)] | **199.92** | 212.68 | (12.76) |
| Allowance to gross loan ratio [(8)] | **3.71** | 3.97 | (0.26) |

| | As of December 31, | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| **Capital adequacy indicators (%) [(9)]** | | | |
| Core tier-one capital adequacy ratio [(10)] | **11.47** | 10.63 | 0.84 |
| Tier-one capital adequacy ratio [(11)] | **11.47** | 10.63 | 0.84 |
| Capital adequacy ratio [(12)] | **13.60** | 12.99 | 0.61 |
| Total equity to total assets | **8.14** | 7.04 | 1.10 |

| | As of December 31, | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| **Other indicators (%)** | | | |
| Loan-to-deposit ratio [(13)] | **75.49** | 70.99 | 4.50 |
| Liquidity coverage ratio [(14)] | **252.85** | 226.64 | 26.21 |
| Liquidity ratio [(15)] | **90.01** | 83.91 | 6.10 |

| | **As of December 31,** | |
|---|---|---|
| | **2019** | 2018 |
| | *(Expressed in millions of RMB, unless otherwise stated)* | |
| **Net stable funding ratio (16)** | | |
| Total available stable funding | **147,133.4** | 133,954.3 |
| Total required stable funding | **107,250.6** | 102,688.0 |
| Net stable funding ratio (%) | **137.19** | 130.45 |

*Notes:*

(1) Calculated by dividing net profit for the period by the average balance of total assets at the beginning and the end of the period.

(2) Calculated by dividing net profit for the period by the average balance of total equity at the beginning and the end of the period.

(3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(4) Calculated by dividing net interest income by the average balance of total interest-earning assets.

(5) Calculated by dividing total operating expenses (excluding tax and surcharges) by total operating income.

(6) Calculated by dividing total NPLs by gross loans and advances to customers. Except as otherwise stated, the "gross loans and advances" referred to in this announcement exclude interest accrued.

(7) Calculated by dividing total allowance for impairment losses on loans to customers (including the provision for impairment losses of loans and advances to customers measured at fair value through other comprehensive income) by total NPLs.

(8) Calculated by dividing total allowance for impairment losses on loans to customers (including the provision for impairment losses of loans and advances to customers measured at fair value through other comprehensive income) by gross loans and advances to customers.

(9) Calculated in accordance with the Capital Administrative Measures for Commercial Banks (Provisional).

(10) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets.

(11) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets.

(12) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets.

(13) Calculated by dividing total loans and advances to customers by total deposits from customers (excluding interest accrued).

(14) Liquidity coverage ratio is calculated in accordance with the formula promulgated by the China Banking and Insurance Regulatory Commission. Liquidity coverage ratio = eligible high-quality liquid assets/net cash outflows for the next 30 days × 100%.

(15) Liquidity ratio is calculated in accordance with the formula promulgated by the China Banking and Insurance Regulatory Commission. Liquidity ratio = balance of current assets/balance of current liabilities × 100%.

(16) Net stable funding ratio is calculated in accordance with the formula promulgated by the China Banking and Insurance Regulatory Commission. Net stable funding ratio = available stable funding/required stable funding × 100%. According to the Measures for Disclosure of Information on the Proportion of Net Stable Capital by Commercial Banks (Yin Bao Jian Fa [2019] No. 11) (《商業銀行淨穩定資金比例信息披露辦法》(銀保監發[2019]11號)) issued by the China Banking and Insurance Regulatory Commission in 2019.

## 3. MANAGEMENT DISCUSSION AND ANALYSIS

### 3.1 Review of the Economic, Financial and Policy Environment

In 2019, facing with complicated and changeable domestic and foreign environments, China's economic operation is generally stable, development quality has been steadily improved, structural adjustment has continued to advance, and transformation and upgrading have achieved significant results. For the year ended December 31, 2019, the gross domestic product (GDP) reached RMB99,086,500 million, representing an increase of 6.1% year-on-year at constant prices. In 2019, the GDP quarterly growth rate was 6.4%, 6.2%, 6.0% and 6.0% respectively, for the 18th consecutive quarter staying in the range of 6.0% – 7.0%; the added value of above-scale industries in China increased by 5.7% year-on-year; the added value of above-scale strategic emerging industries increased by 8.4%; the added value of above-scale high-tech manufacturing increased by 8.8%; the total retail sales of consumer goods nominally increased by 8.0% year-on-year, and the contribution of consumption growth to economic growth reached 57.8%, driving economic growth by 3.5 percentage points, becoming the main driver of economic growth for six consecutive years and domestic consumer price rose 2.9% year-on-year.

In 2019, domestic money supply, social financing scale and RMB loans all maintained moderate growth. As of the end of December 2019, the broad money (M2) balance was RMB198.7 trillion, with a year-on-year increase of 8.7%, and the growth rates were 0.5 and 0.6 percentage points higher than those at the end of last month and the same period of the previous year. In 2019, the increment of social financing amounted to RMB25.6 trillion in aggregate, representing a year-on-year increase of RMB3.1 trillion; RMB loans grew by RMB16.8 trillion, representing a year-on-year increase of RMB643.9 billion.

In 2019, the pattern of "steady" economic operation in Shanxi Province, where the Bank's operating activities are located, has been continuously consolidated, the driving force of "transformation" has become stronger, and the trend of "good" situation has continued to emerge, and solid progress has been made in its pursuit of high quality transformation and development. Among other things, the provincial GDP for the whole year reached RMB1,702,670 million, representing a year-on-year growth of 6.2% at constant prices, 0.1 percentage point higher than the national average. It has remained within a reasonable range of more than 6% for 12 consecutive quarters since 2017, and higher than the national level for three consecutive years; the added value of above-scale industries in the province increased by 5.3% on a year-on-year basis, of which the added value of manufacturing industry increased by 7.0%; fixed asset investment increased by 9.3% on a year-on-year basis, 3.9 percentage points higher than the national average; total retail sales of consumer goods increased by 7.8%, 0.3 percentage point higher than the annual target.

## 3.2 Business Overview and Development Strategies

In 2019, in the context of a complex economic and financial environment, the Bank has always been committed to our strategic vision to serve and support Shanxi Province's economic development, to harness its core competitiveness, and to become a listed regional boutique bank in the local market with a sound corporate structure, featured products and services, a rigorous risk management system and comprehensive functions, and made efforts to promote the Bank-wide transformation from speed- and scale-based to quality- and efficiency-based by leading development through strategies, continuous reform and innovation, reinforcing compliance in operations, and preventing and controlling financial risks, thus achieving excellent results in the steady development of various businesses.

We maintained strategic focus and smoothed operation of various businesses. First, we continuously consolidated development strength. As of the end of 2019, the Group's total assets amounted to RMB247.57 billion, representing an increase of RMB20.32 billion or 8.9% as compared to that at the beginning of the year; the balance of various deposits amounted to RMB155.32 billion, representing an increase of RMB10.42 billion or 7.2% as compared to that at the beginning of the year; the balance of various loans amounted to RMB115.48 billion, representing an increase of RMB13.84 billion or 13.6%; it realized a net profit of RMB1.48 billion, representing a year-on-year increase of RMB170 million; the major regulatory indicators such as the NPL ratio and capital adequacy ratio met regulatory requirements. Second, we effectively upgraded development platform. On July 18, 2019, the Bank was officially listed on the Hong Kong Stock Exchange, becoming the first listed bank in Shanxi Province and filling the gap of listed banks in Shanxi Province, and marking the first bank stock IPO in Hong Kong H-share market in 2019. Third, we continuously improved the brand value. The Bank was recognized as "the Most Competitive National Brand of China City Commercial Bank", Shanxi Meritorious Enterprise and the Favorite Bank by People in Shanxi Province, etc., received the "May 1st Labor's Day Award of Shanxi Province", and was honored "Outstanding Contribution Award for Facilitating Transformation and Leaping Forward of Shanxi Province". We ranked 421st among the "2019 Top 1000 World Banks" by The Banker, moving up 19 places from its previous ranking in 2018.

We focused on market positioning and stuck to serving the local economy. First, we supported key local projects. We coordinated our agencies to proactively approach, and helped the constructions of major projects such as municipal works, rail transit, and infrastructures with all efforts according to the lists of local governments' key projects. We further widened the "green lanes" for credit approval, and provided credit support to relevant enterprises in the Comprehensive Reform Demonstration Zone within a short time span, which has been unanimously recognized by the Comprehensive Reform Demonstration Zone and the enterprises settled there. Second, we assisted enterprises transformation. In response to the transformation financial needs of strategic customers, we actively innovated financial means, mobilized financial resources from various parties, and provided energy companies with efficient and high-quality comprehensive financial services. In 2019, the accumulated syndicated loans lead by the Bank amounted to RMB2.05 billion and the syndicated loans participated by the Bank amounted to

RMB410.0 million. We focused to support environmental protection, energy saving and emission reduction projects, and accessed a great base of green and clean energy potential customers. Third, we intensified the cooperation between governments and the Bank. We continuously enriched the forms and scope of government-bank cooperation, and carried out in-depth cooperation in a number of tasks, such as subscriptions to local debts, promoting the development of new materials industries, and implementing county-town medical integrated informatization transformation. Fourth, we promoted inclusive finance services. We continued to increase investments in resources for private and small and micro enterprises, and carried out a series of works to improve quality and efficiency in the implementation of task indicators, innovation and optimization of products, and prevention and mitigation of risks. We gathered the strengths and resources of various departments and institutions, firmly tackled the task of poverty alleviation, worked on the key tasks of poverty alleviation by industries, deployed staff in villages to give assistance, and facilitated infrastructure construction, and upheld and practiced the concept of inclusive finance with concrete actions.

We maintained the leadership in innovation, achieved remarkable results in the transformation of businesses. First, we continued to grow the retail business. The size of retail customer financial asset management exceeded RMB100 billion, a record high in growth, and the competitiveness and influence in the retail business market strengthened significantly. We gradually expanded the online sales channels for deposit products, and continuously consolidated the foundation for personal deposits. The residential mortgage business has become a new driving force for personal loan business as it developed rapidly. We became professional in wealth management business, established five "Jin Sheng Cai Fu Star Studios" and won the titles of "Best Regional Private Banks in China" and "Best Ten Innovative Family Trust Management Awards". Second, we accelerated the development of our businesses. We continued to improve the level of the Company's customer management through strengthening the management of customer list and marketing guidelines. We continued to drive the growth of intermediary business revenue through upgrading the combination of trade financial products such as domestic letters of credit, forfaiting, and cash management platforms. We connected with financial institutions such as policy banks, insurance companies, securities house, trusts, etc., and conducted in-depth cooperation in the aspects of fund agency, loan agency, business agency, etc., to further broaden the channels of deposit retention for the Company. Third, we had strong rising businesses. We marked a significant development in the investment banking business. As a result of developing businesses including bond underwriting, syndicated loans, financing plans, the volume of underwriting business performed well among China's leading underwriters, with a ranking of 53rd, and the market influence has enhanced significantly. Our direct banking business has grown rapidly, forming a relatively comprehensive product line covering products such as deposits, wealth management, and investment, being granted with the titles of "Outstanding Internet Financial Bank" and "China Internet Finance Emerging Bank". We achieved breakthrough growth in the credit card business, and took the lead among regional banks in various measures such as "JD Co-Branded Cards", launched Sandalwood Card of Wutai Shan, and initially established a credit card brand with local lifestyle characteristics.

We improved mechanisms and deepened management reform constantly. First, we began to achieve results from the reforms of major business lines. Based on regional characteristics and its own capabilities, we actively explored unique and differentiated development. The management committees of retail and corporate businesses operated smoothly. The departments of institutional client, trade finance, corporate finance, and investment banking coordinated in operations. The retail and corporate businesses have entered a new stage of development. In line with the development trend of financial technology, we basically completed the reform of the technology line, put the five-center structure into operation officially, further enhanced the professionalization of technology works and the internal coordination ability between departments. At the same time, we organized agile development teams across lines and departments to establish mechanisms of agile development innovation and to promote integration of technology and business. We continued to promote intensive development, started to implement "Project One 2.0" plan, solidly advanced the pilot work of the integration reform of the hall operation, and provided customers with a better experience. Second, comprehensive strengthening of the risk compliance concept. Facing the new economic normal and new regulatory requirements, we continued to improve the comprehensive risk management system and made a robust risk management and control mechanism, and firmly maintained the bottom line of preventing systemic and regional financial risks. We vigorously promoted the adjustment of credit customer structure, conducted classified access management by industry, improved risk identification capabilities, strictly implemented accountability mechanisms, strengthened the disposals of non-performing assets, and ensured the overall credit risks to be controllable. We continued to improve liquidity risk management strategies, reinforced market forward-looking forecasts, strictly implemented review management of caps, and conducted stress tests on a regular basis, significantly improving the level of liquidity risk management. We attached great importance to the construction of a compliance culture, and built "three lines of defense" in which departments of business, internal control, and audit jointly managed operations and compliance risks. Third, we continuously strengthened the construction of talent teams. We further expanded our senior and mid-level management team, promoted the construction of the three-level staff team at the head office, branches, and sub-branches, and improved the training mechanism, established an internal trainer team, implemented work rotation in management trainees, urged all lines to carry out training, and strove to improve the professional quality of staff at all levels to provide powerful support in terms of human resources for the development of the Bank as a whole.

### 3.3 Income Statement Analysis

| | Year ended December 31, | | |
|---|---|---|---|
| | **2019** | 2018 | change (%) |
| | *(Expressed in millions of RMB, unless otherwise stated)* | | |
| Interest income | **8,741.0** | 8,345.0 | 4.7 |
| Interest expense | **(5,496.2)** | (5,166.2) | 6.4 |
| **Net interest income** | **3,244.8** | 3,178.8 | 2.1 |
| Fee and commission income | **710.6** | 490.3 | 44.9 |
| Fee and commission expenses | **(85.8)** | (66.6) | 28.8 |
| **Net fee and commission income** | **624.8** | 423.7 | 47.5 |
| Net trading gains | **435.4** | 231.8 | 87.8 |
| Net gains arising from investment securities | **746.2** | 887.4 | (15.9) |
| Other operating income [(1)] | **37.7** | 31.1 | 21.2 |
| **Operating income** | **5,088.9** | 4,752.8 | 7.1 |
| Operating expenses | **(1,836.8)** | (1,750.8) | 4.9 |
| Impairment losses on assets | **(1,665.5)** | (1,535.5) | 8.5 |
| Share of profits of associate | **20.9** | 33.2 | (37.0) |
| **Profit before tax** | **1,607.5** | 1,499.7 | 7.2 |
| Income tax | **(125.1)** | (186.1) | (32.8) |
| **Net profit** | **1,482.4** | 1,313.6 | 12.9 |

*Note:*

(1) Consists primarily of net gains from disposal of self-used property and equipment, default penalty income and penalty income.

For the year ended December 31, 2019, the profit before tax of the Group increased by 7.2% to RMB1,607.5 million from RMB1,499.7 million for the year ended December 31, 2018, and net profit for the same period increased to RMB1,482.4 million from RMB1,313.6 million for the year ended December 31, 2018, representing a year-on-year growth of 12.9%.

### *3.3.1 Net interest income, net interest spread and net interest margin*

For the year ended December 31, 2019, the net interest income of the Group increased by 2.1% to RMB3,244.8 million from RMB3,178.8 million for the year ended December 31, 2018, mainly due to the 4.7% increase in interest income for the period, which was partially offset by the increase in interest expense.

The net interest spread of the Group was 1.68% for the year ended December 31, 2019, which was flat with that on December 31, 2018.

The net interest margin of the Group decreased from 1.70% for the year ended December 31, 2018 to 1.61% for the year ended December 31, 2019, mainly due to the decrease in the bill discounting rates among loans and advances to customers, the increase in interest payout ratio of deposit and the increase in the average scale of the financial assets measured at fair value through profit or loss allocated by the Bank, which were not included in interest-earning assets.

The following table sets forth the average balances of the Bank's interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the related average yields on assets or related average cost on liabilities for the years ended December 31, 2018 and 2019.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2019** | | | 2018 | | |
| | **Average balance** | **Interest income/ expense** | **Average yield/cost (%)** [(1)] | Average balance | Interest income/ expense | Average yield/cost (%) [(1)] |
| | *(in millions of RMB, except percentages)* | | | | | |
| **Interest-earning assets** | | | | | | |
| Loans and advances to customers | **111,649.8** | **5,589.7** | **5.01%** | 105,578.3 | 5,579.7 | 5.28% |
| Financial investments [(2)] | **55,712.5** | **2,427.0** | **4.36%** | 51,876.7 | 2,147.7 | 4.14% |
| Placements with banks and other financial institutions | **3,156.2** | **80.3** | **2.54%** | 852.8 | 23.1 | 2.71% |
| Financial assets held under resale agreement | **11,497.4** | **349.8** | **3.04%** | 5,982.6 | 241.5 | 4.04% |
| Deposits with the central bank [(3)] | **17,660.8** | **259.0** | **1.47%** | 21,426.1 | 322.2 | 1.50% |
| Deposits with banks and other financial institutions | **1,705.6** | **35.2** | **2.06%** | 1,180.6 | 30.8 | 2.61% |
| **Total interest-earning assets** | **201,382.3** | **8,741.0** | **4.34%** | 186,897.1 | 8,345.0 | 4.47% |
| **Interest-bearing liabilities** | | | | | | |
| Deposits from customers | **148,082.3** | **3,405.5** | **2.30%** | 138,792.8 | 3,020.5 | 2.18% |
| Deposits from banks and other financial institutions | **3,221.9** | **107.7** | **3.34%** | 7,152.3 | 337.3 | 4.72% |
| Placements from banks and other financial institutions | **614.5** | **18.4** | **2.99%** | 79.7 | 2.1 | 2.63% |
| Financial assets sold under repurchase agreements | **6,694.4** | **162.1** | **2.42%** | 4,105.6 | 127.2 | 3.10% |
| Debt securities issued [(4)] | **47,085.2** | **1,780.8** | **3.78%** | 34,929.0 | 1,674.1 | 4.79% |
| Borrowing from the central bank | **761.2** | **21.7** | **2.85%** | 169.1 | 5.0 | 2.96% |
| **Total interest-bearing liabilities** | **206,459.5** | **5,496.2** | **2.66%** | 185,228.5 | 5,166.2 | 2.79% |
| **Net interest income** | | **3,244.8** | | | 3,178.8 | |
| **Net interest spread** [(5)] | | | **1.68%** | | | 1.68% |
| **Net interest margin** [(6)] | | | **1.61%** | | | 1.70% |

*Notes:*

(1) Calculated by dividing interest income/expense by average balance.

(2) Consist of financial investments measured at amortized costs and financial investments measured at fair value through other comprehensive income.

(3) Consists primarily of statutory deposit reserves and surplus deposit reserves.

(4) Consists of certificates of interbank deposit, financial bonds and tier-two capital debts.

(5) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.

(6) Calculated by dividing net interest income by the average balance of total interest-earning assets.

### 3.3.2 Interest income

For the year ended December 31, 2019, the Bank's interest income increased by 4.7% to RMB8,741.0 million from RMB8,345.0 million for the year ended December 31, 2018, primarily due to an increase in average balance of interest-earning assets from RMB186,897.1 million for the year ended December 31, 2018 to RMB201,382.3 million for the year ended December 31, 2019, which was partially offset by a decrease in the average yield on interest-earning assets from 4.47% for the year ended December 31, 2018 to 4.34% for the year ended December 31, 2019.

*Interest income from loans and advances to customers*

For the year ended December 31, 2019, interest income from loans and advances to customers increased by 0.2% from RMB5,579.7 million for the year ended December 31, 2018 to RMB5,589.7 million for the year ended December 31, 2019, primarily because the average balance of loans and advances to customers increased by 5.8% from RMB105,578.3 million for the year ended December 31, 2018 to RMB111,649.8 million for the year ended December 31, 2019. The increase in the average balance of loans and advances to customers was primarily due to the continued expansion of the Bank's credit businesses. The decrease in the yield on loans and advances was due to a decrease in the yield on discounted bills affected by the market.

*Interest income from financial investments*

For the year ended December 31, 2019, interest income from financial investments increased by 13.0% to RMB2,427.0 million from RMB2,147.7 million for the year ended December 31, 2018, primarily because a 7.4% increase in the average balance of financial investments from RMB51,876.7 million for the year ended December 31, 2018 to RMB55,712.5 million for the year ended December 31, 2019, and an increase in the average yield on financial investments from 4.14% for the year ended December 31, 2018 to 4.36% for the year ended December 31, 2019. The increase in the average balance of financial investments was primarily because the Bank increased the scale of assets, such as bonds. The increase in the yield on financial investments was primarily because the increase in the yield on Special Purpose Vehicle ("SPV").

*Interest income from placements with banks and other financial institutions*

For the year ended December 31, 2019, interest income from placements with banks and other financial institutions increased to RMB80.3 million from RMB23.1 million for the year ended December 31, 2018, primarily because the average balance of placements with banks and other financial institutions increased by 270.1% from RMB852.8 million for the year ended December 31, 2018 to RMB3,156.2 million for the year ended December 31, 2019, which was partially offset by a decrease in the yield of the placements with banks and other financial institutions from 2.71% for the year ended December 31, 2018 to 2.54% for the year ended December 31, 2019. The increase in the average balance was primarily because of the increase in the placements with banks and other financial institutions driven by the liquidity management needs. The decrease in the yield was primarily due to the abundant liquidity in the market and the decline in market interest rates.

*Interest income from financial assets held under resale agreements*

For the year ended December 31, 2019, interest income from financial assets held under resale agreements increased by 44.8% to RMB349.8 million from RMB241.5 million for the year ended December 31, 2018, primarily because the Bank utilized its comparatively abundant liquidity funds and entered into an increased number of reverse repurchase transactions. The average balance of financial assets held under resale agreements increased by 92.2% from RMB5,982.6 million for the year ended December 31, 2018 to RMB11,497.4 million for the year ended December 31, 2019, which was partially offset by a decrease in the yield from 4.04% to 3.04%. The decrease in the yield was primarily due to the easing liquidity in the market and the decline in market interest rates affected by monetary policies.

*Interest income from deposits with the central bank*

Interest income from deposits with the central bank decreased by 19.6% from RMB322.2 million for the year ended December 31, 2018 to RMB259.0 million for the year ended December 31, 2019, primarily attributable to a decrease in the average balance of reserve deposits with the central bank resulting from a decrease of the statutory deposit reserve ratio. The average balance of deposits with the central bank decreased by 17.6% from RMB21,426.1 million for the year ended December 31, 2018 to RMB17,660.8 million for the year ended December 31, 2019.

*Interest income from deposits with banks and other financial institutions*

Interest income from deposits with banks and other financial institutions increased by 14.3% from RMB30.8 million for the year ended December 31, 2018 to RMB35.2 million for the year ended December 31, 2019, primarily because the average balance from deposits with banks and other financial institutions increased by 44.5% from RMB1,180.6 million for the year ended December 31, 2018 to RMB1,705.6 million for the year ended December 31, 2019, which was partially offset by a decrease in the yield from 2.61% in 2018 to 2.06% in 2019.

### *3.3.3 Interest expense*

The Group's interest expense increased by 6.4% from RMB5,166.2 million for the year ended December 31, 2018 to RMB5,496.2 million for the year ended December 31, 2019, primarily due to a 11.5% increase in the average balance of interest-bearing liabilities from RMB185,228.5 million for the year ended December 31, 2018 to RMB206,459.5 million for the year ended December 31, 2019, which was partially offset by a decrease of 0.13 basis point in the average cost of interest-bearing liabilities from 2.79% for the year ended December 31, 2018 to 2.66% for the year ended December 31, 2019.

*Interest expense on deposits from customers*

Interest expense on deposits from customers increased by 12.7% from RMB3,020.5 million for the year ended December 31, 2018 to RMB3,405.5 million for the year ended December 31, 2019, primarily due to our commitment to developing its deposit business, which resulted in a 6.7% increase in daily average balance of deposits from customers from RMB138,792.8 million for the year ended December 31, 2018 to RMB148,082.3 million for the year ended December 31, 2019. Meanwhile, the average cost on deposits from customers increased from 2.18% to 2.30%, mainly due to the increased proportion of daily average value of time deposits.

*Interest expense on deposits from banks and other financial institutions*

Interest expense on deposits from banks and other financial institutions decreased by 68.1% from RMB337.3 million for the year ended December 31, 2018 to RMB107.7 million for the year ended December 31, 2019, primarily due to a 55.0% decrease in the average balance of deposits from banks and other financial institutions from RMB7,152.3 million for the year ended December 31, 2018 to RMB3,221.9 million for the year ended December 31, 2019. The decrease in the average balance of the Bank's deposits from banks and other financial institutions was primarily due to the optimization of liability structure by the Bank by increasing the funds it obtained from issuing debt securities and deposits from customers, while reducing its reliance on deposits from banks and other financial institutions. In addition, due to the impact of downward market interest rates, the cost of deposits from banks and other financial institutions decreased from 4.72% for the year ended December 31, 2018 to 3.34% for the year ended December 31, 2019.

*Interest expense on placements from banks and other financial institutions*

Interest expense on placements from banks and other financial institutions increased from RMB2.1 million for the year ended December 31, 2018 to RMB18.4 million for the year ended December 31, 2019, primarily due to an increase in average balance of placements from banks and other financial institutions from RMB79.7 million for the year ended December 31, 2018 to RMB614.5 million for the year ended December 31, 2019. The increase in the daily average balance was primarily due to the engagement of placement business as the result of the business needs.

*Interest expense on financial assets sold under repurchase agreements*

Interest expense on financial assets sold under repurchase agreements increased by 27.4% from RMB127.2 million for the year ended December 31, 2018 to RMB162.1 million for the year ended December 31, 2019, mainly because the average balance of financial assets sold under repurchase agreements increased by 63.1% from RMB4,105.6 million for the year ended December 31, 2018 to RMB6,694.4 million for the year ended December 31, 2019, and due to the impact from monetary policies and easing market liquidity, the average cost decreased by 68 basis points from 3.10% to 2.42%. The increase in the average balance was primarily due to an increase in the number of repurchase transaction contracts the Bank entered into in order to extend financing channels and reduce financing costs.

*Interest expense on debt securities issued*

Interest expense on debt securities issued increased by 6.4% from RMB1,674.1 million for the year ended December 31, 2018 to RMB1,780.8 million for the year ended December 31, 2019, primarily due to a 34.8% increase in the average balance of debt securities issued from RMB34,929.0 million for the year ended December 31, 2018 to RMB47,085.2 million for the year ended December 31, 2019, and a decrease of 101 basis points in the average cost of debt securities issued from 4.79% for the year ended December 31, 2018 to 3.78% for the year ended December 31, 2019. The increase in the average balance of debt securities issued was mainly due to the issuance of the certificates of interbank deposit and financial bonds to replenish the Bank's working capital for business development. The decline in the average interest rate of debt securities issued was primarily due to a decline in the issuance rate resulting from the impact of monetary policies and easy market funds.

*Interest expense on borrowing from the central bank*

Interest expense on borrowing from the central bank increased by 334.0% from RMB5.0 million for the year ended December 31, 2018 to RMB21.7 million for the year ended December 31, 2019, primarily due to a 350.1% increase in the average balance of borrowing from the central bank from RMB169.1 million for the year ended December 31, 2018 to RMB761.2 million for the year ended December 31, 2019, which was partially offset by a decrease in the average cost of borrowing from the central bank from 2.96% to 2.85%. The increase in the average balance and the decrease in the average cost was primarily because the Bank obtained through the central bank a higher allotment of relending loans (the proceeds from which are designated for supporting the development of micro and small enterprises), which bear a lower interest rate, so as to strengthen its credit extension to micro and small enterprises and private enterprises.

### *3.3.4 Net fee and commission income*

The following table sets forth, for the year ended December 31, 2018 and 2019, the principal components of net fee and commission income of the Group.

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | **2019** | 2018 | Amount change | Change (%) |
| | *(in millions of RMB, except percentages)* | | | |
| **Fee and commission income** | | | | |
| Agency service fees and others | **249.1** | 152.3 | 96.8 | 63.6 |
| Acceptance and guarantee business fees | **157.5** | 125.6 | 31.9 | 25.3 |
| Wealth management service fees | **141.8** | 126.8 | 15.0 | 11.8 |
| Bank card service fees | **83.9** | 39.0 | 44.9 | 115.1 |
| Settlement and clearing fees | **78.3** | 46.6 | 31.7 | 68.0 |
| **Subtotal** | **710.6** | 490.3 | 220.3 | 44.9 |
| **Fee and commission expenses** | | | | |
| Settlement and clearing fees | **(37.2)** | (29.4) | (7.8) | 26.5 |
| Bank card service fees | **(22.5)** | (2.2) | (20.3) | 922.7 |
| Other | **(26.1)** | (35.0) | 8.9 | (25.4) |
| **Subtotal** | **(85.8)** | (66.6) | (19.2) | 28.8 |
| **Net fee and commission income** | **624.8** | 423.7 | 201.1 | 47.5 |

The net fee and commission income increased by 47.5% from RMB423.7 million for the year ended December 31, 2018 to RMB624.8 million for the year ended December 31, 2019, primarily due to the Bank's active and effective development of agency business, bank card services, acceptance and guarantee business and other intermediary services, resulting in a significant increase in the fee and commission income. Meanwhile, fee and commission expenses increased by 28.8% from RMB66.6 million for the year ended December 31, 2018 to RMB85.8 million for the year ended December 31, 2019.

### *3.3.5 Net trading gains*

The net trading gains of the Group increased by 87.8% from RMB231.8 million for the year ended December 31, 2018 to RMB435.4 million for the year ended December 31, 2019, mainly due to the exchange gain from the funds raised by the Bank's issuance of H Shares (new shares) as a result of changes in exchange rate and an increase in the fair value change income of the funds held by the Bank.

### 3.3.6 Net gains arising from investment securities

Net gains from investment securities of the Group decreased by 15.9% from RMB887.4 million for the year ended December 31, 2018 to RMB746.2 million for the year ended December 31, 2019, mainly due to the decreased scale and income of the principal-protected wealth management resulting from the influence of the new asset management regulations.

### 3.3.7 Operating expenses

The following table sets forth, for the years ended December 31, 2018 and 2019, the principal components of operating expenses of the Group.

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | **2019** | 2018 | Amount change | Change (%) |
| | *(in millions of RMB, except percentages)* | | | |
| Staff costs | **1,138.5** | 1,098.7 | 39.8 | 3.6 |
| Rental and property management expenses | **77.2** | 206.3 | (129.1) | (62.6) |
| Depreciation and amortization | **256.4** | 129.4 | 127.0 | 98.1 |
| Taxes and surcharges | **66.6** | 51.9 | 14.7 | 28.3 |
| Interest expense on lease liabilities | **21.6** | – | 21.6 | N/A |
| Other general and administrative expenses (1) | **276.5** | 264.5 | 12.0 | 4.5 |
| **Total operating expenses** | **1,836.8** | 1,750.8 | 86.0 | 4.9 |
| **Cost-to-income ratio (2)** | **34.79%** | 35.75% | | |

*Notes:*

(1) Consist primarily of electronic equipment operating cost, business marketing expenses, insurance premiums, security expenses and banknote shipping fee.

(2) Calculated by dividing total operating expenses (net of taxes and surcharges) by total operating income.

Operating expenses increased by 4.9% from RMB1,750.8 million for the year ended December 31, 2018 to RMB1,836.8 million for the year ended December 31, 2019, mainly due to an increase in depreciation and amortization expenses and staff costs.

The Group's cost-to-income ratio for the years ended December 31, 2018 and 2019 (excluding taxes and surcharges) were 35.75% and 34.79%, respectively. The decrease in cost-to-income ratio was primarily because the growth of operating expenses was less than the growth of operating income.

*Staff Costs*

Staff costs were the largest component of the Group's operating expenses. Staff costs increased by 3.6% from RMB1,098.7 million for the year ended December 31, 2018 to RMB1,138.5 million for the year ended December 31, 2019, mainly due to an increase in salaries, bonuses and allowances, as well as supplementary retirement benefits. The following table sets forth the main components of staff costs for the period indicated.

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | **2019** | 2018 | Amount change | Change (%) |
| | *(in millions of RMB, except percentages)* | | | |
| Salaries, bonuses and allowances | **785.6** | 734.0 | 51.6 | 7.0 |
| Social insurance and annuity | **179.4** | 214.8 | (35.4) | (16.5) |
| Housing allowances | **62.3** | 56.1 | 6.2 | 11.1 |
| Staff welfare | **48.2** | 45.6 | 2.6 | 5.7 |
| Employee education expenses and labour union expenses | **33.2** | 31.5 | 1.7 | 5.4 |
| Supplementary retirement benefits | **17.7** | 5.6 | 12.1 | 216.1 |
| Others | **12.1** | 11.1 | 1.0 | 9.0 |
| **Total staff costs** | **1,138.5** | 1,098.7 | 39.8 | 3.6 |

*Rental and Property Management Expenses*

Rental and property management expenses decreased by 62.6% from RMB206.3 million for the year ended December 31, 2018 to RMB77.2 million for the year ended December 31, 2019, mainly because the new lease accounting standards have been adopted by the Bank since January 1, 2019, and most of the irrevocable operating lease commitments were recorded in the right-of-use assets and lease liabilities, and the depreciation expense and interest were accrued according to the accounting treatment of the new lease standards, while the lease expense was no longer accrued.

*Depreciation and Amortization*

Depreciation and amortization expenses increased from RMB129.4 million for the year ended December 31, 2018 to RMB256.4 million for the year ended December 31, 2019, mainly because the new lease accounting standards have been adopted by the Bank since January 1, 2019, and most of the irrevocable operating lease commitments were recorded in the right-of-use assets and lease liabilities, and the depreciation expense and interest were accrued according to the accounting treatment of the new lease standards, and the purchase of new office buildings resulting in an increase in depreciation charge.

*Taxes and Surcharges*

Taxes and surcharges increased by 28.3% from RMB51.9 million for the year ended December 31, 2018 to RMB66.6 million for the year ended December 31, 2019, mainly due to the Bank's business development and expansion, and the purchase of new office buildings resulting in an increase in property taxes.

