华夏银行
HUAXIA BANK

Address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing Postal code: 100005
Tel: 010-85238570 010-85239938 Fax: 010-85239605
Website: www.hxb.com.cn

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HUA XIA BANK CO., LIMITED

2019 ANNUAL REPORT

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华夏银行
HUAXIA BANK

CONTENTS

Chairman: Li Minji

MESSAGE FROM CHAIRMAN

The year 2019 marked the 70th anniversary of the founding of the People's Republic of China, and saw the success of Hua Xia Bank's fourth Party congress and defining of the development course. Guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, we thoroughly implemented the guiding principles of the 19th National Party Congress, the second, third and fourth Plenary Sessions of the 19th CPC Central Committee, and the Central Economic Work Conference, and conscientiously carried out the decisions and plans made by the Beijing Municipal Government and CPC Beijing Municipal Committee. Meanwhile, we followed the general principle of seeking progress amid stability, adopted a new vision for development, and maintained the nature of the Bank as a national joint-stock commercial bank and a bank for Beijing. We strengthened the implementation of the development program, stepped up reform and innovation, intensified efforts to solve key problems, positively coped with the downward pressure on the economy, worked hard to improve the quality of idle assets, and achieved all operational and development goals of the year. We ranked 56th and 67th in terms of tier-1 capital and total assets, nine and three places higher than the previous year, respectively, rated by The Banker magazine of the United Kingdom, and jumped 24 spots to the 265th position on Forbes Global 2000.

In 2019, we forged ahead, achieved progress amid stability, writing a brilliant chapter in our history.

In 2019, we provided services for the real economy and took on our social responsibility. Serving the real economy is on top of the three financial priorities defined by the CPC Central Committee. It is not only a responsibility that a state-owned financial enterprise shall undertake, but also of fundamental significance for a commercial bank to remain true to its founding mission and achieve steady development. In 2019, Hua Xia Bank, centering on the goal of building a moderately prosperous society in all respects, made every effort to keep stable the employment, the financial sector, foreign trade, foreign and domestic investments, and expectations, and supported the national strategies for regional development. Our total loans increased by 16.06%, and the balance of loans in three key regions, i.e., Beijing-Tianjin-Hebei region, the Yangtze River Delta, and Guangdong-Hong Kong-Macao Greater Bay Area, was up 22.74%. Centering on the structural reform of the supply end for finance, we focused on major national projects, replacing old growth drivers with new ones, and optimizing resource allocation, and gave priority to supporting strategic emerging industries, strengthening areas of weakness for infrastructure, and improving livelihood. We provided services for private enterprises and micro and small-sized enterprises (MSEs) in an efficient manner, and strengthened allocation of internal resources and special capital support. We satisfied all the needs for loans from qualified private enterprises and MSEs. We saw an increase of 18.27% in the balance of loans for MSEs with the indicators that "the year-on-year growth rate of MSE loans with single credit of not more than RMB10 million shall not be lower than the average year-on-year growth rate of loans, and the number of loans shall not be lower than that in the same period of last year", and fulfilled the regulatory indicators for MSEs for several consecutive years. We set up a steering institution dedicated to poverty alleviation, put into practice the requirements for precision poverty alleviation work relating to finance, strengthened financial services for poverty alleviation, elderly care, community, education, medical care and other fields, and went all out to provide financial support to poverty alleviation.

In 2019, we kept strategic focus and intensified our resolve for implementation. Only by keeping our strategic focus, can we get through the cyclical challenges. The year 2019 marked a critical year for us to implement the *2017-2020 Development Program of Hua Xia Bank* (the "Development Program"). We braved waves and continued our efforts to develop into a colossal, competitive, outstanding modern financial group with stable operations. We used financial technology (FinTech) to drive our business development, made remarkable progress, and hit a record high in the number of newly built systems and that of demands put into practice. We deepened transformation for retail business, and improved the retail finance service system, of which the business percentage was gradually on the rise. We kept improving the arrangements for integrated business, enriching means of comprehensive services, and further expanded the channels and fields for cooperation with our counterparts in the sector. Hong Kong Branch obtained the license for establishment. We continued our efforts to develop into a lead bank that served the coordinated development of the Beijing-Tianjin-Hebei Region financially, and obtained approval for the establishment of Tongzhou and Xiongan Branches. Through these efforts, we have basically set up a layout for regional outlets, and improved our financial service capabilities. We strengthened our positioning as a financial service provider for small and medium-sized enterprises (SMEs), served more private enterprises and micro and small-sized enterprises while lowering the charge for them, widened the scope and raised quality of services provided in key areas and weak links. We intensified our effort to build up a Beautiful Hua Xia through Green Finance, launched the World Bank's largest energy storage project, put into practice ESG principle, and was among the first to sign *The Principles for Responsible Banking* of the UN.

In 2019, we stepped up structural adjustment and expanded development space. Only by going steadily, can we go afar. And we also aim to go safe and sound. We abided by the objective laws for commercial bank development, took strong measures for structural adjustment, and strengthened the foundation of development. In terms of the credit structure, we focused on industrial adjustment and mainstream economy, and stayed on track with the industrial development, revised our credit policies, imposed stricter corporate evaluation standards, analyzed potential risks, and helped enterprises in need. We intensified efforts to balance the high-risk non-performing loans and made the credit structure more reasonable. For the deposit structure, we kept increasing the percentage of basic deposit and low-cost deposit, took the holistic approach to elastic evaluation of basic deposit and rigid management of high-cost deposit, and saw the fastest growth in general deposit in the recent six years. In terms of client structure, we gave priority to enlarge the base of the "3-3-1-1" strategic customers and high-quality retail customers. The cooperation coverage ratio for "3-3-1-1" customers on our white list increased by 2.13 percentage points compared to the previous year, and premier wealth management, high-net-worth and private banking customers, by 26.35%, 27.68% and 19.60%, respectively.

In 2019, we removed the capital constraints and strengthened the foundation of development. To remove the capital constraints is a must for improving the capability of serving the real economy and reinforce the foundation. In 2019, we made replenishing the core tier-1 capital a key to tackle the bottlenecks in development, met challenges head on, worked with resolve and tenacity, and tried every possible means to solve related problems. With the support from Beijing Municipal Government, CPC Beijing Municipal Committee, State-owned Assets Supervision and Administration Commission of Beijing Municipal Government, regulatory authorities, our shareholders and investors, we, following our success in replenishing core tier-1 capital amounting to RMB29.2 billion through targeted additional issuance in 2018, achieved a RMB40 billion-worth replenishment of core tier-1 capital by issuing perpetual capital securities. In this way, our capital adequacy ratio reached 13.89%, hitting a record high and demonstrating the cohesiveness and industrious spirit of Hua Xia Bank.

In 2019, we solved historical problems and improved asset quality. Forestalling and defusing financial risks is at the core of the three major financial tasks, and also lays a foundation for the financial sector to take the initiative in such once-a-century changing situation. We made forestalling and defusing financial risks our top priority, controlled new loans and disposed existing loans, striking a balance between achieving development and defusing risks. Facing the severe challenges on asset quality control in recent years, particularly clearing up the existing risks, we took on our responsibilities and dedicated ourselves to improving asset quality in an all-around manner. We disposed existing NPLs and overdue loans, cleared up NPAs, and firmly safeguarded the three lines of defense in an unprecedented way. In 2019, we lowered the ratios of NPL and overdue loans, two key indicators for asset quality, and ensured good quality of new customers and business. The proportion of loans overdue for more than 90 days to NPLs and that of loans overdue for more than 60 days to NPLs were both lower than 100%, the best ever result in the past three years, marking a key success in our asset quality efforts.

Looking back, we have moved ahead amidst ups and downs. However, we became more determined. Following the Party's leadership, increasing support to the real economy, firmly holding the line of defense, and adhering to the strategic guidance, reform and innovation provided us with hard-core strength to brave the waves and forge ahead, and inexhaustible power to foster a colossal, competitive, outstanding modern financial group with stable operations. We believe, as long as we incorporate Hua Xia Bank's spirit of unity and dedication in the new era into our hard work, stay focused, unleash our vitality and bring into full play our synergy, we will definitely achieve our goals.

In 2020, we will make breakthroughs in innovation, press ahead with continuous efforts and live each day to the fullest.

Success only comes through hard work. Impacted by COVID-19, the global economy expectations hit the historical low in 2020, and external factors influencing bank development are uncertain, making it difficult to solve our own problems. However, the year 2020 also marks a brand new era, which is suitable for those with courage to fight. Under the strong leadership of the CPC Central Committee and concerted efforts of people nationwide, we can not only win the combat against the pandemic, but also fulfill our mission to meet the financial requirements of the central government and Beijing Municipal Government. We will spare no effort to ensure our success in 2020. Holding our bottom line, we will remain positive and ambitious while be well prepared for the worst scenario. There will be a pasture right behind the mountain. We firmly believe that following scientific planning, and seeking stability among changes, progress amid stability and innovation during progress, Hua Xia Bank, with the talent, scientific and technological, cultural, innovative and institutional strengths that it has accumulated in the past 27 years' stable development, will form a synergy to benefit high quality development. In this way, we will win more victories on the journey of developing into a colossal, competitive, outstanding modern financial group with stable operations.

Optimizing development pattern and gathering growth engine. In response to the measures of the CPC Central Committee and the State Council on implementing national strategies, we applied the "Three Zones, Two Lines, Multiple Outlets" policy, which also served as our regional development strategy in the new era. We strengthened innovation in the financial sector, explored new modes for differentiated development, and enabled the branches in the Three Zones to play a leading role in the development of Hua Xia Bank in the new era. We reinforced regional collaboration, and pushed ahead with stable, sustained development of the branches along the Two Lines and in Multiple Outlets, improved their quality, and promoted featured and innovative transformation, hence providing new drivers and making new breakthroughs in the development. We emphasized high quality asset allocation, and continued to improve the asset-debt structure. In addition, we brought into full play our specialty strengths, took on our social responsibilities, went all out to provide financial services to ensure development and employment, and supported the sound development of small and medium-sized enterprises.

Accelerating business structural adjustment and operational transformation. We stepped up transformation of retail financial business and building of supporting mechanisms to improve business scale and value contribution and to provide a new engine for value increase. We promoted corporate business development with "commercial bank + investment bank" features, reduced our focus on assets and capital, and shifted our orientation of services from assets to clients and from holding assets to transaction and circulation. We accelerated the transformation to capital-efficient financial business. On the precondition of reasonable risk evaluation, we increased financial market investment and our transaction and profit-making capability, and improved the business conducted on behalf of customers.

Strengthening value creation and implementing meticulous management. Centering on value creation and taking economic profit as a priority, we implemented meticulous management for comprehensive budget, revenue and expense, and input-output assessment, and covered all economic profit applying institutions. We also intensified efforts for outlet personnel management, sped up outlets' transformation to retail type, and pushed forward intelligent, automatic and asset-efficient transformation of outlets.

Reinforcing FinTech's driving power and promoting digitized transformation. Putting our clients first and being market oriented, we strengthened application of technical means and continuously improved client acquisition efficiency, risk control capability and operating efficiency. We also developed strategic plans and management mechanisms to advance digitized transformation of Hua Xia Bank from a higher perspective, built a corporate-level agile organization system, and accelerated the reshaping of digitized system, business mode and operating process in an all-around manner.