*Interest expense on lease liabilities*

As the Bank has been implementing the new lease accounting standards since January 1, 2019, the Group began to incur interest expense on lease liabilities in 2019, primarily because most of the irrevocable operating lease commitments were recorded in the lease liabilities, and the interest were accrued according to the new lease standards. For the year ended December 31, 2019, the interest expense on lease liability amounted to RMB21.6 million.

*Other General and Administrative Expenses*

Other general and administrative expenses primarily consist of electronic equipment operating costs, business marketing expenses, insurance premiums, security expenses and banknote shipping fee. The Group's other general and administrative expenses increased by 4.5% from RMB264.5 million for the year ended December 31, 2018 to RMB276.5 million for the year ended December 31, 2019, mainly because the Bank increased its business marketing and advertising expenses according to the business needs.

### 3.3.8 Impairment losses on assets

The following table sets forth the principal components of the Group's impairment losses on assets for the period indicated.

| | **For the year ended December 31,** | | | |
|---|---|---|---|---|
| | **2019** | 2018 | Amount change | Change (%) |
| | *(in millions of RMB, except percentages)* | | | |
| **Impairment losses/(reversals) on assets** | | | | |
| Financial investments | **504.2** | (274.3) | 778.5 | N/A |
| Loans and advances to customers | **1,008.9** | 1,784.9 | (776.0) | (43.5) |
| Credit commitments | **148.8** | 12.1 | 136.7 | 1,129.8 |
| Others | **3.6** | 12.8 | (9.2) | (71.9) |
| **Total** | **1,665.5** | 1,535.5 | 130.0 | 8.5 |

The Group's impairment losses on assets was RMB1,665.5 million for the year ended December 31, 2019, representing an increase of 8.5% from RMB1,535.5 million for the year ended December 31, 2018, mainly due to the decline in the quality of certain assets compared to the beginning of the year, leading to an increase in the impairment provision ratio compared to the beginning of the year.

### *3.3.9 Income tax*

The following table sets forth the reconciliation between the income tax calculated at the statutory income tax rate applicable to the Group's profit before tax and the Group's actual income tax for the period indicated.

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | **2019** | 2018 | Amount change | Change (%) |
| | *(in millions of RMB, except percentages)* | | | |
| Profit before tax | **1,607.5** | 1,499.7 | 107.8 | 7.2 |
| Income tax calculated at applicable statutory tax rate of 25% | **401.9** | 374.9 | 27.0 | 7.2 |
| Non-deductible expenses | **48.7** | 11.6 | 37.1 | 319.8 |
| Non-taxable income [(1)] | **(325.5)** | (200.4) | (125.1) | 62.4 |
| **Income tax** | **125.1** | 186.1 | (61.0) | (32.8) |

*Note:*

(1) Non-taxable income mainly represents the interest income arising from the PRC government bonds and dividends from domestic enterprises.

Income tax decreased by 32.8% from RMB186.1 million for the year ended December 31, 2018 to RMB125.1 million for the year ended December 31, 2019, mainly attributable to an increase in the non-taxable income for the year ended December 31, 2019, as a result of the Bank's increased investment in debt securities issued by PRC government and funds, the revenue arising from such investments are tax free according to relevant PRC laws and regulations.

## 3.4 Financial Statement Analysis

### *3.4.1 Assets*

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

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Cash and deposits with the central bank | **19,108.3** | **7.7** | 23,589.7 | 10.4 |
| Deposits with banks and other financial institutions | **1,303.7** | **0.5** | 792.3 | 0.3 |
| Placements with banks and other financial institutions | **1,300.4** | **0.5** | 500.1 | 0.2 |
| Financial assets held under resale agreements | **16,630.0** | **6.7** | 24,180.0 | 10.6 |
| Net loans and advances to customers | **111,712.6** | **45.1** | 98,118.1 | 43.2 |
| Net financial investments | **92,912.6** | **37.5** | 76,764.6 | 33.8 |
| Interest in associate | **272.6** | **0.1** | 251.7 | 0.1 |
| Property and equipment | **1,464.7** | **0.7** | 746.6 | 0.3 |
| Deferred tax assets | **1,441.1** | **0.6** | 1,268.8 | 0.6 |
| Other assets (1) | **1,425.2** | **0.6** | 1,035.9 | 0.5 |
| **Total assets** | **247,571.2** | **100.0** | 227,247.8 | 100.0 |

*Note:*

(1) Consist primarily of right-to-use assets, interest receivables, prepayments for acquisition of property and equipment and other receivables.

The Group's total assets increased by 8.9% from RMB227,247.8 million as of December 31, 2018 to RMB247,571.2 million as of December 31, 2019, mainly due to an increase of loans and advances to customers by 13.9% from RMB98,118.1 million as of December 31, 2018 to RMB111,712.6 million as of December 31, 2019 and an increase of financial investments by 21.0% from RMB76,764.6 million as of December 31, 2018 to RMB92,912.6 million as of December 31, 2019.

*Loans and Advances to Customers*

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

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Corporate loans | **72,937.8** | **63.2** | 73,928.3 | 72.7 |
| Personal loans | **17,835.4** | **15.4** | 15,037.7 | 14.8 |
| Discounted bills | **24,709.3** | **21.4** | 12,671.8 | 12.5 |
| **Gross loans and advances to customers** | **115,482.5** | **100.0** | 101,637.8 | 100.0 |
| Accrued interest | **491.0** | | 497.6 | |
| Less: Provision for loans and advances to customers measured at amortised cost | **(4,260.9)** | | (4,017.3) | |
| **Net loans and advances to customers** | **111,712.6** | | 98,118.1 | |

*Corporate Loans*

As of December 31, 2019, the Group's corporate loans amounted to RMB72,937.8 million, representing a decrease of 1.3% from RMB73,928.3 million as of December 31, 2018, mainly because the reduction and adjustment of loans in the transportation, mining, real estate, wholesale and retail industries in accordance with the economic structure and industrial policies of Shanxi province.

The following table sets forth the distribution of the Group's corporate loans by contract maturity as of the dates indicated.

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Short-term loans and advances (one year or below) | **25,571.1** | **35.1** | 25,114.8 | 34.0 |
| Medium- and long-term loans (one year above) | **47,366.7** | **64.9** | 48,813.5 | 66.0 |
| **Total corporate loans** | **72,937.8** | **100.0** | 73,928.3 | 100.0 |

Short-term loans and advances as a percentage of total corporate loans increased from 34.0% as of December 31, 2018 to 35.1% as of December 31, 2019, while medium- and long-term loans as a percentage of total corporate loans decreased from 66.0% as of December 31, 2018 to 64.9% as of December 31, 2019. The percentage change of the above-mentioned corporate loan portfolio was mainly because certain medium- and long-term loans and short-term loans were repaid according to the contracts. At the same time, the scale of medium- and long-term loans was moderately reduced, and funds were invested in personal loans with relatively low risks and relatively stable returns.

The following table sets forth the distribution of the Group's corporate loans by product type as of the dates indicated.

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Working capital loans | **49,474.2** | **67.8** | 50,136.1 | 67.8 |
| Fixed asset loans | **21,854.4** | **30.0** | 22,678.1 | 30.7 |
| Others [(1)] | **1,609.2** | **2.2** | 1,114.1 | 1.5 |
| **Total corporate loans** | **72,937.8** | **100.0** | 73,928.3 | 100.0 |

*Note:*

(1) Consist primarily of syndicated loans.

As of December 31, 2019, working capital loans amounted to RMB49,474.2 million, a decrease of 1.3% from RMB50,136.1 million as of December 31, 2018, primarily because we compressed and adjusted the loans for transportation, mining, real estate, and wholesale and retail industries in accordance with Shanxi's economic structure and industrial policies.

As of December 31, 2019, fixed asset loans amounted to RMB21,854.4 million, a decrease of 3.6% from RMB22,678.1 million as of December 31, 2018, primarily because we compressed and adjusted the loans for transportation, mining, real estate, and wholesale and retail industries in accordance with Shanxi's economic structure and industrial policies.

As of December 31, 2019, other corporate loans of the Bank amounted to RMB1,609.2 million, an increase of 44.4% from RMB1,114.1 million as of December 31, 2018, mainly due to the moderate increase in syndicated loans and trade financing products in accordance with Shanxi's economic structure and industrial policies.

*Personal Loans*

As of December 31, 2019, the Group's personal loans amounted to RMB17,835.4 million, which increased by 18.6% to RMB15,037.7 million as of December 31, 2018. The increase was primarily because the Bank continued to promote personal business loans, support the development of small and micro enterprises, and vigorously expand credit card business.

The table below sets forth the distribution of the Group's personal loans by product type as of the dates indicated.

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Residential mortgage loans | **10,787.9** | **60.5** | 9,403.6 | 62.5 |
| Personal consumption loans | **1,628.3** | **9.1** | 2,921.4 | 19.4 |
| Personal business loans | **2,569.1** | **14.4** | 1,770.5 | 11.8 |
| Credit card balances | **2,850.1** | **16.0** | 942.2 | 6.3 |
| **Total personal loans** | **17,835.4** | **100.0** | 15,037.7 | 100.0 |

As of December 31, 2019, residential mortgage loans were RMB10,787.9 million, representing an increase of 14.7% from RMB9,403.6 million as of December 31, 2018. The increase was mainly due to the Bank's optimization of personal credit asset structure, increased credit support for rigid residential purchases of urban residents, and continued efforts in housing mortgage loans.

As of December 31, 2019, personal consumption loans amounted to RMB1,628.3 million, representing a decrease of 44.3% from RMB2,921.4 million as of December 31, 2018. The decrease was primarily due to the Bank's efforts to optimize the personal loan portfolio by controlling the scale of personal consumption loans which have relatively higher risks and focusing on developing other relatively low-risk personal loans, especially credit card businesses focusing on modest consumption.

As of December 31, 2019, personal business loans amounted to RMB2,569.1 million, representing an increase of 45.1% from RMB1,770.5 million as of December 31, 2018. The increase was mainly attributable to the Bank's active support for the development of the local economy, the assistance provided to small and micro enterprises, the promotion of inclusive finance, and the enhancement of the Bank's ability to serve the local economy through product innovation and capturing market opportunities.

As of December 31, 2019, credit card balances amounted to RMB2,850.1 million, representing an increase of 202.5% from RMB942.2 million as of December 31, 2018. The increase was mainly attributable to the Bank's efforts to develop its credit card business, innovative services and promotion methods, and significant growth in the number of credit cards issued and business scale through the launch of well-received products such as "JD Co-Branded Card (京東聯名卡)".

*Discounted Bills*

The discounted bills are principal components of the Bank's loan and advances portfolio, the balance of which increased by 95.0% from RMB12,671.8 million as of December 31, 2018 to RMB24,709.3 million as of December 31, 2019, mainly due to the Bank's expansion of its discounted bills business in light of the market demand and the Bank's business strategy.

*Financial Investments*

As of December 31, 2019, the Group's financial investments (consisting primarily of debt securities investment and SPV investment) amounted to RMB92,912.6 million, representing an increase of 21.0% from RMB76,764.6 million as of December 31, 2018. The increase was mainly due to the Bank's increased investments in debt securities and funds, which was in line with its risk management policies and investment strategies.

The following table sets forth the classification of the Group's financial investments, based on its business model and cash flow characteristics, as of December 31, 2018 and December 31, 2019.

| | **As December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Financial investments measured at amortized cost | **51,842.4** | **55.5** | 47,784.7 | 62.0 |
| Financial investments measured at fair value through other comprehensive income | **11,581.7** | **12.4** | 4,981.2 | 6.5 |
| Financial investments measured at fair value through profit or loss | **29,976.5** | **32.1** | 24,251.9 | 31.5 |
| **Total financial investments** | **93,400.6** | **100.0** | 77,017.8 | 100.0 |
| Interest accrued | **972.9** | | 704.3 | |
| Less: allowance for impairment losses | **(1,460.9)** | | (957.5) | |
| **Net financial investments** | **92,912.6** | | 76,764.6 | |

*Debt Securities Investment*

The following table sets forth the components of the Group's debt securities investments by issuer as of December 31, 2018 and December 31, 2019.

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Debt securities issued by the PRC government | **27,408.1** | **80.9** | 17,191.8 | 74.7 |
| Debt securities issued by policy banks | **5,164.6** | **15.3** | 4,090.4 | 17.8 |
| Debt securities issued by commercial banks and other financial institutions | **333.4** | **1.0** | 494.2 | 2.1 |
| Debt securities issued by corporate issuers | **941.6** | **2.8** | 1,253.9 | 5.4 |
| **Total debt securities investment** | **33,847.7** | **100.0** | 23,030.3 | 100.0 |

The Group's investment in debt securities issued by PRC government increased by 59.4% from RMB17,191.8 million as of December 31, 2018 to RMB27,408.1 million as of December 31, 2019, primarily because the Bank proactively increased its investment in debt securities issued by PRC government which have relatively low risks and high liquidity, in line with its risk management policies and investment strategies.

The Group's investment in debt securities issued by policy banks increased by 26.3% from RMB4,090.4 million as of December 31, 2018 to RMB5,164.6 million as of December 31, 2019, primarily because the Bank proactively increased its investment in policy financial bonds in line with its risk management policies and investment strategies, after becoming a qualified member of the underwriting syndicate for 2019 debt securities issued by policy banks in 2019.

As of December 31, 2019, the Group's investment in (i) debt securities issued by commercial banks and other financial institutions and (ii) debt securities issued by corporate issuers decreased by 32.5% and 24.9%, respectively, as compared to that as of December 31, 2018, primarily because the Bank readjusted assets allocation after the maturity of inventory assets of the previous year by taking into account the credit risks and current income level, in line with its risk management policies and investment strategies.

*SPV Investment*

The following table sets forth the distribution of the Group's SPV investment by product type as of December 31, 2018 and December 31, 2019.

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Trust plans | **8,171.7** | **16.2** | 11,452.0 | 22.3 |
| Asset management plans | **15,716.0** | **31.2** | 22,837.8 | 44.6 |
| Wealth management products | **51.0** | **0.1** | 50.2 | 0.1 |
| Funds | **26,387.6** | **52.5** | 16,885.5 | 33.0 |
| **Total SPV investment** | **50,326.3** | **100.0** | 51,225.5 | 100.0 |

As of December 31, 2019, total SPV investment decreased to RMB50,326.3 million from RMB51,225.5 million as of December 31, 2018, because we reduced the scale of SPV investment such as trust plans and asset management plans, in line with its investment strategies.

*Other Components of the Group's Assets*

The following table sets forth the composition of the Group's other components of assets as of December 31, 2018 and December 31, 2019:

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Cash and deposits with the central bank | **19,108.3** | **44.5** | 23,589.7 | 45.0 |
| Deposits with banks and other financial institutions | **1,303.7** | **3.0** | 792.3 | 1.5 |
| Placements with banks and other financial institutions | **1,300.4** | **3.0** | 500.1 | 1.0 |
| Financial assets held under resale agreements | **16,630.0** | **38.7** | 24,180.0 | 46.2 |
| Interest in associates | **272.6** | **0.6** | 251.7 | 0.5 |
| Property and equipment | **1,464.7** | **3.4** | 746.6 | 1.4 |
| Deferred tax assets | **1,441.1** | **3.4** | 1,268.8 | 2.4 |
| Other assets [(1)] | **1,425.2** | **3.4** | 1,035.9 | 2.0 |
| **Total other components of assets** | **42,946.0** | **100.0** | 52,365.1 | 100.0 |

*Note:*

(1) Consists primarily of right-of-use assets, interest receivable, prepayments for acquisition of property and equipment and other receivables.

As of December 31, 2019, total other components of assets decreased by 18.0% to RMB42,946.0 million from RMB52,365.1 million as of December 31, 2018, mainly due to the decrease in cash and deposits with the central bank and financial assets held under resale agreements. In particular, financial assets held under resale agreements decreased from RMB24,180.0 million as of December 31, 2018 to RMB16,630.0 million as of December 31, 2019, mainly due to the adjustment of asset structure featuring increased loans and financial investments. Cash and deposits with the central bank decreased by 19.0% to RMB19,108.3 million from RMB23,589.7 million as of December 31, 2018, mainly due to the decline in the statutory deposit reserve ratios.

### 3.4.2 Liabilities

The following table sets forth the components of the Group's total liabilities as of the dates indicated.

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total (%)** | Amount | % of total (%) |
| | *(in millions of RMB, except percentages)* | | | |
| Deposits from customers | **155,322.2** | **68.3** | 144,896.8 | 68.6 |
| Debt securities issued [1] | **50,345.1** | **22.1** | 51,288.9 | 24.3 |
| Financial assets sold under repurchase agreements | **12,201.2** | **5.4** | 8,680.4 | 4.1 |
| Deposits from banks and other financial institutions | **4,211.3** | **1.9** | 2,513.7 | 1.2 |
| Borrowing from the central bank | **870.7** | **0.4** | 590.0 | 0.3 |
| Placements from banks and other financial institutions | **1,911.5** | **0.8** | 100.0 | 0.0 |
| Income tax payable | **195.6** | **0.1** | 106.2 | 0.1 |
| Other liabilities [2] | **2,354.3** | **1.0** | 3,075.9 | 1.4 |
| **Total liabilities** | **227,411.9** | **100.0** | 211,251.9 | 100.0 |

*Notes:*

(1) Consists of certificates of interbank deposit, financial bonds and tier-two capital bonds.

(2) Consists primarily of accrued staff cost, lease liabilities, estimated liabilities and dividend payable.

As of December 31, 2019, the Group's total liabilities amounted to RMB227,411.9 million, representing an increase of 7.6% from RMB211,251.9 million as of December 31, 2018, mainly reflecting the increase in deposits from customers, financial assets sold under repurchase agreements, placements from banks and other financial institutions, and deposits from banks and other financial institutions.

*Deposits from Customers*

As of December 31, 2019, the Group's deposits from customers amounted to RMB155,322.2 million, representing an increase of 7.2% from RMB144,896.8 million as of December 31, 2018. The increase in deposits from customers was mainly due to growth of the Bank's personal deposits.

The following table sets forth the distribution of the Group's deposits from customers by product type and term structure of deposits as of December 31, 2018 and December 31, 2019.

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| **Corporate deposits** | | | | |
| Demand | **42,147.0** | **27.5** | 36,977.4 | 25.8 |
| Time | **26,598.7** | **17.4** | 35,037.0 | 24.5 |
| Subtotal | **68,745.7** | **44.9** | 72,014.4 | 50.3 |
| **Personal deposits** | | | | |
| Demand | **9,831.7** | **6.4** | 10,878.3 | 7.6 |
| Time | **58,660.7** | **38.4** | 47,071.7 | 32.9 |
| Subtotal | **68,492.4** | **44.8** | 57,950.0 | 40.5 |
| **Others(1)** | **15,740.0** | **10.3** | 13,211.6 | 9.2 |
| **Total** | **152,978.1** | **100.0** | 143,176.0 | 100.0 |
| Interests accrued | **2,344.1** | | 1,720.8 | |
| **Deposits from customers** | **155,322.2** | | 144,896.8 | |

*Note:*

(1) Consists primarily of pledged deposits, inward and outward remittances, fiscal deposits.

The amount of corporate deposits decreased by 4.5% from RMB72,014.4 million as of December 31, 2018 to RMB68,745.7 million as of December 31, 2019, mainly due to the active adjustment of debt structure, control of debt cost and reduction of certain corporate deposits with high cost.

The amount of personal deposits increased by 18.2% from RMB57,950.0 million as of December 31, 2018 to RMB68,492.4 million as of December 31, 2019, mainly due to the Bank's increased efforts for the promotion of deposit products and enhanced individual customers' product experience to maintain individual customer loyalty.

*Debt Securities Issued*

As of December 31, 2019, debt securities issued amounted to RMB50,345.1 million, representing a decrease of 1.8% from RMB51,288.9 million as of December 31, 2018. The decrease in debt securities issued was mainly due to a lower issuance of certificates of interbank deposit.

*Financial Assets Sold under Repurchase Agreements*

As of December 31, 2019, financial assets sold under repurchase agreements amounted to RMB12,201.2 million, representing an increase of 40.6% from RMB8,680.4 million as of December 31, 2018, primarily because we actively optimized and adjusted liability structure and reduced financing costs according to liquidity risk management policies.

### 3.4.3 Equity

The following table sets forth the components of the Group' equity as of the dates indicated.

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Share capital | **5,838.7** | **29.0** | 4,868.0 | 30.4 |
| Capital reserve | **6,627.6** | **32.9** | 4,423.9 | 27.7 |
| Surplus reserve | **3,467.0** | **17.2** | 3,186.8 | 19.9 |
| General reserve | **2,788.4** | **13.8** | 2,788.4 | 17.4 |
| Fair value reserve | **(23.2)** | **(0.1)** | (17.9) | (0.1) |
| Impairment reserve | **18.3** | **0.1** | 17.2 | 0.1 |
| (Deficit)/surplus on remeasurement of net defined benefit liability | **(1.2)** | **0.0** | 0.5 | 0.0 |
| Retained earnings | **1,419.6** | **7.0** | 703.0 | 4.4 |
| Equity attributable to equity holders of the Bank | **20,135.2** | **99.9** | 15,969.9 | 99.8 |
| Non-controlling interest | **24.1** | **0.1** | 26.0 | 0.2 |
| **Total equity** | **20,159.3** | **100.0** | 15,995.9 | 100.0 |

As of December 31, 2019, the total equity of the Group amounted to RMB20,159.3 million, an increase of 26.0% from RMB15,995.9 million as of December 31, 2018. As of the same date, the equity attributable to equity holders of the Bank amounted to RMB20,135.2 million, an increase of 26.1% from RMB15,969.9 million as of December 31, 2018. The increase in equity was mainly attributable to the increase in owner's equity arising from the proceeds from issuing of new overseas listed foreign shares (H Share) and realization of net profit, which led to an increase in retained earnings, partially offset by dividends paid during the period. For the year ended December 31, 2019, the Group realized a net profit of RMB1,482.4 million; according to the 2018 profit appropriation plan approved at the general meeting, cash dividends of RMB486.8 million were distributed to all shareholders.

### 3.5 Off-balance Sheet Items Analysis

The following table sets forth the contractual amounts of the Group's off-balance sheet commitments as of December 31, 2018 and 2019.

| | **As of December 31, 2019** | As of December 31, 2018 |
|---|---|---|
| | *(in millions of RMB)* | |
| Loan commitment | **3,681.3** | 1,652.3 |
| Credit card commitment | **6,542.7** | 2,701.3 |
| Bank acceptances | **27,215.0** | 22,081.3 |
| Letter of credit | **3,344.6** | 1,101.7 |
| Letter of guarantee | **479.5** | 45.5 |
| Operating lease commitment | **–** | 693.8 |
| Capital commitment | **100.3** | 66.0 |
| **Total off-balance sheet commitments** | **41,363.4** | 28,341.9 |

As of December 31, 2019, the Group's total off-balance sheet commitments amounted to RMB41,363.4 million, an increase of 45.9% from RMB28,341.9 million as of December 31, 2018, mainly because loan commitment, credit card commitment, bank acceptances, letter of credit, letter of guarantee and others all increased compared with the balance at the end of 2018.

## 3.6 Asset Quality Analysis

### *Distribution of Loans by Five-Category Loan Classification*

The following table sets forth the distribution of the Group's loans by the five-category loan classification as of December 31, 2018 and 2019. According to the current guidelines of risk-based classification of loans, non-performing loans ("NPL") are classified as substandard, doubtful and loss.

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Normal | **110,371.5** | **95.5** | 97,048.2 | 95.6 |
| Special Mention | **2,968.6** | **2.6** | 2,690.6 | 2.6 |
| **Subtotal** | **113,340.1** | **98.1** | 99,738.8 | 98.2 |
| Substandard | **1,382.1** | **1.2** | 1,029.0 | 1.0 |
| Doubtful | **579.2** | **0.5** | 750.4 | 0.7 |
| Loss | **181.1** | **0.2** | 119.6 | 0.1 |
| **Subtotal** | **2,142.4** | **1.9** | 1,899.0 | 1.8 |
| **Total loans and advances to customers** | **115,482.5** | **100.0** | 101,637.8 | 100.0 |
| **NPL ratio** (1) | | **1.86** | | 1.87 |

*Note:*

(1) Calculated by dividing the total NPLs by the total loans and advances to customers.

As of December 31, 2019, according to the five-category loan classification, the Group's normal loans amounted to RMB110,371.5 million, an increase of RMB13,323.3 million from December 31, 2018, accounting for 95.5% of the total loans and advances to customers. Special mention loans amounted to RMB2,968.6 million, an increase of RMB278.0 million from December 31, 2018, accounting for 2.6% of total loans and advances to customers. NPLs amounted to RMB2,142.4 million, an increase of RMB243.4 million from December 31, 2018. The NPL ratio was 1.86%, a decrease of 0.01 percentage point from December 31, 2018. The increase in the total amount of NPLs and decrease in the NPL ratio were mainly because the Bank reflected the asset risk actually in line with the regulatory authority's policy on identifying NPLs, meanwhile, given that the extremely strict environmental protection policy was implemented in coal industry in Shanxi, the coal enterprises that fail to comply with environmental protection policy were listed in the category of substandard by the Bank, and the Bank implemented write-off of NPLs eligible for write-off as required by the Ministry of Finance, in strict accordance with the Bank's internal risk management process.

### *Distribution of Loans by Collateral*

The following table sets forth the distribution of the Group's loans and advances to customers by types of collateral as of December 31, 2018 and 2019.

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Pledged loans [(1)] | **29,074.1** | **25.2** | 17,251.3 | 17.0 |
| Collateralized loans [(1)] | **15,528.9** | **13.4** | 13,346.6 | 13.1 |
| Guaranteed loans [(1)] | **62,031.5** | **53.7** | 63,531.8 | 62.5 |
| Unsecured loans | **8,848.0** | **7.7** | 7,508.1 | 7.4 |
| **Total loans and advances to customers** | **115,482.5** | **100.0** | 101,637.8 | 100.0 |

*Note:*

(1) Represent the total amount of loans fully or partially secured by collateral, pledges or guarantees in each category. If a loan is secured by more than one form of security interest, the categorization is based on the primary form of security interest.

### *Distribution of Corporate Loans by Industry*

The following table sets forth the distribution of the Group's corporate loans by industry as of the dates indicated.

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Manufacturing | **22,784.9** | **31.2** | 22,243.6 | 30.1 |
| Mining | **16,645.9** | **22.8** | 16,168.2 | 21.9 |
| Real estate | **11,386.9** | **15.6** | 13,529.1 | 18.3 |
| Wholesale and retail | **5,964.9** | **8.2** | 6,925.6 | 9.4 |
| Leasing and business services | **4,900.7** | **6.7** | 4,321.7 | 5.8 |
| Public administration, social security and social organization | **4,328.3** | **5.9** | 4,082.8 | 5.5 |
| Construction | **3,950.0** | **5.4** | 2,414.4 | 3.3 |
| Transportation, warehousing and postal services | **1,136.4** | **1.6** | 1,891.9 | 2.6 |
| Electricity, gas and water production and supply | **1,006.7** | **1.4** | 1,656.1 | 2.2 |
| Agriculture, forestry, animal husbandry and fishery | **114.4** | **0.2** | 142.2 | 0.2 |
| Education | **38.4** | **0.1** | 53.3 | 0.1 |
| Others [(1)] | **680.3** | **0.9** | 499.4 | 0.6 |
| **Total corporate loans** | **72,937.8** | **100.0** | 73,928.3 | 100.0 |

*Note:*

(1) Consist primarily of the following industries: (i) information transmission, software and information technology services, (ii) health, social security and social welfare, (iii) resident services, maintenance and other services, (iv) culture, sports and entertainment, and (v) scientific research and technical services.

For the year ended December 31, 2019, the Bank further optimized its credit structure and actively supported the development of the real economy. As of December 31, 2019, the Group's five major components of corporate loans were offered to customers in the following industries: manufacturing, mining, real estate, wholesale and retail, and leasing and business services. As of December 31, 2019 and 2018, the balance of loans to corporate customers in the top five industries amounted to RMB61,683.3 million and RMB63,188.2 million, respectively, accounting for 84.5% and 85.5% of the total loans and advances to customers issued by the Group.

### *Distribution of Non-Performing Corporate Loans by Industry*

The following table sets forth the distribution of the Group's NPLs to corporate customers by industry as of the dates indicated.

| | **As of December 31, 2019** | | | As of December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | **Amount** | **% of total** | **NPL ratio[1] (%)** | Amount | % of total | NPL ratio a[1] (%) |
| | *(in millions of RMB, except percentages)* | | | | | |
| Manufacturing | **790.7** | **41.4** | **3.47** | 578.9 | 35.6 | 2.60 |
| Mining | **562.9** | **29.4** | **3.38** | 293.6 | 18.1 | 1.82 |
| Wholesale and retail | **395.0** | **20.7** | **6.62** | 576.0 | 35.5 | 8.32 |
| Leasing and business services | **64.2** | **3.3** | **1.31** | 20.7 | 1.3 | 0.48 |
| Public administration, social security and social organization | **25.4** | **1.3** | **0.59** | 41.0 | 2.5 | 1.00 |
| Construction | **22.7** | **1.2** | **0.57** | 33.3 | 2.0 | 1.38 |
| Agriculture, forestry, animal husbandry and fishery | **18.7** | **1.0** | **16.35** | 6.9 | 0.4 | 4.85 |
| Real estate | **16.4** | **0.9** | **0.14** | 61.1 | 3.8 | 0.45 |
| Transportation, warehousing and postal services | **6.3** | **0.3** | **0.55** | 6.3 | 0.4 | 0.33 |
| Education | **5.6** | **0.3** | **14.58** | 5.6 | 0.3 | 10.51 |
| Electricity, gas and water production and supply | **1.4** | **0.1** | **0.14** | 1.4 | 0.1 | 0.08 |
| Others[2] | **1.9** | **0.1** | **0.28** | – | – | – |
| **Total non-performing corporate loans** | **1,911.2** | **100.0** | **2.62** | 1,624.8 | 100.0 | 2.20 |

*Notes:*

(1) Calculated by dividing NPLs to corporate customers in each industry by gross loans to corporate customers in that industry.

(2) Mainly comprised of information transmission, software and information technology services and accommodation and catering.

As of December 31, 2019, the Group's non-performing corporate loans were mainly from manufacturing industry and mining industry, wholesale and retail industry. As of December 31, 2018 and 2019, the NPL ratio for corporate loans in the manufacturing industry was 2.60% and 3.47%, respectively. Non-performing corporate loans to borrowers in such industry accounted for 35.6% and 41.4% of the total non-performing corporate loans, respectively, mainly due to the upgrading of industry standards and stricter environmental protection policies, causing the Bank to list those enterprises failing to meet upgraded industrial standards and with problems of environmental facility in the non-performing category.

As of December 31, 2018 and 2019, the NPL ratio for corporate loans in the mining industry was 1.82% and 3.38%, respectively. Non-performing corporate loans to borrowers in such industry accounted for 18.1% and 29.4% of the total non-performing corporate loans, respectively. Due to financial disputes, certain uncertainties existed regarding the ability of some borrowers in the mining industry to remain a going concern, and therefore based on prudent consideration, the Bank classified such loans into the non-performing category, which resulted in the increase in non-performing loans in the mining industry.

As of December 31, 2018 and 2019, the NPL ratio for corporate loans in the wholesale and retail industry was 8.32% and 6.62%, respectively. Non-performing corporate loans to borrowers in such industry accounted for 35.5% and 20.7% of the total non-performing corporate loans, respectively. The decrease in NPL ratio for corporate loans to borrowers in the wholesale and retail industry was mainly due to the decrease in non-performing loans for this industry as compared with last year, and the main reason for that is that the Bank implemented some measures such as lower non-performing loans, litigation and write-off.

### *Distribution of NPLs by Product Type*

The table below sets forth the distribution of NPLs by product type as of the dates indicated.

| | **As of December 31, 2019** | | | As of December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | **Amount** | **% of total** | **NPL ratio [1] (%)** | Amount | % of total | NPL ratio [1] (%) |
| | *(in millions of RMB, except percentages)* | | | | | |
| **Corporate loans** | | | | | | |
| Working capital loans | **1,794.3** | **83.7** | **3.63** | 1,412.3 | 74.4 | 2.82 |
| Fixed asset loans | **102.6** | **4.8** | **0.47** | 178.4 | 9.4 | 0.79 |
| Other loans [2] | **14.3** | **0.7** | **0.89** | 34.1 | 1.8 | 3.06 |
| **Subtotal** | **1,911.2** | **89.2** | **2.62** | 1,624.8 | 85.6 | 2.20 |
| **Personal loans** | | | | | | |
| Residential mortgage loans | **13.7** | **0.6** | **0.13** | 9.0 | 0.5 | 0.10 |
| Personal consumption loans | **100.6** | **4.8** | **6.18** | 77.9 | 4.1 | 2.67 |
| Personal business loans | **86.4** | **4.0** | **3.36** | 175.6 | 9.2 | 9.92 |
| Credit cards | **28.0** | **1.3** | **0.98** | 8.1 | 0.4 | 0.86 |
| **Subtotal** | **228.7** | **10.7** | **1.28** | 270.6 | 14.2 | 1.80 |
| **Discounted bills** | | | | | | |
| Bank acceptance bills | **2.5** | **0.1** | **0.01** | 3.6 | 0.2 | 0.03 |
| Commercial acceptance bills | **–** | **–** | **–** | – | – | – |
| **Subtotal** | **2.5** | **0.1** | **0.01** | 3.6 | 0.2 | 0.03 |
| **Total NPLs** | **2,142.4** | **100.0** | **1.86** | 1,899.0 | 100.0 | 1.87 |

*Notes:*

(1) Calculated by dividing NPLs in each product type by gross loans and advances to customers in that product type.

(2) Mainly comprised of advances for bank acceptance bills.

The NPL ratio for corporate loans increased from 2.20% as of December 31, 2018 to 2.62% as of December 31, 2019, while the balance of non-performing corporate loans increased by 17.6% from RMB1,624.8 million to RMB1,911.2 million. The increase in non-performing corporate loans was mainly due to the upgrading of industry standards and stricter environmental protection policies, causing the Bank to list those manufacturing loans failing to meet upgraded industrial standards and with problems of environmental facility in the non-performing category; due to financial disputes, certain uncertainties existed regarding the ability of some borrowers in the mining industry to remain a going concern, and therefore based on prudent consideration, the Bank classified such loans into the non-performing category.

The NPL ratio for personal loans decreased from 1.80% as of December 31, 2018 to 1.28% as of December 31, 2019, while the balance of non-performing personal loans decreased by 15.5% from RMB270.6 million as of December 31, 2018 to RMB228.7 million as of December 31, 2019. The decrease in the balance of NPLs and the NPL ratio for personal loans was mainly due to the Bank's optimization of the personal loan asset structure as well as the increase in quality assets such as residential mortgage loans and the scale of loans to micro and small enterprises. Among them, the NPL ratio for personal consumption loans increased from 2.67% as of December 31, 2018 to 6.18% as of December 31, 2019, mainly due to the faster decrease in the scale of consumption loans of the Bank; the NPL ratio for personal business loans decreased from 9.92% as of December 31, 2018 to 3.36% as of December 31, 2019, mainly due to the progress made in recovery of outstanding non-performing loans, and the rapid increase in new personal business loans.

### *Distribution of NPLs by Geographical Region*

The following table sets forth the distribution of the Group's NPLs by geographical region as of December 31, 2018 and December 31, 2019.

| | **As of December 31, 2019** | | | As of December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | **Amount** | **% of total** | **NPL ratio (1) (%)** | Amount | % of total | NPL ratio (1) (%) |
| | *(in millions of RMB, except percentages)* | | | | | |
| Taiyuan | **1,705.6** | **79.6** | **1.97** | 1,554.9 | 81.9 | 2.07 |
| Outside Taiyuan | **436.8** | **20.4** | **1.52** | 344.1 | 18.1 | 1.30 |
| **Total NPLs** | **2,142.4** | **100.0** | **1.86** | 1,899.0 | 100.0 | 1.87 |

*Note:*

(1) Calculated by dividing NPLs in each region by gross loans and advances to customers in that region.

***Borrowers Concentration***

*a. Loans to the Ten Largest Single Borrowers*

In accordance with applicable PRC banking guidelines, the Group is subject to a lending limit of 10% of its net capital base to any single borrower. As of December 31, 2019, the Group's loans to the largest single borrower accounted for 7.5% of its net capital base, which was in compliance with regulatory requirements.

The following table sets forth the Group's loan exposure to the ten largest single borrowers as of the date indicated, which were all classified as normal on that date.

| | | As of December 31, 2019 | | | |
|---|---|---|---|---|---|
| | **Industry** | **Amount** | **% of total loans** | **% of net capital base (1)** | **Classification** |
| | | *(in millions of RMB, except percentages)* | | | |
| Borrower A | Mining | **1,769.9** | **1.5** | **7.5** | Normal |
| Borrower B | Leasing and Business services | **1,500.0** | **1.3** | **6.3** | Normal |
| Borrower C | Finance | **1,400.0** | **1.2** | **5.9** | Normal |
| Borrower D | Manufacturing | **1,327.0** | **1.1** | **5.6** | Normal |
| Borrower E | Real estate | **1,137.0** | **1.0** | **4.8** | Normal |
| Borrower F | Mining | **1,120.0** | **1.0** | **4.7** | Normal |
| Borrower G | Leasing and business services | **1,100.0** | **1.0** | **4.6** | Normal |
| Borrower H | Manufacturing | **1,091.7** | **0.9** | **4.6** | Normal |
| Borrower I | Manufacturing | **1,014.5** | **0.9** | **4.3** | Normal |
| Borrower J | Manufacturing | **1,000.0** | **0.9** | **4.2** | Normal |
| **Total** | | **12,460.1** | **10.8** | **52.5** | |

*Note:*

(1) Represents loan balances as a percentage of the Group's net capital base. The net capital base is calculated in accordance with the requirements of the Capital Administration Measures and based on the Group's financial statements prepared in accordance with PRC GAAP.

As of December 31, 2019, the balance of the Group's loan to the largest single borrower amounted to RMB1,769.9 million, accounting for 1.5% of the total loans and advances to customers; the total loans to the ten largest single borrowers amounted to RMB12,460.1 million, accounting for 10.8% of the total loans and advances to customers.

### *b. Credit Exposure to Ten Largest Group Customers*

In accordance with applicable PRC banking guidelines, the Group's credit exposure to any single group customer is limited to not more than 15% of its net capital base. As of December 31, 2019, the Group's total credit limit to the largest single group customer accounted for 10.9% of its net capital base, which was in compliance with regulatory requirements.

The following table sets forth the Group's loan exposure to the ten largest group customers as of the date indicated, which were all classified as normal on that date.

| | | As of December 31, 2019 | | | | |
|---|---|---|---|---|---|---|
| | **Industry** | **Total loans** | **% of total loans** | **Credit line[1]** | **% of net capital base [2]** | **Classification** |
| | | *(in millions of RMB, except percentages)* | | | | |
| Group A | Manufacturing | **2,332.5** | **2.0** | **2,573.8** | **10.9** | Normal |
| Group B | Manufacturing | **1,120.0** | **1.0** | **2,450.0** | **10.3** | Normal |
| Group C | Manufacturing | **1,033.4** | **0.9** | **2,428.4** | **10.3** | Normal |
| Group D | Manufacturing | **1,052.5** | **0.9** | **2,361.2** | **10.0** | Normal |
| Group E | Manufacturing | **1,377.8** | **1.2** | **2,325.1** | **9.8** | Normal |
| Group F | Manufacturing | **2,057.0** | **1.8** | **2,157.0** | **9.1** | Normal |
| Group G | Mining | **2,017.4** | **1.7** | **2,017.4** | **8.5** | Normal |
| Group H | Manufacturing | **–** | **0.0** | **1,810.3** | **7.6** | Normal |
| Group I | Mining | **1,219.1** | **1.1** | **1,773.3** | **7.5** | Normal |
| Group J | Leasing and business services | **1,500.0** | **1.3** | **1,730.0** | **7.3** | Normal |
| **Total** | | **13,709.7** | **11.9** | **21,626.4** | **91.3** | |

*Notes:*

(1) Calculated pursuant to the applicable CBRC requirements by (i) adding up all on-balance-sheet credit amounts and off-balance-sheet credit amounts in respect of each group borrower; and (ii) deducting the total amount of security deposits, pledged certificates of deposit and government bonds in respect of each group borrower.

(2) Represents loan balances as a percentage of the Group's net capital base. The net capital base is calculated in accordance with the requirements of the Capital Administration Measures and based on the Group's financial statements prepared in accordance with PRC GAAP.

### *Loan Aging Schedule*

The following table sets forth the Group's loan aging schedule as of the dates indicated.

| | **As of December 31, 2019** | | As of December 31, 2018 | |
|---|---|---|---|---|
| | **Amount** | **% of total amount** | Amount | % of total amount |
| | *(in millions of RMB, except percentages)* | | | |
| Current loan | **110,827.1** | **96.0** | 99,085.5 | 97.5 |
| Loans past due for | | | | |
| Up to 3 months[1] | **2,548.0** | **2.2** | 740.3 | 0.7 |
| Over 3 months up to 6 months[1] | **812.6** | **0.7** | 272.0 | 0.3 |
| Over 6 months up to 1 year[1] | **239.2** | **0.2** | 561.7 | 0.6 |
| Over 1 year up to 3 years[1] | **596.8** | **0.5** | 827.4 | 0.8 |
| Over 3 years [1] | **458.8** | **0.4** | 150.9 | 0.1 |
| **Subtotal** | **4,655.4** | **4.0** | 2,552.3 | 2.5 |
| **Total loans and advances to customers** | **115,482.5** | **100.0** | 101,637.8 | 100.0 |

*Note:*

(1) Represents the principal amount of the loans on which principal or interest overdue as of the dates indicated.

### *Changes to Allowance for Impairment Losses*

Allowance for impairment losses on loans to customers increased by 6.0% from RMB4,038.8 million as of January 1, 2019 to RMB4,283.0 million as of December 31, 2019, mainly due to that there were an additional provision of RMB1.01 billion and a write-off of RMB170 million as of December 31, 2019.

| | As of December 31, 2019 Amount | As of December 31, 2018 Amount |
|---|---|---|
| | *(in millions of RMB)* | |
| **Beginning of the period (January 1)** | **4,038.8[(1)]** | 3,051.4[(3)] |
| Charge for the period | **1,008.9** | 1,814.1 |
| Released for the period | **0.0** | (29.2) |
| Transfer out | **(545.7)** | (738.2) |
| Recoveries | **0.9** | 0.1 |
| Write-offs | **(170.9)** | (9.0) |
| Other changes | **(49.0)** | (50.4) |
| **End of the period** | **4,283.0[(2)]** | 4,038.8[(4)] |

*Notes:*

(1) include (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB4,017.3 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB21.5 million.

(2) include (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB4,260.9 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB22.1 million.

(3) include (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB3,000.7 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB50.7 million.

(4) include (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB4,017.3 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB21.5 million.

### 3.7 Geographical Segments Report

In presenting information on the basis of geographic segments, operating income is gathered according to the locations of the branches or subsidiary that generated the income. For the purpose of presentation, the Group categorizes such information by geographic regions.

The table below sets forth the total operating income of each geographical region for the periods indicated.

| | **For the year ended December 31,** | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Taiyuan | **4,304.5** | **84.6** | 3,935.8 | 82.8 |
| Outside Taiyuan | **784.4** | **15.4** | 817.0 | 17.2 |
| **Total operating income** | **5,088.9** | **100.0** | 4,752.8 | 100.0 |

## 3.8 Capital Adequacy Ratio Analysis

The Group is subject to capital adequacy requirements as promulgated by China Banking Regulatory Commission (the "**CBRC**"). The following table sets forth, as of the dates indicated, relevant information relating to the Group's capital adequacy ratio, calculated in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) of the CBRC and PRC GAAP.

| | **As of December 31, 2019** | As of December 31, 2018 |
|---|---|---|
| | *(in millions of RMB, except percentages)* | |
| **Core tier-one capital** | | |
| –Share capital | **5,838.7** | 4,868.0 |
| –Qualifying portion of capital reserve | **6,627.6** | 4,423.9 |
| –Surplus reserve | **3,467.0** | 3,186.8 |
| –General reserve | **2,788.4** | 2,788.4 |
| –Other comprehensive income | **(6.1)** | (21.0) |
| –Retained earnings | **1,419.6** | 1,219.7 |
| – Qualifying portions of non-controlling interests | **14.0** | 15.3 |
| **Total core tier-one capital** | **20,149.2** | 16,481.1 |
| **Core tier-one capital deductions** | **(168.0)** | (139.6) |
| **Net core tier-one capital** | **19,981.2** | 16,341.5 |
| Other tier-one capitals | **1.9** | 2.0 |
| Net tier-one capital | **19,983.1** | 16,343.5 |
| Tier-two capital | **3,703.3** | 3,632.1 |
| **Net capital base** | **23,686.4** | 19,975.6 |
| **Total risk-weighted assets** | **174,157.4** | 153,784.6 |
| **Core tier-one capital adequacy ratio (%)** | **11.47** | 10.63 |
| **Tier-one capital adequacy ratio (%)** | **11.47** | 10.63 |
| **Capital adequacy ratio (%)** | **13.60** | 12.99 |

As of December 31, 2019, the Group's capital adequacy ratio was 13.60%, up 0.61 percentage point from the end of 2018; both the tier-one capital adequacy ratio and core tier-one capital adequacy ratio were 11.47%, up 0.84 percentage point from the end of 2018. The increase in in capital adequacy ratio was mainly due to the capital raised from the listing on Hong Kong Stock Exchange and the net profit realized during the year.

As of December 31, 2019, the Group's leverage ratio was 7.16%, an increase of 0.67 percentage point from 6.49% as of December 31, 2018. Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks (Revision) issued by the CBRC, which has been effective since April 2015, a minimum leverage ratio of 4% is required.

## 3.9 Risk Management

The primary risks related to the Bank's operations include: credit risk, market risk, liquidity risk, operational risk, information technology risk, reputation risk and strategic risk. In 2019, the Bank continued to strengthen its comprehensive risk management system and adhered to a prudent risk appetite to constantly promote a vertical and independent risk management system. Through this system, the Bank was able to satisfy the relevant regulatory requirements and to ensure the sustainable development of its business. In particular, the Bank was committed to maintaining a risk management system for a balance between risk and return, to maintain flexibility while strictly controlling the risks faced by the Bank, and to achieve business innovation while controlling asset quality.

***Credit Risk***

Credit risk refers to the risk of loss that may arise from the default by, or downgrade of credit rating of, an obligor or counterparty, or from its reduced capacity of fulfilling its contractual obligations. The Bank is exposed to credit risks primarily associated with corporate loan business, personal loan business and financial market business.

The Bank has built and continually improve its bank-wide credit risk management system to identify, measure, monitor, mitigate and control risks that arise from its credit extension business. The Bank has established an effective credit management system, which covers the entire credit extension process, from application and pre-loan investigation to disbursement of funds and post-loan monitoring. The Bank implemented a unified credit system covering credit business and financial market business. All types of credit granting method and credit granting categories are included in the unified credit management, and the approver who has obtained the corresponding authorization exercises the credit approval authority.

In addition, the Bank closely monitors the quality of loans and may reclassify its corporate loans based on the results of routine and ad hoc inspections. The Bank also attaches great importance to the management of non-performing assets and invests in the continual improvement of non-performing assets disposal mechanism through a broad range of measures such as establishing and updating policy according to the prevailing regulatory environment, innovation of collection scheme, introduction of professional staff, and enhancing its review of collection by its branches and sub-branches.

The Bank is committed to using advanced information technology systems to improve the performance of credit risk management. The Bank's credit management system enables account managers to efficiently collect and analyze customer data, such as historical affairs records and financial conditions, and provides close monitoring and timely alert on loans reaching maturity. The information technology system automatically matches credit applications to the corresponding approval procedures based on the amount of credit requested, which reduces the risk of unauthorized approval. In addition, account managers and management departments at all levels can access real-time information of overdue loans through the Bank's information technology system to control risks stemming from overdue loans.

The Bank is dedicated to striking a balance between achieving steady loan growths and maintaining a prudent culture of risk management. The Bank prepared detailed guidance on credit risk management based on the provincial, national and international economic conditions, as well as government policies and regulatory requirements. In formulating the credit policies, the Bank studies the macroeconomic environment in Shanxi Province and the PRC and analyzes the risks and uncertainties relevant to the Bank's operations. The Bank also closely follows the updates in local and national economic development plans, financial regulations and monetary policies, and adjusts the Bank's credit guidelines accordingly.

***Market Risk***

Market risk refers to the risk of changes in market prices caused by interest rates, exchange rates and other market factors. The Bank is exposed to market risks primarily through the assets and liabilities on the balance sheet and the commitments and guarantees off the balance sheet. The Bank's market risk management involves the identification, measuring, monitoring and control of market risks. The Bank primarily employs risk sensitivity and stress tests in measuring and monitoring market risks. The Bank adopts different quantitative measures to manage various types of market risks in the Bank's banking and trading books.

Specifically, the Bank has formulated and implemented relevant interest rate management policies, which allow it to manage interest rate risks. The Bank sets the pricing of deposit and loan products following relevant laws and regulations. The Bank uses the PBoC benchmark interest rates, funding costs, asset risks and other indicators as the basis for pricing, and determines the prices of products by considering the demand and business operations of customers, the industry in which the customers operate, the prices of competitors' products as well as the business relationship between the customers and the Bank. Based on the volatility of market interest rates, the Bank makes timely adjustments to the size and structure of assets in response to changes in the market environment, so that the maturities of the Bank's assets and liabilities can match and to ensure that its various market risk indicators meet regulatory requirements and operational needs.

As of December 31, 2019, the Bank operated a small foreign exchange business and held an insignificant amount of U.S. dollars. The Bank has put together various policies and operational procedures for its foreign exchange businesses, such as foreign currency settlement, sales and payment, and foreign currency trading, to control the relevant exchange rate risk.

### *Liquidity Risk*

Liquidity risk is the risk of failure to obtain sufficient funds in a timely manner or at a reasonable cost to fulfill payment obligations when due. Factors affecting the Bank's liquidity include changes in the maturity profiles of the Bank's assets and liabilities and the monetary policies of the PBoC, such as changes in the statutory deposit reserve ratio. The Bank is exposed to liquidity risks primarily in lending, trading and investment activities funding and in managing its liquidity position.

The Bank has established a liquidity risk management system and an organizational structure where its Board of Directors bears the ultimate responsibilities for the Bank's liquidity risk management and the senior management is responsible for formulating liquidity risk management strategies and policies. The Bank manages liquidity risk through monitoring the maturities of assets and liabilities to ensure it has sufficient funds readily available or at a reasonable cost to fulfill the payment obligations as they become due. The Assets and Liabilities Management Department monitors the Bank's capital position on a daily basis, and provides risk alerts and reminders in a timely manner. The Bank strictly observes the relevant regulatory requirements, closely monitors each liquidity indicator, formulates crisis management plans, enhances daily liquidity risk management and regularly applies stress tests.

In 2019, the Bank closely monitored the changes in the market interest rates, strengthened the monitor and management of the regular liquidity risks, and rationally adjusted the strategies of liquidity risk management by strengthening its day time fund position management and rationally matching the maturity structures of its assets and liabilities based on external market environment, which provided security against liquidity risks. Liquidity risk management was strengthened mainly in the following aspects: 1. The Bank strengthened the routine monitor of liquidity risks. The Bank improved the monitor and analysis of large-amount fund through the information system of liquidity risks, rationally adjusted and controlled its day time excess reserves level to ensure that payment and settlement and other businesses can be operated normally. Meanwhile, The Bank strengthened the management and control of liquidity risk position and rationally matched the structure of its assets and liabilities to ensure that the Bank's liquidity position continued to meet regulatory requirements. 2. The Bank adopted the management of liquidity risk limit indicators, and set the limit indicators based on the external market and the actual development of the Bank's business. 3. The Bank strengthened the management of quality liquidity assets to ensure that they held sufficient reserves of quality liquidity assets to meet external financing needs under stress scenarios. 4. The Bank had erected a liquidity risk monitoring table reporting mechanism to ensure that the Board of Directors and senior management can understand the Company's liquidity status in a timely manner. 5. The Bank regularly conducted liquidity stress tests and timely adjusted the structure of assets and liabilities based on the results of the stress tests to ensure that there were sufficient high-quality liquid assets to cope with external liquidity pressures.

### *Operational Risk*

Operational risk is the risk of losses arising from inadequate or defective internal procedures, personnel and information systems, or external events, mainly covering internal and external frauds, misconduct of employees, security failure, business interruptions, information system breakdown, and so on.

The Bank have established three lines of defense of operational risk management system. While the Board of Directors is ultimately responsible for the effectiveness of our operational risk management, the Board of Supervisors oversees the operational risk management performed by the Board of Directors and senior management, and the senior management implements the strategies, policies and system of operational risk management. The first line of defense is formed by the various business departments at our head office, our branches, and sub-branches, which implement day-to-day operational risk management and bear direct responsibility for the management of the operational risks involved. The second line of defense consists of our Legal and Compliance Department at our head office, which takes the lead in organizing and supervising the operational risk management work implemented by our business departments and other relevant departments. The third line of defense is constituted by our Audit Department, which is responsible for conducting independent evaluation of our operational risk management system and its implementation and monitoring the effectiveness of our operational risk management policies.

The Bank has improved operational risk management system. The Bank has established a number of operational risk management policies and systems, actively promoted the applications of operational Risk and Control Self-Assessment (RCSA), operational risk Key Risk Monitoring Indicators (KRI), operational risk Loss Data Collection (LDC) and other management tools, established and employed operational risk management system, regularly organized and conducted the identification, evaluation, monitoring and reporting of operational risks, continuously optimized internal control management measures and strengthened the prevention and control of operational risks.

### *Information Technology Risk*

Information technology risks include operational risk, reputational risk, legal risk and other types of risks caused by natural factors, human errors, technical loopholes and management failure arising from the Bank's use of information technology. The Bank has set up an Information Technology Management Committee and the Legal and Compliance Department and Information Technology Department at the head office are responsible for managing information technology risks. The Bank strives to continuously improve the information technology infrastructure and the Bank's information technology management system in line with the national standards and regulatory requirements.

To ensure the security of information technology, the Bank has hired professionals to supervise the information security system and established a series of information security management measures to prevent any unauthorized network intrusions, attacks, data leakage or third-party tampering with the Bank's information system. As part of the Bank's business continuity management measures, the Bank has established a disaster backup and recovery system comprising two local active application-level centers and one off-site data-level disaster recovery center. The Bank has also established detailed contingency plans regarding the potential breakdown of the information system to ensure the continuity of operations. The Bank conducts periodic disaster drills for business continuity for important businesses.

### *Reputational Risk*

Reputational risk refers to the risk of negative publicity and comments on the Bank due to the Bank's operations, management, and other activities or external events. The Bank takes its reputation seriously and has established an effective reputational risk management mechanism to monitor, identify, report, control, and assess the reputational risk, and at the same time manage the reputational risk emergency handling, and minimize any loss and negative impact on the Bank due to such incidents.

The Office of the Board of Directors of the Bank is responsible for undertaking management of overall reputational risks, including establishing a bank-wide reputational risk management system, and formulating basic internal policies. The Bank has also set up reputational risk incidents emergency response teams at the branches and sub-branches, so that the head office can be promptly informed upon the occurrence of material and urgent incidents and take appropriate actions accordingly.

### *Strategic Risk*

Strategic risk is caused by inappropriate business strategies or changes in the external operating environment during the establishing and implementing of the strategy, which may have a negative impact on the current, or future, profit, capital, reputation or market position of the Bank.

The Bank actively evaluates and adjusts its business development strategy to enhance the Bank's adaptability in the face of unexpected market changes. The Development and Strategy Office under the Board of Directors is responsible for managing the Bank's strategic risks. The Bank identifies and formulates risk factors through cooperation between the Development and Strategy Office under the Board of Directors and the Risk Management Department; conducts regular review and study on prevailing market conditions and the Bank's business operation status to timely identify potential risks, makes prompt adjustment to the strategies and relevant implementation measures accordingly, and closely monitors the implementation of the strategies.

## 3.10 Business Review

Amid the uncertainty and complexity of China's economic and financial situations and the deepening of the reform and development process, the Bank will seize its H-share listing as an opportunity, take full advantages of overseas capital markets and Hong Kong's international platform, commit to our strategic vision to "harness its core competitiveness through serving and supporting Shanxi Province's economic development, and to become a listed regional bank with strong competitiveness in the local market that boasts a sound corporate structure, featured products and services, a rigorous risk management system and comprehensive functions (服務和助推山西經濟發展，打造核心競爭力，成為一家機制科學、特色鮮明、風控到位、功能完善的精品區域性上市銀行)"; stick to the basic market positioning of "vigorously exploring Shanxi market, serving local economy, serving small and medium enterprises, serving urban residents, serving internet users (深耕山西市場、服務地方經濟、服務中小企業、服務城鎮居民、服務互聯網用戶)"; uphold our corporate culture of "Honesty, Innovation and Entrepreneurship (誠信、創新、實幹)", based on four directions of "regional development, differential competition, integrated management, networked service (區域化發展、差異化競爭、綜合化經營、網絡化服務)"; continue to adjust the business structure, change the way of business growth, and constantly promote its business competitiveness and business innovation, take efforts to expand and strengthen the development of the Bank and gain our own features rapidly.

For the year ended December 31,2019, the Group's principal business lines comprised corporate banking, retail banking and financial markets.

For retail banking business, the Bank adheres to the philosophy of "building a bank founded on the basis of deposit (存款立行)" and continues to consolidate the foundation of personal deposits, promotes the rapid development of businesses such as credit card, personal loan, and wealth management services, and significantly improves the market competitiveness and influence of retail banking; for corporate banking business, the Bank focuses on serving the governmental and institutional customers as well as enterprises in high-quality industries, continuously improves the level of corporate customers management by measures such as enriching trade financial products, building a professional team for corporates, broadening inter-bank cooperation channels, and accelerating the development of investment banking; for financial market business, the Bank adjusts the asset structure of its bond and bill business proactively, expands credit granting to peer institutions actively, and strengthens the management of counterparties.

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Amount** | **% of total** | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| Corporate banking | **3,191.5** | **62.7** | 3,457.1 | 72.7 |
| Retail banking | **1,067.5** | **21.0** | 1,073.8 | 22.6 |
| Financial markets | **701.0** | **13.8** | 218.6 | 4.6 |
| Others (1) | **128.9** | **2.5** | 3.3 | 0.1 |
| **Total operating income** | **5,088.9** | **100.0** | 4,752.8 | 100.0 |

*Note:*

(1) Consists primarily of income that is not directly attributable to any specific segment.

### *Corporate banking*

The Bank positions itself as a "financial steward" and a "partner of the real economy" for local governments in Shanxi Province, whereby it proactively participates in projects with key importance for local economic development in Shanxi Province, and provides corporate banking customers with a wide range of products and services, including corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, financial consulting and advisory services, remittance and settlement services, and guarantee services.

For the year ended December 31, 2019, the Group's operating income from corporate banking was RMB3,191.5 million, representing a year-on-year decrease of 7.7% and accounting for 62.7% of the total operating income for the same period. The decrease in operating income from corporate banking was mainly due to the decrease of net interest income.

As of December 31, 2019, the balance of corporate loans amounted to RMB72,937.8 million, representing a decrease of 1.3% from December 31, 2018. As of the same date, total corporate deposits amounted to RMB68,745.7 million, representing a decrease of 4.5% from December 31, 2018.

For the year ended December 31, 2019, the Bank continued to improve its ability of catering to corporate banking customers' needs for differentiated financial products, and also focused on the development of fee and commission-based corporate banking business and services, such as bonds underwriting, trade financing and acceptances, continuously optimized the business structure, and enriched its product portfolio.

***Retail banking***

Capitalizing on its deep knowledge of the local market and the preferences of retail banking customers, the Bank focused on developing and launching various well-received retail banking products and services and established strong competitiveness in terms of distribution channels, customer base, product mix, and innovative capacities. The Bank provided a range of products and services to retail banking customers, including personal loans, deposit taking services, personal wealth management services and remittance services.

For the year ended December 31, 2019, the Group's operating income from retail banking was RMB1,067.5 million, representing a year-on-year decrease of 0.6% and accounting for 21.0% of the total operating income for the same period. As of December 31, 2019, the personal loan balance was RMB17,835.4 million, accounting for 15.4% of the total loans and advances to customers. As of December 31, 2019, residential mortgage loans, personal consumption loans, personal business loans, and credit card balance were RMB10,787.9 million, RMB1,628.3 million, RMB2,569.1 million and RMB2,850.1 million, accounting for 60.5%, 9.1%, 14.4% and 16.0% of the total personal loans of the Bank, respectively. As of the same date, the Group's total personal deposits amounted to RMB68,492.4 million, representing an increase of 18.2% from December 31, 2018.

Relying on quality services, the number of retail banking customers of the Group further increased during the Reporting Period, from 2,343.6 thousand as of December 31, 2018 to 2,589.8 thousand as of December 31, 2019. After years of persistent efforts, the Bank has established an extensive business network in regions within Shanxi Province showing strong economic growth. As of December 31, 2019, the Bank had one head office, ten branches, 149 sub-branches (including four sub-branches directly administered by the head office, 125 city-level sub-branches, and 20 county-level sub-branches) and one 51.0% owned subsidiary, Qingxu Village and Township Bank. In total, the Bank had 159 outlets, which covered all 11 prefecture-level cities in Shanxi Province.

During the Reporting Period, based on the comprehensive coverage of the business network, the Bank is committed to making use of advanced technologies to provide customers with convenient online and mobile financial products and services. During the Reporting Period, the Bank continuously enriched its online banking services and attracted customers with a good tailor-made user experience through technological upgrade. In addition, by integrating high-quality resources, the Bank provided professional and comprehensive financial services to high net worth individuals in the province. The newly established private banking center won 2019 China Financial Innovative Award – "Best Ten Innovative Family Trust Management Awards" (中國金融創新獎－"十佳家族信託管理創新獎") for its outstanding services in the family trust field.

On March 22, 2019, Jinshang Bank unveiled its banking brand officially. At the same time, it cooperated with Puyi Standard to release the white paper of regional private wealth "White Paper of Shanxi Province Private Wealth 2018". Jinshang Bank won the "Best Regional Private Bank in China" award from China Banking Association in 2019 for its outstanding performance in the field of high-net-worth customer service in Shanxi.

In 2019, Jinshang Bank Private Banking continuously carried out of its plans for asset allocation services with family trust business as the core, which enriched the offerings for high-net-worth customers and improved the customer loyalty to our services. The Bank won 2019 China Financial Innovative Award – "Best Ten Innovative Family Trust Management Awards" by the Banker for its outstanding services in the family trust field and the capability of continuous innovation.

In order to brand the Bank's private banking and maintain customers of private banking properly, the Private Banking Center focuses on the service system of "promoting the future (升擢未來)", "promoting various privileges (升享尊貴)", "promoting the level of wellbeing (升生之道)", and "promoting extraordinary experience (升鑑不凡)", actively explores the development model of private banking in line with its own development strategy, scale and management capabilities, deepens the service market of family wealth planning, creates a differentiated and distinctive private banking brand, and accelerates the steady and robust development of private banking in the region.

***Financial markets***

The financial markets business of the Group includes inter-bank money market transactions, repurchases transactions, inter-bank investments, bond investment and trading. It also covers management of the Group's overall liquidity position, including the issuance of debts.

During the Reporting Period, the Bank closely monitored the changes in the macroeconomic situation, adhered to the direction of financial market policies, strengthened the monitoring and analysis of market conditions, seized business development opportunities, and rationally formulated investment strategies and actively carried out innovative business under the premise of risk control, while continuously optimizing the investment portfolio, increasing the investment in standardized bonds, and gradually adjusting the asset structure.

The financial market business continued to focus on liquidity management and to improve profitability, constantly promote new businesses, maintain risk prevention and compliance management, and continuously enhance the Bank's market activity and influence. For the year ended December 31, 2019, the Bank was successively granted the qualifications of "2019 Renminbi Financial Bond Underwriting Market-Making Group of National Development Bank" and "Credit Risk Mitigation Tool Core Dealer of Inter-bank Dealer Association". The acquisition of such qualifications further expanded the scope of the Bank's bond underwriting and distribution business and credit risk prevention and control capabilities.

For the year ended December 31, 2019, operating income from the Bank's financial markets business amounted to RMB701.0 million, accounting for 13.8% of its total operating income, a 220.7% increase from RMB218.6 million in the same period in 2018, mainly due to the Bank increased financial market business asset scale, to increase financial market business income accordingly and decreased the cost of issuing interbank deposit simultaneously in 2019, considering the favorable conditions of the financial market and our asset and liability management arrangement.

*Interbank Market Transactions*

The Group's interbank market transactions business primarily consists of: (i) interbank deposits; (ii) interbank placements; and (iii) purchase under resale agreement and sale under repurchase agreement, which mainly involves bonds and bills.

As of December 31, 2019, deposits with banks and other financial institutions were RMB1,303.7 million, accounting for 0.5% of the Group's total assets as of December 31, 2019. As of the same date, deposits from banks and other financial institutions amounted to RMB4,211.3 million, accounting for 1.9% of the Group's total liabilities as of December 31, 2019.

As of December 31, 2019, placements with banks and other financial institutions were RMB1,300.4 million, accounting for 0.5% of the Group's total assets as of December 31, 2019. As of the same date, placements from banks and other financial institutions were RMB1,911.5 million, accounting for 0.8% of the Group's total liabilities as of December 31, 2019.

As of December 31, 2019, financial assets purchased under resale agreements were RMB16,630.0 million, accounting for 6.7% of the Group's total assets as of December 31, 2019. As of the same date, financial assets sold under repurchase agreements were RMB12,201.2 million, accounting for 5.4% of the Group's total liabilities as of December 31, 2019.

*Investment Management*

The Group's investment management business mainly consists of debt securities investment and SPV investment. Specifically, debt securities include debt securities issued by PRC government, policy banks, commercial banks and other financial institutions, and enterprises. SPV investment refers to investments in trust plans, asset management plans, wealth management products, and investment funds. When making debt securities investment and SPV investment, the Bank takes into account a broad range of factors, including but not limited to risk appetite, capital consumption level and expected yields of relevant products, as well as overall economic conditions and relevant regulatory development, to achieve a better balance between risk and return.

As of December 31, 2019, the balance of bond investment was RMB33,847.7 million, representing an increase of 47.0% from December 31, 2018, mainly because the Bank actively increased its investment in debt securities, mainly including government bonds, policy financial bonds, local bonds and other interest rate bonds, based on the investment strategies and changes in the bonds market and taking into account of factors such as liquidity, average yield and risk profile.

As of December 31, 2019, the balance of SPV investment was RMB50,326.3 million, representing a decrease of 1.8% from December 31, 2018, mainly because the Bank reduced the scale of investment such as trust plans and asset management plans in accordance with investment strategies.

*Wealth Management*

During the Reporting Period, the Bank actively expanded its wealth management products and services to attract a wider range of customers with different financial needs and risk tolerance, and effectively respond to the challenges of traditional banking services amid interest rate marketization. For the year ended December 31, 2019, the amount of wealth management products issued by the Group was RMB67,273.2 million, representing an increase of 16.1% from the year ended December 31, 2018, mainly due to the cash management products issued by the Bank were active in transactions and the scale of purchases on the trading date was large. As of December 31, 2019, the Group had more than 245,000 wealth management customers, a further increase from the end of 2018.

As of December 31, 2019, the outstanding balance of wealth management products issued by the Group was RMB31,617.5 million, representing an increase of 15.5% from December 31, 2018, mainly because the Bank actively implemented the New Asset Management Regulations to increase the transformation of net worth wealth management products, demonstrated by an increase in the issuance of net worth products and their proportion in the balance of wealth management products. For the year ended December 31, 2019, the fee and commission net income from the wealth management products issued by the Group was RMB141.8 million, representing an increase of 11.8% from the year ended December 31, 2018, mainly due to the Bank's successful transition into net worth wealth management products, the resulting increase in the issuance and retention of net worth wealth management products compared with previous year, and the reduction of the debt cost in the low interest rate environment, which all contributed to the net income growth.