Firmly holding the bottom line for risk management, and consolidating our achievements. We took serious measures to prevent risks of new loans, intensified efforts to adjust new industrial and client structure, and strengthened risk evaluation on new business, new products and new technology application. We went all out to defuse risks of existing loans, and worked hard on reclaiming, transfer and other means so as to generate benefits from special asset operation. We deepened the risk mechanism dealing with both the symptoms and root causes, continuously pushed ahead with the reform of a comprehensive risk management mechanism, and expanded the application of new technologies and new instruments in the risk management field. Meanwhile, we were committed to operating lawfully and compliantly and forged a sound compliance culture continuously.

As an early Chinese great philosopher Mencius said, "There is an art in the contemplation of water, it is necessary to look at it as foaming in waves. The sun and moon being possessed of brilliancy, their light admitted even through an orifice illuminates." In 2020, we will implement the decisions and plans of the CPC Central Committee, and requirements of Beijing Municipal Government and the CPC Beijing Municipal Committee, continue to pursue high quality development, accelerate structural adjustment and operational transformation, conscientiously put into practice the requirements and expectations from Board of Directors and all shareholders, and fully complete the four-year development program. We will also promptly roll out the next-phase development program for Hua Xia Bank, and we hope friends from different sectors could support as usual. We wish to get together with you and enjoy the blooming flowers after we get through the pandemic.

Chairman: Li Minji

15 April 2020

President: Zhang Jianhua

MESSAGE FROM PRESIDENT

In 2019, in face of the complex and volatile situations both at home and abroad, and under the leadership of the bank's Party Committee and Board of Directors, Hua Xia Bank adhered to the general principle of seeking progress amid stability, adopted a new vision for development. Focusing on high quality development, and centering on the three major tasks for finance, we accelerated the pace of reform and innovation, intensified efforts to solve difficulties, and achieved all our operating goals of the year, the best present for the 70th birthday of the PRC.

Our business quality and efficiency registered steady growth. At the end of 2019, the total assets of the group reached RMB3.020789 trillion, up 12.69% year on year and the fastest growth rate in the past three years. Net profit attributable to shareholders of the listed company stood at RMB21.905, with a year-on-year increase of 5.04%.

Our capital strength was continuously strengthened. Following our success in targeted additional issuance in 2018, we issued perpetual capital securities worthy RMB40 billion to replenish other core tier-1 capital. In this way, our capital adequacy ratio reached 13.89%, and our capital strength and capabilities for risk prevention and real economy services were further improved.

Our asset quality showed a good momentum for improvement. Through cash settlement and collection, credit restructuring, transfer of creditor right, repaying debts with non-cash assets, debt-to-equity swaps, loan cancellation after verification, and other means, we launched unprecedented efforts to clear and dispose NPLs and overdue loans. We rigorously oversaw the credit granting, strengthened risk management in key links, optimized post-loan management and pre-warning mechanism, and reinforced credit structure adjustment. Meanwhile, we disposed existing loans while controlling the new ones. At the end of 2019, our NPL ratio stood at 1.83%, down 0.02 percentage point year on year.

We made remarkable progress in key business. Following the national strategies, we expanded credit support in such key areas as Beijing-Tianjin-Hebei region, the Yangtze River Delta, and Guangdong-Hong Kong-Macao Greater Bay Area, with the total loans up 16.06% year on year. The Company continuously expanded the financial service system featuring "commercial bank + investment bank" mode, and improved its comprehensive financial service capabilities. The international settlement business volume and domestic letters of credit business volume both hit a record high. The asset size of Huaxia Financial Leasing Co., Ltd. exceeded RMB100 billion. We continued the strategic transformation of retail finance, set up a mega retail joint mechanism, and built a sharing platform for client data to increase the internal and external development synergy. Besides, we achieved rapid development in green finance business, promoted and implemented several green finance projects of the World Bank, such as the Renewable Energy and Battery Storage Promotion Project and the Innovative Financing for Air Pollution Control in Jing-Jin-Ji Program. All these efforts further improved our brand image of Building a Beautiful Hua Xia through Green Finance. We worked actively to explore a specialty service model for cultural and creative business, launched the Time-honored Brand Action Plan in Beijing, built a platform for cultural finance business, and developed "Longying • IP" and other cultural financial products. We put into practice ESG principle, and was among the first to sign *The Principles for Responsible Banking* of the UN.

We accelerated the application of FinTech. Seizing the great opportunity of leveraging FinTech to promote transformation and development of the banking sector, and sticking to the essence of finance while bringing into play the role of technology, we made an overall plan for and put into practice such technologies as cloud computing, big data, blockchain, mobile Internet and artificial intelligence from the perspectives of strategy, mechanism, technical application, innovation, and R & D, with the aim of creating the core value of Hua Xia Bank in the FinTech era and providing better financial services for our clients.

We stayed true to our founding mission, seized the day and lived it to the full. In 2019, facing a market environment with growing risks and challenges at home and abroad, all employees of Hua Xia Bank made progress amid stability with confidence, completed our business goals, overcame different difficulties and risks, and ensured the high quality, efficient and sustainable development of Hua Xia Bank. In the year, we further cemented our foundation for the long-term development, introduced reforms to solve difficulties in development, and upheld the principle of pursuing high quality development in the whole process. With a sense of urgency and sense of mission, we stayed true to our original inspiration and seized the day to advance with solid and steady steps.

We will continue to forge ahead and add a glorious chapter to the development epic of Hua Xia Bank. In 2020, impacted by the pandemic, the external operating environment is becoming more complex, downward pressure on the economy is increasing, and the banking sector is facing multiple challenges. Standing at a new starting point, Hua Xia Bank will stick to the leading role of innovation, and continuously deepen the structural reform of the supply end for finance. Meanwhile, we will strengthen our awareness of latent problems while holding our bottom-line thinking and building a line of defense. We will turn risks into opportunities, bear the weight of responsibility, and do our all to bring the four-year development program to a successful conclusion, and make our due contribution to achieving the great goal of moderate prosperity in all respects, the completion of the 13th Five-year Plan, and the full success of the three critical battles.

President: Zhang Jianhua

15 April 2020

IMPORTANT NOTICE

i. The Board of Directors, the Board of Supervisors, directors, supervisors and senior management members of Hua Xia Bank Co., Limited (the "Company") undertake that the information in this report is authentic, accurate and complete and contains no false record, misleading statement or material omission, and assume joint and several liability thereto.

ii. The *Annual Report 2019 of Hua Xia Bank Co., Limited* and its Summary were reviewed and approved at the 53rd Meeting of the Seventh Board of Directors of the Company on 15 April 2020. 13 of the 15 directors that should attend the meeting were present actually. Directors Zou Libin and Ren Yongguang were absent due to official affairs, and they entrusted Vice Chairman Wang Hongjun and Director Liu Chunhua to exercise the right to vote respectively. Therefore, there were 15 valid votes. Five Supervisors attended the meeting as non-voting delegates.

iii. Profit distribution plan for the reporting period that was reviewed by the Board of Directors:

With 15,387,223,983 ordinary shares outstanding of the Company at the end of 2019 as the base number, cash dividends will be distributed to all of the shareholders at RMB2.49 (before tax) per 10 shares.

For details, please refer to "Section V Significant Events".

iv. The 2019 Financial Statements of the Company have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with Chinese auditing standards, with standard unqualified auditor's report being issued.

v. Li Minji, Chairman of the Board of Directors of the Company, Zhang Jianhua, President of the Company, and Guan Wenjie, Person-in-charge of the Financial Affairs of the Company, hereby warrant that the Financial Statements contained in the Annual Report are authentic, accurate and complete.

vi. Expressions related to the future business plan herein may constitute forward-looking statements, but they are not the Company's actual commitment to investors. Readers are cautioned not to place undue reliance on these forward-looking statements in making any investment decision, but should be fully aware of the risks and properly understand the differences between plan, forecast and commitment.

vii. Important risk notice: The Company has described the risks that may adversely affect the fulfillment of the Company's future development strategies and business objectives. Please refer to risk-related part in "Section IV Discussion and Analysis of Operations".

Should there be any discrepancy between the English version and the Chinese Version, the latter shall prevail.

SECTION I DEFINITIONS

In this Annual Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

The Group	Hua Xia Bank Co., Limited and its subsidiaries
The Company, the Bank, Hua Xia Bank	Hua Xia Bank Co., Limited
CBRC, CBIRC	China Banking Regulatory Commission, China Banking and Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission
MOF	Ministry of Finance of the People's Republic of China
Yuan	Renminbi, the lawful currency of PRC
Beijing-Tianjin-Hebei Region	Region where the Head Office of the Group and the following tier-one branches of the Group are located: Beijing, Tianjin, Shijiazhuang and Tianjin FTZ
Yangtze River Delta	Region where the following tier-one branches of the Group are located: Nanjing, Hangzhou, Shanghai, Wenzhou, Ningbo, Shaoxing, Changzhou, Suzhou, Wuxi, Hefei and Shanghai FTZ
Guangdong-Hong Kong-Macao Greater Bay Area	Region where the following tier-one branches of the Group are located: Shenzhen, Guangzhou and Hong Kong
Central and Eastern China	Region where the following tier-one branches of the Group are located: Jinan, Wuhan, Qingdao, Taiyuan, Fuzhou, Changsha, Xiamen, Zhengzhou, Nanchang and Haikou
Western China	Region where the following tier-one branches of the Group are located: Kunming, Chongqing, Chengdu, Xi'an, Urumqi, Hohhot, Nanning, Yinchuan, Guiyang, Xining and Lanzhou
Northeastern China	Region where the following tier-one branches of the Group are located: Shenyang, Dalian, Changchun and Harbin
Subsidiaries	Beijing Daxing Hua Xia Rural Bank Co., Ltd., Kunming Chenggong Hua Xia Rural Bank Co., Ltd., Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd. and Huaxia Financial Leasing Co., Ltd.