*Debt Securities Distribution*

The Bank's investment banking team provides customers with comprehensive financial services through the debt securities distribution business, to further leverage the Bank's strong capacity in managing capital market transactions, and to broaden its customer base.

The Bank obtained the preliminary and Class-B qualification for underwriting debt financing instruments issued by non-financial enterprises in October 2016 and February 2019, respectively, the latter of which allows the Bank to act as a lead underwriter in the regional market. For the year ended December 31, 2019, the aggregate principal amount of debt securities the Bank distributed amounted to RMB41,545.0 million, representing a decrease of 27.0% from the year ended December 31, 2018, mainly due to the below reasons: first, the number of bonds distributing business institutions has increased significantly; second, the focus of our work has moderately transferred to the lead underwriting bonds issued by the Bank after the Bank obtained Class-B qualification.

## 4. ACQUISITION AND DISPOSAL OF ASSETS AND BUSINESS MERGER

During the Reporting Period, the Bank was not engaged in any material acquisition or disposal of assets or business merger.

**Substantial Investments**

The Bank had no substantial investments in 2019.

## 5. OTHER INFORMATION

### 5.1 Corporate Governance Code

During the Reporting Period, the Bank continued to improve the transparency and accountability of its corporate governance and ensured high standards of corporate governance practices to protect the interests of shareholders and enhance corporate value and commitment.

The Bank has established a relatively comprehensive corporate governance structure in accordance with the requirements of the Hong Kong Listing Rules. The compositions of the Board and the special committees of the Board are in compliance with the requirements of the Hong Kong Listing Rules. The Bank clearly splits the responsibilities among the shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management. The shareholders' general meeting is the highest organ of authority of our Bank. The Board of Directors is accountable to the shareholders' general meeting. The Board of Directors has established six special committees, which operate under the leadership of the Board of Directors and advise on board decisions. The Board of Supervisors is responsible for supervising performance of the Board of Directors and senior management, and the financial operations, risk management and internal control of the Bank. Under the leadership of the Board of Directors, senior management is responsible for implementing the resolutions of the Board of Directors and for the daily operation and management of the Bank, and reports to the Board of Directors and the Board of Supervisors on a regular basis. The President of the Bank is appointed by the Board of Directors and is responsible for the overall operations and management of the Bank.

The Bank has adopted the Corporate Governance Code (the "**Code**") in Appendix 14 to the Listing Rules and has also met the requirements of the administrative measures and corporate governance for domestic commercial banks, establishing a sound corporate governance system. During the Reporting Period, the Bank has complied with all applicable code provisions set out in Appendix 14 to the Listing Rules.

The Bank is committed to maintaining a high standard of corporate governance. The Bank will continue to review and enhance its corporate governance, so as to ensure compliance with the Code and meet the expectations of its shareholders and potential investors.

## 5.2 Directors, Supervisors and Senior Management

As at the date of this announcement, the composition of the Bank's Board of Directors, Board of Supervisors and senior management is as follows:

The Bank's Board of Directors consists of fifteen directors, including four executive directors, namely, Mr. WANG Junbiao*, Chairman of the Board of Directors#, Mr. TANG Yiping, Mr. WANG Peiming and Mr. RONG Changqing; five non-executive directors, namely, Mr. LI Shishan, Mr. XIANG Lijun△, Mr. LIU Chenhang, Mr. LI Yang* and Mr. WANG Jianjun; and six independent non-executive directors, namely, Mr. JIN Haiteng, Mr. SUN Shihu, Mr. WANG Liyan, Mr. DUAN Qingshan*, Mr. SAI Zhiyi and Mr. YE Xiang.

\# Subject to the approval of his qualification as the Chairman by the relevant regulatory authorities, including the regulatory authorities for the banking industry.

△ Subject to the approval of his qualification as the Vice Chairman by the relevant regulatory authorities, including the regulatory authorities for the banking industry.

* Directorships subject to the approval by CBIRC Shanxi Office to come into effect.

The Bank's Board of Supervisors consists of nine supervisors, including three employees' representative supervisors, namely, Mr. XIE Liying, Chairman of the Board of Supervisors, Mr. WEN Qingquan and Mr. GUO Zhenrong; three shareholders' representative supervisors, namely, Mr. BI Guoyu, Ms. XU Jin and Mr. XIA Guisuo; and three external supervisors, namely, Mr. LIU Shoubao, Mr. WU Jun and Mr. LIU Min.

The Bank's senior management consists of twelve members, namely, Mr. TANG Yiping, Ms. HAO Qiang, Mr. GAO Jiliang, Mr. RONG Changqing, Mr. ZHANG Yunfei, Ms. HOU Xiuping, Mr. WEN Gensheng, Mr. ZHAO Jiquan, Mr. ZHAO Fu, Mr. NIU Jun, Mr. LI Weiqiang and Mr. SHANGGUAN Yujiang.

## 5.3 Changes in Directors, Supervisors and Senior Management during the Reporting Period

### *Changes in Directors*

On August 8, 2019, Mr. YE Xiang obtained the approval by the China Banking and Insurance Regulatory Commission Shanxi Office for his qualification as the independent non-executive Director.

On December 30, 2019, Mr. LIU Chenhang obtained the approval by the China Banking and Insurance Regulatory Commission Shanxi Office for his qualification as a Director.

### *Changes in Supervisors*

On May 13, 2019, Mr. WEN Qingquan and Mr. GUO Zhenrong were appointed as employees' representative supervisors.

***Changes in Senior Management***

On November 22, 2019, Mr. ZHAO Jiquan obtained the approval by the China Banking and Insurance Regulatory Commission Shanxi Office for his qualification as the Assistant to the President.

On December 9, 2019, Mr. LI Weiqiang obtained the approval by the China Banking and Insurance Regulatory Commission Shanxi Office for his qualification as the Secretary to the Board of Directors.

On December 9, 2019, Mr. SHANGGUAN Yujiang obtained the approval by the China Banking and Insurance Regulatory Commission Shanxi Office for his qualification as the Assistant to the President.

On December 9, 2019, Mr. NIU Jun obtained the approval by the China Banking and Insurance Regulatory Commission Shanxi Office for his qualification as the Chief Operation Officer.

On January 2, 2020, Mr. ZHAO Fu obtained the approval by the China Banking and Insurance Regulatory Commission Shanxi Office for his qualification as the Chief Marketing Officer.

Save as disclosed above, there is no other relevant information required to be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules during the Reporting Period.

Between the end of the Reporting Period and the date of this announcement, the positions of directors, supervisors and senior management of the Bank changed as follows:

On January 8, 2020, Mr. YAN Junsheng tendered his resignation as an executive director, the chairman of the Board, the chairperson and a member of the Development and Strategy Committee, a member of the Nomination, Remuneration and HR Committee and an authorized representative of the Bank due to work re-arrangement with effect from January 8, 2020. For details, please refer to the announcement entitled "RESIGNATION OF EXECUTIVE DIRECTOR AND CHAIRMAN" issued by the Bank on January 8, 2020.

### 5.4 Securities Transaction by Directors, Supervisors and Relevant Employees

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Hong Kong Listing Rules as its code of conduct for regulating securities transactions by directors, supervisors and relevant employees of the Bank. Having made enquiry with all directors and supervisors, all of the directors and supervisors confirmed that they have been in compliance with the Model Code above throughout the Reporting Period. The Bank is not aware of any violations of the Code by the employees concerned.

## 5.5 Profits and Dividends

The Group's revenue for the year ended December 31, 2019 and financial position as of the same date are set out in the section headed "Annual Financial Statement" in this 2019 annual results announcement.

On April 3, 2019, the Board passed a resolution which proposed to declare and distribute cash dividends of RMB10 per 100 shares (tax inclusive), totally RMB486.8 million for the year ended December 31, 2018 to all existing shareholders on record as of December 31, 2018. The declaration and distribution of these dividends were approved on the shareholders' general meeting on April 29, 2019. The Bank has distributed these dividends for the year ended December 31, 2018 with its internal funds on May 29, 2019.

The Board of Directors has proposed to distribute final cash dividends for the year ended December 31, 2019 at RMB11 (tax inclusive) per 100 shares, in an aggregate amount of approximately RMB642.3 million. The final dividend is subject to approval of shareholders at the Bank's annual general meeting of 2019. If approved, the Bank's final dividend for the year ended December 31, 2019 will be denominated and declared in RMB. Dividends will be distributed to holders of Domestic Shares of the Bank in Renminbi and to holders of H Shares in equivalent Hong Kong dollars. For this conversion, Renminbi will be converted to Hong Kong dollars at the average of the central parity rates as published by the PBoC of the five working days preceding to June 9, 2020 (inclusive) (the date of the Bank's annual general meeting of 2019). If approved at the Bank's annual general meeting of 2019, it is expected that the final dividend will be paid on July 29, 2020.

The registration of transfers of H Shares will be closed from June 13, 2020 (Saturday) to June 18, 2020 (Thursday) (both days inclusive). Each shareholder whose name appears on the Bank's share registers of H Shares and Domestic Shares on June 18, 2020 (Thursday) will be entitled to receive final dividends. For a holder of H Shares to be eligible for the final dividend, all transfer documents together with the relevant H Shares certificates must be delivered to the H Share Registrar, namely, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m., June 12, 2020 (Friday) for registration.

## 5.6 Purchase, Sale and Redemption of Listed Securities of the Bank

On July 18, 2019, the shares of the Bank were initially listed on the Main Board of the Hong Kong Stock Exchange. During the period from the Listing Date to the date of this 2019 annual results announcement, neither the Bank nor its any subsidiary purchased, sold or redeemed any listed securities of the Bank.

## 5.7 Audit of Annual Results

The annual financial statements of the Bank for the year ended December 31, 2019, which were prepared in accordance with IFRSs promulgated by IASB, have been audited by KPMG in accordance with Hong Kong Standards on Auditing.

The annual results of the Bank have been reviewed and approved by the Board of Directors and its Audit Committee.

The Bank had adopted, for the first time, the International Financial Reporting Standards 16 – Leases ("**IFRS 16**") since January 1, 2019, which had no significant impact on the financial statements of the Group. Save as disclosed above, during the Reporting Period, the Bank did not experience any other significant changes in accounting policies.

## 5.8 Use of Proceeds

The proceeds from issuance of H shares of the Bank have been used according to the intended use as disclosed in the prospectus of the Bank. All of the net proceeds from the Global Offering of the Bank (after deduction of the underwriting fees and commissions and estimated expenses payable by the Bank in connection with the Global Offering) approximately RMB3,171 million (including net proceeds from over-allotment) have been used to expand the capital of the Bank to support the ongoing business growth.

As approved by the preparatory team of CBIRC Shanxi Office, the Bank issued financial bonds in the national inter-bank bond market on December 13, 2018 and the payment was completed on December 17, 2018. This tranche of bonds totaled RMB5.00 billion with a maturity of three years at a fixed interest rate and a coupon interest rate of 4.00%. All funds raised from this tranche of bonds have been used to optimize the matching structure of medium-to-long-term assets and liabilities, increase the source of stable medium-to-long-term liabilities and support the development of new medium-to-long-term asset business in accordance with applicable laws and approvals from regulatory authorities.

## 5.9 Subsequent Events

The COVID-19 has certain impacts on the business operation and overall economy in some industries, and then may affect the quality or the yields of the credit assets and investment assets of the Group in a degree. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group.

The Group had no other significant event subsequent to the Reporting Period.

### 5.10 Number of Employees, Remuneration Policies, Equity Incentive Plan and Training Programs

As of December 31, 2019, the total number of employees of the Group reached 4,314, of which 40.57% were employees aged 30 and below, and 84.1% were employees with a bachelor's degree or above. Leveraging the sound age distribution and academic backgrounds of its employees, the Bank managed to cultivate a positive and innovative corporate culture and enhance its capability of quickly identifying market trends and efficiently capturing market opportunities. As of December 31, 2019, the Bank had 339 employees with AFP certification, and 31 employees with CFP certificates.

Believing that the sustainable growth of the Bank relies on the capability and dedication of its employees, the Bank has invested significant resources in talent development. The Bank offers a variety of training programs tailored for its employees at different levels. The Bank actively collaborates with prestigious universities and industry associations in the PRC and overseas, so as to offer cutting-edge courses on global and domestic economy, as well as leadership and management skills, to its senior and mid-level management team. For the executive personnel at the branches and sub-branches, the Bank provides annual week-long centralized training sessions themed in management capability upgrade, practical skills enhancement and team building.

In compliance with the PRC laws and regulations, the Bank contributes to employees' social security and other benefits program including pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing allowances, corporate annuity and supplementary medical insurance. The Bank has a labor union established in accordance with PRC laws and regulations, which represents the interests of its employees and works closely with the Bank's management on labor-related issues.

## 6. ANNUAL FINANCIAL STATEMENTS

### Audit Opinions

The 2019 financial statements of the Bank prepared in accordance with IFRS have been audited by KPMG. KPMG have expressed unqualified opinions in the independent auditor's report.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2019*
*(Expressed in thousands of Renminbi, unless otherwise stated)*

| | *Note* | **2019** | 2018 |
|---|---|---|---|
| Interest income | | **8,741,042** | 8,345,029 |
| Interest expense | | **(5,496,250)** | (5,166,279) |
| **Net interest income** | *3* | **3,244,792** | 3,178,750 |
| Fee and commission income | | **710,615** | 490,259 |
| Fee and commission expense | | **(85,825)** | (66,591) |
| **Net fee and commission income** | *4* | **624,790** | 423,668 |
| Net trading gains | *5* | **435,368** | 231,806 |
| Net gains arising from investment securities | *6* | **746,244** | 887,423 |
| Other operating income | *7* | **37,747** | 31,142 |
| **Operating income** | | **5,088,941** | 4,752,789 |
| Operating expenses | *8* | **(1,836,783)** | (1,750,818) |
| Impairment losses on assets | *11* | **(1,665,481)** | (1,535,465) |
| Share of profit of associate | | **20,878** | 33,216 |
| **Profit before tax** | | **1,607,555** | 1,499,722 |
| Income tax | *12* | **(125,107)** | (186,108) |
| **Net profit for the year** | | **1,482,448** | 1,313,614 |
| **Net profit attributable to:** | | | |
| Equity shareholders of the Bank | | **1,483,630** | 1,310,283 |
| Non-controlling interests | | **(1,182)** | 3,331 |
| **Net profit for the year** | | **1,482,448** | 1,313,614 |

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Other comprehensive income:** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Financial assets at fair value through other comprehensive income: | | | |
| – net movement in the fair value reserve, net of tax | *32(d)* | **(5,269)** | 53,648 |
| – net movement in the impairment reserve, net of tax | *32(e)* | **1,105** | (21,326) |
| *Items that will not be reclassified to profit or loss:* | | | |
| Remeasurement of net defined benefit liability, net of tax | *32(f)* | **(1,748)** | (8) |
| **Other comprehensive income, net of tax** | | **(5,912)** | 32,314 |
| **Total comprehensive income** | | **1,476,536** | 1,345,928 |
| **Total comprehensive income attributable to:** | | | |
| Equity shareholders of the Bank | | **1,477,718** | 1,342,597 |
| Non-controlling interests | | **(1,182)** | 3,331 |
| **Total comprehensive income** | | **1,476,536** | 1,345,928 |
| **Basic and diluted earnings per share (in RMB)** | *13* | **0.28** | 0.27 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*at 31 December 2019*

*(Expressed in thousands of Renminbi, unless otherwise stated)*

| | *Note* | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash and deposits with the central bank | *14* | **19,108,325** | 23,589,738 |
| Deposits with banks and other financial institutions | *15* | **1,303,659** | 792,312 |
| Placements with banks and other financial institutions | *16* | **1,300,375** | 500,106 |
| Financial assets held under resale agreements | *17* | **16,630,018** | 24,179,979 |
| Loans and advances to customers | *18* | **111,712,557** | 98,118,139 |
| Financial investments: | *19* | | |
| Financial investments at fair value through profit or loss | | **29,976,480** | 24,251,888 |
| Financial investments at fair value through other comprehensive income | | **11,709,118** | 5,042,827 |
| Financial investments at amortised cost | | **51,227,041** | 47,469,934 |
| Interest in associate | *20* | **272,576** | 251,698 |
| Property and equipment | *22* | **1,464,655** | 746,626 |
| Deferred tax assets | *23* | **1,441,111** | 1,268,752 |
| Other assets | *24* | **1,425,298** | 1,035,843 |
| **Total assets** | | **247,571,213** | 227,247,842 |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Borrowing from the central bank | | **870,731** | 590,000 |
| Deposits from banks and other financial institutions | *25* | **4,211,308** | 2,513,697 |
| Placements from banks and other financial institutions. | *26* | **1,911,455** | 100,000 |
| Financial assets sold under repurchase agreements | *27* | **12,201,162** | 8,680,430 |
| Deposits from customers | *28* | **155,322,230** | 144,896,805 |
| Income tax payable | | **195,608** | 106,219 |
| Debt securities issued | *29* | **50,345,104** | 51,288,864 |
| Other liabilities | *30* | **2,354,266** | 3,075,838 |
| **Total liabilities** | | **227,411,864** | 211,251,853 |

| | Note | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | *31* | **5,838,650** | 4,868,000 |
| Capital reserve | *32(a)* | **6,627,602** | 4,423,893 |
| Surplus reserve | *32(b)* | **3,467,020** | 3,186,830 |
| General reserve | *32(c)* | **2,788,427** | 2,788,427 |
| Fair value reserve | *32(d)* | **(23,204)** | (17,935) |
| Impairment reserve | *32(e)* | **18,320** | 17,215 |
| (Deficit)/surplus on remeasurement of net defined benefit liability | *32(f)* | **(1,223)** | 525 |
| Retained earnings | *33* | **1,419,577** | 702,937 |
| Total equity attributable to equity shareholders of the Bank | | **20,135,169** | 15,969,892 |
| Non-controlling interests | | **24,180** | 26,097 |
| **Total equity** | | **20,159,349** | 15,995,989 |
| **Total liabilities and equity** | | **247,571,213** | 227,247,842 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2019*

*(Expressed in thousands of Renminbi, unless otherwise stated)*

| | | Attributable to equity shareholders of the Bank | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | Share capital | Capital reserve | Surplus reserve | General reserve | Fair value reserve | Impairment reserve | Surplus on remeasurement of net defined benefit liability | Retained earnings | Total | Non-controlling interests | Total equity |
| Balance at 1 January 2019 | | 4,868,000 | 4,423,893 | 3,186,830 | 2,788,427 | (17,935) | 17,215 | 525 | 702,937 | 15,969,892 | 26,097 | 15,995,989 |
| Changes in equity for the year: | | | | | | | | | | | | |
| Net profit for the year | | - | - | - | - | - | - | - | 1,483,630 | 1,483,630 | (1,182) | 1,482,448 |
| Other comprehensive income | | - | - | - | - | (5,269) | 1,105 | (1,748) | - | (5,912) | - | (5,912) |
| Total comprehensive income | | - | - | - | - | (5,269) | 1,105 | (1,748) | 1,483,630 | 1,477,718 | (1,182) | 1,476,536 |
| Issue of H shares | *32(a)* | 970,650 | 2,203,709 | - | - | - | - | - | - | 3,174,359 | - | 3,174,359 |
| Appropriation of profit | | | | | | | | | | | | |
| – Appropriation to surplus reserve | *32(b)* | - | - | 280,190 | - | - | - | - | (280,190) | - | - | - |
| – Appropriation to general reserve | *32(c)* | - | - | - | - | - | - | - | - | - | - | - |
| – Dividends paid to shareholders | *33* | - | - | - | - | - | - | - | (486,800) | (486,800) | - | (486,800) |
| Dividends paid to non-controlling interests | | - | - | - | - | - | - | - | - | - | (735) | (735) |
| Balance at 31 December 2019 | | 5,838,650 | 6,627,602 | 3,467,020 | 2,788,427 | (23,204) | 18,320 | (1,223) | 1,419,577 | 20,135,169 | 24,180 | 20,159,349 |

| | Note | Attributable to equity shareholders of the Bank | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Capital reserve | Surplus reserve | General reserve | Fair value reserve | Impairment reserve | Surplus on remeasurement of net defined benefit liability | Retained earnings | Total | Non-controlling interests | Total equity |
| Balance at 31 December 2017 | | 3,268,000 | 5,098,849 | 3,055,203 | 2,561,259 | (86,744) | – | 533 | 745,719 | 14,642,819 | 33,475 | 14,676,294 |
| Changes in accounting policies | | – | – | – | – | 15,161 | 38,541 | – | (507,470) | (453,768) | (10,709) | (464,477) |
| Balance at 1 January 2018 | | 3,268,000 | 5,098,849 | 3,055,203 | 2,561,259 | (71,583) | 38,541 | 533 | 238,249 | 14,189,051 | 22,766 | 14,211,817 |
| Changes in equity for the year: | | | | | | | | | | | | |
| Net profit for the year | | – | – | – | – | – | – | – | 1,310,283 | 1,310,283 | 3,331 | 1,313,614 |
| Other comprehensive income | | – | – | – | – | 53,648 | (21,326) | (8) | – | 32,314 | – | 32,314 |
| Total comprehensive income | | – | – | – | – | 53,648 | (21,326) | (8) | 1,310,283 | 1,342,597 | 3,331 | 1,345,928 |
| Capital contribution by equity shareholders | *32(a)* | 1,600,000 | (674,956) | – | – | – | – | – | – | 925,044 | – | 925,044 |
| Appropriation of profit | | | | | | | | | | | | |
| – Appropriation to surplus reserve | *32(b)* | – | – | 131,627 | – | – | – | – | (131,627) | – | – | – |
| – Appropriation to general reserve | *32(c)* | – | – | – | 227,168 | – | – | – | (227,168) | – | – | – |
| – Dividends paid to shareholders | *33* | – | – | – | – | – | – | – | (486,800) | (486,800) | – | (486,800) |
| Balance at 31 December 2018 | | 4,868,000 | 4,423,893 | 3,186,830 | 2,788,427 | (17,935) | 17,215 | 525 | 702,937 | 15,969,892 | 26,097 | 15,995,989 |

## CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 December 2019*

*(Expressed in thousands of Renminbi, unless otherwise stated)*

| | *Note* | **2019** | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **1,607,555** | 1,499,722 |
| *Adjustments for:* | | | |
| Impairment losses on assets | | **1,665,481** | 1,535,465 |
| Depreciation and amortization | | **256,415** | 129,393 |
| Interest income arising from impaired loans | | **(48,952)** | (50,381) |
| Unrealized foreign exchange gains | | **(6,095)** | (398) |
| Net (gains)/losses on disposal of property and equipment | | **(9,982)** | 138 |
| Net trading gains | | **(342,479)** | (231,408) |
| Net gains on disposal of investment securities | | **(746,244)** | (887,423) |
| Share of profits of associates | | **(20,878)** | (33,216) |
| Interest expense on debts securities issued | | **1,780,798** | 1,674,152 |
| Interest expense on lease liabilities | | **21,615** | – |
| | | **4,157,234** | 3,636,044 |
| *Changes in operating assets* | | | |
| Net decrease in deposits with the central bank | | **3,957,544** | 308,890 |
| Net (increase)/decrease in deposits with banks and other financial institutions | | **(100,000)** | 100,000 |
| Net increase in loans and advances to customers | | **(14,720,723)** | (4,974,610) |
| Net decrease/(increase) in financial assets held under resale agreements | | **7,547,957** | (12,867,635) |
| Net increase in other operating assets | | **(551,566)** | (147,692) |
| | | **(3,866,788)** | (17,581,047) |
| *Changes in operating liabilities* | | | |
| Net increase/(decrease) in borrowing from the central bank | | **280,000** | (435,000) |
| Net increase/(decrease) in deposits from banks and other financial institutions | | **1,713,549** | (8,988,283) |
| Net increase/(decrease) in placements from banks and other financial institutions | | **1,810,000** | (400,000) |
| Net increase/(decrease) in financial assets sold under repurchase agreements | | **3,519,449** | (1,625,201) |
| Net increase in deposits from customers | | **9,802,089** | 6,977,100 |
| Income tax paid | | **(206,107)** | (479,541) |
| Net decrease in other operating liabilities | | **(251,034)** | (1,529,250) |
| | | **16,667,946** | (6,480,175) |

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Net cash flows generated from/(used in) operating activities** | | **16,958,392** | (20,425,178) |
| **Cash flows from investing activities** | | | |
| Proceeds from disposal and redemption of investments | | **126,132,417** | 129,017,408 |
| Gains received from investment activities | | **801,972** | 893,803 |
| Proceeds from disposal of property and equipment and other assets | | **12,509** | 2,978 |
| Payments on acquisition of investments | | **(142,241,336)** | (132,684,214) |
| Payments on acquisition of property and equipment, intangible assets and other assets | | **(898,250)** | (426,370) |
| **Net cash flows used in investing activities** | | **(16,192,688)** | (3,196,395) |
| **Cash flows from financing activities** | | | |
| Net proceeds from issuance of H shares | | **3,174,359** | – |
| Proceeds from capital contribution by equity shareholders | | **–** | 914,000 |
| Proceeds from debt securities issued | *36(c)* | **56,246,356** | 69,425,137 |
| Repayment of debt securities issued | *36(c)* | **(57,190,000)** | (44,350,000) |
| Interest paid on debt securities issued | *36(c)* | **(1,780,914)** | (1,665,932) |
| Dividends paid | | **(449,071)** | (463,507) |
| Proceeds from other financing activities | | **–** | 11,044 |
| Repayment of lease liabilities | *36(c)* | **(54,705)** | – |
| Interest paid on lease liabilities | *36(c)* | **(21,615)** | – |
| **Net cash flows (used in)/generated from financing activities** | | **(75,590)** | 23,870,742 |
| **Effect of foreign exchange rate changes on cash and cash equivalents** | | **2,305** | (284) |
| **Net increase in cash and cash equivalents** | *36(a)* | **692,419** | 248,885 |
| **Cash and cash equivalents as at 1 January** | | **7,202,528** | 6,953,643 |
| **Cash and cash equivalents as at 31 December** | *36(b)* | **7,894,947** | 7,202,528 |
| Interest received | | **8,669,297** | 8,084,146 |
| Interest paid (excluding interest expense on debt securities issued) | | **3,098,315** | 3,443,239 |

# 7. NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in thousands of Renminbi, unless otherwise stated)*

## 1 BACKGROUND INFORMATION

Jinshang Bank Co., Ltd. (the "Bank") (formerly Taiyuan City Commercial Bank Co., Ltd.) commenced business as a city commercial bank on 16 October 1998, according to the Approval on Commencement of Taiyuan City Commercial Bank Co., Ltd.《關於太原市商業銀行開業的批覆》(YinFu [1998] No.323) by People's Bank of China (the "PBoC"). According to the Approval on Change of Name for Taiyuan City Commercial Bank Co., Ltd.《關於太原市商業銀行更名的批覆》(YinJianFu [2008] No.569) by the former China Banking Regulatory Commission (the former "CBRC"), Taiyuan City Commercial Bank Co., Ltd. was renamed as Jinshang Bank Co., Ltd. on 30 December 2008.

The Bank has been approved by the former CBRC (Shanxi Branch) to hold financial business permit (No. B0116H214010001) and approved by the Shanxi Provincial Administration for Industry and Commerce for the business license (credibility code: 911400007011347302). At 31 December 2019, the registered capital of the Bank was RMB5,838,650,000, with its registered office located at No. 59 Changfeng Street, Xiaodian District, Taiyuan, Shanxi Province. The Bank is regulated by the China Banking Insurance Regulatory Commission (the "CBIRC") authorized by the State Council.

In July 2019, the Bank's H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 2558).

The principle activities of the Bank and its subsidiary (collectively the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, financial market business and other banking services as approved by the CBIRC.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (1) Basis of preparation and presentation – Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (the "IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

#### *(a) Changes in accounting policies*

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the last annual financial statements.

The Group has initially adopted IFRS 16 Leases ("IFRS 16") from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

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

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019, with no restatement of comparative information.

The details of the changes in accounting policies are disclosed below.

A. *Definition of a lease*

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 *Determining Whether an Arrangement Contains Lease*. Under IFRS16, the Group assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

B. *As a lessee under operating leases*

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognises right-of-use assets and lease liabilities for some leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

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

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

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

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

– Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

– Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

– Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

C. *Impacts on financial statements.*

i. Impacts on transition

On 1 January 2019, the Bank recognised approximately RMB571 million of right-of-use assets (including prepaid or accrued lease payments approximately RMB55 million which had already been recognised in the consolidated statement of financial position) and approximately RMB516 million of lease liabilities.

When measuring lease liabilities, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019.

| | |
|---|---|
| Operating lease commitment at 31 December 2018 as disclosed | 693,786 |
| Discounted using the incremental borrowing rate at 1 January 2019 | 611,292 |
| Recognition exemption for | |
| – short-term leases | (95,422) |
| – leases of low-value assets | (82) |
| Lease liabilities recognised at 1 January 2019 | 515,788 |

ii. Impact for the year

As a result of initially applying IFRS16, the Group recognised approximately RMB503 million of right-of-use assets and approximately RMB463 million of lease liabilities as at 31 December 2019.

Also in relation to those leases under IFRS16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the Group recognised approximately RMB96 million of depreciation charges and approximately RMB22 million of interest costs from these leases.

***(b) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019.***

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Group has adopted all applicable new and revised IFRSs to the reporting period, except for any new standards or interpretations that are not yet effective for the year ended 31 December 2019.

The revised and new accounting standards and interpretations but not yet effective for the year ended 31 December 2019, are set out below:

| | **Effective for accounting period beginning on or after** |
|---|---|
| Amendments to IFRS 3, *Definition of a business* | 1 January 2020 |
| Amendments to IAS 1 and IAS 8, *Definition of material* | 1 January 2020 |
| IFRS 17, *Insurance contracts* | 1 January 2021 |
| Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an Investor and its associate or joint venture* | To be determined |

The Group has assessed the impact of these amendments. So far it has concluded that the adoptions of them are unlikely to have significant impacts on the Group's result of operations and financial position.

**(2) Basis of preparation and presentation – Functional and presentation currency**

The financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Group. All financial statements presented in RMB has been rounded to the nearest thousand, except when otherwise indicated.

**(3) Basis of preparation and presentation – Basis of measurement**

The financial statements has been prepared on the historical cost basis except of certain financial assets, which are measured at fair value, as stated in Note 2(9).

**(4) Basis of preparation and presentation – Use of estimates and judgements**

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

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

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2(26).

### (5) Subsidiary and non-controlling interests

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

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

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

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(6)).

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(16)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

### (6) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group or the Bank Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(16)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the combined statement of profit or loss and other comprehensive income.

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

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

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

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

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

**(7) Translation of foreign currencies**

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

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

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

**(8) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, financial assets held under resale agreements and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

**(9) Financial instruments**

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

A financial asset or financial liability is recognised in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

A financial assets and financial liabilities is measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs.

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

*Classification of financial assets*

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Financial assets are classified as:

– Financial assets measured at amortised cost, mainly including loans, advances and financial investments measured at amortised cost;

– Financial assets measured at fair value through other comprehensive income (FVTOCI), mainly including loans, advances and financial investments measured at FVTOCI; and

– Financial assets measured at fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held-for-trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Group's key management personnel.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and 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. The Group also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

*Subsequent measurement of financial assets*

– Financial assets at FVTPL

  These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

– Financial assets at amortised cost

  These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

– Debt investments at FVOCI

  These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

– Equity investments at FVOCI

  These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

### *(iii) Classification and subsequent measurement of financial liabilities*

Financial liabilities are classified as measured at amortised cost or financial guarantee liabilities.

– *Financial liabilities at amortised cost*

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

– Financial guarantee liabilities

Financial guarantees are contracts that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee liability is measured at the higher of:

The amount of the loss allowance determined in accordance with impairment policies of financial instruments (see Note 2(19)(i)); and

The amount initially recognised less the cumulative amount of income.

### *(iv) Impairment*

The Group recognises loss allowances for expected credit loss (ECL) on:

– financial assets measured at amortised cost;

– debt investments measured at FVOCI.

Financial assets measured at fair value, including debt investments or equity securities at FVTPL, and equity securities designated at FVOCI, are not subject to the ECL assessment.

*Measurement of ECL*

ECL is a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECL is the maximum contractual period (including extension options) over which the group is exposed to credit risk.

Lifetime ECL is the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL is the portion of ECL that result from default events that are possible within the 12 months after the balance sheet date (or a shorter period if the expected life of the instrument is less than 12 months).

ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the balance sheet date.

See Note 39(a) for the measurement of expected credit loss of the Group.

*Presentation of allowance for ECL*

ECL is remeasured at each balance sheet date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income.

*Write-off*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

***(v) Fair value measurement principles***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, it is the current asking price. The quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the reporting period. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

*(vi) Derecognition of financial assets and financial liabilities*

Financial asset is derecognised when one of the following conditions is met:

– the Group's contractual rights to the cash flows from the financial asset expire;

– the financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or

– the financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

– the carrying amount of the financial asset transferred measured at the date of derecognition;

– the sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

The Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

*(vii) Offsetting*

Financial assets and financial liabilities are generally presented separately in the statements of financial position, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the statements of financial position when both of the following conditions are satisfied:

– the Group currently has a legally enforceable right to set off the recognised amounts;

– the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

**(10) Financial assets held under resale and repurchase agreements**

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortized cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortized cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised respectively as interest income and interest expense over the life of each agreement using the effective interest method.

### (11) Investment in subsidiary

In the Group's consolidated financial statements, investments in subsidiary are accounted for in accordance with the principles described in Note 2(5).

In the Bank's financial statements, investments in subsidiary are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognised at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (see Note 2(16)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid-in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

### (12) Property and equipment and construction in progress

Property and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (see Note 2(16)). Construction in progress is stated in the statements of financial position at cost less impairment loss (see Note 2(16)).

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. Construction in progress is transferred to property and equipment when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as a separate property and equipment.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Property and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

| Asset category | Estimated useful life | Estimated rate of residual value | Depreciation rate |
|---|---:|---:|---:|
| Premises | 10 – 20 years | 3% | 4.85% – 9.70% |
| Vehicle | 4 years | 3% | 24.25% |
| Electronic equipment | 3 – 5 years | 3% | 19.40% – 32.33% |
| Others | 3 – 10 years | 3% | 9.70% – 32.33% |

Useful lives, residual values and depreciation methods are reviewed at least at each year-end.

**(13) Leases**

***The following accounting policies related to lease apply to the period before 1 January 2019***

The Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

– fulfillment of the arrangement was dependent on the use of a specific asset or assets;

– the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:

  – the purchaser had the ability or right to operate the asset while obtaining or controlling more than;

  – the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

  – facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

*(a) As a lessee*

The Bank classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the right-of-use assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Bank's statements of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

*(b) As a lessor*

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

***The following accounting policies related to lease apply to the period on or after 1 January 2019***

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

IFRS 16 is applied to contracts entered into, or changed, on or after January 1, 2019.

*(a) As a lessee*

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and 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, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

Lease payments included in the measurement of the lease liability comprise the following:

– its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;

– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

– amounts expected to be payable under a residual value guarantee; and

– the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in 'other assets' and lease liabilities in 'other liabilities' in the statements of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) *As a lessor*

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Bank applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration in the contract.

The Bank recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other operating income'.

**(14) Intangible assets**

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss (see Note 2(16)). The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

| | |
|---|---|
| Land use rights | 25 – 50 years |
| Computer software | 2 – 10 years |

**(15) Repossessed assets**

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

### (16) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the reporting period based on the internal and external sources of information to determine whether there is any indication of impairment:

– property and equipment

– construction in progress

– intangible assets

– investment in subsidiary

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A cash-generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognised accordingly.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

### (17) Employee benefits

#### *(i) Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of the Group include the social pension schemes, annuity plan, housing fund and other social insurances.

*Social pension schemes*

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for the employees arranged by local government labour and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

*Annuity plan*

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' total salaries and bonuses, which are charged to profit or loss when the contributions are made.

*Housing fund and other social insurances*

In addition to the retirement benefits above, the Group has joined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.

***(ii) Supplementary retirement benefits***

*Early retirement plan*

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the projected unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

*Supplementary retirement plan*

The Group provides a supplementary retirement plan to its eligible employees. The Group's obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that the Group is committed to pay to the employees after their retirement. The calculation is performed by a qualified actuary using the projected unit credit method. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date. The related service cost and net interest from the retirement plan are recognised in profit or loss, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits". Except for the above mentioned, the Group has no significant responsibilities to pay any other retirement benefits to employees.

### (18) Income tax

Income tax for the reporting period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiary to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Bank or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

**(19) Financial guarantees, provisions and contingent liabilities**

***(i) Financial guarantees***

In terms of off-balance sheet credit commitment, the Group applies expected credit loss model to measure the loss caused by particular debtors incapable of paying due debts, which is present in provisions. See Note 2(9)(iv) for the description of expected credit loss model.

***(ii) Other provisions and contingent liabilities***

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

**(20) Fiduciary activities**

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

Intermediary matchmaking service refers to the Group's signing agreements with customers and financing parties respectively, and providing intermediary matchmaking, information registration, agent interest payment or redemption and information disclosure services. As for the intermediary matchmaking service, the Group only fulfill its management duties and collects corresponding service fees in accordance with the relevant agreements, and does not bear the relevant default risk arising from the intermediary matchmaking service. Therefore, the relevant intermediary matchmaking service is recorded as off-balance sheet item.

**(21) Income recognition**

Income is the gross inflow of economic benefit in the periods arising in the course of the Group's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders.

Income is recognised when the Group satisfies the performance obligation in the contract which by transferring the control over relevant goods or services to the customers.

The following is the description of accounting policies regarding income from the Group's principal activities.

### *(i) Interest income*

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortization of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the reporting period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

### *(ii) Fee and commission income*

The Group earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by the Group reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.

The Group recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:

– The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

– The customer controls the service provided by the Group in the course of performance or;

– The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

In other cases, the Group recognises revenue at a point in time at which a customer obtains control of the promised services.

### *(iii) Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

### *(iv) Other income*

Other income is recognised on an accrual basis.

**(22) Expenses recognition**

***(i) Interest expense***

Interest expense from financial liabilities are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

***(ii) Other expenses***

Other expenses are recognised on an accrual basis.

**(23) Dividends**

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the end of the reporting period are not recognised as a liability at the end of the reporting period but disclosed separately in the notes to the financial statements.

**(24) Related parties**

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### (25) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### (26) Significant accounting estimates and judgements

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.

#### *(a) Measurement of expected credit loss*

The measurement of the expected credit loss allowance for the investment in financial assets and debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

- Determining criteria for significant increase in credit risk;

- Choosing appropriate models and assumptions for the measurement of expected credit losses;

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 39(a) credit risk.

#### *(b) Fair value of financial instruments*

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, and option pricing models. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

*(c) Income taxes*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

*(d) Impairment of non-financial assets*

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) may not be obtained reliably, the fair value of the asset may not be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

*(e) Depreciation and amortization*

Investment properties, property and equipment and intangible assets are depreciated and amortized using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortization costs charged in each of the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortization, the amount of depreciation or amortization will be revised.

*(f) Determination of control over investees*

Management applies its judgement to determine whether the control indicators set out in Note 2(5) indicate that the Group controls a non-principal guaranteed wealth management product and an asset management plan.

The Group acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether the Group controls such a structured entity usually focuses on the assessment of the aggregate economic interests of the Group in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by the Group, the Group's aggregate economic interest is in each case not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, the Group has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore has not consolidated these structured entities.

For further disclosure in respect of unconsolidated non-principal guaranteed wealth management products and asset management plans in which the Group has an interest or for which it is a sponsor, see Note 34.

***(g) Defined benefit plan***

The Group, in accordance with the projected unit credit method, using unbiased and mutually compatible actuarial assumption to estimate related demographic variables and financial variables, measure the obligations under the defined benefit plan, recognise a defined benefit plan liability by the present value of the defined benefit plan. The Group attribute obligations under a defined benefit plan to periods of service provided by employees, with a corresponding charge to the profit or loss for the current period or the cost of a relevant asset which include the service cost and interest expense of under a defined benefit plan, changes as a result of remeasurements of the net defined benefit plan liability or asset are recognised in deficit/surplus on remeasurement of net defined benefit liability.

## 3 NET INTEREST INCOME

| | **2019** | 2018 |
|---|---|---|
| **Interest income arising from** | | |
| Deposits with the central bank | **259,017** | 322,166 |
| Deposits with banks and other financial institutions | **35,240** | 30,838 |
| Placements with banks and other financial institutions | **80,262** | 23,128 |
| Loans and advances to customers | | |
| – Corporate loans and advances | **3,989,257** | 3,962,958 |
| – Personal loans | **735,060** | 728,284 |
| – Discounted bills | **865,375** | 888,462 |
| Financial assets held under resale agreements | **349,799** | 241,520 |
| Financial investments | **2,427,032** | 2,147,673 |
| Sub-total | **8,741,042** | 8,345,029 |
| **Interest expense arising from** | | |
| Borrowing from the central bank | **(21,720)** | (4,965) |
| Deposits from banks and other financial institutions | **(107,698)** | (337,298) |
| Placements from banks and other financial institutions | **(18,377)** | (2,069) |
| Deposits from customers | **(3,405,542)** | (3,020,546) |
| Financial assets sold under repurchase agreements | **(162,115)** | (127,249) |
| Debt securities issued | **(1,780,798)** | (1,674,152) |
| Sub-total | **(5,496,250)** | (5,166,279) |
| **Net interest income** | **3,244,792** | 3,178,750 |

Interest income arising from impaired loan for the year ended 31 December 2019 amounted to RMB49 million (2018: RMB50 million).

## 4 NET FEE AND COMMISSION INCOME

### (a) Income and expense streams:

| | 2019 | 2018 |
|---|---|---|
| **Fee and commission income** | | |
| Agency services fees and others | **249,078** | 152,293 |
| Acceptance and guarantee services fees | **157,439** | 125,573 |
| Wealth management business fees | **141,832** | 126,847 |
| Bank card services fees | **83,918** | 38,982 |
| Settlement and clearing fees | **78,348** | 46,564 |
| Sub-total | **710,615** | 490,259 |
| **Fee and commission expense** | | |
| Settlement and clearing fees | **(37,185)** | (29,423) |
| Bank card services fees | **(22,499)** | (2,140) |
| Others | **(26,141)** | (35,028) |
| Sub-total | **(85,825)** | (66,591) |
| **Net fee and commission income** | **624,790** | 423,668 |

### (b) Disaggregation of income:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **At a point in time** | **Over time** | At a point in time | Over time |
| Agency services fees and others | **170,246** | **78,832** | 152,293 | – |
| Acceptance and guarantee services fees | **–** | **157,439** | – | 125,573 |
| Wealth management business fees | **–** | **141,832** | – | 126,847 |
| Bank card services fees | **69,680** | **14,238** | 38,982 | – |
| Settlement and clearing fees | **78,348** | **–** | 46,564 | – |
| Total | **318,274** | **392,341** | 237,839 | 252,420 |

## 5 NET TRADING GAINS

| | 2019 | 2018 |
|---|---|---|
| Net gains from funds | **280,824** | 52,713 |
| Exchange gain | **92,889** | 398 |
| Net gains from investment management products | **61,357** | 120,544 |
| Net gains from equity investments | **9,482** | 34,235 |
| Net (losses)/gains from interbank deposits issued | **(14)** | 1,975 |
| Net losses from derivative financial assets | **(1,415)** | – |
| Net (losses)/gains from debt securities | **(7,755)** | 21,941 |
| Total | **435,368** | 231,806 |

## 6 NET GAINS ARISING FROM INVESTMENT SECURITIES

| | **2019** | 2018 |
|---|---|---|
| Net gains of financial investments at fair value through profit or loss | **742,072** | 881,528 |
| Net gains of financial investments at fair value through other comprehensive income | **4,172** | 5,895 |
| Total | **746,244** | 887,423 |

## 7 OTHER OPERATING INCOME

| | **2019** | 2018 |
|---|---|---|
| Net gains on disposal of property and equipment | **10,059** | 7 |
| Penalty income | **7,656** | 1,713 |
| Rental income | **858** | 1,021 |
| Long-term unwithdrawn items income | **509** | 531 |
| Government grants | **307** | 2,129 |
| Others | **18,358** | 25,741 |
| Total | **37,747** | 31,142 |

## 8 OPERATING EXPENSES

| | *Note* | **2019** | 2018 |
|---|---|---|---|
| Staff costs | | | |
| – Salaries, bonuses and allowances | | **785,544** | 733,955 |
| – Social insurance and annuity | | **179,376** | 214,841 |
| – Housing allowances | | **62,341** | 56,119 |
| – Staff welfares | | **48,232** | 45,617 |
| – Employee education expenses and labour union expenses | | **33,148** | 31,463 |
| – Supplementary retirement benefits | | **17,740** | 5,570 |
| – Others | | **12,098** | 11,129 |
| Sub-total | | **1,138,479** | 1,098,694 |
| Depreciation and amortization | | **256,415** | 129,393 |
| Rental and property management expenses | | **77,165** | 206,289 |
| Taxes and surcharges | | **66,620** | 51,927 |
| Interest expense on lease liabilities | | **21,615** | – |
| Other general and administrative expenses | *(a)* | **276,489** | 264,515 |
| Total | | **1,836,783** | 1,750,818 |

*Note:*

(a) Auditor's remunerations were RMB3.98 million for the year ended 31 December 2019 (2018: RMB1.20 million).

## 9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments before individual income tax in respect of the directors and supervisors who held office during the year are as follows:

| | Year ended 31 December 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fees | Salaries | Discretionary bonus | Sub-total | Contributions to social pension schemes | Other welfares | Total |
| **Executive directors** | | | | | | | |
| Yan Junsheng | – | 226 | 227 | 453 | 28 | 68 | 549 |
| Tang Yiping | – | 226 | 227 | 453 | 28 | 68 | 549 |
| Li Jianqiang | – | 2 | 35 | 37 | – | – | 37 |
| Wang Peiming | – | 204 | 204 | 408 | 28 | 105 | 541 |
| Rong Changqing | – | 204 | 174 | 378 | 46 | 179 | 603 |
| **Non-executive directors** | | | | | | | |
| Li Shishan | – | – | – | – | – | – | – |
| Xiang Lijun | – | – | – | – | – | – | – |
| Liu Chenhang | – | – | – | – | – | – | – |
| Li Yang | – | – | – | – | – | – | – |
| Wang Jianjun | – | – | – | – | – | – | – |
| **Independent non-executive directors** | | | | | | | |
| Jin Haiteng | 200 | – | – | 200 | – | – | 200 |
| Sun Shihu | 200 | – | – | 200 | – | – | 200 |
| Wang Liyan | 200 | – | – | 200 | – | – | 200 |
| Duan Qingshan | 200 | – | – | 200 | – | – | 200 |
| Sai Zhiyi | – | – | – | – | – | – | – |
| Ye Xiang | 67 | – | – | 67 | – | – | 67 |
| **Employee representative supervisor** | | | | | | | |
| Xie Liying | – | 204 | 203 | 407 | 28 | 125 | 560 |
| Li Weiqiang | – | 92 | 280 | 372 | 12 | 55 | 439 |
| Shangguan Yujiang | – | 95 | 344 | 439 | 12 | 55 | 506 |
| Wen Qingquan | – | 130 | 260 | 390 | 19 | 93 | 502 |
| Guo Zhenrong | – | 133 | 249 | 382 | 19 | 92 | 493 |
| **External supervisors** | | | | | | | |
| Liu Shoubao | 200 | – | – | 200 | – | – | 200 |
| Wu Jun | 200 | – | – | 200 | – | – | 200 |
| Liu Min | 200 | – | – | 200 | – | – | 200 |
| **Shareholder representative supervisor** | | | | | | | |
| Bi Guoyu | – | – | – | – | – | – | – |
| Xu Jin | – | – | – | – | – | – | – |
| Xia Guisuo | – | – | – | – | – | – | – |
| Total | 1,467 | 1,516 | 2,203 | 5,186 | 220 | 840 | 6,246 |

| | Year ended 31 December 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fees | Salaries | Discretionary bonus | Sub-total | Contributions to social pension schemes | Other welfares | Total |
| **Executive directors** | | | | | | | |
| Yan Junsheng | – | 226 | 899 | 1,125 | 35 | 81 | 1,241 |
| Tang Yiping | – | 226 | 845 | 1,071 | 35 | 79 | 1,185 |
| Li Jianqiang | – | 193 | 810 | 1,003 | 35 | 76 | 1,114 |
| Wang Peiming | – | 204 | 896 | 1,100 | 35 | 111 | 1,246 |
| Rong Changqing | – | 68 | 51 | 119 | 24 | 77 | 220 |
| **Non-executive directors** | | | | | | | |
| Li Shishan | – | – | – | – | – | – | – |
| Xiang Lijun | – | – | – | – | – | – | – |
| Liu Chenhang | – | – | – | – | – | – | – |
| Li Yang | – | – | – | – | – | – | – |
| Wang Jianjun | – | – | – | – | – | – | – |
| Li Jianming | – | – | – | – | – | – | – |
| Wang Jianjun | – | – | – | – | – | – | – |
| Zhang Xiaodong | – | – | – | – | – | – | – |
| **Independent non-executive directors** | | | | | | | |
| Yang Shihua | 83 | – | – | 83 | – | – | 83 |
| Jin Haiteng | 200 | – | – | 200 | – | – | 200 |
| Sun Shihu | 200 | – | – | 200 | – | – | 200 |
| Wang Liyan | 117 | – | – | 117 | – | – | 117 |
| Duan Qingshan | 117 | – | – | 117 | – | – | 117 |
| Sai Zhiyi | – | – | – | – | – | – | – |
| Ye Xiang | – | – | – | – | – | – | – |
| **Employee representative supervisor** | | | | | | | |
| Xie Liying | – | 204 | 806 | 1,010 | 35 | 108 | 1,153 |
| Li Weiqiang | – | 197 | 632 | 829 | 35 | 145 | 1,009 |
| Shangguan Yujiang | – | 185 | 599 | 784 | 35 | 143 | 962 |
| **External supervisors** | | | | | | | |
| Liu Shoubao | 200 | – | – | 200 | – | – | 200 |
| Wu Jun | 117 | – | – | 117 | – | – | 117 |
| Liu Min | 117 | – | – | 117 | – | – | 117 |
| **Shareholder representative supervisor** | | | | | | | |
| Bi Guoyu | – | – | – | – | – | – | – |
| Xu Jin | – | – | – | – | – | – | – |
| Xia Guisuo | – | – | – | – | – | – | – |
| Total | 1,151 | 1,503 | 5,538 | 8,192 | 269 | 820 | 9,281 |

There was no amount paid during the year to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join the Group. There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year.

*Notes:*

(a) In the meeting of the labor union committee of the Bank on 19 June 2018, Shangguan Yujiang was elected as employee representative supervisor.

(b) In the Annual General Meeting held on 4 May 2018, Rong Changqing was elected as executive director, Xiang Lijun, Liu Chenhang and Li Yang were elected as non-executive directors. Wang Liyan, Duan Qingshan and Sai Zhiyi were elected as independent non-executive directors. Xia Guisuo was elected as shareholder representative supervisor. Wu Jun and Liu Min were elected as external supervisors.

(c) In the first extraordinary general meeting of the Bank on 28 February 2018, Wang Jianjun was elected as non-executive director of the Bank.

(d) In the extraordinary general meeting of the Bank on 17 December 2018, Ye Xiang was elected as independent non-executive director of the Bank.

(e) On 13 April 2018, Li Jianming, Wang Jianjun and Zhang Xiaodong resigned as non-executive directors. Yang Shihua resigned as independent non-executive director.

(f) On 25 January 2019, Li Jianqiang resigned as executive director.

(g) In the meeting of the labor union committee of the Bank on 13 May 2019, Li Weiqiang and Shangguan Yujiang resigned as employee representative supervisors.

(h) In the meeting of the labor union committee of the Bank on 13 May 2019, Wen Qingquan and Guo Zhenrong were elected as employee representative supervisors.

## 10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2019, the five individuals with highest emoluments did not include any directors and supervisors of the Bank. The emoluments for the five highest paid individuals for the year ended 31 December 2019 are as follows:

| | **2019** | 2018 |
|---|---|---|
| Salaries and other emoluments | **961** | 1,049 |
| Discretionary bonuses | **12,978** | 11,765 |
| Contributions to pension schemes | **140** | 140 |
| Others | **410** | 552 |
| Total | **14,489** | 13,506 |

The number of these individuals whose emoluments are within the following bands is set out below:

| | **2019** | 2018 |
|---|---|---|
| HKD1,500,001- 2,000,000 | **–** | – |
| HKD2,000,001- 2,500,000 | **1** | – |
| HKD2,500,001- 3,000,000 | **1** | 2 |
| HKD3,000,001- 3,500,000 | **1** | 2 |
| HKD3,500,001- 4,000,000 | **1** | 1 |
| HKD4,000,001- 4,500,000 | **1** | – |
| HKD4,500,001- 5,000,000 | **–** | – |
| HKD5,000,001- 5,500,000 | **–** | – |

None of these individuals received any inducement to join or upon joining the Group or compensation for loss of office, or waived any emoluments during the year.

## 11 IMPAIRMENT LOSSES ON ASSETS

| | 2019 | 2018 |
|---|---|---|
| Loans and advances to customers | **1,008,870** | 1,784,849 |
| Financial investments | **504,208** | (274,306) |
| Credit commitments | **148,825** | 12,103 |
| Deposits with banks and other financial institutions | **13** | 29 |
| Placements with banks and other financial institutions | **7** | (6) |
| Others | **3,558** | 12,796 |
| Total | **1,665,481** | 1,535,465 |

## 12 INCOME TAX EXPENSE

### (a) Income tax:

| | *Note* | 2019 | 2018 |
|---|---|---|---|
| Current tax | | **295,496** | 249,536 |
| Deferred tax | *23(b)* | **(170,389)** | (63,428) |
| Total | | **125,107** | 186,108 |

### (b) Reconciliations between income tax and accounting profit are as follows:

| | *Note* | 2019 | 2018 |
|---|---|---|---|
| Profit before tax | | **1,607,555** | 1,499,722 |
| Statutory tax rate | | **25%** | 25% |
| Income tax calculated at statutory tax rate | | **401,889** | 374,931 |
| Non-deductible expenses | | **48,736** | 11,569 |
| Non-taxable income | *(i)* | **(325,518)** | (200,392) |
| Income tax | | **125,107** | 186,108 |

(i) The non-taxable income mainly represents the interest income arising from the PRC government bonds, and dividends from domestic enterprises.

## 13 BASIC AND DILUTED EARNINGS PER SHARE

| | *Note* | **2019** | 2018 |
|---|---|---|---|
| Net profit attributable to equity shareholders of the Bank | | **1,483,630** | 1,310,283 |
| Weighted average number of ordinary shares (in thousands) | *(a)* | **5,301,261** | 4,866,430 |
| Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB) | | **0.28** | 0.27 |

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year.

### (a) Weighted average number of ordinary shares (in thousands)

| | **2019** | 2018 |
|---|---|---|
| Number of ordinary shares at the beginning of the year | **4,868,000** | 3,268,000 |
| Weighted average number of ordinary shares issued during the year | **433,261** | 1,598,430 |
| Weighted average number of ordinary shares | **5,301,261** | 4,866,430 |

On 18 July 2019, the Bank issued 860 million H-shares with a par value of RMB1 at an offering price of HKD3.82 per share. On 14 August 2019, the Bank exercised the over-allotment option and issued 111 million H-shares with a par value of RMB1 at HKD3.82 per share.

The Bank has received cash injection amounting to RMB4,190 million and RMB914 million from the investors to subscribe 1,313,479,624 shares and 286,520,376 shares in 2017 and 2018, respectively. The Bank obtained approval from the former Shanxi Bureau of the China Banking Regulatory Commission on Approving Changes in Registered Capital of Jinshang Bank Co., Ltd. 《山西銀監局關於同意晉商銀行變更註冊資本的批覆》(JinYinJianFu [2018] No. 21).

Basic earnings per share have been computed by taking into account of the aforesaid shares subscribed by the investors during the year.

## 14 CASH AND DEPOSITS WITH THE CENTRAL BANK

| | *Note* | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| Cash on hand | | **244,124** | 455,425 |
| Deposits with the central bank | | | |
| – Statutory deposit reserves | *(a)* | **13,048,479** | 16,843,388 |
| – Surplus deposit reserves | *(b)* | **5,554,358** | 5,865,032 |
| – Fiscal deposits | | **254,946** | 417,581 |
| Sub-total | | **18,857,783** | 23,126,001 |
| Interests accrued | | **6,418** | 8,312 |
| Total | | **19,108,325** | 23,589,738 |

(a) The Group places statutory deposit reserves with the PBoC in accordance with relevant regulations. As at the end of the reporting period, the statutory deposit reserve ratios applicable to the Bank were as follows:

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Reserve ratio for RMB deposits | **8.5%** | 12.0% |
| Reserve ratio for foreign currency deposits | **5.0%** | 5.0% |

The statutory deposit reserves are not available for the Bank's daily business. The subsidiary of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBoC.

(b) The surplus deposit reserves are maintained with the PBoC for the purpose of clearing.

## 15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Deposits in mainland China | | |
| – Banks | **612,733** | 335,439 |
| – Other financial institutions | **536,059** | 446,537 |
| Sub-total | **1,148,792** | 781,976 |
| Deposits outside mainland China | | |
| – Banks | **147,672** | 95 |
| Sub-total | **147,672** | 95 |
| Interests accrued | **7,361** | 10,394 |
| Less: Provision for impairment losses | **(166)** | (153) |
| Total | **1,303,659** | 792,312 |

## 16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

**Analysed by type and location of counterparty**

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Placements in mainland China | | |
| – Banks | **1,300,000** | 500,000 |
| Sub-total | **1,300,000** | 500,000 |
| Interests accrued | **383** | 107 |
| Less: Provision for impairment losses | **(8)** | (1) |
| Total | **1,300,375** | 500,106 |

## 17 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

### (a) Analysed by type and location of counterparty

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| In mainland China | | |
| – Banks | **13,675,474** | 20,533,588 |
| – Other financial institutions | **2,949,522** | 3,639,365 |
| Sub-total | **16,624,996** | 24,172,953 |
| Interests accrued | **5,023** | 7,027 |
| Less: Provision for impairment losses | **(1)** | (1) |
| Total | **16,630,018** | 24,179,979 |

### (b) Analysed by type of collateral held

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Securities | | |
| – Government | **1,095,000** | 4,220,635 |
| – Policy banks | **1,779,923** | 5,037,325 |
| – Commercial banks and other financial institutions | **2,244,448** | 825,800 |
| Sub-total | **5,119,371** | 10,083,760 |
| Bank acceptances | **11,505,625** | 14,089,193 |
| Sub-total | **16,624,996** | 24,172,953 |
| Interests accrued | **5,023** | 7,027 |
| Less: Provision for impairment losses | **(1)** | (1) |
| Total | **16,630,018** | 24,179,979 |

As at 31 December 2019 and 2018, certain financial assets held under buy out resale agreements was pledged for repurchase agreements (Note 42(f)).

## 18 LOANS AND ADVANCES TO CUSTOMERS

### (a) Analysed by nature

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Loans and advances to customers measured at amortised cost:** | | |
| Corporate loans and advances | **72,750,413** | 73,928,300 |
| Personal loans | | |
| – Residential mortgage loans | **10,787,868** | 9,403,622 |
| – Personal consumption loans | **1,628,255** | 2,921,432 |
| – Personal business loans | **2,569,126** | 1,770,471 |
| – Credit cards | **2,850,087** | 942,191 |
| Sub-total | **17,835,336** | 15,037,716 |
| Interests accrued | **490,986** | 497,618 |
| Less: Provision for loans and advances to customers measured at amortised cost | **(4,260,918)** | (4,017,266) |
| Sub-total | **86,815,817** | 85,446,368 |
| **Loans and advances to customers measured at fair value through other comprehensive income:** | | |
| Corporate loans and advances | **187,447** | – |
| Discounted bills | **24,709,293** | 12,671,771 |
| Sub-total | **24,896,740** | 12,671,771 |
| Net loans and advances to customers | **111,712,557** | 98,118,139 |

**(b) Loans and advances to customers (exclusive interests accrued) analysed by industry sector**

| | 31 December 2019 | | |
|---|---|---|---|
| | **Amount** | **Percentage** | **Loans and advances secured by collaterals** |
| Manufacturing | **22,784,905** | **19.73%** | **4,131,709** |
| Mining | **16,645,944** | **14.41%** | **1,741,882** |
| Real estate | **11,386,899** | **9.86%** | **3,346,282** |
| Wholesale and retail trade | **5,964,871** | **5.17%** | **2,195,908** |
| Leasing and commercial services | **4,900,715** | **4.24%** | **1,076,901** |
| Public administration, public security and social organisations | **4,328,290** | **3.75%** | **585,726** |
| Construction | **3,949,962** | **3.42%** | **841,076** |
| Transportation, storage and postal services | **1,136,420** | **0.98%** | **405,100** |
| Production and supply of electric power, gas and water | **1,006,733** | **0.87%** | **249,273** |
| Agriculture, forestry, animal husbandry and fishery | **114,370** | **0.10%** | **33,870** |
| Education | **38,397** | **0.03%** | **29,897** |
| Others | **680,354** | **0.60%** | **549,325** |
| Sub-total of corporate loans and advances | **72,937,860** | **63.16%** | **15,186,949** |
| Personal loans | **17,835,336** | **15.44%** | **4,706,774** |
| Discounted bills | **24,709,293** | **21.40%** | **24,709,293** |
| Total loans and advances to customers | **115,482,489** | **100.00%** | **44,603,016** |

| | 31 December 2018 | | |
|---|---|---|---|
| | Amount | Percentage | Loans and advances secured by collaterals |
| Manufacturing | 22,243,650 | 21.89% | 4,688,983 |
| Mining | 16,168,179 | 15.91% | 1,153,717 |
| Real estate | 13,529,122 | 13.31% | 2,928,519 |
| Wholesale and retail trade | 6,925,576 | 6.81% | 2,322,794 |
| Leasing and commercial services | 4,321,747 | 4.25% | 1,228,497 |
| Public administration, public security and social organisations | 4,082,833 | 4.02% | 615,254 |
| Construction | 2,414,365 | 2.38% | 828,994 |
| Transportation, storage and postal services | 1,891,880 | 1.86% | 424,140 |
| Production and supply of electric power, gas and water | 1,656,072 | 1.63% | 368,072 |
| Agriculture, forestry, animal husbandry and fishery | 142,180 | 0.14% | 80,790 |
| Education | 53,297 | 0.05% | 34,997 |
| Others | 499,399 | 0.48% | 448,409 |
| Sub-total of corporate loans and advances | 73,928,300 | 72.73% | 15,123,166 |
| Personal loans | 15,037,716 | 14.80% | 2,803,002 |
| Discounted bills | 12,671,771 | 12.47% | 12,671,771 |
| Total loans and advances to customers | 101,637,787 | 100.00% | 30,597,939 |

As at the end of the reporting period and during the year, detailed information of the impaired loans and advances to customers (exclusive interests accrued) as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

| | **31 December 2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Credit-impaired loans and advances** | **Loans and advances that are assessed for expected credit losses over the next 12 months** | **Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss** | **Credit-impaired loans and advances that are assessed for lifetime expected credit loss** | **Impairment losses charged during the year** | **Written-off during the year** |
| Manufacturing | **790,717** | **693,570** | **310,050** | **343,278** | **351,800** | **16,347** |
| Mining | **562,886** | **436,835** | **256,204** | **313,779** | **331,321** | **8,275** |

| | 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Credit-impaired loans and advances | Loans and advances that are assessed for expected credit losses over the next 12 months | Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss | Credit-impaired loans and advances that are assessed for lifetime expected credit loss | Impairment losses charged during the year | Written-off during the year |
| Manufacturing | 578,837 | 549,809 | 478,356 | 324,061 | 580,295 | – |
| Mining | 293,550 | 399,904 | 93,523 | 201,757 | 82,597 | – |
| Real estate | 61,130 | 450,614 | 62,298 | 23,846 | 208,822 | – |

**(c) Analysed by type of collateral**

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Unsecured loans | **8,848,004** | 7,508,058 |
| Guaranteed loans | **62,031,469** | 63,531,790 |
| Collateralised loans | **15,528,913** | 13,346,638 |
| Pledged loans | **29,074,103** | 17,251,301 |
| Sub-total | **115,482,489** | 101,637,787 |
| Interests accrued | **490,986** | 497,618 |
| Gross loans and advances to customers | **115,973,475** | 102,135,405 |
| Less: Provision for loans and advances to customers measured at amortised cost | **(4,260,918)** | (4,017,266) |
| Net loans and advances to customers | **111,712,557** | 98,118,139 |

**(d) Overdue loans (exclusive interests accrued) analysed by overdue period**

| | 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | **Overdue within three months (inclusive)** | **Overdue more than three months to one year (inclusive)** | **Overdue more than one year to three years (inclusive)** | **Overdue more than three years** | **Total** |
| Unsecured loans | **25,754** | **19,338** | **11,450** | **30** | **56,572** |
| Guaranteed loans | **2,236,039** | **878,945** | **498,382** | **444,310** | **4,057,676** |
| Collateralised loans | **199,449** | **153,486** | **76,977** | **13,474** | **443,386** |
| Pledged loans | **86,723** | **–** | **10,000** | **971** | **97,694** |
| Total | **2,547,965** | **1,051,769** | **596,809** | **458,785** | **4,655,328** |
| As a percentage of gross loans and advances to customers | **2.21%** | **0.91%** | **0.52%** | **0.40%** | **4.04%** |

| | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Overdue within three months (inclusive) | Overdue more than three months to one year (inclusive) | Overdue more than one year to three years (inclusive) | Overdue more than three years | Total |
| Unsecured loans | 11,471 | 8,270 | 913 | 2,790 | 23,444 |
| Guaranteed loans | 410,971 | 701,745 | 740,538 | 139,023 | 1,992,277 |
| Collateralised loans | 229,673 | 113,699 | 85,949 | 8,089 | 437,410 |
| Pledged loans | 88,217 | 10,000 | – | 971 | 99,188 |
| Total | 740,332 | 833,714 | 827,400 | 150,873 | 2,552,319 |
| As a percentage of gross loans and advances to customers | 0.72% | 0.82% | 0.81% | 0.15% | 2.50% |

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

**(e) Loans and advances and provision for impairment losses**

| | **31 December 2019** | | | |
|---|---|---|---|---|
| | **Loans and advances that are assessed for expected credit losses over the next 12 months** | **Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss** | **Credit-impaired loans and advances that are assessed for lifetime expected credit loss *(Note (i))*** | **Total** |
| Total loans and advances to customers measured at amortised cost | **84,559,772** | **4,376,354** | **2,140,609** | **91,076,735** |
| Less: Provision for impairment losses | **(2,223,034)** | **(906,674)** | **(1,131,210)** | **(4,260,918)** |
| Carrying amount of loans and advances to customers measured at amortised cost | **82,336,738** | **3,469,680** | **1,009,399** | **86,815,817** |
| Carrying amount of loans and advances to customers measured at fair value through other comprehensive income | **24,894,340** | **–** | **2,400** | **24,896,740** |
| Total carrying amount of loans and advances to customers | **107,231,078** | **3,469,680** | **1,011,799** | **111,712,557** |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | Loans and advances that are assessed for expected credit losses over the next 12 months | Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss | Credit-impaired loans and advances that are assessed for lifetime expected credit loss *(Note (i))* | Total |
| Total loans and advances to customers measured at amortised cost | 84,420,749 | 3,146,125 | 1,896,760 | 89,463,634 |
| Less: Provision for impairment losses | (2,158,195) | (776,736) | (1,082,335) | (4,017,266) |
| Carrying amount of loans and advances to customers measured at amortised cost | 82,262,554 | 2,369,389 | 814,425 | 85,446,368 |
| Carrying amount of loans and advances to customers measured at fair value through other comprehensive income | 12,668,171 | – | 3,600 | 12,671,771 |
| Total carrying amount of loans and advances to customers | 94,930,725 | 2,369,389 | 818,025 | 98,118,139 |

*Notes:*

(i) The loans and advances are "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the loans and advances have occurred. Evidence that loans and advances are credit-impaired includes the following observable data: significant financial difficulty of the borrower or issuer; a breach of contract, such as a default or delinquency in interest or principal payments; for economic or contractual reasons relating to the borrower's financial difficulty, the Group having granted to the borrower a concession that otherwise would not consider; it is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or debts overdue more than 90 days.