SECTION II COMPANY PROFILE

Legal name in Chinese: 华夏银行股份有限公司
Chinese abbreviation: 华夏银行
Legal name in English: HUA XIA BANK CO., Limited

Legal Representative: Li Minji

Secretary to the Board of Directors: Song Jiqing
Securities affairs representative: Wang Dawei
Address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing
Postal code: 100005
Tel: 010-85238570, 85239938
Fax: 010-85239605
Email: zhdb@hxb.com.cn

Registered address: 22 Jianguomennei Street, Dongcheng District, Beijing
Business address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing
Postal code: 100005
Website: http://www.hxb.com.cn; http://www.95577.com.cn
Email: zhdb@hxb.com.cn

Newspaper designated for disclosure of information: *China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily* (as from 1 January 2020)
Website designated by CSRC for publication of the annual report: http://www.sse.com.cn
Locations where copies of the annual report are kept: Office of the Board of Directors of the Company

Place where share is listed: Shanghai Stock Exchange
Stock name of ordinary A-share: 华夏银行
Stock code of ordinary A-share: 600015
Stock name of preference share: 华夏优1
Stock code of preference share: 360020

Other relevant information:
Name of depositary of shares of the Company: Shanghai Branch of China Securities Depositary and Clearing Corporation Limited.
Name of accounting firm the Company engaged: Deloitte Touche Tohmatsu Certified Public Accountants LLP
Business address: 30/F Bund Center, 222 Yan An Road East, Shanghai, China
Signed CPAs: Wen Qisi & Ma Xiaobo
Sponsor institution for continuous supervision: CSC Financial Co. Ltd.
Business address: 9/F, Tower B, Metro World Center, No. 2 Chaonei Avenue, Dongcheng District, Beijing
Signed sponsor representatives: Lv Xiaofeng & Sui Yuyao
Period of continuous supervision: 8 January 2019 to 31 December 2020


华夏银行
HUAXIA BANK
华夏银行
HUAXIA BANK

BUSINESS OVERVIEW OF THE COMPANY

MAIN BUSINESS OF THE COMPANY

The Company was founded in October 1992 in Beijing and reorganized into a joint-stock company in March 1995. The Company launched its IPO and went public in September 2003 as China's fifth listed company. As at the end of the reporting period, the Company had set up 42 tier-1 branches, 73 tier-2 branches and 1,025 outlets with 38,700 employees in 116 Chinese cities at prefecture level and above, forming a nationwide service network based on presence in economically developed cities. Acting on its five-pronged development philosophy, namely "Innovative, Coordinated, Green, Open and Shared", the Company has defined its ultimate goal as serving the real economy and creating value for customers and shareholders and followed the fundamental strategy of "putting deposits at the heart of the bank, making it stronger with technology, competent employees, and protecting it with risk control". It stays on the track towards "featured, digital, asset-efficient, professional, comprehensive and international development" and endeavors to build a modern "big and strong" financial service group that demonstrates "stability and excellence". The Company provides corporate and institutional customers with professional, distinctive and comprehensive financial services, including deposits, loans, investment banking, trade finance, green finance and cash management. Offering a range of retail banking products and services to individuals, the Company has innovated retail banking products and services vigorously leveraging on technology and customer experience enhancement, so as to meet the needs of financial consumers. Aiming at operational compliance and innovative development, the Company has continuously pursued development of interbank business, interest rate and exchange rate trading, asset management and asset custody, and improved the ability to serve the real economy and customers.

Please refer to "Discussion and Analysis of Operations – Business Review" of the report for details.

CORE COMPETITIVENESS ANALYSIS

Staying on the track towards "featured, digital, asset-efficient, professional, comprehensive and international development", the Company upholds the fundamental strategy of "putting deposits at the heart of the bank, making it stronger with technology, competent employees and protecting it with risk control", committed to building a modern "big and strong" financial service group that demonstrates "stability and excellence".

FinTech became a stronger driver of growth. Online channels were further improved. The Company rolled out its Mobile Banking 5.0, a leading APP in the industry, and the Corporate Mobile Banking, its first APP for corporate mobile financial services. The number of mobile banking customers rose by 22.61%, and the number of Internet finance transactions resulting in account balance changes increased by 27.36% year-on-year. With a leading edge over peers in IT systems, the Company was among the first joint-stock commercial banks to launch face scan payment, and the first joint-stock commercial bank to roll out the online booking service for commemorative banknotes and coins issued by PBOC, marking notable progress in digital transformation.

Retail finance transformation was intensified. The Company always regards serving the public and benefiting the masses as the original mission of retail business. We have firmly grasped individual customers' demand for consumption, financing and wealth management during consumption structure upgrading. It has strengthened the development of products, channels and service systems leveraging on FinTech. Retail finance has gained pace and taken up a gradually rising share. The proportion of personal deposits and personal loans rose to 18.90% and 28.34% respectively.

The distinctive service model combining "commercial banking and investment banking" was developed. The Company upholds the philosophy of "creating value for customers and competing for market share with products and services". It gives full play to corporate finance as groundwork and place a focus on core customers, strategic customers and basic customers, with improvements made in the multi-tier and classified marketing system and service mechanisms. Investment banking has grown faster. Backed by market-based system and mechanism and supportive resources, the scale of investment banking has increasingly expanded, up by 76.76% in the reporting period, thanks to active involvement in enterprise mergers, acquisitions, asset-backed securitization, syndicated loans and matchmaking services. Corporate finance, investment banking, interbank business and investment banking resources were integrated to create a closed loop of bond underwriting, bond investment and lending, providing customers with one-stop comprehensive financial services through collaboration between the Head Office and branches and the coordination among "lending, underwriting, investing and consulting".

The regional development strategy of "Three Regions, Two Lines and Multiple Points"[1] was advanced vigorously. The Company actively implemented the decisions and plans of the CPC Central Committee, deepened financial services in line with the national strategies, got deeply integrated into China's strategic initiatives for coordinated development of the Beijing-Tianjin-Hebei Region, integrated regional development of the Yangtze River Delta and development of the Guangdong-Hong Kong-Macao Greater Bay Area, and further tilted resource allocations to these regions. During the reporting period, the balance of loans to the Beijing-Tianjin-Hebei Region, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area accounted for 64.50% of total. Branches were supported in harnessing the policy dividends afforded by the Belt and Road Initiative to embrace opportunities in development of the "two lines". According to strategic plans of other regions, the Company kept integrating itself into local mainstream economy to accelerate regional development in "multiple points" and expand its local market shares.

The distinctive service brand of "SME financial service provider" was developed. Under the new circumstance of the state's requirements, regulators' arrangements and market demands, the Company is committed to developing its financials services for private enterprises and micro and small enterprises into a distinctive brand. To enhance the business influence, technology was employed to build a service brand featuring efficient extension of small credit to the broadest group of customers based on distinctive operating mechanism, product innovation, tech-driven finance, risk control and management and team culture. The Company has grown into a leading provider of financial services for high-value, high-growth private enterprises and MSEs.

Distinctive green finance was actively developed. The Company is active in practicing the green finance philosophy and grabbing financial service opportunities in China's ecological conservation drive. It stepped up cooperation with international organizations, tapped deep into the vast market of green finance, allocated more credit, investment, financial leasing and other resources to green finance and substantially increased the proportion of green credit and the total amount of green finance. During the reporting period, the balance of green credit reached RMB79.844 billion, up 40.82%, faster than growth of total loans. The Company maintained strict control over credit granting to high-polluting, high-energy consuming industries and to those with over-capacity, providing stronger support for energy conservation and environment protection industries. We continue to build the green finance brand of Building a Beautiful Hua Xia through Green Finance by developing green finance channels and promoting energy-efficient financial services.

[1] "Three Regions" refers to the Beijing-Tianjin-Hebei Region, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area, "Two Lines" refers to areas along the Beijing-Guangzhou rail line and Beijing-Shanghai rail line, "Multiple Points" refers to other key areas.

IMPLEMENTATION OF THE COMPANY'S DEVELOPMENT STRATEGIES

In the face of internal and external complexities in 2019, the Company maintained strategic resolve and accomplished the tasks as scheduled in the *2017-2020 Development Program of Hua Xia Bank* and further implemented the five-pronged development philosophy, namely "Innovative, Coordinated, Green, Open and Shared". Breakthroughs were made in six strategic priorities, namely promoting FinTech innovation, strengthening retail business development, improving the arrangements for integrated business, developing into the lead bank that served the coordinated development of the Beijing-Tianjin-Hebei Region financially, consolidating its positioning as the financial service providers for small and medium-sized enterprises, and advancing the green finance-featured business line. The Company endeavored to become a modern "big and strong" financial service group that demonstrates "stability and excellence".

The FinTech strategy was implemented to remarkable depth and breadth. Organizational and institutional supports were strengthened by setting up a FinTech innovation fund, creating an innovation fault-tolerant mechanism and accelerating incubation of innovation projects. The agile research and development mechanism was promoted to increase the efficiency of project development. The time length of the total process was reduced by 30%. Both the number of new systems and the number of requirements go-lives hit an all-time high. The Company carried out 15 key items of FinTech work, achieved innovative results in key projects, including cash management platform, digital credit, big data and artificial intelligence. Mobile Banking 5.0 was launched with a leading edge in the industry. Open banking development was advanced in a well-organized manner, the industrial Internet cooperation platform was developed actively and innovative forward-looking research was conducted. Core system planning, optimization and restructuring were carried out, with system processing capacity increasing in folds and business support capacity expanding continuously.

Strategic transformation of retail finance was pursued persistently. The Company improved the wealth management and private banking system and quickly push forward the system development and department setup. An embedded development mechanism for the integration of retail finance and information technology was established. Retail lending was accelerated, with the balance of personal loans up 16.50% over the end of the previous year. The taking of personal deposits was strengthened, with the balance of personal deposits increasing by 14.09% over the end of the previous year. Thanks to the special marketing campaign for ETC services, 2.2707 million customers signed ETC contracts, up 33.30% from the end of the previous year. The sales of wealth management products were strengthened, with the balance of non-principal-guaranteed wealth management products expanding rapidly. With data resources integrated and cross-selling strengthened, the credit card business generated business income of RMB15.947 billion, up 14.89% year-on-year.

The diversification landscape was strengthened. The Company gave full play to the groundwork role of corporate finance, strengthened the coordination between business lines and collaboration between the Head Office and branches, deepened the cooperation with Huaxia Financial Leasing Co., Ltd. and its peers and improved the hierarchical marketing system. Integrated financial services were provided effectively to strategic customers including China Tobacco and China General Technology. The Company adhered to collaborative marketing of the financial markets segment, created an interbank cooperation platform and strengthened marketing synergies with financial institution customers. A mega

retail collaboration mechanism was created and a customer data sharing platform were established to promote customer information sharing and cross-selling within the segment. The assets of Huaxia Financial Leasing Co., Ltd. totaled RMB100.21 billion, ranked ninth among 70 financial leasing companies. Hong Kong Branch's license was granted.

The Company devoted itself to becoming "a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region financially". Positioned as a "Beijing-based bank", the Company has made great strides in serving the economic and social development of the capital, the coordinated development of the Beijing-Tianjin-Hebei Region and the building of Xiongan New Area. A joint meeting system was established and working mechanisms were refined. With a focus on the Beijing 2022 Games, Beijing Daxing International Airport and Jing-Xiong expressway, outstanding loans to the Beijing-Tianjin-Hebei Region stood at RMB523.662 billion, up 27.96% year-on-year. Tongzhou Branch and Xiongan Branch were approved successively. Presence has basically taken shape in key parts of the Beijing-Tianjin-Hebei Region.

The Company pushed harder as an SME financial service provider. It made solid progress in inclusive finance and stepped up support for private enterprises and MSEs. Focusing inclusive finance on serving MSEs, the Company continued to increase the coverage and satisfaction of MSE financial services by formulating special plans, allocating more resources, improving the incentive mechanism and advancing product innovation and procedural improvement in this field. The balance of loans covered by the "two increases" policy grew rapidly, with loan interest rates controlled at a reasonable level. The Company has maintained good performance in meeting MSE regulatory targets for many years in a row.

The green finance brand was developed. The Company deepened the management of international cooperation projects in green finance. The China Renewable Energy and Battery Energy Storage Promotion Project was successfully implemented in cooperation with the World Bank. The "Beijing-Tianjin-Hebei Air Pollution Prevention Financing Innovation Project" was highly praised by the World Bank in mid-term review. It was awarded the "Most Effective Green Finance Award" from the China Banking Association and the "Best Bank for Green Energy Development" by US *Global Finance*. As a forerunner in making "responsible investment", the Company has actively practiced the ESG philosophy. The Company was the first in China to join the UN Principles for Responsible Investment (PRI) and issued a number of ESG wealth management products, attracting broad-based attention from the market and investors.

Risk management and compliance management went increasingly deeper. The tough battle for asset quality has begun to reap a harvest. Thanks to stronger effort to recover and dispose of NPLs and overdue loans, the proportion of loans and NPLs overdue for over either 90 or 60 days fell below 100%. The non-performing loans to new customers were strictly controlled through stringent customer acceptance and refining criteria. New loans had good quality. The Company continued to deepen the comprehensive risk management, adjusted the risk management organizational structure and duties, strengthened credit concentration control and made solid progress in implementing the New Basel Capital Accord. The internal control and compliance management system was further improved. The "Year of Compliance Enhancement" campaign was thoroughly carried out to ensure fulfillment of responsibility for fraud prevention and strictly prevent money laundering risk.

The foundation of development has been further fortified. RMB40 billion of perpetual bonds were successfully issued to ease the "tight capital constraints" and substantially expand the room for future development. With a focus on reform of systems and mechanisms, coordinated efforts were made on main work of the Company. The marketing, resource allocation, operational support and incentives and constraints mechanisms and systems were reformed in a well-organized manner.

HONORS AND AWARDS

In January 2019,
the Company was honored as an outstanding green bank as a whole in the green bank evaluation conducted by the China Banking Association under the guidance of CBIRC.

In May 2019,
the case themed with "Shoulder the Mission and Responsibility for Poverty Alleviation through Financial Services" of the Company was included in the *Cases of Precision Poverty Alleviation by Chinese Enterprises by Sector (2018)* compiled by the Department of International Cooperation and Social Poverty Alleviation of the State Council Leading Group Office of Poverty Alleviation and Development and the Research Center for Corporate Social Responsibility China Academy of Social Sciences.

In January 2019,
the Credit Card Center of the Company was awarded the "Award for Excellent Partners", the "Award for Outstanding Contribution by Sports-themed Products", and the "Award for Outstanding Contribution by Authorization Success Rate Optimization" from VISA International.

In February 2019,
the Company was awarded five of the 2018 interbank RMB market awards published by the National Interbank Funding Center, namely, "Core Institutional Investor", "Excellent Money Market Institutional Investor", "Excellent Issuer of Interbank Certificates of Deposit", "Trading Mechanism Innovation Award – X-Repo" and "Trading Mechanism Innovation Award – iDeal".

In June 2019,
the Company was awarded the "Trusted Asset Management Bank" in the selection of trusted financial institutions in 2018-2019 hosted by the *Economic Observer*.

In June 2019,
the Company was named the "Star of Green Finance Banks" by the *Economic Observer* at the Green Economy Forum of the China International Fair for Trade in Services (CIFTIS) held in Beijing.

In August 2019,
the Company was granted the "Tianji Award for the 2019 Asset Custody Banks" when the newspaper *Securities Times* convened the selection of Tianji Award winners in Chinese banking industry.

In July 2019,
the Company was awarded the "Best Contributor to Precision Poverty Alleviation" and the "Most Effective Green Finance Award" at the *Corporate Social Responsibility Report 2018 of Chinese Banking Industry* publication and the top 100 CSR awards conference held by the China Banking Association.

In July 2019,
the Company was named "2019 the Most Socially Responsible Bank" when the newspaper *21st Century Business Herald* hosted the selection of 2019 Golden-Shell Award winners.

HONORS AND AWARDS

In October 2019,
the Credit Card Center of the Company was given the "Best Cross-over Product" and "Product with Best Banking Qualities" by MasterCard International.

In November 2019,
the Company was awarded the "Award for Exemplary Innovative Wealth Management Products of the Year" when the newspaper *Shanghai Securities News* hosted the selection of winners for "2019 Golden Wealth Management Awards".

In November 2019,
the Company was named the "Best Bank in Responsible Investment" and "Best Asset Management Organization in Responsible Investment" at the China ESG Golden Awards hosted by finance.sina.com.cn.

In November 2019,
the Company was named the "Best Bank for Green Energy Development in the Global Finance Stars of China Awards, 2019" by the US magazine *Global Finance*.

In December 2019,
the Company was named the "Most Socially Responsible Listed Company" at the Ninth China Securities Golden Bauhinia Awards Ceremony held in Hong Kong.

In November 2019,
the Company was named the "Industry Model in ESG Sustainable Investment" at the Annual Outstanding Financial Enterprises Awards hosted by the *Economic Observer*.

In December 2019,
the Company was awarded the "2019 China Golden Orange Award – Best Inclusive Finance Services" granted by the *Time Weekly*.

In December 2019,
the Company was named the "Bank of the Year in Green Financial Services" in the competition for the "2019 Gold-Medal List of Chinese Financial Institutions – Golden Dragon Awards" sponsored by the *Financial News*.

HONORS AND AWARDS

In December 2019,
the Company was awarded the "Award for the 2019 Best Banks in Featured Trade Finance" when *Trade Finance*, the magazine in the charge of the Ministry of Commerce of China, held the ninth annual selection of the Most Trusted Financial Service Providers for Chinese Economic and Trade Enterprises (Golden Trade Award).

In December 2019,
the "Collaborative Innovation-based FinTech Product Supermarket Project" of the Company was granted with the "2019 Outstanding Contribution Award in FinTech Product Innovation" when *Financial Computerizing*, the magazine of PBOC, held the 2019 Annual Meeting of Chinese FinTech and 10th FinTech and Service Excellence Awards Ceremony.

In December 2019,
the Company was awarded the "Listed Company • 2019 Golden Sail Award for Outstanding Corporate Governance", and Chairman Li Minji was awarded the "2019 Golden Sail Award for Outstanding Leader of Listed Companies" at the 21st Century International Finance and Economics Golden Sail Award Ceremony.

In December 2019,
the Company was awarded the "2019 People's Craftsmanship Brand" at the 2019 Quality Development Forum and the 2019 People's Enterprises Social Responsibility Forum sponsored by People.cn. The Company's "Sanitary Workers' Children Growth Initiative" in its seventh consecutive year of implementation was awarded the "Case of the Year Award" in the 14th People's Enterprises Social Responsibility Awards.

In January 2020,
the Company was awarded the "Top 100 Settlement Companies – Excellent Dealers" in the 2019 overall rating of ChinaBond members sponsored by China Central Depository & Clearing Co., Ltd..

In January 2020,
the Company was honored the "Core Dealer in the Interbank RMB Market" by China Foreign Exchange Trading System & National Interbank Funding Center.

In January 2020,
the Company was awarded the "Best Case of Investor Relations Award" at the "Third China Excellent IR Awards" sponsored by the Listed Companies' Cross-border Roadshow Platform.

In January 2020,
the Company was awarded the 2019 Strong Progress Award for Debt Financing Plan from the Beijing Financial Assets Exchange.

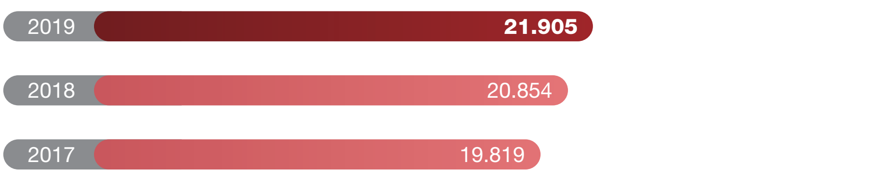
In January 2020,
the Company was named the "Joint-Stock Commercial Bank of the Year in Asset Management" at the 10th "Golden Pixiu" Awards sponsored by Yiqucaijing and *Financial Money*.

SECTION III FINANCIAL HIGHLIGHTS

Operating income RMB1 million

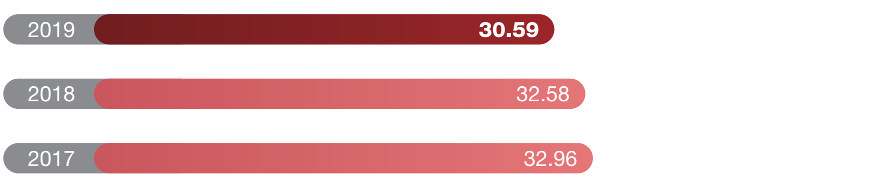
Total profit RMB1 million

Net profit attributable to shareholders of the listed company RMB1 million



Net interest margin %

Cost-to-income ratio %

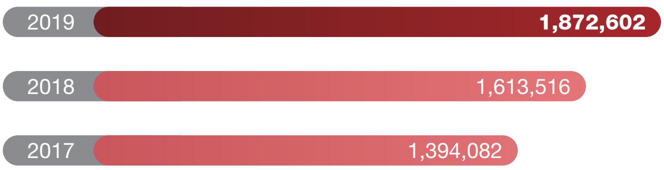


Total assets

RMB1 million

Total loans

RMB1 million

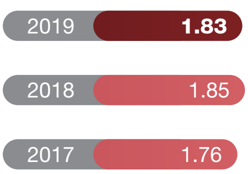


Total deposits

RMB1 million

NPL ratio

%



Capital adequacy ratio

%

MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

(Unit: RMB1 million)

Item	2019	2018	Increase/decrease compared with previous year (%)	2017
Main accounting data				
Operating income	84,734	72,227	17.32	66,384
Operating profit	27,497	26,688	3.03	26,117
Total profit	27,563	26,783	2.91	26,253
Net profit attributable to shareholders of the listed company	21,905	20,854	5.04	19,819
Net profit attributable to shareholders of the listed company after deduction of extraordinary profit and loss	21,856	20,807	5.04	19,737
Net cash flows from operating activities	79,082	-100,935	N/A	-87,828
Major financial indicator				
Basic earnings per share (in RMB)	1.37	1.56	-12.18	1.48
Diluted earnings per share (in RMB)	1.37	1.56	-12.18	1.48
Basic earnings per share after deduction of extraordinary profit and loss (in RMB)	1.37	1.56	-12.18	1.47
Net cash flow per share from operating activities (in RMB)	5.14	-6.56	N/A	-6.85
Profitability (%)				
Weighted average return on equity	10.61	12.67	Down 2.06 percentage points	13.54
Weighted average return on net assets after deduction of extraordinary profit and loss	10.59	12.64	Down 2.05 percentage points	13.48
Return on assets	0.78	0.81	Down 0.03 percentage point	0.82
Return on capital	9.21	10.81	Down 1.60 percentage points	12.36
Net interest spread	2.10	1.80	Up 0.30 percentage point	1.88
Net interest margin	2.24	1.95	Up 0.29 percentage point	2.01
Cost-to-income ratio	30.59	32.58	Down 1.99 percentage points	32.96

Item	End of 2019	End of 2018	Increase/decrease compared with the end of previous year (%)	End of 2017
Scale indicators				
Total assets	3,020,789	2,680,580	12.69	2,508,927
Of which: Total loans	1,872,602	1,613,516	16.06	1,394,082
Total liabilities	2,751,452	2,461,865	11.76	2,339,429
Of which: Total deposits	1,656,489	1,492,492	10.99	1,433,907
Net assets attributable to shareholders of the listed company	267,588	217,141	23.23	168,055
Net assets attributable to ordinary shareholders of the listed company	207,617	197,163	5.30	148,077
Net assets per share attributable to ordinary shareholders of the listed company (in RMB)	13.49	12.81	5.31	11.55
Asset quality indicator (%)				
NPL ratio	1.83	1.85	Down 0.02 percentage point	1.76
Allowance to NPLs	141.92	158.59	Down 16.67 percentage points	156.51
Allowance to total loans ratio	2.59	2.93	Down 0.34 percentage point	2.76

Notes:

1. According to the revised *Accounting Standard for Business Enterprises No.22 – Recognition and Measurement of Financial Instruments, Accounting Standard for Business Enterprises No.23 – Transfer of Financial Assets, Accounting Standard for Business Enterprises No.24 – Hedging,* and *Accounting Standard for Business Enterprises No.37 – Presentation of Financial Instruments* issued by MOF in 2017 (the "New Financial Instrument Standards"), the Group started to account for financial instruments in accordance with the New Financial Instrument Standards as from 2019 without restating comparable data for previous years. Thus the relevant financial indicators might have a different scope from comparable data for previous years, but this report sill presents the increase or decrease in relevant data.