**(f) Movements of provision for impairment losses**

***(i) Movements of provision for impairment of loans and advances to customers measured at amortised cost:***

| | Year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | **Loans and advances that are assessed for expected credit losses over the next 12 months** | **Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss** | **Credit-impaired loans and advances that are assessed for lifetime expected credit loss** | **Total** |
| As at 1 January | **2,158,195** | **776,736** | **1,082,335** | **4,017,266** |
| Transferred: | | | | |
| – to expected credit losses over the next 12 months | **968** | **(968)** | **–** | **–** |
| – to lifetime expected credit losses: not credit-impaired loans | **(50,757)** | **50,773** | **(16)** | **–** |
| – to lifetime expected credit losses: credit-impaired loans | **(8,696)** | **(148,717)** | **157,413** | **–** |
| Charge for the year | **123,324** | **228,850** | **656,094** | **1,008,268** |
| Transfer out | **–** | **–** | **(545,733)** | **(545,733)** |
| Recoveries | **–** | **–** | **928** | **928** |
| Write-offs | **–** | **–** | **(170,859)** | **(170,859)** |
| Other changes | **–** | **–** | **(48,952)** | **(48,952)** |
| As at 31 December | **2,223,034** | **906,674** | **1,131,210** | **4,260,918** |

| | Year ended 31 December 2018 | | | |
|---|---|---|---|---|
| | Loans and advances that are assessed for expected credit losses over the next 12 months | Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss | Credit-impaired loans and advances that are assessed for lifetime expected credit loss | Total |
| As at 1 January | 2,165,296 | 121,422 | 714,017 | 3,000,735 |
| Transferred: | | | | |
| – to expected credit losses over the next 12 months | 1,025 | (1,025) | – | – |
| – to lifetime expected credit losses: not credit-impaired loans | (86,731) | 87,378 | (647) | – |
| – to lifetime expected credit losses: credit-impaired loans | (31,012) | (38,109) | 69,121 | – |
| Charge for the year | 109,617 | 607,070 | 1,097,313 | 1,814,000 |
| Transfer out | – | – | (738,176) | (738,176) |
| Recoveries | – | – | 83 | 83 |
| Write-offs | – | – | (8,995) | (8,995) |
| Other changes | – | – | (50,381) | (50,381) |
| As at 31 December | 2,158,195 | 776,736 | 1,082,335 | 4,017,266 |

*(ii)* ***Movements of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:***

| | Year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | **Loans and advances that are assessed for expected credit losses over the next 12 months** | **Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss** | **Credit-impaired loans and advances that are assessed for lifetime expected credit loss** | **Total** |
| As at 1 January | **13,104** | **–** | **8,400** | **21,504** |
| (Reversal)/charge for the year | **(598)** | **–** | **1,200** | **602** |
| As at 31 December | **12,506** | **–** | **9,600** | **22,106** |

| | Year ended 31 December 2018 | | | |
|---|---|---|---|---|
| | Loans and advances that are assessed for expected credit losses over the next 12 months | Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss | Credit-impaired loans and advances that are assessed for lifetime expected credit loss | Total |
| As at 1 January | 45,968 | – | 4,687 | 50,655 |
| (Reversal)/charge for the year | (32,864) | – | 3,713 | (29,151) |
| As at 31 December | 13,104 | – | 8,400 | 21,504 |

Provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of loans and advances to customers presented in the statements of financial position, and impairment loss or gain is recognized in the profit or loss.

**(g) Disposal of loans and advances to customers**

During the year ended 31 December 2019, the Group transferred loans and advances with gross amount of RMB644 million to independent third parties (2018: RMB1,369 million), and the transfer price was RMB98 million (2018: RMB634 million).

During the year ended 31 December 2019, the Group did not transfer any portfolio of customer loans through the asset securitization business.

During the year ended 31 December 2018, the Group transferred a portfolio of customer loans with gross amount of RMB4,288 million through the asset securitization business, and the transfer price was RMB4,288 million.

## 19 FINANCIAL INVESTMENTS

| | *Note* | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| Financial investments measured at fair value through profit or loss | *(a)* | **29,976,480** | 24,251,888 |
| Financial investments measured at fair value through other comprehensive income | *(b)* | **11,709,118** | 5,042,827 |
| Financial investments measured at amortised cost | *(c)* | **51,227,041** | 47,469,934 |
| Total | | **92,912,639** | 76,764,649 |

### (a) Financial investments measured at fair value through profit or loss

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Debt securities issued by the following institutions in mainland China | | |
| – Government | **696,031** | – |
| – Policy banks | **205,461** | – |
| – Corporate | **199,343** | 292,805 |
| – Banks and other financial institutions | **98,182** | 125,488 |
| Sub-total | **1,199,017** | 418,293 |
| Unlisted | **1,199,017** | 418,293 |
| Interbank deposits | | |
| – Unlisted | **–** | 29,261 |
| Investment funds | | |
| – Unlisted | **26,387,551** | 16,885,451 |
| Equity investments | | |
| – Unlisted | **59,097** | 58,285 |
| Investment management products | | |
| – Unlisted | **2,330,815** | 6,860,598 |
| Total | **29,976,480** | 24,251,888 |

*Note:*

As at the end of each of the reporting period, there were no investments subject to material restrictions in the realization.

## (b) Financial investments measured at fair value through other comprehensive income

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Debt securities issued by the following institutions in mainland China | | |
| – Government | **4,265,396** | 1,244,075 |
| – Policy banks | **1,406,987** | 488,627 |
| – Banks and other financial institutions | **235,199** | 197,217 |
| – Corporate | **101,367** | 405,190 |
| Sub-total | **6,008,949** | 2,335,109 |
| Interests accrued | **98,145** | 30,549 |
| Unlisted | **6,107,094** | 2,365,658 |
| Interbank deposits | | |
| – Unlisted | **4,678,317** | 1,573,472 |
| Investment management products | **743,270** | 921,436 |
| Interests accrued | **29,247** | 31,071 |
| – Unlisted | **772,517** | 952,507 |
| Equity investments | | |
| – Unlisted | **151,190** | 151,190 |
| Total | **11,709,118** | 5,042,827 |

*Note:*

(i) As at the end of each of the reporting period, there were no investments subject to material restrictions in the realization.

(ii) Movements of provision for impairment of financial investments measured at fair value through other comprehensive income during the year:

| | **Year ended 31 December 2019** | | | |
|---|---|---|---|---|
| | **Expected credit losses over the next 12 months** | **Lifetime expected credit losses not credit-impaired** | **Lifetime expected credit losses credit-impaired** | **Total** |
| Balance at 1 January | **1,449** | **–** | **–** | **1,449** |
| Charge for the year | **872** | **–** | **–** | **872** |
| Balance at 31 December | **2,321** | **–** | **–** | **2,321** |

| | Year ended 31 December 2018 | | | |
|---|---|---|---|---|
| | Expected credit losses over the next 12 months | Lifetime expected credit losses not credit-impaired | Lifetime expected credit losses credit-impaired | Total |
| Balance at 1 January | 734 | – | – | 734 |
| Charge for the year | 715 | – | – | 715 |
| Balance at 31 December | 1,449 | – | – | 1,449 |

Provision for impairment losses on financial investments measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of financial investments presented in the statements of financial position, and impairment loss or gain is recognized in the profit or loss.

**(c) Financial investments measured at amortised cost**

| | *Note* | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| Debt securities issued by the following institutions in mainland China | *(i)* | | |
| – Government | | **22,446,690** | 15,947,699 |
| – Policy banks | | **3,552,145** | 3,601,785 |
| – Banks and other financial institutions | | **–** | 171,500 |
| – Corporate | | **640,914** | 555,895 |
| Interests accrued | | **384,826** | 287,579 |
| Sub-total | | **27,024,575** | 20,564,458 |
| Investment management products | | **25,202,601** | 27,507,848 |
| Interests accrued | | **460,737** | 355,164 |
| Sub-total | | **25,663,338** | 27,863,012 |
| Less: Provision for impairment losses | *(ii)* | **(1,460,872)** | (957,536) |
| Total | | **51,227,041** | 47,469,934 |

*Note:*

(i) As at the end of each of the reporting period, certain debt securities were pledged for repurchase agreements (Note 42(f)).

(ii) Movements of provision for impairment of financial investments measured at amortised cost during the year:

| | **Year ended 31 December 2019** | | | |
|---|---|---|---|---|
| | **Expected credit losses over the next 12 months** | **Lifetime expected credit losses not credit-impaired** | **Lifetime expected credit losses credit-impaired** | **Total** |
| Balance at 1 January | **468,002** | **37,064** | **452,470** | **957,536** |
| Transfers: | | | | |
| – to lifetime expected credit losses credit-impaired | **(3,363)** | **(37,064)** | **40,427** | **–** |
| Charge for the year | **24,445** | **1,975** | **476,916** | **503,336** |
| Balance at 31 December | **489,084** | **1,975** | **969,813** | **1,460,872** |

| | Year ended 31 December 2018 | | | |
|---|---|---|---|---|
| | Expected credit losses over the next 12 months | Lifetime expected credit losses not credit-impaired | Lifetime expected credit losses credit-impaired | Total |
| Balance at 1 January | 519,442 | 315,886 | 397,229 | 1,232,557 |
| Transfers: | | | | |
| – to expected credit losses over the next 12 months | 77,921 | (77,921) | – | – |
| – to lifetime expected credit losses credit-impaired | (15,335) | (164,024) | 179,359 | – |
| Reversal for the year | (114,026) | (36,877) | (124,118) | (275,021) |
| Balance at 31 December | 468,002 | 37,064 | 452,470 | 957,536 |

## 20 INTEREST IN ASSOCIATE

| | *Note* | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| Interest in associate | *(a)* | **272,576** | 251,698 |

*Note:*

(a) The following list contains the Group's associate, which is individually immaterial to the Bank and is unlisted corporate entity whose quoted market price is not available:

| **Name** | **Percentages of equity/voting rights 31 December 2019** | 2018 | **Place of incorporation/ registration** | **Business sector** |
|---|---|---|---|---|
| Jinshang Consumer Finance Co., Ltd. (Jinshang Consumer Finance) | **40%** | 40% | Shanxi, China | Consumer Finance |

The following tables illustrate the financial information of the Group's associate that is not individually material:

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Carrying amount of individually immaterial associate in the statements of financial position of the Bank | **272,576** | 251,698 |
| Amounts of the Bank's share of results of the associate | | |
| – Profit from continuing operation | **20,878** | 33,216 |
| – Other comprehensive income | **–** | – |
| – Total comprehensive income | **20,878** | 33,216 |

## 21 INVESTMENTS IN SUBSIDIARY

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Qingxu Village and Township Bank (清徐晉商村鎮銀行股份有限公司) | **25,500** | 25,500 |

Qingxu Jinshang Village and Township Bank Co., Ltd (Qingxu Village and Township Bank) was incorporated on 19 January 2012, with registered capital of RMB50 million. The principal activities of Qingxu Village and Township Bank are the provision of corporate and retail banking services. As at 31 December 2019, the Bank holds 51% of equity interest and voting rights of Qingxu Village and Township Bank.

## 22 PROPERTY AND EQUIPMENT

| | Premises | Office equipment | Motor vehicles | Electronic equipment | Leasehold improvement | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| As at 1 January 2018 | 605,952 | 29,441 | 15,316 | 333,623 | 343,918 | 1,328,250 |
| Additions | 205,701 | 6,983 | 212 | 62,560 | 24,837 | 300,293 |
| Disposals | – | (551) | (812) | (7,877) | – | (9,240) |
| As at 31 December 2018 | 811,653 | 35,873 | 14,716 | 388,306 | 368,755 | 1,619,303 |
| As at 1 January 2019 | 811,653 | 35,873 | 14,716 | 388,306 | 368,755 | 1,619,303 |
| Additions | 783,927 | 4,158 | – | 44,240 | 14,565 | 846,890 |
| Disposals | (6,528) | (210) | – | (2,686) | (28,379) | (37,803) |
| As at 31 December 2019 | **1,589,052** | **39,821** | **14,716** | **429,860** | **354,941** | **2,428,390** |
| **Accumulated depreciation** | | | | | | |
| As at 1 January 2018 | (200,432) | (20,955) | (13,516) | (278,615) | (265,410) | (778,928) |
| Charge for the year | (27,651) | (3,976) | (464) | (30,129) | (37,731) | (99,951) |
| Disposals | – | 488 | 788 | 4,926 | – | 6,202 |
| As at 31 December 2018 | (228,083) | (24,443) | (13,192) | (303,818) | (303,141) | (872,677) |
| As at 1 January 2019 | (228,083) | (24,443) | (13,192) | (303,818) | (303,141) | (872,677) |
| Charge for the year | (56,443) | (4,117) | (468) | (37,618) | (25,386) | (124,032) |
| Disposals | 4,509 | 125 | – | 2,261 | 26,079 | 32,974 |
| As at 31 December 2019 | (280,017) | (28,435) | (13,660) | (339,175) | (302,448) | (963,735) |
| **Net book value** | | | | | | |
| As at 31 December 2018 | **583,570** | **11,430** | **1,524** | **84,488** | **65,614** | **746,626** |
| As at 31 December 2019 | **1,309,035** | **11,386** | **1,056** | **90,685** | **52,493** | **1,464,655** |

As at 31 December 2019, the net book values of premises of which title deeds were not yet finalized were RMB690 million (31 December 2018: RMB100 million). The Group is still in the progress of applying the outstanding title deeds for the above premises. The directors of the Bank are of the opinion that there would be no significant costs in obtaining the title deeds.

The net book values of premises as at the end of the reporting period are analysed by the remaining terms of the leases as follows:

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Held in mainland China | | |
| – Medium-term leases (10-50 years) | **1,309,035** | 583,570 |

## 23 DEFERRED TAX ASSETS

### (a) Analysed by nature

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | **Deductible/ (taxable) temporary differences** | **Deferred income tax assets/ (liabilities)** | Deductible/ (taxable) temporary differences | Deferred income tax assets/ (liabilities) |
| Deferred income tax assets | | | | |
| – Allowance for impairment losses | **4,937,139** | **1,234,285** | 4,186,849 | 1,046,712 |
| – Fair value changes of financial assets | **–** | **–** | – | – |
| – Accrued staff costs | **597,791** | **149,448** | 578,848 | 144,712 |
| – Others | **539,469** | **134,867** | 339,541 | 84,885 |
| | **6,074,399** | **1,518,600** | 5,105,238 | 1,276,309 |
| Deferred income tax liability | | | | |
| – Fair value changes of financial assets | **(309,955)** | **(77,489)** | (30,229) | (7,557) |
| | **(309,955)** | **(77,489)** | (30,229) | (7,557) |
| Net balances | **5,764,444** | **1,441,111** | 5,075,009 | 1,268,752 |

### (b) Movements of deferred tax

| | **Allowance for impairment losses** *Note (i)* | **Accrued staff costs** | **Change in fair value** *Note (ii)* | **Others** | **Net balance of deferred tax assets** |
|---|---|---|---|---|---|
| 1 January 2018 | 860,113 | 145,145 | 73,623 | 137,215 | 1,216,096 |
| Recognised in profit or loss | 186,599 | (435) | (63,297) | (52,330) | 70,537 |
| Recognised in other comprehensive income | – | 2 | (17,883) | – | (17,881) |
| 31 December 2018 | 1,046,712 | 144,712 | (7,557) | 84,885 | 1,268,752 |
| Recognised in profit or loss | 187,573 | 4,154 | (71,688) | 49,982 | 170,021 |
| Recognised in other comprehensive income | – | 582 | 1,756 | – | 2,338 |
| 31 December 2019 | **1,234,285** | **149,448** | **(77,489)** | **134,867** | **1,441,111** |

*Notes:*

(i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the reporting period. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the reporting period, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.

(ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realized.

## 24 OTHER ASSETS

| | Note | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| Right-of-use assets | *(a)* | **503,471** | – |
| Prepayments for acquisition of property and equipment | | **355,058** | 434,555 |
| Intangible assets | *(b)* | **167,971** | 139,615 |
| Interests receivables | *(c)* | **69,983** | 88,201 |
| Land use rights | *(d)* | **65,786** | 67,063 |
| Repossessed assets | *(e)* | **14,562** | 3,824 |
| Long-term deferred expenses | | **9,922** | 20,158 |
| Other receivables | | **253,795** | 299,800 |
| Sub-total | | **1,440,548** | 1,053,216 |
| Less: Allowances for impairment losses | | **(15,250)** | (17,373) |
| Total | | **1,425,298** | 1,035,843 |

### (a) Right-of-use assets

| | **Premises** |
|---|---|
| **Cost** | |
| As at 1 January 2019 | 570,962 |
| Additions | 28,607 |
| As at 31 December 2019 | 599,569 |
| **Accumulated depreciation** | |
| As at 1 January 2019 | – |
| Additions | (96,098) |
| As at 31 December 2019 | (96,098) |
| **Book value** | |
| As at 1 January 2019 | 570,962 |
| As at 31 December 2019 | 503,471 |

**(b) Intangible assets**

| | Computer software and system development |
|---|---|
| **Cost** | |
| As at 1 January 2018 | 201,744 |
| Additions | 47,381 |
| Disposals | (1,640) |
| As at 31 December 2018 | 247,485 |
| Additions | 56,002 |
| Disposals | – |
| As at 31 December 2019 | 303,487 |
| **Accumulated amortization** | |
| As at 1 January 2018 | (86,355) |
| Additions | (23,076) |
| Disposals | 1,561 |
| As at 31 December 2018 | (107,870) |
| Additions | (27,646) |
| Disposals | – |
| As at 31 December 2019 | (135,516) |
| **Book value** | |
| As at 31 December 2018 | 139,615 |
| As at 31 December 2019 | 167,971 |

**(c) Interests receivables**

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Interests receivables arising from: | | |
| Financial investments | **–** | 71,670 |
| Loans and advances to customers | **69,983** | 16,531 |
| Total | **69,983** | 88,201 |

As at the end of each of the reporting period, Interest receivable only includes interest that has been due for the relevant financial instruments but not yet received at the balance sheet date. Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

### (d) Land use rights

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Located in mainland China: | | |
| 10-50 years | **65,786** | 67,063 |

### (e) Repossessed assets

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Land use right and buildings | **14,562** | 3,824 |
| Less: impairment allowances | **(1,709)** | (3,824) |
| Net balances | **12,853** | – |

## 25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

**Analysed by type of and location of counterparty**

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Deposits in mainland China | | |
| – Banks | **3,832,947** | 2,469,952 |
| – Other financial institutions | **360,969** | 10,415 |
| Sub-total | **4,193,916** | 2,480,367 |
| Interests accrued | **17,392** | 33,330 |
| Total | **4,211,308** | 2,513,697 |

## 26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

**Analysed by type and location of counterparty**

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Placements in mainland China | | |
| – Banks | **1,010,000** | 100,000 |
| – Other financial institutions | **900,000** | – |
| Sub-total | **1,910,000** | 100,000 |
| Interests accrued | **1,455** | – |
| Total | **1,911,455** | 100,000 |

## 27 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

### (a) Analysed by type and location of counterparty

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| In mainland China | | |
| – Banks | **12,130,493** | 8,066,890 |
| – Other financial institutions | **64,898** | 609,052 |
| Sub-total | **12,195,391** | 8,675,942 |
| Interests accrued | **5,771** | 4,488 |
| Total | **12,201,162** | 8,680,430 |

### (b) Analysed by type of collateral held

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Debt securities | **8,118,550** | 6,168,500 |
| Bank acceptance | **4,076,841** | 2,507,442 |
| Sub-total | **12,195,391** | 8,675,942 |
| Interests accrued | **5,771** | 4,488 |
| Total | **12,201,162** | 8,680,430 |

## 28 DEPOSITS FROM CUSTOMERS

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Demand deposits | | |
| – Corporate customers | **42,147,037** | 36,977,376 |
| – Individual customers | **9,831,716** | 10,878,479 |
| Sub-total | **51,978,753** | 47,855,855 |
| Time deposits | | |
| – Corporate customers | **26,598,692** | 35,037,004 |
| – Individual customers | **58,660,659** | 47,071,660 |
| Sub-total | **85,259,351** | 82,108,664 |
| Pledged deposits | | |
| – Acceptances | **12,342,650** | 10,095,652 |
| – Letters of credit | **940,743** | 284,603 |
| – Letters of guarantees | **49,150** | 40,989 |
| – Others | **2,288,930** | 2,670,192 |
| Sub-total | **15,621,473** | 13,091,436 |
| Inward and outward remittances | **118,553** | 120,086 |
| Interests accrued | **2,344,100** | 1,720,764 |
| Total | **155,322,230** | 144,896,805 |

## 29 DEBT SECURITIES ISSUED

| | *Note* | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| Interbank deposits issued | *(a)* | **43,300,165** | 44,245,015 |
| Tier-two capital debts issued | *(b)* | **1,995,749** | 1,995,112 |
| Financial bonds issued | *(c)* | **4,998,818** | 4,998,249 |
| Sub-total | | **50,294,732** | 51,238,376 |
| Interests accrued | | **50,372** | 50,488 |
| Total | | **50,345,104** | 51,288,864 |

*Notes:*

(a) Interbank deposit issued

(i) In 2019, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB43,950 million and duration between 1 to 12 months. The coupon interest rates ranged from 2.65% to 3.74% per annum.

(ii) In 2018, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB64,780 million and duration between 1 to 12 months. The coupon interest rates ranged from 3.30% to 5.30% per annum.

(iii) As at 31 December 2019, the fair value of interbank deposits issued was RMB42,908 million (31 December 2018: RMB43,738 million).

(b) Tier-two capital debts issued

(i) The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB2,000 million on 19 August 2015. The coupon interest rate per annum is 5.80%. The Bank had an option to redeem the bonds at the end of the fifth year.

(ii) As at 31 December 2019, the fair value of the tier-two capital debts issued was RMB2,065 million (31 December 2018: RMB2,034 million).

(c) Financial bonds issued

(i) In December 2018, the Bank issued three-year financial bonds with face value of RMB5,000 million. The coupon interest rate per annum is 4.00%.

(ii) As at 31 December 2019, the fair value of financial bonds issued was RMB5,051 million (31 December 2018: RMB4,986 million).

## 30 OTHER LIABILITIES

| | Note | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| Accrued staff cost | *(a)* | **658,392** | 631,534 |
| Lease liabilities | *(b)* | **462,813** | – |
| Provisions | *(c)* | **332,362** | 183,537 |
| Dividend payable | | **189,628** | 151,164 |
| Contract liabilities | *(d)* | **67,101** | 45,249 |
| Other taxes payable | | **60,053** | 86,836 |
| Dormant accounts | | **33,557** | 21,013 |
| Payment and collection clearance accounts | | **9,793** | 1,512,442 |
| Others | | **540,567** | 444,063 |
| Total | | **2,354,266** | 3,075,838 |

### (a) Accrued staff cost

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Salary, bonuses and allowances payable | **459,114** | 415,861 |
| Pension and annuity payable | **64,421** | 77,116 |
| Supplementary retirement benefits payable | **51,115** | 49,035 |
| Other social insurance payable | **11,887** | 25,619 |
| Housing fund payable | **12,343** | 13,009 |
| Others | **59,512** | 50,894 |
| Total | **658,392** | 631,534 |

***Supplementary retirement benefits***

The supplementary retirement benefits of the Group include early retirement plan and supplementary retirement plan. The early retirement plan is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to the Group's eligible employees.

(i) The balances of supplementary retirement benefits of the Group are as follows:

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Present value of supplementary retirement benefits | **51,115** | 49,035 |

(ii) The movements of supplementary retirement benefits of the Group are as follows:

| | **2019** | 2018 |
|---|---|---|
| As at 1 January | **49,035** | 57,717 |
| Benefits paid during the year | **(19,130)** | (15,892) |
| Defined benefit cost recognised in profit or loss | **18,880** | 7,200 |
| Defined benefit cost recognised in other comprehensive income | **2,330** | 10 |
| As at 31 December | **51,115** | 49,035 |

(iii) Principal actuarial assumptions of the Group are as follows:

Early retirement plan

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Discount rate | **2.75%** | 3.00% |
| Mortality | **Note(a)** | Note(a) |
| Retired age | | |
| Male | **60** | 60 |
| Female | **55** | 55 |
| Annual increase rate of living expenses, social insurance and housing fund for existing retirees | **7.00%** | 7.00% |
| Annual increase rate of other allowance for existing retirees | **4.50%** | 4.50% |

Supplementary retirement plan

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Discount rate | **3.25%** | 3.50% |
| Mortality | **Note (a)** | Note (a) |
| Turnover rate | **0.00%** | 0.00% |
| Retired age | | |
| Male | **60** | 60 |
| Female | **55** | 55 |

*Note:*

(a) As at 31 December 2019 and 2018, mortality assumptions are based on China Life Insurance Annuity Table (2010-2013) in China Life Insurance Mortality Table compiled by PLICC, which are published historical statistics in China.

**(b) Lease liabilities**

The maturity analysis of lease liabilities – undiscounted analysis:

| | **31 December 2019** |
|---|---|
| Within one year (inclusive) | **103,024** |
| Between one year and two years (inclusive) | **102,789** |
| Between two years and three years (inclusive) | **88,444** |
| Between three years and five years (inclusive) | **122,106** |
| More than five years | **108,284** |
| Total undiscounted lease liabilities | **524,647** |
| Total carrying amount | **462,813** |

## (c) Provisions

| | Note | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| Provision for credit commitments | *(i)* | **332,362** | 183,537 |

(i) Movements of provisions for credit commitments are as follows:

| | **Year ended 31 December 2019** | | | |
|---|---|---|---|---|
| | **Expected credit losses over the next 12 months** | **Lifetime expected credit losses not credit-impaired** | **Lifetime expected credit losses credit-impaired** | **Total** |
| Balance at 1 January | **168,335** | **12,282** | **2,920** | **183,537** |
| Transfers | | | | |
| – to expected credit losses over the next 12 months | **151** | **(151)** | **–** | **–** |
| – to lifetime expected credit losses not credit-impaired | **(22)** | **22** | **–** | **–** |
| – to lifetime expected credit losses credit-impaired | **(3)** | **(2)** | **5** | **–** |
| Charge/(reversal) for the year | **140,277** | **9,581** | **(1,033)** | **148,825** |
| Balance at 31 December | **308,738** | **21,732** | **1,892** | **332,362** |

| | Year ended 31 December 2018 | | | |
|---|---|---|---|---|
| | Expected credit losses over the next 12 months | Lifetime expected credit losses not credit-impaired | Lifetime expected credit losses credit-impaired | Total |
| Balance at 1 January | 169,235 | 476 | 1,723 | 171,434 |
| Transfers | | | | |
| – to expected credit losses over the next 12 months | 200 | (200) | – | – |
| – to lifetime expected credit losses not credit-impaired | (11) | 11 | – | – |
| – to lifetime expected credit losses credit-impaired | (9) | (64) | 73 | – |
| (Reversal)/charge for the year | (1,080) | 12,059 | 1,124 | 12,103 |
| Balance at 31 December | 168,335 | 12,282 | 2,920 | 183,537 |

## (d) Contract liabilities

As at 31 December 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB67 million (31 December 2018: RMB45 million). This amount represents income expected to be recognised in the future from acceptance and guarantee services. The Group will recognise the expected income in future as the services are provided.

## 31 SHARE CAPITAL

Authorised and issued share capital

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Number of shares authorised, issued and fully paid at par value of RMB1 each | **5,838,650** | 4,868,000 |

On 18 July 2019, the Bank issued 860 million H-shares with a par value of RMB1 at an offering price of HKD3.82 per share. On 14 August 2019, the Bank exercised the over-allotment option and issued 111 million H-shares with a par value of RMB1 at HKD3.82 per share. The capital contribution was verified by KPMG Huazhen LLP.

## 32 RESERVES

### (a) Capital reserve

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Share premium | **6,568,558** | 4,364,849 |
| Other capital reserve | **59,044** | 59,044 |
| Total | **6,627,602** | 4,423,893 |

### (b) Surplus reserve

The surplus reserve at the end of each of the reporting period represented statutory surplus reserve and discretionary surplus reserve.

Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP) after making good prior year's accumulated loss, to statutory surplus reserve until the balance reaches 50% of its registered capital.

The Bank appropriated an amount of RMB148 million to the statutory surplus reserve fund for the year ended 31 December 2019 (2018: RMB132 million).

The Bank may also appropriate discretionary surplus reserve in accordance with the resolution of the shareholders.

### (c) General reserve

Pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The balance of the general reserve of the Bank amounted to RMB2,781 million as at 31 December 2019 (31 December 2018: RMB2,781 million).

(d) **Fair value reserve**

| | **2019** | 2018 |
|---|---|---|
| As at 1 January | **(17,935)** | (71,583) |
| Changes in fair value recognised in other comprehensive income | **(4,053)** | 55,950 |
| Transfer to profit or loss upon disposal | **(2,972)** | 15,581 |
| Less: deferred tax | **1,756** | (17,883) |
| As at 31 December | **(23,204)** | (17,935) |

(e) **Impairment reserve**

| | **2019** | 2018 |
|---|---|---|
| As at 1 January | **17,215** | 38,541 |
| Impairment losses recognised in other comprehensive income | **1,473** | (28,435) |
| Less: deferred tax | **(368)** | 7,109 |
| As at 31 December | **18,320** | 17,215 |

(f) **(Deficit)/surplus on remeasurement of net defined benefit liability**

(Deficit)/surplus on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

| | **2019** | 2018 |
|---|---|---|
| As at 1 January | **525** | 533 |
| Changes in fair value recognised in other comprehensive income | **(2,330)** | (10) |
| Less: deferred tax | **582** | 2 |
| As at 31 December | **(1,223)** | 525 |

## 33 RETAINED EARNINGS

### (a) Appropriation of profits

In accordance with the resolution at the Bank's Board of Directors Meeting on 26 March 2020, the proposed profit distribution plan for the year ended 31 December 2019 is as follows:

– Appropriation of statutory surplus reserve base on 10% of the net profit;

– Declaration of cash dividend in an aggregation amount of approximately RMB642 million to all existing shareholders.

In accordance with the resolution at the Bank's Annual General Meeting on 29 April 2019, the shareholders approved the following profit appropriations for the year ended 31 December 2018 is as follows:

– Appropriation of statutory surplus reserve base on 10% of the net profit;

– Appropriation of discretionary surplus reserve base on 10% of the net profit amounted to approximately RMB132 million;

– Appropriation of general reserve amounted to approximately RMB227 million; and

– Declaration of cash dividend in an aggregation amount of approximately RMB487 million to all existing shareholders.

As at 31 December 2019, the consolidated retained earnings attributable to equity shareholders of the Bank included an appropriation of RMB686,000 of surplus reserve made by subsidiary (31 December 2018: RMB686,000).

**(b) Movements in components of equity**

Details of the changes in the Bank's individual components of equity for the reporting period are set out below:

| | **Share capital** | **Capital reserve** | **Surplus reserve** | **General reserve** | **Fair value reserve** | **Impairment reserve** | **Surplus on remeasurement of net defined benefit liability** | **Retained earnings** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2019 | **4,868,000** | **4,423,893** | **3,186,830** | **2,781,004** | **(17,935)** | **17,215** | **525** | **708,695** | **15,968,227** |
| Changes in equity for the year: | | | | | | | | | |
| Net profit for the year | – | – | – | – | – | – | – | **1,485,625** | **1,485,625** |
| Other comprehensive income | – | – | – | – | **(5,269)** | **1,105** | **(1,748)** | – | **(5,912)** |
| Total comprehensive income | – | – | – | – | **(5,269)** | **1,105** | **(1,748)** | **1,485,625** | **1,479,713** |
| Issue of H shares | **970,650** | **2,203,709** | – | – | – | – | – | – | **3,174,359** |
| Appropriation of profits | | | | | | | | | |
| – Appropriation to surplus reserve | – | – | **280,190** | – | – | – | – | **(280,190)** | – |
| – Appropriation to general reserve | – | – | – | – | – | – | – | – | – |
| – Dividends paid to shareholders | – | – | – | – | – | – | – | **(486,800)** | **(486,800)** |
| Balance at 31 December 2019 | **5,838,650** | **6,627,602** | **3,467,020** | **2,781,004** | **(23,204)** | **18,320** | **(1,223)** | **1,427,330** | **20,135,499** |

| | Share capital | Capital reserve | Surplus reserve | General reserve | Fair value reserve | Impairment reserve | Surplus on remeasurement of net defined benefit liability | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 31 December 2017 | 3,268,000 | 5,098,849 | 3,055,203 | 2,554,504 | (86,744) | – | 533 | 743,133 | 14,633,478 |
| Changes in accounting policies | – | – | – | – | 15,161 | 38,541 | – | (496,326) | (442,624) |
| Balance at 1 January 2018 | 3,268,000 | 5,098,849 | 3,055,203 | 2,554,504 | (71,583) | 38,541 | 533 | 246,807 | 14,190,854 |
| Changes in equity for the year: | | | | | | | | | |
| Net profit for the year | – | – | – | – | – | – | – | 1,306,815 | 1,306,815 |
| Other comprehensive income | – | – | – | – | 53,648 | (21,326) | (8) | – | 32,314 |
| Total comprehensive income | – | – | – | – | 53,648 | (21,326) | (8) | 1,306,815 | 1,339,129 |
| Capital contribution by equity shareholders | 1,600,000 | (674,956) | – | – | – | – | – | – | 925,044 |
| Appropriation of profits | | | | | | | | | |
| – Appropriation to surplus reserve | – | – | 131,627 | – | – | – | – | (131,627) | – |
| – Appropriation to general reserve | – | – | – | 226,500 | – | – | – | (226,500) | – |
| – Dividend paid to shareholders | – | – | – | – | – | – | – | (486,800) | (486,800) |
| Balance at 31 December 2018 | 4,868,000 | 4,423,893 | 3,186,830 | 2,781,004 | (17,935) | 17,215 | 525 | 708,695 | 15,968,227 |

## 34 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

### (a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include the investment management products under trust schemes and wealth management products under trust schemes issued by financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised as at 31 December 2019 and 2018:

| | **31 December 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Carrying amount** | **Maximum exposure** | Carrying amount | Maximum exposure |
| Financial investments at fair value through profit or loss | **28,718,366** | **28,718,366** | 23,746,049 | 23,746,049 |
| Financial investments at fair value through other comprehensive income | **772,517** | **772,517** | 952,507 | 952,507 |
| Financial investments at amortised cost | **24,204,400** | **24,204,400** | 26,905,916 | 26,905,916 |
| Total | **53,695,283** | **53,695,283** | 51,604,472 | 51,604,472 |

As at 31 December 2019 and 2018, the carrying amounts of investments in the unconsolidated structured entities are equal to the maximum exposures.

### (b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2019 and 2018, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognised are not material in the statement of financial position.

For the year ended 31 December 2019, the amount of fee and commission income received from the above mentioned structured entities by the Group amounted to RMB142 million (2018: RMB127 million).

As at 31 December 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, is RMB31,274 (31 December 2018: RMB24,079 million).

In September 2018, the Group transferred a portfolio of customer loans with book value of RMB4,175 million to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. As at 31 December 2019, the balance of these asset-backed securities held by the Group are RMB14 million (31 December 2018: RMB214 million).

Under the servicing arrangements with the independent trust company, the Group collects the cash flows of the transferred assets on behalf of the unconsolidated securitization vehicle. In return, the Group receives a fee that is expected to compensate the Group for servicing the related assets.

**(c) Unconsolidated structure entities sponsored by the Group during the year which the Group does not have an interest in as at 31 December 2019:**

For the year ended 31 December 2019, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January but matured before 31 December amounted to RMB15,788 million (2018: RMB19,701 million).

## 35 CAPITAL MANAGEMENT

The Group's capital management includes capital adequacy ratio management and capital financing management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of the Group is divided into core tier-one capital, other core tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

The Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the former CBRC.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.

The Group's capital adequacy ratios at 31 December 2019 and 2018 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Total core tier-one capital | | |
| – Share capital | **5,838,650** | 4,868,000 |
| – Qualifying portion of capital reserve | **6,627,602** | 4,423,893 |
| – Surplus reserve | **3,467,020** | 3,186,830 |
| – General reserve | **2,788,427** | 2,788,427 |
| – Other comprehensive income | **(6,107)** | (21,059) |
| – Retained earnings | **1,419,577** | 1,219,673 |
| – Qualifying portions of non-controlling interests | **14,030** | 15,286 |
| Core tier-one capital | **20,149,199** | 16,481,050 |
| Core tier-one capital deductions | **(167,971)** | (139,615) |
| Net core tier-one capital | **19,981,228** | 16,341,435 |
| Other tier-one capital | **1,871** | 2,038 |
| Net tier-one capital | **19,983,099** | 16,343,473 |
| Tier-two capital | | |
| – Instruments issued and share premium | **2,000,000** | 2,000,000 |
| – Surplus provision for loan impairment | **1,699,559** | 1,627,994 |
| – Qualifying portions of non-controlling interests | **3,741** | 4,076 |
| Net tier-two capital | **3,703,300** | 3,632,070 |
| Net capital base | **23,686,399** | 19,975,543 |
| Total risk weighted assets | **174,157,429** | 153,784,644 |
| Core tier-one capital adequacy ratio | **11.47%** | 10.63% |
| Tier-one capital adequacy ratio | **11.47%** | 10.63% |
| Capital adequacy ratio | **13.60%** | 12.99% |

## 36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Net increase in cash and cash equivalents

| | **2019** | 2018 |
|---|---|---|
| Cash and cash equivalents as at 31 December | **7,894,947** | 7,202,528 |
| Less: Cash and cash equivalents as at 1 January | **(7,202,528)** | (6,953,643) |
| Net increase in cash and cash equivalents | **692,419** | 248,885 |

### (b) Cash and cash equivalents

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Cash on hand | **244,124** | 455,425 |
| Deposits with central bank other than restricted deposits | **5,554,358** | 5,865,032 |
| Deposits with banks and other financial institutions | **796,465** | 382,071 |
| Placements with banks and other financial institutions | **1,300,000** | 500,000 |
| Total | **7,894,947** | 7,202,528 |

**(c) Reconciliation of liabilities arising from financing activities**

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

| | **Debt securities issued** *(Note 29)* | **Interest accrued arising from debt securities issued** *(Note 29)* | **Lease liabilities** | **Total** |
|---|---|---|---|---|
| As at 1 January 2019 | **51,238,376** | **50,488** | **515,788** | **51,804,652** |
| Changes from financing cash flows | | | | |
| Net proceeds from new debt securities issued | **56,246,356** | **–** | **–** | **56,246,356** |
| Repayment of debt securities issued | **(57,190,000)** | **–** | **–** | **(57,190,000)** |
| Interest paid on debt securities issued | **–** | **(1,780,914)** | **–** | **(1,780,914)** |
| Repayment of lease liabilities | **–** | **–** | **(54,705)** | **(54,705)** |
| Interest paid on lease liabilities | **–** | **–** | **(21,615)** | **(21,615)** |
| Total changes from financing cash flows | **(943,644)** | **(1,780,914)** | **(76,320)** | **(2,800,878)** |
| Other changes | | | | |
| Interest expense *(Note 3)* | **–** | **1,780,798** | **–** | **1,780,798** |
| New leases | **–** | **–** | **23,345** | **23,345** |
| Total Other Changes | **–** | **1,780,798** | **23,345** | **1,804,143** |
| As at 31 December 2019 | **50,294,732** | **50,372** | **462,813** | **50,807,917** |

| | Debt securities issued *(Note 29)* | Interest accrued arising from debt securities issued *(Note 29)* | Total |
|---|---|---|---|
| As at 1 January 2018 | 26,163,239 | 42,268 | 26,205,507 |
| Changes from financing cash flows | | | |
| Net proceeds from new debt securities issued | 69,425,137 | – | 69,425,137 |
| Repayment of debt securities issued | (44,350,000) | – | (44,350,000) |
| Interest paid on debt securities issued | – | (1,665,932) | (1,665,932) |
| Total changes from financing cash flows | 25,075,137 | (1,665,932) | 23,409,205 |
| Other changes | – | – | – |
| Interest expense *(Note 3)* | – | 1,674,152 | 1,674,152 |
| Total Other Changes | – | 1,674,152 | 1,674,152 |
| As at 31 December 2018 | 51,238,376 | 50,488 | 51,288,864 |

## 37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### (a) Related parties of the Group

#### *(i) Major shareholders*

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director in the Bank.

Shareholding in the Bank:

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Shanxi Financial Investment Holdings Limited (山西金融投資控股集團有限公司) | **12.25%** | 14.69% |
| Huaneng Capital Services Co., Ltd. (華能資本服務有限公司) | **10.28%** | 12.33% |
| Taiyuan Municipal Finance Bureau (太原市財政局) | **7.98%** | 9.58% |
| Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司) | **7.72%** | 9.26% |
| Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司) | **5.14%** | 6.16% |
| Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司) | **6.15%** | 7.38% |
| Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司) | **4.99%** | 5.98% |
| Shanxi Jincheng Anthracite Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司) | **3.43%** | 4.11% |
| Taiyuan Iron & Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司) | **3.43%** | 4.11% |
| Changzhi Huashengyuan Mining Industry Co., Ltd. (長治市華晟源礦業有限公司) | **4.02%** | 4.82% |

The official names of these related parties are in Chinese. The English translation is for reference only.

#### *(ii) Subsidiary of the Bank*

The detailed information of the Bank's subsidiary is set out in Note 21.

#### *(iii) Associates of the Bank*

The detailed information of the Bank's associates is set out in Note 20.

#### *(iv) Other related parties*

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiary) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 37(a)(i) or their controlling shareholders.

**(b) Transactions with related parties other than key management personnel**

***(i) Transactions between the Bank and major shareholders:***

| | **2019** | 2018 |
|---|---|---|
| Transactions during the year | | |
| Interest income | **24,207** | 32,233 |
| Interest expense | **59,411** | 22,009 |

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Balances at end of the year | | |
| Loans and advances to customers | **443,792** | 532,799 |
| Deposits from customers | **1,040,536** | 1,677,580 |

***(ii) Transactions between the Bank and subsidiary:***

The subsidiary of the Bank is its related party. The transactions between the Bank and its subsidiary are eliminated on combination.

| | **2019** | 2018 |
|---|---|---|
| Transactions during the year | | |
| Interest expense | **5,206** | 8,012 |

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Balances at end of the year | | |
| Deposits from banks and other financial institutions | **208,756** | 164,829 |

***(iii) Transactions between the Bank and associates:***

| | **2019** | 2018 |
|---|---|---|
| Transactions during the year | | |
| Interest income | **23,569** | 23,793 |
| Interest expense | **1,343** | 1,079 |

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Balances at end of the year | | |
| Deposits with banks and other financial institutions | **507,355** | 402,798 |
| Deposits from banks and other financial institutions | **1,175** | 1,543 |

*(iv)* ***Transactions between the Bank and other related parties:***

| | **2019** | 2018 |
|---|---|---|
| Transactions during the year | | |
| Interest income | **858,999** | 840,580 |
| Interest expense | **292,703** | 291,794 |
| Fee and commission income | **11,082** | 7,536 |
| Debt securities investments | **565,529** | 49,510 |
| Debt securities transferring | **440,540** | 80,238 |

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Balances at end of the year | | |
| Loans and advances to customers | **7,994,624** | 9,095,578 |
| Financial investments | **7,553,445** | 8,384,323 |
| Deposits from banks and other financial institutions | **1,155,783** | 1,493,362 |
| Deposits from customers | **10,390,421** | 9,910,244 |
| Bank acceptances | **3,396,692** | 2,628,404 |
| Letters of credit | **243,656** | 316,319 |

**(c) Key management personnel**

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

*(i)* ***Transactions between the Bank and key management personnel***

| | **2019** | 2018 |
|---|---|---|
| Transactions during the year | | |
| Interest income | **382** | 655 |
| Interest expense | **271** | 1,066 |

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Balances at end of the year | | |
| Loans and advances to customers | **6,644** | 5,263 |
| Deposits from customers | **14,356** | 8,374 |

*(ii)* ***Key management personnel compensation***

The aggregate compensation of key management personnel is listed as follows:

| | **2019** | 2018 |
|---|---|---|
| Key management personnel compensation | **12,766** | 16,858 |

(d) **Loans and advances to directors, supervisors and officers**

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Aggregate amount of relevant loans outstanding at the end of the year | **6,644** | 5,263 |
| Maximum aggregate amount of relevant loans outstanding during the year | **6,644** | 5,263 |

There were no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at 31 December 2019 and 2018.

## 38 SEGMENT REPORTING

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

**Corporate banking**

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, consulting and advisory services, remittance and settlement services and guarantee services.

**Retail banking**

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, personal wealth management services and remittance services.

**Treasury business**

This segment covers the Group's treasury business operations. The financial markets business enters into inter-bank money market transactions, repurchases transactions, and investments. It also trades in debt securities. The financial markets business segment also covers management of the Group's overall liquidity position, including the issuance of debts.

**Others**

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Intra-group balances and intra-group transactions are eliminated by segment income, expenses, assets and liabilities as part of the consolidation process. Segment capital expenditure is the total cost incurred during the year to acquire property and equipment, intangible assets and other long-term assets.

| | Year ended 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | **Corporate banking** | **Retail banking** | **Treasury business** | **Others** | **Total** |
| Operating income | | | | | |
| External net interest income/(expense) | **2,924,346** | **(834,607)** | **1,155,053** | **–** | **3,244,792** |
| Internal net interest (expense)/income | **(9,392)** | **1,703,176** | **(1,693,784)** | **–** | **–** |
| Net interest income | **2,914,954** | **868,569** | **(538,731)** | **–** | **3,244,792** |
| Net fee and commission income | **274,915** | **198,856** | **151,019** | **–** | **624,790** |
| Net trading gains | **–** | **–** | **342,479** | **92,889** | **435,368** |
| Net gains arising from investment securities | **–** | **–** | **746,244** | **–** | **746,244** |
| Other operating income | **1,694** | **–** | **–** | **36,053** | **37,747** |
| Operating income | **3,191,563** | **1,067,425** | **701,011** | **128,942** | **5,088,941** |
| Operating expenses | **(868,009)** | **(820,827)** | **(144,083)** | **(3,864)** | **(1,836,783)** |
| Impairment losses on assets | **(1,057,528)** | **(103,725)** | **(504,228)** | **–** | **(1,665,481)** |
| Share of profit of associate | **–** | **–** | **–** | **20,878** | **20,878** |
| Profit before tax | **1,266,026** | **142,873** | **52,700** | **145,956** | **1,607,555** |
| Segment assets | **96,715,419** | **17,881,426** | **131,533,257** | **–** | **246,130,102** |
| Deferred tax assets | **–** | **–** | **–** | **1,441,111** | **1,441,111** |
| Total assets | **96,715,419** | **17,881,426** | **131,533,257** | **1,441,111** | **247,571,213** |
| Segment liabilities | **88,696,078** | **69,095,264** | **69,620,522** | **–** | **227,411,864** |
| Total liabilities | **88,696,078** | **69,095,264** | **69,620,522** | **–** | **227,411,864** |
| Other segment information | | | | | |
| – Depreciation and amortization | **121,430** | **114,829** | **20,156** | **–** | **256,415** |
| – Capital expenditure | **441,378** | **417,387** | **73,265** | **–** | **932,030** |

| | Year ended 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Retail banking | Treasury business | Others | Total |
| Operating income | | | | | |
| External net interest income/(expense) | 3,054,419 | (486,211) | 610,542 | – | 3,178,750 |
| Internal net interest income/(expense) | 155,560 | 1,415,101 | (1,570,661) | – | – |
| Net interest income | 3,209,979 | 928,890 | (960,119) | – | 3,178,750 |
| Net fee and commission income | 219,248 | 144,888 | 59,532 | – | 423,668 |
| Net trading gains | – | – | 231,806 | – | 231,806 |
| Net gains arising from investment securities | – | – | 887,423 | – | 887,423 |
| Other operating income | 27,819 | – | – | 3,323 | 31,142 |
| Operating income | 3,457,046 | 1,073,778 | 218,642 | 3,323 | 4,752,789 |
| Operating expenses | (838,818) | (805,387) | (98,356) | (8,257) | (1,750,818) |
| Impairment (losses)/reversal on assets | (1,779,273) | (30,498) | 274,306 | – | (1,535,465) |
| Share of profits of associates | – | – | – | 33,216 | 33,216 |
| Profit before tax | 838,955 | 237,893 | 394,592 | 28,282 | 1,499,722 |
| Segment assets | 85,366,236 | 14,943,847 | 125,669,007 | – | 225,979,090 |
| Deferred tax assets | – | – | – | 1,268,752 | 1,268,752 |
| Total assets | 85,366,236 | 14,943,847 | 125,669,007 | 1,268,752 | 227,247,842 |
| Segment liabilities | 90,116,804 | 57,942,379 | 63,192,670 | – | 211,251,853 |
| Total liabilities | 90,116,804 | 57,942,379 | 63,192,670 | – | 211,251,853 |
| Other segment information | | | | | |
| – Depreciation and amortization | 62,287 | 59,803 | 7,303 | – | 129,393 |
| – Capital expenditure | 198,417 | 190,508 | 23,265 | – | 412,190 |

## 39 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

*Risk management system*

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors is responsible for establishing and maintaining a robust and effective risk management system and determining general risk preference and risk tolerance of the Group. Based on the general strategy of the Group, the Committee of Risk Management under the Board; reviews the Group's risk management system and basic principles, risk management strategies and internal control system framework. Senior management led by the president will be responsible for the control of credit risk, market risk, operational risk and approval of related policies and procedures; Chief Risk Officer will be led by the president of the Bank. In addition, the Group set up the Department of Risk Management, Department of Credit Examination, Department of Asset and Liability Management, Department of Law and Compliance, Audit Department based on the requirements of general risk management to perform respective functions in risk management, strengthen risk-covering portfolio management capabilities and conduct inspection on compliance with risk management policy of internal control system on regular or irregular basis.

**(a) Credit risk**

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

***Credit business***

To identify, assess, monitor and manage credit risks, the Group has designed effective system frameworks, credit policies and processes for credit risk management and implemented systematic control procedures. The responsible department for credit risk management include the Risk Management Department and Credit Approval Department. The Risk Management Department is responsible for implementing the Group's overall risk management system, besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. The Credit Approval Department is independent from customer relationship and product management departments, to ensure the independence of credit approval. Front office departments including Corporate Business Department and Personal Finance Department carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardized loan recovery procedures.

***Stages of risks in financial instrument***

After adopting IFRS 9 at 1 January 2018, the financial assets are categorized by the Group into the following stages to manage its financial assets' credit risk:

Stage 1

Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

Stage 2

Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3

Financial assets that are in default and considered credit-impaired.

***Significant increase in credit risk***

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

– The credit spread increases significantly;

– Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status;

– Application of a grace period or debt-restructuring;

– Significant changes with an adverse effect in the borrower's business conditions;

– Less value of the collaterals (for the collateral loans and pledged loans only);

– Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans;

– The borrower is more than 30 days past due.

The Group uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at 31 December 2019 and 2018, the Group has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

***Definition of "default" and "credit-impaired assets"***

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;

– the disappearance of an active market for a security because of financial difficulties of the issuer; or

– overdue more than 90 days.

The above criteria apply to all financial assets of the Group and they are consistent with the definition of "default" adopted by the internal management of credit risk.

***Measurement of expected credit losses ("ECL")***

The Group adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

– PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;

– EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;

– LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, the Group can calculate the ECL for the future months. The results of calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

- In respect of the financial assets with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of overlimit repayment and prepayments/refinancing made by the borrower.

- As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the balance sheet date by the credit conversion factor (CCF).

- The Group determines the 12-month loss given default (LGD) and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.

- As to financial assets classified as guarantees, the Group determines the loss given default (LGD) according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.

- As to credit-based financial assets, the Group usually determines loss given default (LGD) in the product level due to the limited differences in recoverable amounts from different borrowers.

Forward-looking economic information should be considered when determining the 12-month and lifetime probability of default, exposure at default and loss given default.

The Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

As at 31 December 2019 and 2018, there has been no significant changes in the estimate techniques and key assumptions of the Group.

Forward-looking information included in the expected credit loss model is as follows:

- Both the assessment of significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting the future economic indicators.

- When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of the scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under the different scenarios by the weight of the corresponding scenarios.

- Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.

- Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the expected credit losses were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

*(i) Maximum credit risk exposure*

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the reporting period.

*(ii) Financial assets analysed by credit quality are summarized as follows:*

| | 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | **Loans and advances** | **Deposits/ placements with banks and other financial institutions** | **Financial assets held under resale agreement** | **Financial investments** *(*)* | **Others** *(**)* |
| Balance of financial assets that are assessed for expected credit losses over the next 12 months | | | | | |
| – Overdue but not credit-impaired | **1,339,642** | **–** | **–** | **–** | **–** |
| – Neither overdue nor credit-impaired | **107,623,484** | **2,596,464** | **16,624,996** | **91,160,927** | **178,047** |
| Sub-total | **108,963,126** | **2,596,464** | **16,624,996** | **91,160,927** | **178,047** |
| Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses | | | | | |
| – Overdue but not credit-impaired | **1,185,741** | **–** | **–** | **–** | **–** |
| – Neither overdue nor credit-impaired | **3,190,613** | **–** | **–** | **300,000** | **137,883** |
| Sub-total | **4,376,354** | **–** | **–** | **300,000** | **137,883** |
| Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses | | | | | |
| – Overdue and credit-impaired | **2,129,945** | **–** | **–** | **1,784,629** | **–** |
| – Credit-impaired but not overdue | **13,064** | **–** | **–** | **155,000** | **7,849** |
| Sub-total | **2,143,009** | **–** | **–** | **1,939,629** | **7,849** |
| Interests accrued | **490,986** | **7,744** | **5,023** | **972,955** | **–** |
| Less: Provision for impairment losses | **(4,260,918)** | **(174)** | **(1)** | **(1,460,872)** | **(13,541)** |
| Net value | **111,712,557** | **2,604,034** | **16,630,018** | **92,912,639** | **310,238** |

| | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Loans and advances | Deposits/ placements with banks and other financial institutions | Financial assets held under resale agreement | Financial investments *(*)* | Others *(**)* |
| Balance of financial assets that are assessed for expected credit losses over the next 12 months | | | | | |
| – Overdue but not credit-impaired | 425,818 | – | – | – | – |
| – Neither overdue nor credit-impaired | 96,165,484 | 1,282,071 | 24,172,953 | 75,201,590 | 242,269 |
| Sub-total | 96,591,302 | 1,282,071 | 24,172,953 | 75,201,590 | 242,269 |
| Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses | | | | | |
| – Overdue but not credit-impaired | 247,400 | – | – | – | – |
| – Neither overdue nor credit-impaired | 2,898,725 | – | – | 308,000 | 137,883 |
| Sub-total | 3,146,125 | – | – | 308,000 | 137,883 |
| Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses | | | | | |
| – Overdue and credit-impaired | 1,882,700 | – | – | 1,023,297 | – |
| – Credit-impaired but not overdue | 17,660 | – | – | 484,934 | 7,849 |
| Sub-total | 1,900,360 | – | – | 1,508,231 | 7,849 |
| Interests accrued | 497,618 | 10,501 | 7,027 | 704,364 | – |
| Less: Provision for impairment losses | (4,017,266) | (154) | (1) | (957,536) | (13,549) |
| Net value | 98,118,139 | 1,292,418 | 24,179,979 | 76,764,649 | 374,452 |

* Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

** Others comprise interests receivable, prepayments for acquisition of property and equipment and other receivables in other assets.

Financial assets (exclusive interests accrued) analysed by credit quality

| | 31 December 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance | | | | Provision for impairment losses | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Financial assets measured at amortised cost | | | | | | | | |
| Cash and deposits with the central bank | 19,101,907 | – | – | 19,101,907 | – | – | – | – |
| Deposits with banks and other financial institutions | 1,296,464 | – | – | 1,296,464 | (166) | – | – | (166) |
| Placements with banks and other financial institutions | 1,300,000 | – | – | 1,300,000 | (8) | – | – | (8) |
| Financial assets held under resale agreements | 16,624,996 | – | – | 16,624,996 | (1) | – | – | (1) |
| Loans and advances to customers | 84,068,786 | 4,376,354 | 2,140,609 | 90,585,749 | (2,223,034) | (906,674) | (1,131,210) | (4,260,918) |
| Financial investments | 49,602,721 | 300,000 | 1,939,629 | 51,842,350 | (489,084) | (1,975) | (969,813) | (1,460,872) |
| Other assets | 178,047 | 137,883 | 7,849 | 323,779 | (98) | (6,881) | (6,562) | (13,541) |
| Total | 172,172,921 | 4,814,237 | 4,088,087 | 181,075,245 | (2,712,391) | (915,530) | (2,107,585) | (5,735,506) |
| Financial assets at fair value through other comprehensive income | | | | | | | | |
| Loans and advances to customers | 24,894,340 | – | 2,400 | 24,896,740 | (12,506) | – | (9,600) | (22,106) |
| Financial investments | 11,581,726 | – | – | 11,581,726 | (2,321) | – | – | (2,321) |
| Total | 36,476,066 | – | 2,400 | 36,478,466 | (14,827) | – | (9,600) | (24,427) |
| Credit commitments | 40,701,255 | 555,697 | 6,227 | 41,263,179 | (308,738) | (21,732) | (1,892) | (332,362) |

| | 31 December 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance | | | | Provision for impairment losses | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Financial assets measured at amortised cost | | | | | | | | |
| Cash and deposits with the central bank | 23,589,738 | – | – | 23,589,738 | – | – | – | – |
| Deposits with banks and other financial institutions | 782,071 | – | – | 782,071 | (153) | – | – | (153) |
| Placements with banks and other financial institutions | 500,000 | – | – | 500,000 | (1) | – | – | (1) |
| Financial assets held under resale agreements | 24,172,953 | – | – | 24,172,953 | (1) | – | – | (1) |
| Loans and advances to customers | 83,923,131 | 3,146,125 | 1,896,760 | 88,966,016 | (2,158,195) | (776,736) | (1,082,335) | (4,017,266) |
| Financial investments | 45,968,496 | 308,000 | 1,508,231 | 47,784,727 | (468,002) | (37,064) | (452,470) | (957,536) |
| Other assets | 242,269 | 137,883 | 7,849 | 388,001 | (100) | (6,884) | (6,565) | (13,549) |
| Total | 179,178,658 | 3,592,008 | 3,412,840 | 186,183,506 | (2,626,452) | (820,684) | (1,541,370) | (4,988,506) |
| Financial assets at fair value through other comprehensive income | | | | | | | | |
| Loans and advances to customers | 12,668,171 | – | 3,600 | 12,671,771 | (13,104) | – | (8,400) | (21,504) |
| Financial investments | 4,981,207 | – | – | 4,981,207 | (1,449) | – | – | (1,449) |
| Total | 17,649,378 | – | 3,600 | 17,652,978 | (14,553) | – | (8,400) | (22,953) |
| Credit commitments | 27,312,383 | 250,365 | 19,359 | 27,582,107 | (168,335) | (12,282) | (2,920) | (183,537) |

The overall ECL rate for financial assets and credit commitments analysed by credit quality:

| | **31 December 2019** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Financial assets measured at amortised cost | **1.58%** | **19.02%** | **51.55%** | **3.17%** |
| Financial assets at fair value through other comprehensive income | **0.04%** | **N/A** | **80.00%** | **0.07%** |
| Credit commitments | **0.76%** | **3.91%** | **30.38%** | **0.81%** |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Financial assets measured at amortised cost | 1.47% | 22.85% | 45.16% | 2.68% |
| Financial assets at fair value through other comprehensive income | 0.08% | N/A | 70.00% | 0.13% |
| Credit commitments | 0.62% | 4.91% | 15.08% | 0.67% |

As at 31 December 2019, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB434 million (31 December 2018: RMB857 million). The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB574 million (31 December 2018: RMB736 million). The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

*(iii) Rescheduled loans and advances to customers*

The Group has no rescheduled loans and advances to customers at 31 December 2019 and 2018.

*(iv) Credit rating*

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments (exclusive interests accrued) analysed by the rating agency designations as at the end of the reporting period are as follows:

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Neither overdue nor impaired | | |
| *Ratings* | | |
| - AAA | **33,212,536** | 20,956,747 |
| - AA – to AA+ | **483,947** | 1,938,764 |
| Sub-total | **33,696,483** | 22,895,511 |
| Unrated | **149,297** | 134,330 |
| Total | **33,845,780** | 23,029,841 |

**(b) Market risk**

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The Group has especially built up a market risk management structure and team. The Department of Risk Management takes the major responsibility for the exposure of market risk and preparation of relevant market risk management policies to submit to the Committee of Risk Management. According to established standards and current management capabilities, the Group measures market risk with the major adoption of sensitivity analysis. Before the new products or new business are launched, their market risks will be identified according to regulations.

The major source of market risk of the Group is the asset and liability businesses involved in market operation and the risks in interest rate and exchange rate of products.

***Interest rate risk***

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

***Repricing risk***

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of bank assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

***Trading interest rate risk***

Trading interest rate risk mainly arises from the treasury business' investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

*(i)* The following tables indicate the assets and liabilities as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

| | 31 December 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Total | Non-interest bearing | Less than three months | Between three months and one year | Between one year and five years | More than five years |
| **Assets** | | | | | | |
| Cash and deposits with the central bank | 19,108,325 | 505,488 | 18,602,837 | – | – | – |
| Deposits with banks and other financial institutions | 1,303,659 | 7,361 | 1,065,244 | 99,834 | 131,220 | – |
| Placements with banks and other financial institutions | 1,300,375 | 383 | 1,299,992 | – | – | – |
| Financial assets held under resale agreements | 16,630,018 | 5,023 | 10,111,157 | 6,513,838 | – | – |
| Loans and advances to customers *(Note (i))* | 111,712,557 | 490,986 | 41,821,404 | 42,577,380 | 22,944,418 | 3,878,369 |
| Financial investments *(Note (ii))* | 92,912,639 | 27,424,714 | 6,911,655 | 17,400,101 | 29,678,749 | 11,497,420 |
| Others | 4,603,640 | 4,603,640 | – | – | – | – |
| Total assets | 247,571,213 | 33,037,595 | 79,812,289 | 66,591,153 | 52,754,387 | 15,375,789 |
| **Liabilities** | | | | | | |
| Borrowing from the central bank | 870,731 | 731 | 180,000 | 690,000 | – | – |
| Deposits from banks and other financial Institutions | 4,211,308 | 17,392 | 1,513,916 | 2,680,000 | – | – |
| Placements from banks and other financial institutions | 1,911,455 | 1,455 | 900,000 | 1,010,000 | – | – |
| Financial assets sold under repurchase agreements | 12,201,162 | 5,771 | 12,195,391 | – | – | – |
| Deposits from customers | 155,322,230 | 2,344,100 | 68,952,874 | 27,992,998 | 55,985,232 | 47,026 |
| Debt securities issued | 50,345,104 | 50,372 | 14,008,106 | 29,292,059 | 6,994,567 | – |
| Others | 2,549,874 | 2,549,874 | – | – | – | – |
| Total liabilities | 227,411,864 | 4,969,695 | 97,750,287 | 61,665,057 | 62,979,799 | 47,026 |
| Asset-liability gap | 20,159,349 | 28,067,900 | (17,937,998) | 4,926,096 | (10,225,412) | 15,328,763 |

| | 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Total | Non-interest bearing | Less than three months | Between three months and one year | Between one year and five years | More than five years |
| **Assets** | | | | | | |
| Cash and deposits with the central bank | 23,589,738 | 881,318 | 22,708,420 | – | – | – |
| Deposits with banks and other financial institutions | 792,312 | 10,394 | 381,918 | 400,000 | – | – |
| Placements with banks and other financial institutions | 500,106 | 107 | 499,999 | – | – | – |
| Financial assets held under resale agreements | 24,179,979 | 7,027 | 24,172,952 | – | – | – |
| Loans and advances to customers *(Note (i))* | 98,118,139 | 497,618 | 30,434,051 | 32,519,900 | 31,182,349 | 3,484,221 |
| Financial investments *(Note (ii))* | 76,764,649 | 18,532,613 | 4,939,460 | 17,663,064 | 25,799,072 | 9,830,440 |
| Others | 3,302,919 | 3,302,919 | – | – | – | – |
| Total assets | 227,247,842 | 23,231,996 | 83,136,800 | 50,582,964 | 56,981,421 | 13,314,661 |
| **Liabilities** | | | | | | |
| Borrowing from the central bank | 590,000 | – | – | 590,000 | – | – |
| Deposits from banks and other financial Institutions | 2,513,697 | 33,330 | 180,367 | 2,300,000 | – | – |
| Placements from banks and other financial institutions | 100,000 | – | – | 100,000 | – | – |
| Financial assets sold under repurchase agreements | 8,680,430 | 4,488 | 8,675,942 | – | – | – |
| Deposits from customers | 144,896,805 | 1,720,764 | 71,051,919 | 31,253,044 | 40,784,531 | 86,547 |
| Debt securities issued | 51,288,864 | 50,488 | 8,911,748 | 35,333,267 | 4,998,249 | 1,995,112 |
| Others | 3,182,057 | 3,182,057 | – | – | – | – |
| Total liabilities | 211,251,853 | 4,991,127 | 88,819,976 | 69,576,311 | 45,782,780 | 2,081,659 |
| Asset-liability gap | 15,995,989 | 18,240,869 | (5,683,176) | (18,993,347) | 11,198,641 | 11,233,002 |

*Notes:*

(i) As at 31 December 2019, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB1,455 million (31 December 2018: RMB1,355 million).

(ii) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

*(ii) Interest rate sensitivity analysis*

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| | **(Decrease)/ Increase** | (Decrease)/ Increase |
| Change in net profit | | |
| Up 100 bps parallel shift in yield curves | **(113,743)** | (101,620) |
| Down 100 bps parallel shift in yield curves | **117,867** | 102,126 |

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| | **(Decrease)/ Increase** | (Decrease)/ Increase |
| Change in equity | | |
| Up 100 bps parallel shift in yield curves | **(242,004)** | (152,103) |
| Down 100 bps parallel shift in yield curves | **254,094** | 155,176 |

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at the end of the reporting period apply to non-derivative financial instruments of the Group;

– At the end of the reporting period, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the assets and liabilities portfolio;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

***Foreign currency risk***

The majority of the business of the Group is related to Renminbi, as well as a small amount of business related to US dollar and other foreign currencies.

The changes in exchange rates will affect the financial position and cash flow of the Group. Due to the small amount of foreign currency business of the Group, the effect of foreign currency risk on the Group would be immaterial. The major principle of the Group's control on foreign currency risk is to achieve matching of assets and liabilities in each currency and to conduct daily monitoring on currency exposure.

The Group adopts sensitivity analysis to measure the possible effects of changes in exchange rates on net gains and losses and interests of the Group. As the foreign currency assets and liabilities account for an immaterial part of the total assets and total liabilities of the Group, the effect of changes in exchange rates on net gains and losses and interests of the Group would be immaterial.