2. Relevant indicators are calculated according to the *Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public – Extraordinary Profit and Loss (2008)* and the *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings Per Share (2010 Revision)*. The Company distributed a cash dividend totaling RMB840 million to preference shareholders in March 2019. While calculating the basic earnings per share and the weighted average return on equity (ROE), the Company takes into account the distribution of dividend to preference shareholders.

3. Return on assets is calculated as net profit divided by the average of total assets at the beginning and end of the period.

4. Return on capital is calculated as net profit divided by the average of the total equity at the beginning and end of the period.

5. Net interest spread is the spread between yield on average balance of interest-generating assets and cost on average balance of interest-bearing liabilities.

6. Net interest margin is calculated by dividing net interest income by the average balance of interest-generating assets.

7. According to the *Notice on Amending and Issuing the Formats of Financial Statements for Financial Enterprises* (C.K. [2018] No.36) (the "New Formats of Financial Statements for Financial Enterprises") issued by MOF, the interest accrued on financial instruments using the effective interest rate method shall be included in the book balance of relevant financial instruments and presented in relevant statement items. Interest due and receivable or payable but not received or unpaid are stated under "other assets" or "other liabilities". The Group has adjusted the financial report pursuant to the above requirements. There is no need to adjust comparable data for previous years. For comparability purposes, total loans and total deposits in the table above exclude interest accrued using the effective interest rate method.

8. According to the former CBRC's *Notice on Adjusting the Regulatory Requirements on Allowances for Loan Impairment Losses of Commercial Banks* (Y.J.F. [2018] No.7), the regulatory policy of differentiated dynamic adjustment of allowances was practiced for joint-stock banks. The Group's allowance to NPLs and allowance to total loans ratio in 2019 meet regulatory requirements.

MAJOR FINANCIAL DATA IN 2019 BY QUARTER

(Unit: RMB1 million)

Item	Q1	Q2	Q3	Q4
Operating income	19,509	20,288	22,082	22,855
Net profit attributable to shareholders of the listed company	4,604	5,939	4,701	6,661
Net profit attributable to shareholders of the listed company after deduction of extraordinary profit and loss	4,577	5,928	4,727	6,624
Net cash flows from operating activities	48,002	113,705	-39,972	-42,653

OTHER MAIN REGULATORY INDICATORS

Item (%)		Regulatory value	2019	2018	2017
Core tier-1 capital adequacy ratio		≥7.5%	9.25	9.47	8.26
Tier-1 capital adequacy ratio		≥8.5%	11.91	10.43	9.37
Capital adequacy ratio		≥10.5%	13.89	13.19	12.37
Leverage ratio		≥4%	7.68	7.06	5.85
Liquidity coverage ratio		≥100%	113.95	107.14	93.43
Net stable funding ratio		≥100%	103.16	103.42	100.28
Loan-to-deposit ratio	RMB		99.90	96.21	86.30
	RMB equivalent		57.28	54.75	74.89
	RMB and foreign currency		98.86	95.05	86.04
Liquidity ratio	RMB	≥25%	53.69	51.23	45.08
	RMB equivalent	≥25%	162.32	98.72	60.66
	RMB and foreign currency	≥25%	55.84	52.32	45.12
Loan concentration ratio of the largest single borrower		≤10%	3.20	2.35	2.92
Loan concentration ratio of top 10 borrowers		≤50%	15.77	16.00	16.96

Notes:

1. Percentage of loans to single largest borrower = Total loans to the largest borrower/total capital, net × 100%

   Percentage of loans to top 10 borrowers = Total loans to top 10 borrowers/total capital, net × 100%

2. Loan-to-deposit ratio, liquidity ratio, leverage ratio, percentage of loans to single largest borrower and percentage of loans to top 10 borrowers were calculated on an unconsolidated basis under the regulatory standards.

3. Core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio, capital adequacy ratio, liquidity coverage ratio and net stable funding ratio were calculated on a consolidated basis under regulatory criteria.

SECTION IV DISCUSSION AND ANALYSIS OF OPERATIONS

4.1 DISCUSSION AND ANALYSIS OF BUSINESS PERFORMANCE

4.1.1 External environment and industry developments

In 2019, the world's major economies slowed down together, sending the global economy into a resonant downturn. The US economy showed signs of slowdown as the effects of tax reform receded. The Eurozone experienced marked contraction in manufacturing exports and continued downturn amid uncertainties in the EU-US, Sin-US and UK-EU trade relations. Japan saw a cooling economic climate due to weaker foreign demand and higher consumption tax rates. Emerging market economies remained on the road of slowdown due to the combined effects of external uncertainties and internal structural factors.

China's economy showed steady overall performance with main macro-economic indicators staying within a reasonable range. In the face of complicated and ever-changing situations at home and abroad, China adhered to the new development philosophy of pursuing high-quality development, guiding principle of pursuing progress while ensuring stability, took supply-side structural reform as the main task and implemented a coordinated policy to ensure stable growth, advance reform, make structural adjustments, improve living standards; guarding against risks and ensure stability. By implementing the policy of "six stabilities", China managed to moderate the investment slowdown, keep consumption growing, ensure overall stability of employment and made solid progress in structural adjustments.

The monetary policy was more targeted and effective to ensure reasonably ample liquidity. PBOC made strong counter-cyclical adjustments by lowering the reserve requirements for financial institutions for three times. PBOC created the central bank bill swap instruments, supported banks in issuing perpetual bonds for capital replenishment and enhanced banks' ability to extend loans. PBOC used a range of monetary policy tools, including the medium-term lending facility, the standing lending facility and open market operations, to maintain reasonably sufficient liquidity in the banking system. PBOC actively advanced the market-oriented reform. RMB exchange rate became further flexible, remaining reasonably stable while floating within a wider range. The loan prime rate (LPR) formation mechanism was improved to lower financing costs of enterprises. Targeted support was further enhanced to help banking institutions achieve the "two no-less-than and two control" goal. The FinTech development plan was issued and the FinTech application was piloted to step up active innovation among banks.

The banking sector exerted every effort to serve the supply-side structural reform and the real economy. CBIRC encouraged banks to improve their credit structure to better serve the real economy, focused its support on strategic emerging industries, advanced manufacturing and technological innovation, continued to expand the coverage of inclusive finance, strengthened support for private enterprises, micro and small businesses, rural vitalization and precision poverty alleviation and developed green finance with vigor. In implementing the requirement that "houses are for living in, not for speculation", CBIRC intensified the supervision of real estate finance to stop funds being illegally funneled into property market and curb the real estate bubble. Policies on innovation and issuance of capital instruments were further improved to support commercial banks in ongoing capital replenishment. Loans were properly classified and deviations and maturity management were strengthened, with all loans of commercial banks past due for over 90 days managed as non-performing assets. The asset management market was further regulated by refining the regulatory requirements on asset management and wealth management business and downsizing shadow banking. CBIRC strengthened efforts to forestall major risks, carried out in-depth crackdown on Internet-based finance risks, resolved problematic financial institutions in a well-organized manner, gradually mitigated the hidden debt risk of local governments, imposed heavy punishment on illegal fundraising and forestalled systematic financial risks. A number of specific measures and regulatory policies were issued to facilitate another round of financial opening-up and building of a high-level banking supervision system.

4.1.2 Overview of the Bank's Operating Results

During the reporting period, the Company carried out the three major financial tasks, upheld the general principle of "pursuing progress while ensuring stability" and adhered to the new development philosophy. The Company implemented the development plan, accelerated reform and innovation and managed to fulfill the annual operating objectives through effective response to changes in domestic and foreign situations.

The scale of business grew steadily. At the end of the reporting period, the Group's total assets reached RMB3,020.789 billion, an increase of RMB340.209 billion or 12.69% over the end of the previous year, up 5.85 percentage points year-on-year; total loans increased by RMB259.086 billion or 16.06% to RMB1,872.602 billion; and deposit balance increased by RMB163.997 billion or 10.99% to RMB1,656.489 billion.

Operating profit remained stable. During the reporting period, net profit attributable to shareholders of the listed company stood at RMB21.905 billion, a year-on-year increase of RMB1.051 billion or 5.04%. Operating income increased by RMB12.507 billion or 17.32% year on year to RMB84.734 billion, 8.52 percentage points faster compared with the same period of the previous year. Return on assets (ROA) and return on equity (ROE) were 0.78% and 10.61%, respectively.

Business structure improved continuously. First, the asset and liability structure became increasingly better. Resource allocation was further improved structurally so that more credit was granted to key regions. Deposit category management was optimized to effectively grow deposits. Second, income structure further improved. Corporate, retail and financial market segments were jointly marketed to boost profitability. With a higher level of integrated financial services, the credit card, investment banking and Internet finance were developed actively. Third, cost management paid off. Thanks to stronger cost and expense control, the cost-to-income ratio was 30.59% in the year, down 1.99 percentage points year on year.

The ability to serve the real economy improved significantly. First, the Company furthered its initiative to become a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region financially. The Company took an active part in advancing major projects including the Beijing 2022 Games, Beijing Daxing International Airport and Jing-Xiong expressway. It became a diamond partner of the "See You in Beijing" sports events. The Company obtained approval and prepared for branches in Tongzhou and Xiongan, basically forming a complete network in the Beijing-Tianjin-Hebei Region. Second, the retail business was further transformed. The Company vigorously developed consumer finance, allocated earmarked funds for ETC promotion and grew personal online loans rapidly. Third, the Company advanced the "SME financial service provider" strategy. It did the best to allocate more resources to private enterprises and micro and small businesses, carried out precision poverty alleviation through financial services and met the regulatory targets for lending to micro and small businesses for many years in a row. Fourth, international cooperation was strengthened and green financial services were deepened. The Bank was among the first banks to sign the *Principles for Responsible Banking* of the United Nations to perform the ESG responsibility. The world's largest energy storage project of the World Bank was implemented, with the balance of green credit reaching RMB79,844 million, up 40.82%.

FinTech became a stronger driver of growth. First, major projects were carried in an orderly manner. A number of basic application platforms have taken form, including big data, artificial intelligence, online credit business and biometrics application scenarios. Face-scan payment, headquarters-to-headquarters ETC and New Year celebration coin issuance were launched successfully. Second, innovation projects gained pace in incubation. A FinTech innovation fund was established to promote the agile research and development mechanism. The number of launches hit an all-time high. Third, online channels continued to improve. Mobile Banking 5.0 went live with markedly improved service features and customer experience, the number of users rising by 22.61%. The enterprise-level big data platform was continuously improved, the smart service infrastructure platform was launched and the private cloud platform was created, making technology a greater contributor to business and management. Fourth, the open banking project made steady progress. The industrial-financial integration solutions for Industrial Internet were developed to create a new value creation model characterized by smart integration.

Risk control and internal control & compliance were further deepened. First, the comprehensive risk management mechanism was intensified in a coordinated way. Credit, market, operational, liquidity, reputational and IT risk management measures were gradually deepened. The Company strengthened the ongoing management and follow-up of credit business, refined access criteria, improved the credit structure and preliminarily established proprietary online loan risk control models. Second, internal control and compliance were strengthened. The "Year of Compliance Enhancement" campaign was carried out thoroughly to cement the outcomes of irregularities crackdown and keep a tight lid on fraud cases. Exemplary education and risk alerts were strengthened and employee conduct management was intensified. The anti-money laundering (AML) work mechanism and system were optimized to boost the quality of AML data and alerts to money laundering risk.

4.2 INCOME STATEMENT ANALYSIS

During the reporting period, the Group realized net profit of RMB22.115 billion, a growth of RMB1.129 billion or 5.38% over the previous year.

(Unit: RMB1 million)

Item	2019	2018	Increase/ (decrease)	Growth (%)
Operating income	84,734	72,227	12,507	17.32
– Net interest income	64,561	51,538	13,023	25.27
– Net non-interest income	20,173	20,689	-516	-2.49
Operating expenses	57,237	45,539	11,698	25.69
– Tax and surcharges	890	867	23	2.65
– General and administrative expenses	25,920	23,533	2,387	10.14
– Impairment losses on credit and other assets	30,405	21,117	9,288	43.98
Net non-operating income and expenditure	66	95	-29	-30.53
Total profit	27,563	26,783	780	2.91
Income tax	5,448	5,797	-349	-6.02
Net profit	22,115	20,986	1,129	5.38

Note: Impairment losses on credit and other assets in 2018 were the "impairment losses on assets" under the old accounting standards for financial instruments.

Extraordinary profit and loss items and amounts

(Unit: RMB1 million)

Item	2019	2018	2017
Profit/loss from the disposal of assets	15	-14	-9
Other net non-operating income and expenses	66	95	136
Total extraordinary profit and loss	81	81	127
Less: Income tax influence of extraordinary profit and loss	30	30	44
Extraordinary profit and loss, net	51	51	83
Less: Influence of extraordinary profit and loss attributable to minority shareholders of the Company, net (after-tax)	2	4	1
Extraordinary profit and loss attributable to ordinary shareholders of the Company	49	47	82

Note: The extraordinary profit and loss are identified and calculated in accordance with the *Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public – Extraordinary Profit and Loss (2008).*

4.2.1 Operating income

For the reporting period, the Group realized operating income of RMB84.734 billion, a growth of RMB12.507 billion or 17.32% over the previous year. Specifically, net interest income accounted for 76.19% and net non-interest income accounted for 23.81%. The table below sets out the composition of operating income of the Group in the past three years.

Item (%)	2019	2018	2017
Net interest income	76.19	71.36	71.28
Net fee and commission income	21.26	24.59	27.73
Other net incomes	2.55	4.05	0.99
Total	100.00	100.00	100.00

Breakdown of operating income by geography

(Unit: RMB1 million)

Regions	Operating income	Change compared with previous year (%)	Operating profit	Change compared with previous year (%)
Beijing-Tianjin-Hebei Region	32,510	3.29	8,214	-42.31
Yangtze River Delta	18,347	30.19	10,308	91.42
Guangdong-Hong Kong-Macao Greater Bay Area	5,663	36.79	3,334	79.15
Central and Eastern China	12,197	8.47	-1,027	-156.55
Western China	10,847	36.17	5,785	107.42
Northeastern China	1,837	17.76	-665	N/A
Subsidiaries	3,333	90.46	1,548	65.21
Total	84,734	17.32	27,497	3.03

Explanations on reasons for major changes in profit composition, principal operation and structure, and profitability of principal operation from the previous reporting period

During the reporting period, there were no major changes in profit composition, principal operation and structure, or profitability of principal operation from the previous reporting period.

4.2.2 Net interest income

During the reporting period, the Group realized net interest income of RMB64.561 billion, a growth of RMB13.023 billion or 25.27% over last year. The growth in net interest income was mainly attributable to the increased interest-generating assets and interest margin. The table below sets out the average balances and average interest rates of the Group's interest-earning assets and interest-bearing liabilities.

Interest-generating assets, interest-bearing liabilities and average interest rates

(Unit: RMB1 million)

Item	2019 Average balance	2019 Interest	2019 Average interest rate (%)	2018 Average balance	2018 Interest	2018 Average interest rate (%)
Interest-generating assets:						
Loans and advances to customers	1,728,079	85,684	4.96	1,473,762	74,305	5.04
Balances with central banks	176,141	2,681	1.52	204,229	3,163	1.55
Peer assets	180,937	4,391	2.43	222,470	6,502	2.92
Financial investments	797,553	35,681	4.47	736,731	32,066	4.35
Total interest-generating assets	2,882,710	128,437	4.46	2,637,192	116,036	4.40
Interest-bearing liabilities:						
Deposits taken	1,595,181	29,557	1.85	1,440,494	24,544	1.70
Due to central banks	143,841	4,789	3.33	153,750	5,067	3.30
Debt obligations payable	405,569	14,023	3.46	358,434	15,222	4.25
Peer liabilities and others	557,889	15,507	2.78	531,371	19,665	3.70
Total interest-bearing liabilities	2,702,480	63,876	2.36	2,484,049	64,498	2.60
Net interest income		**64,561**			**51,538**	
Net interest spread			**2.10**			**1.80**
Net interest margin			**2.24**			**1.95**

Note: Financial investments in 2018 included financial assets measured at fair value through profit or loss for the current period, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables presented as per the previous accounting standards for financial instruments.

The table below sets out the changes in the Group's net interest income resulting from changes in the scale and interest rate factors.

(Unit: RMB1 million)

Item	2019 over 2018 Scale change	Interest rate change	Total
Interest-generating assets:			
Loans and advances to customers	12,818	-1,439	11,379
Balances with central banks	-435	-47	-482
Peer assets	-1,213	-898	-2,111
Financial investments	2,646	969	3,615
Change of interest income	**13,816**	**-1,415**	**12,401**
Interest-bearing liabilities:			
Deposits taken	2,630	2,383	5,013
Due to central banks	-327	49	-278
Debt obligations payable	2,003	-3,202	-1,199
Peer liabilities and others	981	-5,139	-4,158
Change of interest expenses	**5,287**	**-5,909**	**-622**
Change of net interest income	**8,529**	**4,494**	**13,023**

4.2.2.1 Interest income

During the reporting period, the Group realized interest income of RMB128.437 billion, a growth of RMB12.401 billion or 10.69% over last year, mainly due to growth in interest-generating assets and continuous improvements in business structure. The table below sets forth the composition of the Group's interest income and its changes.

(Unit: RMB1 million)

Business type	2019	Percentage (%)	% change	2018
Interest income from loans and advances to customers	85,684	66.71	15.31	74,305
Interest income from financial investments	35,681	27.78	11.27	32,066
Interest income on due from central banks	2,681	2.09	-15.24	3,163
Interest income from interbank business	4,391	3.42	-32.47	6,502
Total	**128,437**	**100.00**	**10.69**	**116,036**

Note: Interest income from financial investments in 2018 included the interest income from financial assets measured at fair value through profit or loss for the current period, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables presented as per the previous accounting standards for financial instruments.

Interest Income from loans and advances to customers

The Group recorded RMB85.684 billion in interest income from loans and advances to customers for the reporting period, a growth of RMB11.379 billion or 15.31% over last year, primarily because of the increase in the loans and advances to customers. The table below sets out the average balances and average interest rates of the Group's interest income from loans and advances to customers by business type and maturity structure.

By business type

(Unit: RMB1 million)

Category	2019			2018		
	Average balance	Interest income	Average interest rate (%)	Average balance	Interest income	Average interest rate (%)
Corporate loans	1,274,052	65,633	5.15	1,103,472	58,782	5.33
Personal loans	454,027	20,051	4.42	370,290	15,523	4.19
Total	1,728,079	85,684	4.96	1,473,762	74,305	5.04

Note: Corporate loans include discounted bills.

By maturity structure

(Unit: RMB1 million)

Category	2019			2018		
	Average balance	Interest income	Average interest rate (%)	Average balance	Interest income	Average interest rate (%)
General short-term loans	714,180	30,418	4.26	584,214	26,161	4.48
Medium and long-term loans	1,013,899	55,266	5.45	889,548	48,144	5.41
Total	1,728,079	85,684	4.96	1,473,762	74,305	5.04

Note: General short-term loans include discounted bills.

Interest income on due from central banks

The Group's interest income on due from central banks for the reporting period stood at RMB2.681 billion, a drop of RMB482 million or 15.24% from last year, mainly because the balances with central banks declined as a result of the central bank's downward adjustment of the Renminbi statutory deposit reserve ratio.

Interest income from financial investments

During the reporting period, the Group recorded RMB35.681 billion in interest income from financial investments, up RMB3.615 billion or 11.27% year-on-year, primarily because of the bigger size and higher average return on financial investments.

Interest income from interbank business

During the reporting period, the Group recorded RMB4.391 billion in interest income from interbank business, down RMB2.111 billion or 32.47% from the previous year, mainly due to the smaller size and lower rate of return on interbank business.

4.2.2.2 Interest expenses

During the reporting period, the Group's interest expenses for the reporting period was RMB63.876 billion, a decrease of RMB622 million or 0.96% from last year, mainly due to the 2.36% cost of interest-bearing liabilities, down 24 bps from the previous year.

Interest expenses on deposits taken

During the reporting period, the Group's interest expense on deposits taken was RMB29.557 billion, an increase of RMB5.013 billion or 20.42% over last year, mainly due to expansion in deposits taken and rise in deposit cost.

(Unit: RMB1 million)

Category	2019			2018		
	Average balance	Interest expense	Average interest rate (%)	Average balance	Interest expense	Average interest rate (%)
Corporate demand deposits	589,108	4,611	0.78	586,770	4,321	0.74
Corporate time deposits	701,493	18,335	2.61	593,868	15,263	2.57
Personal demand deposits	111,623	345	0.31	104,800	315	0.30
Personal time deposits	192,957	6,266	3.25	155,056	4,645	3.00
Total	**1,595,181**	**29,557**	**1.85**	**1,440,494**	**24,544**	**1.70**

Interest expenses on due to central banks

During the reporting period, the Group's interest expenses on amounts due to central banks were RMB4.789 billion, a decrease of RMB278 million or 5.49% from last year, mainly because of the decline in amounts due to central banks.