The currency exposures as at the end of the reporting period are as follows:

| | 31 December 2019 | | | |
|---|---|---|---|---|
| | *RMB* | *USD (RMB Equivalent)* | *Others (RMB Equivalent)* | *Total (RMB Equivalent)* |
| **Assets** | | | | |
| Cash and deposits with the central bank | **19,108,193** | **55** | **77** | **19,108,325** |
| Deposits with banks and other financial institutions | **1,107,497** | **48,426** | **147,736** | **1,303,659** |
| Placements with banks and other financial institutions | **1,300,375** | **–** | **–** | **1,300,375** |
| Financial assets held under resale agreements | **16,630,018** | **–** | **–** | **16,630,018** |
| Loans and advances to customers | **111,712,557** | **–** | **–** | **111,712,557** |
| Financial Investments *(Note (i))* | **92,912,639** | **–** | **–** | **92,912,639** |
| Others | **4,603,640** | **–** | **–** | **4,603,640** |
| Total assets | **247,374,919** | **48,481** | **147,813** | **247,571,213** |
| **Liabilities** | | | | |
| Borrowing from the central bank | **870,731** | **–** | **–** | **870,731** |
| Deposits from banks and other financial Institutions | **4,211,308** | **–** | **–** | **4,211,308** |
| Placements from banks and other financial institutions | **1,911,455** | **–** | **–** | **1,911,455** |
| Financial assets sold under repurchase agreements | **12,201,162** | **–** | **–** | **12,201,162** |
| Deposits from customers | **155,321,102** | **1,002** | **126** | **155,322,230** |
| Debt securities issued | **50,345,104** | **–** | **–** | **50,345,104** |
| Others | **2,497,069** | **34,890** | **17,915** | **2,549,874** |
| Total liabilities | **227,357,931** | **35,892** | **18,041** | **227,411,864** |
| Net position | **20,016,988** | **12,589** | **129,772** | **20,159,349** |
| Off-balance sheet credit commitments | **41,263,179** | **–** | **–** | **41,263,179** |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | *RMB* | *USD (RMB Equivalent)* | *Others (RMB Equivalent)* | *Total (RMB Equivalent)* |
| **Assets** | | | | |
| Cash and deposits with the central bank | 23,589,576 | 83 | 79 | 23,589,738 |
| Deposits with banks and other financial institutions | 756,364 | 35,848 | 100 | 792,312 |
| Placements with banks and other financial institutions | 500,106 | – | – | 500,106 |
| Financial assets held under resale agreements | 24,179,979 | – | – | 24,179,979 |
| Loans and advances to customers | 98,118,139 | – | – | 98,118,139 |
| Financial Investments *(Note (i))* | 76,764,649 | – | – | 76,764,649 |
| Others | 3,302,916 | – | 3 | 3,302,919 |
| Total assets | 227,211,729 | 35,931 | 182 | 227,247,842 |
| **Liabilities** | | | | |
| Borrowing from the central bank | 590,000 | – | – | 590,000 |
| Deposits from banks and other financial Institutions | 2,513,697 | – | – | 2,513,697 |
| Placements from banks and other financial institutions | 100,000 | – | – | 100,000 |
| Financial assets sold under repurchase agreements | 8,680,430 | – | – | 8,680,430 |
| Deposits from customers | 144,895,930 | 750 | 125 | 144,896,805 |
| Debt securities issued | 51,288,864 | – | – | 51,288,864 |
| Others | 3,147,428 | 34,560 | 69 | 3,182,057 |
| Total liabilities | 211,216,349 | 35,310 | 194 | 211,251,853 |
| Net position | 15,995,380 | 621 | (12) | 15,995,989 |
| Off-balance sheet credit commitments | 27,582,107 | – | – | 27,582,107 |

(i) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

### (c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations.

The Group plays an active part in managing liquidity risks and improves related management system in terms of organisation, institution, system, management and mechanism. The organisational structure of the Group's liquidity risk management consists of the Board of Directors, senior management and its Risk Management Committee and Asset and Liability Management Committee, Department of Risk Liquidity Indicator Management, Department of Asset and Liability Management, Department of Corporate Business, Department of Individual Business, Department of International Business, Department of Credit Examination, Department of Financial Market, Department of Information Technology and Audit Department, responsible for formulating liquidity risk management strategy and establishing internal control mechanism to support the implementation and supervision of liquidity risk management strategy.

The measurement of liquidity risk of the Group adopts liquidity indicator and cash flow gap calculation. By stress testing, the Group sets up mild, moderate and severe scenarios to examine the capacity to withstand liquidity or liquidity crises and improve liquidity contingency measures. In terms of response to liquidity risks, the Group strengthens management and monitoring of liquidity limits; establishes related liquidity emergency leading groups, early-warning indicators for internal and external liquidity risks and indicators that could trigger contingency plans and monitors these indicators; builds up quality liquidity assets reserve and financing capability management; erects liquidity risk reporting mechanism, in which the asset and liability management department reports to the Asset and Liability Management Committee, senior management and the Board of Directors on issues related to the status, stress testing and contingency plans of liquidity risks on a regular basis.

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

| | 31 December 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Indefinite *Note (i)* | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with the central bank | 13,303,425 | 5,798,482 | 6,418 | – | – | – | – | 19,108,325 |
| Deposit with banks and other financial institutions | – | 665,078 | 236,119 | – | 402,462 | – | – | 1,303,659 |
| Placements with banks and other financial institutions | – | – | 1,300,375 | – | – | – | – | 1,300,375 |
| Financial assets held under resale agreements | – | – | 10,323,258 | 4,919,792 | 1,386,968 | – | – | 16,630,018 |
| Loans and advances to customers | 1,167,589 | 263,728 | 9,599,136 | 12,774,727 | 45,219,973 | 24,832,119 | 17,855,285 | 111,712,557 |
| Financial investments | 986,155 | 26,387,552 | 3,306,281 | 3,132,462 | 17,207,616 | 30,344,145 | 11,548,428 | 92,912,639 |
| Others | 3,767,156 | 836,484 | – | – | – | – | – | 4,603,640 |
| Total assets | 19,224,325 | 33,951,324 | 24,771,587 | 20,826,981 | 64,217,019 | 55,176,264 | 29,403,713 | 247,571,213 |
| **Liabilities** | | | | | | | | |
| Borrowing from the central bank | – | – | 731 | 180,000 | 690,000 | – | – | 870,731 |
| Deposits from banks and other financial Institutions | – | 513,916 | – | 1,151,685 | 2,545,707 | – | – | 4,211,308 |
| Placements from banks and other financial institutions | – | – | 900,443 | 1,012 | 1,010,000 | – | – | 1,911,455 |
| Financial assets sold under repurchase agreements | – | – | 12,136,265 | 64,897 | – | – | – | 12,201,162 |
| Deposit from customers | – | 57,442,897 | 3,739,047 | 8,497,576 | 28,620,210 | 56,975,471 | 47,029 | 155,322,230 |
| Debt securities issued | – | – | 2,635,902 | 11,372,204 | 29,292,059 | 5,007,037 | 2,037,902 | 50,345,104 |
| Others | – | 2,460,492 | – | – | 41,957 | 47,425 | – | 2,549,874 |
| Total liabilities | – | 60,417,305 | 19,412,388 | 21,267,374 | 62,199,933 | 62,029,933 | 2,084,931 | 227,411,864 |
| Net position | 19,224,325 | (26,465,981) | 5,359,199 | (440,393) | 2,017,086 | (6,853,669) | 27,318,782 | 20,159,349 |

| | 31 December 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Indefinite *Note (i)* | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with the central bank | 17,260,969 | 6,320,457 | 8,312 | – | – | – | – | 23,589,738 |
| Deposit with banks and other financial institutions | – | 381,918 | – | 7,600 | 402,794 | – | – | 792,312 |
| Placements with banks and other financial institutions | – | – | 500,106 | – | – | – | – | 500,106 |
| Financial assets held under resale agreements | – | – | 23,590,840 | 589,139 | – | – | – | 24,179,979 |
| Loans and advances to customers | 918,466 | 490,452 | 5,152,938 | 9,991,650 | 32,569,434 | 33,703,264 | 15,291,935 | 98,118,139 |
| Financial investments | 315,854 | 17,437,095 | 1,399,201 | 3,351,604 | 17,840,178 | 26,451,643 | 9,969,074 | 76,764,649 |
| Others | 2,908,312 | 394,607 | – | – | – | – | – | 3,302,919 |
| Total assets | 21,403,601 | 25,024,529 | 30,651,397 | 13,939,993 | 50,812,406 | 60,154,907 | 25,261,009 | 227,247,842 |
| **Liabilities** | | | | | | | | |
| Borrowing from the central bank | – | – | – | – | 590,000 | – | – | 590,000 |
| Deposits from banks and other financial Institutions | – | 180,367 | 5,460 | 2,253 | 2,325,617 | – | – | 2,513,697 |
| Placements from banks and other financial institutions | – | – | – | – | 100,000 | – | – | 100,000 |
| Financial assets sold under repurchase agreements | – | – | 8,419,871 | 260,559 | – | – | – | 8,680,430 |
| Deposit from customers | – | 52,222,595 | 7,243,274 | 12,099,039 | 31,741,332 | 41,503,945 | 86,620 | 144,896,805 |
| Debt securities issued | – | – | 1,852,938 | 7,058,810 | 35,333,267 | 5,006,468 | 2,037,381 | 51,288,864 |
| Others | – | 3,090,086 | – | – | 47,791 | 44,180 | – | 3,182,057 |
| Total liabilities | – | 55,493,048 | 17,521,543 | 19,420,661 | 70,138,007 | 46,554,593 | 2,124,001 | 211,251,853 |
| Net position | 21,403,601 | (30,468,519) | 13,129,854 | (5,480,668) | (19,325,601) | 13,600,314 | 23,137,008 | 15,995,989 |

*Note:*

(i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents impaired investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities of the Group at the end of the reporting period:

| | 31 December 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Contractual undiscounted cash flow** | **Repayable on demand** | **Within one month** | **Between one month and three months** | **Between three months and one year** | **Between one year and five years** | **More than five years** |
| **Non-derivative financial liabilities** | | | | | | | | |
| Borrowing from the central bank | **870,731** | **894,213** | **–** | **–** | **180,000** | **714,213** | **–** | **–** |
| Deposits from banks and other financial institutions | **4,211,308** | **4,311,499** | **513,916** | **–** | **1,178,111** | **2,619,472** | **–** | **–** |
| Placements from banks and other financial institutions | **1,911,455** | **1,944,669** | **–** | **901,033** | **–** | **1,043,636** | **–** | **–** |
| Financial assets sold under repurchase agreements | **12,201,162** | **12,195,884** | **–** | **12,130,823** | **65,061** | **–** | **–** | **–** |
| Deposits from customers | **155,322,230** | **160,194,769** | **57,284,116** | **3,575,262** | **8,133,390** | **28,409,502** | **62,734,871** | **57,628** |
| Debt securities issued | **50,345,104** | **52,046,000** | **–** | **2,640,000** | **11,440,000** | **30,186,000** | **5,664,000** | **2,116,000** |
| Other financial liabilities | **2,549,874** | **2,611,708** | **1,997,679** | **17,052** | **27,894** | **100,035** | **360,764** | **108,284** |
| Total non-derivative financial liabilities | **227,411,864** | **234,198,742** | **59,795,711** | **19,264,170** | **21,024,456** | **63,072,858** | **68,759,635** | **2,281,912** |

| | 31 December 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Contractual undiscounted cash flow | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years |
| **Non-derivative financial liabilities** | | | | | | | | |
| Borrowing from the central bank | 590,000 | 606,362 | – | – | – | 606,362 | – | – |
| Deposits from banks and other financial institutions | 2,513,697 | 2,543,337 | 180,367 | 5,400 | 2,625 | 2,354,945 | – | – |
| Placements from banks and other financial institutions | 100,000 | 103,969 | – | – | – | 103,969 | – | – |
| Financial assets sold under repurchase agreements | 8,680,430 | 8,677,682 | – | 8,416,306 | 261,376 | – | – | – |
| Deposits from customers | 144,896,805 | 145,362,673 | 52,005,627 | 7,141,902 | 11,930,898 | 31,545,892 | 42,650,232 | 88,122 |
| Debt securities issued | 51,288,864 | 54,092,002 | – | 1,891,105 | 7,212,214 | 37,012,848 | 5,864,194 | 2,111,641 |
| Other financial liabilities | 3,182,057 | 3,182,057 | 3,090,086 | – | – | 47,791 | 44,180 | – |
| Total non-derivative financial liabilities | 211,251,853 | 214,568,082 | 55,276,080 | 17,454,713 | 19,407,113 | 71,671,807 | 48,558,606 | 2,199,763 |

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

### (d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group has specified issues of operational risks, including its manifestation, management mode, reporting procedure, reporting cycle and statistics of loss and improved comprehensive risk management system, with major initiatives as follows:

– Establishment of operational risk management system in a crisscrossing manner. On the one hand, the Group establishes an operational risk management framework that is compatible with its nature, scale, complexity and risk characteristics, including the operational risk management mechanism that involves its board of directors, board of supervisors, senior management, head office and branches. On the other hand, a three-tier risk prevention system for the front office, middle office and back office has been established for every major risk faced by the Group.

– Formation of business philosophy of compliance and robustness. The Group fosters favourable control environment, including constant advances and promotion in operational risk culture by the board of directors and senior management.

– Preference to low operational risk under the framework of 'robust' risk preference. By conducting controls on operational risk including identification, measurement, resolution, monitoring and reporting, the Group establishes mechanisms for risk avoidance, loss prediction, prevention, control, reduction, financing to control operational risk within the carrying capacity of the Group and maximise its profits.

– Prevention of operational risks based on the means of inspection and supervision. All departments and branches of the head office actively perform their duties of supervision and management, conduct routine and special inspections on operational risks in major businesses, establish ledger of all problems identified for rectification and check-off. Based on the inspection by departments, the internal audit department fully uses the off-site audit system, business risk early-warning system and remote monitoring system to detect violations and pay constant attention to risk-prone problems to prevent operational risks. In the meantime, inspections and investigations are exercised on key businesses, key institutions and key personnel to prevent operational risks.

– Combination of punishment and incentives to encourage compliance and standard operations. Integral management will be implemented on personnel violating operational standards for strict ascertainment of responsibility; employees are encouraged to spontaneously disclose and actively report operational risks; internal management, compliance operation, inspection and supervision and swindle prevention and control of the head office and branches shall be quantitatively assessed for penalty points; innovative implementation of compliance and internal control management of institutions shall be assessed for bonus points.

– Substantive achievements in carrying out system training and improving staff operation skills have been effective in preventing operational risks for the Group.

## 40 FAIR VALUE

### (a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

#### *(i) Debt securities and equity investments*

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

#### *(ii) Receivables and other non-derivative financial assets*

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

#### *(iii) Debt securities issued and other non-derivative financial liabilities*

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

### (b) Fair value measurement

#### *(i) Financial assets*

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits and placements with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank, deposits and placements with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBoC rates. Accordingly, the carrying amounts approximate the fair values.

Financial investments at fair value through other comprehensive income and financial assets at fair value through profit or loss are stated at fair value. Financial investments at amortised cost are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

*(ii) Financial liabilities*

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

The book value and fair value of debt securities issued is presented in Note 29. The carrying amounts of other financial liabilities approximate their fair value.

**(c) Fair value hierarchy**

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

– Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

– Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and exchange rate. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

| | 31 December 2019 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Recurring fair value measurements** | | | | |
| Assets | | | | |
| *Financial investments at fair value through profit or loss* | | | | |
| – debt securities | **–** | **1,049,720** | **149,297** | **1,199,017** |
| – interbank deposits | **–** | **–** | **–** | **–** |
| – investment funds | **–** | **26,387,551** | **–** | **26,387,551** |
| – equity investments | **–** | **–** | **59,097** | **59,097** |
| – investment management products | **–** | **54,371** | **2,276,444** | **2,330,815** |
| *Financial investments at fair value through other comprehensive income* | | | | |
| – debt securities | **–** | **6,107,094** | **–** | **6,107,094** |
| – equity investments | **–** | **–** | **151,190** | **151,190** |
| – investment management products | **–** | **772,517** | **–** | **772,517** |
| – interbank deposits | **–** | **4,678,317** | **–** | **4,678,317** |
| *Loans and advances to customers measured at fair value through other comprehensive income:* | | | | |
| – corporate loans and advances | **–** | **187,447** | **–** | **187,447** |
| – discounted bills | **–** | **24,709,293** | **–** | **24,709,293** |
| Total | **–** | **63,946,310** | **2,636,028** | **66,582,338** |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Recurring fair value measurements** | | | | |
| Assets | | | | |
| *Financial investments at fair value through profit or loss* | | | | |
| – debt securities | – | 283,963 | 134,330 | 418,293 |
| – interbank deposits | – | 29,261 | – | 29,261 |
| – investment funds | – | 16,885,451 | – | 16,885,451 |
| – equity investments | – | – | 58,285 | 58,285 |
| – investment management products | – | 3,232,890 | 3,627,708 | 6,860,598 |
| *Financial investments at fair value through other comprehensive income* | | | | |
| – debt securities | – | 2,365,658 | – | 2,365,658 |
| – equity investments | – | – | 151,190 | 151,190 |
| – investment management products | – | 952,507 | – | 952,507 |
| – interbank deposits | – | 1,573,472 | – | 1,573,472 |
| Loans and advances to customers measured at fair value through other comprehensive income: | | | | |
| – discounted bills | – | 12,671,771 | – | 12,671,771 |
| Total | – | 37,994,973 | 3,971,513 | 41,966,486 |

The movement during the year ended 31 December 2019 in the balance of Level 3 fair value measurements is as follows:

| | 1 January 2019 | Transfer into Level 3 | Transfer out of Level 3 | Total gains or losses | | Purchases, issues, sales and settlements | | | | 31 December 2019 | Unrealised gains or losses for the period included in profit or loss for assets and liabilities held at the end of the year |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Recorded in profit or loss | Recorded in other comprehensive income | Purchases | Issues | Sales | Settlements | | |
| Assets | | | | | | | | | | | |
| Financial investments at fair value through profit or loss | | | | | | | | | | | |
| – debt securities | 134,330 | – | – | 14,967 | – | – | – | – | – | 149,297 | 14,967 |
| – equity investments | 58,285 | – | – | 812 | – | – | – | – | – | 59,097 | 812 |
| – investment management products | 3,627,708 | – | – | (6,556) | – | – | – | – | (1,344,708) | 2,276,444 | (3,819) |
| Sub-total | 3,820,323 | – | – | 9,223 | – | – | – | – | (1,344,708) | 2,484,838 | 11,960 |
| Financial investments at fair value through other comprehensive income | | | | | | | | | | | |
| – equity investments | 151,190 | – | – | – | – | – | – | – | – | 151,190 | – |
| Total | 3,971,513 | – | – | 9,223 | – | – | – | – | (1,344,708) | 2,636,028 | 11,960 |

The movement during the year ended 31 December 2018 in the balance of Level 3 fair value measurements is as follows:

| | 1 January 2018 | Transfer into Level 3 | Transfer out of Level 3 | Total gains or losses | | Purchases, issues, sales and settlements | | | | 31 December 2018 | Unrealised gains or losses for the period included in profit or loss for assets and liabilities held at the end of the year |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *(Note)* | | | Recorded in profit or loss | Recorded in other comprehensive income | Purchases | Issues | Sales | Settlements | | |
| Assets | | | | | | | | | | | |
| Financial investments at fair value through profit or loss | | | | | | | | | | | |
| – debt securities | 131,897 | – | – | 2,433 | – | – | – | – | – | 134,330 | 2,433 |
| – equity investments | 898,419 | – | – | 34,235 | – | – | – | – | (874,369) | 58,285 | 98 |
| – investment management products | 5,395,468 | – | – | 6,240 | – | 1,000,000 | – | – | (2,774,000) | 3,627,708 | 8,764 |
| – investment funds | 27,173 | – | – | 981 | – | – | – | (28,154) | – | – | – |
| Sub-total | 6,452,957 | – | – | 43,889 | – | 1,000,000 | – | (28,154) | (3,648,369) | 3,820,323 | 11,295 |
| Financial investments at fair value through other comprehensive income | | | | | | | | | | | |
| – equity investments | 8,250 | – | – | – | (35,734) | 178,674 | – | – | – | 151,190 | – |
| Total | 6,461,207 | – | – | 43,889 | (35,734) | 1,178,674 | – | (28,154) | (3,648,369) | 3,971,513 | 11,295 |

*Note:*

The Group has adopted IFRS 9 since 1 January 2018. According to the classification and measurement requirements under IFRS9, the financial instruments in Level 3 fair value hierarchy have been reclassified and measured on 1 January 2018.

During each of the years ended 31 December 2019 and 2018, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorized within Level 3.

Quantitative information of Level 3 fair value measurement is as below:

| | **Fair value as at 31 December 2019** | **Valuation techniques** | **Unobservable input** |
|---|---|---|---|
| **Financial investments at fair value through profit or loss** | | | |
| – debt securities | **149,297** | Discounted cash flow | Risk-adjusted discount rate, cash flow |
| – equity investments | **59,097** | Discounted cash flow | Risk-adjusted discount rate, cash flow |
| – investment management products | **2,276,444** | Discounted cash flow | Risk-adjusted discount rate, cash flow |
| **Financial investments at fair value through other comprehensive income** | | | |
| – equity investments | **151,190** | Discounted cash flow | Risk-adjusted discount rate, cash flow |

| | Fair value as at 31 December 2018 | Valuation techniques | Unobservable input |
|---|---|---|---|
| **Financial investments at fair value through profit or loss** | | | |
| – debt securities | 134,330 | Discounted cash flow | Risk-adjusted discount rate, cash flow |
| – equity investments | 58,285 | Discounted cash flow | Risk-adjusted discount rate, cash flow |
| – investment management products | 3,627,708 | Discounted cash flow | Risk-adjusted discount rate, cash flow |
| **Financial investments at fair value through other comprehensive income** | | | |
| – equity investments | 151,190 | Discounted cash flow | Risk-adjusted discount rate, cash flow |

During the years ended 31 December 2019 and 2018, there were no significant change in the valuation techniques.

As at 31 December 2019 and 2018, unobservable inputs such as risk-adjusted discount rate and cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly equity investments and investment management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

The sensitivity of the fair value on changes in unobservable inputs for Level 3 financial instruments is measured at fair value on an ongoing basis.

The fair value of financial instruments is, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 1 percent of change in fair value to reasonably possible alternative assumptions.

| | **At 31 December 2019** | | | |
|---|---|---|---|---|
| | **Effect on net profit** | | **Effect on other comprehensive income** | |
| | **Favourable** | **(Unfavourable)** | **Favourable** | **(Unfavourable)** |
| **Financial investments at fair value through profit or loss** | | | | |
| – debt securities | **3,274** | **(3,175)** | **–** | **–** |
| – equity investments | **376** | **(368)** | **–** | **–** |
| – investment management products | **45,026** | **(42,409)** | **–** | **–** |
| **Financial investments at fair value through other comprehensive income** | | | | |
| – equity investments | **–** | **–** | **578** | **(483)** |

| | At 31 December 2018 | | | |
|---|---|---|---|---|
| | Effect on net profit | | Effect on other comprehensive income | |
| | Favourable | (Unfavourable) | Favourable | (Unfavourable) |
| **Financial investments at fair value through profit or loss** | | | | |
| – debt securities | 4,202 | (4,034) | – | – |
| – equity investments | 377 | (369) | – | – |
| – investment management products | 60,381 | (56,542) | – | – |
| **Financial investments at fair value through other comprehensive income** | | | | |
| – equity investments | – | – | 578 | (483) |

## 41 FIDUCIARY ACTIVITIES

### (a) Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statements of financial position. Surplus funding is accounted for as other liabilities.

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Entrusted loans | **11,100,352** | 9,840,516 |
| Entrusted funds | **11,105,820** | 9,846,311 |

### (b) Intermediary matchmaking service

As at 31 December 2019 and 2018, the balance of intermediary matchmaking service business is as follows:

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Intermediary matchmaking service business | **6,108,043** | 3,461,801 |

## 42 COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Loan commitments | | |
| – Original contractual maturity within one year | **733,891** | 150,742 |
| – Original contractual maturity more than one year (inclusive) | **2,947,449** | 1,501,600 |
| Credit card commitments | **6,542,674** | 2,701,251 |
| Sub-total | **10,224,014** | 4,353,593 |
| Acceptances | **27,215,046** | 22,081,256 |
| Letters of credit | **3,344,576** | 1,101,739 |
| Letters of guarantees | **479,543** | 45,519 |
| Total | **41,263,179** | 27,582,107 |

The Group may be exposed to credit risk in all the above credit businesses. Management of the Group periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

### (b) Credit risk-weighted amount for credit commitments

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Credit risk-weighted amounts | **21,095,590** | 14,603,981 |

The credit risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the former CBRC.

### (c) Capital commitments

As at the end of the reporting period, the Group's authorised capital commitments are as follows:

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Contracted but not paid for | **100,315** | 66,035 |
| Authorised but not contracted for | **–** | – |
| Total | **100,315** | 66,035 |

**(d) Outstanding litigations and disputes**

As at 31 December 2019, the Group was the defendant in certain outstanding litigations and disputes with an estimated gross amounts of RMB1,015 million (31 December 2018: RMB1,008 million). The Group has assessed the impact of the above outstanding litigation and disputes that may lead to an outflow of economic benefits. According to the opinion of the Group's lawyers and external lawyers, it is unlikely for the Group to receive unfavorable ruling in these case. Therefore, the Group don't recognised the litigation provision. Directors of the Bank are of the view that these litigations will not have any material adverse effect on the Group's business, financial condition, results of operations or prospects.

**(e) Bonds underwriting commitments and redemption obligations**

The Group have no outstanding bonds underwriting commitments at the end of the reporting period.

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back its bonds if the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders are calculated in accordance with relevant rules of the MOF and the PBoC.

The redemption price may be different from the fair value of similar instruments traded in the markets at the redemption date. The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at 31 December 2019 and 2018:

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Redemption obligations | **3,363,845** | 3,270,826 |

**(f) Pledged assets**

***(i) Assets pledged as collateral***

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| For repurchase agreements: | | |
| – Financial investments measured at amortised cost | **8,750,712** | 6,235,125 |
| – Discounted bills | **63,822** | 597,662 |
| Total | **8,814,534** | 6,832,787 |

Financial assets pledged by the Group as collateral for liabilities is mainly debt securities for repurchase agreements.

***(ii) Pledged assets received***

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. The Group's balance of the financial assets held under resale agreements refers to Note 17. The fair value of such collateral accepted by the Group was RMB16,625 million as at 31 December 2019 (31 December 2018: RMB24,173 million). These transactions were conducted under standard terms in the normal course of business.

## 43 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

*(Expressed in thousands of Renminbi, unless otherwise stated)*

| | *Note* | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash and deposits with the central bank | | **19,043,695** | 23,525,037 |
| Deposits with banks and other financial institutions | | **1,184,082** | 656,067 |
| Placements with banks and other financial institutions | | **1,300,375** | 500,106 |
| Financial assets held under resale agreements | | **16,630,018** | 24,179,979 |
| Loans and advances to customers | | **111,398,169** | 97,775,864 |
| Financial investments: | | | |
| Financial investments at fair value through profit or loss | | **29,976,480** | 24,251,888 |
| Financial investments at fair value through other comprehensive income | | **11,709,118** | 5,042,827 |
| Financial investments at amortised cost | | **51,227,041** | 47,469,934 |
| Interest in associate | | **272,576** | 251,698 |
| Investments in subsidiary | *21* | **25,500** | 25,500 |
| Property and equipment | | **1,463,392** | 744,698 |
| Deferred tax assets | | **1,427,534** | 1,257,048 |
| Other assets | | **1,417,845** | 1,032,440 |
| **Total assets** | | **247,075,825** | 226,713,086 |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Borrowing from the central bank | | **870,731** | 590,000 |
| Deposits from banks and other financial institutions | | **4,419,591** | 2,670,616 |
| Placements from banks and other financial institutions | | **1,911,455** | 100,000 |
| Financial assets sold under repurchase agreements | | **12,201,162** | 8,680,430 |
| Deposits from customers | | **154,652,911** | 144,237,525 |
| Income tax payable | | **193,808** | 103,700 |
| Debt securities issued | | **50,345,104** | 51,288,864 |
| Other liabilities | | **2,345,564** | 3,073,724 |
| **Total liabilities** | | **226,940,326** | 210,744,859 |

| | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | | **5,838,650** | 4,868,000 |
| Capital reserve | | **6,627,602** | 4,423,893 |
| Surplus reserve | | **3,467,020** | 3,186,830 |
| General reserve | | **2,781,004** | 2,781,004 |
| Fair value reserve | | **(23,204)** | (17,935) |
| Impairment reserve | | **18,320** | 17,215 |
| (Deficit)/surplus on remeasurement of net defined benefit liability | | **(1,223)** | 525 |
| Retained earnings | | **1,427,330** | 708,695 |
| **Total equity** | | **20,135,499** | 15,968,227 |
| **Total liabilities and equity** | | **247,075,825** | 226,713,086 |

## 44 SUBSEQUENT EVENTS

### (a) Description of profit distribution

The profit appropriation of the Bank was proposed in accordance with the resolution of the board of directors meeting as disclosed in Note 33(a).

### (b) The assessment of the impact of the coronavirus disease 2019

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020, the prevention and control of the COVID-19 has been going on throughout the country. The Group will earnestly implement the requirements of the Notice on Further Strengthening Financial Support for Prevention and Control of COVID-19, which was issued by the PBC, the Ministry of Finance, the CBIRC, China Securities Regulatory Commission and State Administration of Foreign Exchange, and strengthen financial support for the epidemic prevention and control.

The COVID-19 has certain impacts on the business operation and overall economy in some areas or industries, including in Hubei Province. This may affect the quality or the yields of the credit assets and investment assets of the Group in a degree, and the degree of the impact depends on the situation of the epidemic preventive measures, the duration of the epidemic and the implementation of regulatory policies.

The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

## 8. UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

*(Expressed in thousands of Renminbi, unless otherwise stated)*

The information set out below does not form part of the consolidated financial statements, and is included herein for information purpose only.

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplementary financial information as follows:

### 1 Liquidity coverage ratio, leverage ratio and net stable funding ratio

#### *(a) Liquidity coverage ratio*

| | **31 December 2019** | **Average for the year ended 31 December 2019** |
|---|---|---|
| Liquidity coverage ratio (RMB and foreign currency) | **252.85%** | **240.44%** |

| | 31 December 2018 | Average for the year ended 31 December 2018 |
|---|---|---|
| Liquidity coverage ratio (RMB and foreign currency) | 226.64% | 149.85% |

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks (Trial), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

#### *(b) Leverage Ratio*

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Leverage Ratio | **7.16%** | 6.49% |

Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks issued by the former CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

### *(c) Net Stable Funding Ratio*

| | **31 December 2019** | 30 September 2019 | 31 December 2018 |
|---|---|---|---|
| Net Stable Funding Ratio | **137.19%** | 137.15% | 130.45% |

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio 100% is required.

The above liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.

## 2 Currency concentrations

| | **31 December 2019** | | | |
|---|---|---|---|---|
| | ***US Dollars (RMB equivalent)*** | ***HK Dollars (RMB equivalent)*** | ***Others (RMB equivalent)*** | ***Total*** |
| Spot assets | **48,481** | **147,605** | **208** | **196,294** |
| Spot liabilities | **(35,892)** | **(17,822)** | **(219)** | **(53,933)** |
| Net position | **12,589** | **129,783** | **(11)** | **142,361** |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | *US Dollars (RMB equivalent)* | *HK Dollars (RMB equivalent)* | *Others (RMB equivalent)* | *Total* |
| Spot assets | 35,931 | 54 | 128 | 36,113 |
| Spot liabilities | (35,310) | (56) | (138) | (35,504) |
| Net position | 621 | (2) | (10) | 609 |

The Group has no structural position at the reporting periods.

## 3 International claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with the central bank, amounts due from banks and other financial institutions.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

| | **31 December 2019** | | |
|---|---|---|---|
| | **Banks and other financial institutions** | **Non-bank private sector** | **Total** |
| Asia Pacific | **147,524** | **–** | **147,524** |
| Europe | **148** | **–** | **148** |
| Total | **147,672** | **–** | **147,672** |

| | 31 December 2018 | | |
|---|---|---|---|
| | Banks and other financial institutions | Non-bank private sector | Total |
| Asia Pacific | 27 | – | 27 |
| Europe | 67 | – | 67 |
| Total | 94 | – | 94 |

## 4 Gross amount of overdue loans and advances

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Gross loans and advances which have been overdue with respect to either principal or interest for periods of | | |
| – between 3 and 6 months (inclusive) | **812,558** | 271,999 |
| – between 6 months and 1 year (inclusive) | **239,211** | 561,715 |
| – between 1 year and 3 years (inclusive) | **596,809** | 827,400 |
| – over 3 years | **458,785** | 150,873 |
| Total | **2,107,363** | 1,811,987 |
| As a percentage of total gross loans and advances | | |
| – between 3 and 6 months (inclusive) | **0.70%** | 0.27% |
| – between 6 months and 1 year (inclusive) | **0.21%** | 0.55% |
| – between 1 year and 3 years (inclusive) | **0.52%** | 0.81% |
| – over 3 years | **0.40%** | 0.15% |
| Total | **1.83%** | 1.78% |

## 8. PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement will be published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Bank (www.jshbank.com). The 2019 annual report prepared in accordance with IFRSs will be published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Bank (www.jshbank.com), and will be dispatched to holders of H Shares of the Bank in due course.

This annual results announcement is prepared in both English and Chinese languages. If there is any inconsistency between Chinese and English versions, the Chinese versions shall prevail.

By order of the Board
**Jinshang Bank Co., Ltd.***
*Vice Chairman*
**TANG Yiping**

Taiyuan, March 26, 2020

*As at the date of this announcement, the Board of Directors comprises Mr. WANG Junbiao, Mr. TANG Yiping, Mr. WANG Peiming and Mr. RONG Changqing as executive Directors; Mr. LI Shishan, Mr. XIANG Lijun, Mr. LIU Chenhang, Mr. LI Yang and Mr. WANG Jianjun as non-executive Directors; and Mr. JIN Haiteng, Mr. SUN Shihu, Mr. WANG Liyan, Mr. DUAN Qingshan, Mr. SAI Zhiyi and Mr. YE Xiang as independent non-executive Directors.*

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