Interest expenses on debt obligations payable

During the reporting period, the Group recorded RMB14.023 billion in interest expenses on debt obligations payable, a decrease of RMB1.199 billion or 7.88% over the previous year, mainly due to a lower cost ratio of bonds.

Peer liabilities and other interest expenses

During the reporting period, the Group recorded RMB15.507 billion in interest expenses on peer liabilities and others, a decrease of RMB4.158 billion or 21.14% from the previous year, mainly due to the decline in cost ratio of interbank funds.

4.2.3 Net non-interest income

(Unit: RMB1 million)

Item	2019	2018	Increase/ (decrease)	Growth (%)
Net fee and commission income	18,016	17,758	258	1.45
Investment loss/(gain)	1,231	4,068	-2,837	-69.74
Loss/(gain) on changes in fair value	823	-1,463	2,286	N/A
Exchange loss/(gain)	-132	204	-336	-164.71
Other operating income	192	107	85	79.44
Profit/loss from the disposal of assets	15	-14	29	N/A
Other income	28	29	-1	-3.45
Total	**20,173**	**20,689**	**-516**	**-2.49**

4.2.3.1 Net fee and commission income

During the reporting period, the Group realized RMB18.016 billion of net fee and commission income, an increase of RMB258 million or 1.45% year-on-year, mainly due to increase in fee income from bank cards and fee income from custody and other fiduciary services.

(Unit: RMB1 million)

Item	2019 Amount	2019 Percentage (%)	% change	2018 Amount	2018 Percentage (%)
Bank card business	12,983	61.59	15.53	11,238	55.83
Agency business	3,648	17.30	-21.51	4,648	23.09
Credit commitments	1,928	9.15	-3.74	2,003	9.95
Custody and other fiduciary services	1,090	5.17	12.02	973	4.83
Leasing service	626	2.97	1.13	619	3.08
Other business	806	3.82	24.38	648	3.22
Total fee and commission income	**21,081**	**100.00**	**4.73**	**20,129**	**100.00**
Less: Fee and commission expenses	3,065	–	29.27	2,371	–
Net fee and commission income	**18,016**	**–**	**1.45**	**17,758**	**–**

4.2.3.2 Investment income, and loss/(gain) on changes in fair value and exchange loss/(gain)

During the reporting period, The Group recorded RMB1.922 billion in investment income, loss/(gain) on changes in fair value and exchange loss/(gain), down RMB887 million from last year, mainly due to structural adjustment to bond assets.

4.2.4 General and administrative expenses

During the reporting period, general and administrative expenses stood at RMB25.92 billion. While ensuring effective support for business development, the Group continued to strengthen budget management and promoted fine-grained management of expenses. At the end of the reporting period, cost-to-income ratio was 30.59%, down 1.99 percentage points from the end of the previous year.

(Unit: RMB1 million)

Item	2019 Amount	2019 Percentage (%)	% change	2018 Amount	2018 Percentage (%)
Staff remuneration and welfare	16,229	62.61	14.28	14,201	60.35
Business expenses	6,583	25.40	7.53	6,122	26.01
Depreciations and amortizations	3,108	11.99	-3.18	3,210	13.64
Total	**25,920**	**100.00**	**10.14**	**23,533**	**100.00**
Cost-to-income ratio		30.59	Down 1.99 percentage points		32.58

4.2.5 Impairment losses on credit and other assets

Since 2019 when it adopted the New Financial Instrument Standards, the Group has accrued impairment losses on credit based on the expected credit loss model. During the reporting period, the Group's impairment losses on credit and other assets totaled RMB30.405 billion, an increase of RMB9.288 billion or 43.98% over the previous year. The table below sets forth the composition of the Group's impairment losses on credit and other assets and the changes.

(Unit: RMB1 million)

Item	2019	2018	Increase/ (decrease)	Growth (%)
Loans and advances to customers	29,259	20,186	9,073	44.95
Financial investments	112	124	-12	-9.68
Interbank business	-507	291	-798	-274.23
Projected liabilities	75	N/A	N/A	N/A
Other	1,466	516	950	184.11
Total	**30,405**	**21,117**	**9,288**	**43.98**

Note: Impairment losses on credit and other assets in 2018 were "impairment losses on assets" under the previous accounting standards for financial instruments, with financial investments including available-for-sale financial assets, held-to-maturity investments and investments classified as receivables presented as per the previous accounting standards for financial instruments.

4.2.6 Income tax expenses

(Unit: RMB1 million)

Item	2019	2018
Pre-tax profit	27,563	26,783
Income tax at statutory tax rate of 25%	6,891	6,696
Plus: Tax effect of non-deductible expense	1,226	1,395
Less: Tax effect of tax-exempt income	2,669	2,294
Total	**5,448**	**5,797**

4.3 BALANCE SHEET ANALYSIS

4.3.1 Analysis of assets

As at the end of the reporting period, the Group recorded total assets of RMB3,020.789 billion, an increase of RMB340.209 billion or 12.69% from the end of the previous year, mainly because the Group increased its loans and advances to customers and financial investments. The table below shows the proportional mix of the Group's main asset items.

(Unit: RMB1 million)

	End of 2019		End of 2018	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Loans and advances to customers	1,829,171	60.55	1,566,241	58.43
Financial investments	899,430	29.77	787,021	29.36
Cash on hand and balances with central banks	192,911	6.39	210,204	7.84
Due from and placements with banks and other financial institutions	39,399	1.30	62,534	2.33
Financial assets purchased under agreements to resell	24,050	0.80	1,723	0.06
Other	35,828	1.19	52,857	1.98
Total	**3,020,789**	**100.00**	**2,680,580**	**100.00**

Notes:

1. Financial investments at the end of 2018 included financial assets measured at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables presented as per the previous accounting standards for financial instruments.

2. Including derivative financial assets, interest receivables, fixed assets, intangible assets, deferred income tax assets and other assets.

Material Changes in Prime Assets of the Company during the Reporting Period

The Group's prime assets include loans and advances to customers, financial investments, cash on hand and balances with central banks and financial assets purchased under agreements to resell. At the end of the reporting period, loans and advances to customers totaled RMB1,872.602 billion, an increase of RMB259.086 billion or 16.06% over the end of the previous year. Financial investments totaled RMB890.656 billion, an increase of RMB101.547 billion or 12.87% over the end of the previous year. Cash on hand and balances with central banks stood at RMB192.911 billion, a decrease of RMB17.293 billion or 8.23% from the end of the previous year. Main reasons for significant changes in the above assets are as follows: First, the Group allocated more funds to the real economy in line with policy guidance and customer demand, seeing steady growth in loans. Second, the overall efficiency of fund utilization was increased and financial investments rose steadily. Third, cash on hand and balances with central banks declined as PBOC lowered the required reserve ratio.

4.3.1.1 Loans and advances to customers

At the end of the reporting period, the Group recorded RMB1,872.602 billion total loans and advances to customers, up RMB259.086 billion or 16.06% over the end of the previous year. For details of the Group's loans and advances to customers, please refer to "Loan Quality Analysis" in this section.

4.3.1.2 Financial investments

As at the end of the reporting period, the Group recorded RMB890.656 billion total financial investments, growing by RMB101.547 billion or 12.87% over the end of the previous year, mainly because the Group had more investments in bonds and funds. The table below shows the proportional mix of the Group's financial investments by product.

(Unit: RMB1 million)

	End of 2019		End of 2018	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Bond investment	678,672	76.20	574,626	72.82
Fund investment	49,470	5.55	18,949	2.40
Asset management plan of financial institutions	142,804	16.03	177,639	22.51
Beneficiary rights of assets	3,832	0.43	3,691	0.47
Certificates of deposit with banks and other financial institutions	10,917	1.23	5,881	0.75
Equity instrument investments	4,961	0.56	1,123	0.14
Investment in wealth management products	–	–	7,200	0.91
Total	890,656	100.00	789,109	100.00
Plus: Accrued interest	11,331	–	N/A	–
Less: Allowances for impairment losses on debt investments	2,557	–	2,088	–
Total	899,430	–	787,021	–

Financial bonds held

(Unit: RMB1 million)

	End of 2019		End of 2018	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Financial bonds of policy banks	99,621	57.62	94,884	55.89
Financial bonds of commercial banks	62,245	36.01	65,821	38.77
Non-banking financial bonds	11,015	6.37	9,066	5.34
Total	172,881	100.00	169,771	100.00

Of which, material financial bonds:

(Unit: RMB1 million)

Bond Name	Par value	Annual interest rate (%)	Maturity date	Allowance for impairment losses
CNCB Financial Bonds of 2017	3,300	4.20	2020/04/17	0.28
SPD Bank MSE Loans Special Financial Bond Issue 1 of 2019	3,260	3.50	2022/03/27	0.91
China Guangfa Bank Financial Bonds Issue 2 of 2016	3,000	3.52	2021/05/25	0.85
ADBC Financial Bonds Issue 6 of 2018	3,000	4.65	2028/05/11	–
CDB Financial Bonds Issue 5 of 2017	2,870	3.88	2020/04/19	–
CMBC Financial Bonds Issue 1 of 2018	2,700	3.83	2021/11/22	0.72
ADBC Financial Bonds Issue 7 of 2017	2,560	3.98	2020/04/19	–
CMB Financial Bonds Issue 1 of 2017	2,500	4.20	2020/05/24	0.28
CMB MSE Loans Special Financial Bond Issue 1 of 2019	2,440	3.45	2022/07/09	0.71
CDB Financial Bonds Issue 11 of 2018	2,390	3.76	2023/08/14	–

4.3.1.3 Derivative financial instruments

(Unit: RMB1 million)

Item	End of 2019			End of 2018		
	Contractual/ nominal amount	Fair value		Contractual/ nominal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange forwards	7,192	59	41	14,880	159	187
Foreign exchange swaps	646,602	856	1,749	971,707	949	851
Interest rate swaps	18,950	5	6	17,050	11	10
Option contracts	1,060	6	6	1,236	6	6
Credit risk mitigation warrants	–	–	–	300	5	–
Total		926	1,802		1,130	1,054

4.3.1.4 Financial assets purchased under agreements to resell

(Unit: RMB1 million)

Item	End of 2019 Amount	End of 2019 Percentage (%)	End of 2018 Amount	End of 2018 Percentage (%)
Bonds	16,867	69.37	726	35.78
Bills	7,449	30.63	1,303	64.22
Total	**24,316**	**100.00**	**2,029**	**100.00**
Plus: Accrued interest	40	–	N/A	–
Less: Allowance for impairment losses	306	–	306	–
Total	**24,050**	**–**	**1,723**	**–**

4.3.1.5 Cash on hand and balances with central banks

At the end of the reporting period, the Group recorded RMB192.911 billion in cash on hand and balances with central banks, a decrease of RMB17.293 billion or 8.23% from the end of the previous year, mainly due to placement of less statutory reserves with the central bank caused by reserve requirement ratio cuts.

4.3.1.6 Due from and placements with banks and other financial institutions

At the end of the reporting period, the Group registered RMB39.399 billion in due from banks and placements with banks and other financial institutions, a decrease of RMB23.135 billion or 37.00% from last year, mainly because the due from banks and borrowings by banks and other financial institutions were not renewed upon maturity.

4.3.2 Liability analysis

As at the end of the reporting period, the Group recorded total liabilities of RMB2,751.452 billion, up RMB289.587 billion or 11.76% from the end of the previous year, primarily due to the increase in deposits taken, financial assets sold under agreements to repurchase, debt obligations payable, due to banks and other financial institutions and placements from banks and other financial institutions. The table below shows the proportional mix of the Group's main liability items.

(Unit: RMB1 million)

Item	End of 2019 Amount	End of 2019 Percentage (%)	End of 2018 Amount	End of 2018 Percentage (%)
Due to central banks	143,617	5.22	171,064	6.95
Deposits taken	1,671,276	60.74	1,492,492	60.62
Due to and placements from banks and other financial institutions	406,401	14.77	370,183	15.04
Financial assets sold under agreements to repurchase	93,774	3.41	14,378	0.58
Debt obligations payable	403,584	14.67	360,469	14.64
Others	32,800	1.19	53,279	2.17
Total	**2,751,452**	**100.00**	**2,461,865**	**100.00**

Note: Others include derivative financial liabilities, staff remunerations payable, tax and fee payable, interest payable, projected liabilities and other liabilities.

4.3.2.1 Deposits taken

As at the end of the reporting period, the Group recorded RMB1,656.489 billion in total deposits taken, up RMB163.997 billion or 10.99% over the end of the previous year.

(Unit: RMB1 million)

Item	End of 2019 Amount	End of 2019 Percentage (%)	End of 2018 Amount	End of 2018 Percentage (%)
Corporate demand deposits	632,009	38.15	615,009	41.20
Corporate time deposits	462,889	27.94	409,205	27.42
Personal demand deposits	116,909	7.06	106,523	7.14
Personal time deposits	143,733	8.68	114,321	7.66
Other deposits	300,949	18.17	247,434	16.58
Total	1,656,489	100.00	1,492,492	100.00
Plus: Accrued interest	14,787	–	N/A	–
Total	1,671,276	–	1,492,492	–

Note: Other deposits include security deposit received, structured deposits, outward remittance, remittances outstanding and others.

4.3.2.2 Financial assets sold under agreements to repurchase

(Unit: RMB1 million)

Item	End of 2019 Amount	End of 2019 Percentage (%)	End of 2018 Amount	End of 2018 Percentage (%)
Bonds	86,440	92.26	11,141	77.49
Bills	7,250	7.74	3,237	22.51
Total	93,690	100.00	14,378	100.00
Plus: Accrued interest	84	–	N/A	–
Total	93,774	–	14,378	–

4.3.3 Changes in Shareholders' Equity

(Unit: RMB1 million)

Item	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained Profit	Minority interests	Total shareholders' equity
31 December 2018	15,387	19,978	53,292	625	13,635	31,788	82,436	1,574	218,715
Changes in accounting policies	–	–	–	528	–	–	-8,393	-35	-7,900
1 January 2019	15,387	19,978	53,292	1,153	13,635	31,788	74,043	1,539	210,815
Increase during the period	–	39,993	–	–	2,027	2,918	21,905	210	67,053
Decrease during the period	–	–	–	69	–	–	8,462	–	8,531
31 December 2019	15,387	59,971	53,292	1,084	15,662	34,706	87,486	1,749	269,337

Major reasons for changes in shareholders' equity:

1. The Group began to implement the New Financial Instrument Standards on 1 January 2019. According to the provisions for transition to the New Financial Instrument Standards, the Group doesn't need to restate the comparative data in previous periods. The difference arising from the adoption of the new standards on the first day shall be adjusted and booked into the opening retained income of 2019 or other comprehensive income, which has resulted in increase in "other comprehensive income", "retained profit" and "minority interests" of the Group on 1 January 2019.

2. Increase in "other equity instruments" results from the issuance of perpetual bonds by the Company during the reporting period.

3. Decrease in "other comprehensive income" results from the changes in fair value of other equity instrument investments during the reporting period.

4. According to the annual profit distribution plan, the Company set aside surplus reserve and general risk reserve and distributed cash dividends to all of the shareholders, so "surplus reserve" and "general risk reserve" increased but "retained profit" decreased in the reporting period.

5. The increase of "retained profit" is due to the realization of net profit of the Group during the reporting period.

6. The increase of "minority interests" is due to net profit earned by the Group's non-wholly-controlled subsidiary during the reporting period.

4.4 CASH FLOW STATEMENT ANALYSIS

Net cash inflows from operating activities

The Group's net cash inflows from operating activities registered RMB79.082 billion, an increase of RMB180.017 billion over last year, mainly due to the higher net cash inflows than the previous year after offsetting the cash inflows from increase in customer deposits and amounts due to banks and other financial institutions, increase in placements from banks and other financial institutions and financial assets sold under agreements to repurchase, increase in business debt obligations payable and decrease in placements with banks and other financial institutions and financial assets purchased under agreements to resell against the cash outflows from increase in loans and advances to customers and decrease in due to central banks.

Net cash outflows from investing activities

The Group's net cash flows used in investing activities recorded RMB61.644 billion, an increase of RMB75.314 billion from last year, mainly because net cash outflow for financial investments increased over last year.

Net cash inflows from financing activities

The Group's net cash inflows from investing activities recorded RMB8.83 billion, a decrease of RMB33.857 billion from last year, mainly because cash outflows from debt service increased over last year.

4.5 MAIN ITEMS WITH OVER 30% CHANGES IN THE COMPARATIVE ACCOUNTING STATEMENTS

(Unit: RMB1 million)

Major accounting item	At the end of the reporting period	Increase/decrease compared with the end of previous year (%)	Main reason
Placements with banks and other financial institutions	23,461	-42.30	Decrease in placements with banks and other financial institutions
Financial assets purchased under agreements to resell	24,050	1,295.82	Increase in financial assets purchased under agreements to resell
Financial assets measured at fair value through profit or loss	—	N/A	1. The Group began to implement the New Financial Instrument Standards on 1 January 2019. Financial statement items are presented pursuant to the classification and measurement requirements set forth in the New Financial Instrument Standards without restating data for comparative periods. 2. Relevant statement items are added or deleted as per the new formats of financial statements for financial enterprises.
Interest receivable	—	N/A	
Held-for-trading financial assets	89,783	N/A	
Debt investments	675,286	N/A	
Other debt investments	129,400	N/A	
Other equity instrument investments	4,961	N/A	
Available-for-sale financial assets	—	N/A	
Held-to-maturity investments	—	N/A	
Investments classified as receivables	—	N/A	
Interest payable	—	N/A	
Placements from banks and other financial institutions	104,064	34.95	Increase in placements from banks and other financial institutions
Derivative financial assets	1,802	70.97	Increase in derivative financial liabilities
Financial assets sold under agreements to repurchase	93,774	552.20	Increase in financial assets sold under agreements to repurchase
Projected liabilities	2,147	N/A	Increase in allowances for impairment of losses on off-balance-sheet items and adoption of the New Financial Instrument Standards
Other equity instrument	59,971	200.19	Issuance of perpetual bonds
Other comprehensive income	1,084	73.44	Adoption of the New Financial Instrument Standards and changes in fair value
Major accounting item	**Reporting period**	**% change**	**Main reason**
Investment loss/(gain)	1,231	-69.74	Investment gain decreased
Loss/(gain) on changes in fair value	823	N/A	Changes in fair value
Exchange loss/(gain)	-132	-164.71	Decrease in exchange loss/(gain)
Other operating income	192	79.44	Other business income increased
Profit/loss from the disposal of assets	15	N/A	Increase in gains on asset disposal
Impairment losses on credit	30,251	N/A	Relevant statement items are added or deleted as per the new formats of financial statements for financial enterprises.
Other impairment losses on assets	154	N/A	
Impairment losses on assets	—	N/A	
Non-operating expenses	102	41.67	Non-operating expenses increased

4.6 LOAN QUALITY ANALYSIS

During the reporting period, the Group saw stable expansion and controlled quality of assets. NPL ratio went down, with both balance and ratio of special mention loans also on the decline.

4.6.1 Five-tier loan classification

The Company uses a five-tier classification approach to loan management strictly in accordance with CBIRC's *Guidelines on Risk-Based Loan Classification*. Loans are classified into five categories, namely, pass, special mention, substandard, doubtful and loss, of which pass and special mention loans are regarded normal, while the last three categories are regarded as non-performing loans.

As at the end of the reporting period, the Group's balance of pass loans was RMB1,771.753 billion, an increase of RMB259.641 billion over the end of the previous year, and accounted for 94.61% of total loans, up 0.90 percentage point over the end of the previous year. The balance of special mention loans stood at RMB66.612 billion, an increase of RMB4.983 billion over the end of the previous year, and accounted for 3.56% of total loans, down 0.88 percentage point over the end of the previous year. The balance of NPLs stood at RMB34.237 billion, an increase of RMB4.428 billion over the end of the previous year, and accounted for 1.83% of total loans, down 0.02 percentage point over the end of the previous year.

During the reporting period, some enterprises with overcapacities or highly leveraged or indebted were under heavy liquidity pressure and exposed their risks amid China's economic restructuring, deleveraging and overcapacity cut endeavors. Under such circumstances, the Group's NPL balance picked up. Meanwhile, the Group maintained tough control over asset quality, strictly controlled access to new credit, enhanced the quality control of new loans, strengthened the management of key areas of risk control and optimized the post-lending management and risk warning mechanism. It actively reduced the exposure to customers at potential risk, strengthened the credit rebalancing, accelerated the disposal of NPLs by means of cash collection, litigation, etc. and stepped up write-off of NPLs. The asset quality was well controlled and further improved, evidenced by the drop in both balance and proportion of special mention loans, with the NPL ratio down 0.02 percentage point from the end of last year.

(Unit: RMB1 million)

	End of 2019			End of 2018	
Item	Balance	Percentage (%)	Increase/ decrease compared with the end of previous year (%)	Balance	Percentage (%)
Pass loans	1,771,753	94.61	17.17	1,512,112	93.71
Special-mention loans	66,612	3.56	-6.96	71,595	4.44
Sub-standard loans	13,635	0.73	20.85	11,283	0.70
Doubtful loans	11,500	0.61	18.23	9,727	0.60
Loss	9,102	0.49	3.44	8,799	0.55
Total	**1,872,602**	**100.00**	**16.06**	**1,613,516**	**100.00**
Performing loans	1,838,365	98.17	16.08	1,583,707	98.15
NPLs	34,237	1.83	14.85	29,809	1.85

4.6.2 Distribution of loans and NPLs by product type

As at the end of the reporting period, the Group's balance of corporate loans recorded RMB1,231.35 billion, an increase of RMB73.212 billion or 6.32% over the end of the previous year; and its balance of personal loans reached RMB503.003 billion, an increase of RMB71.143 billion or 16.47% over the end of the previous year. Riding on the consumer finance trends, personal loans grew faster than corporate loans, with the balance of discounted bills standing at RMB138.249 billion, up RMB114.731 billion from the end of the previous year.

The Group's balance of corporate NPLs stood at RMB26.317 billion, up RMB2.576 billion, representing a NPL of 2.14%, up 0.09 percentage point over the end of the previous year. The balance of personal non-performing loans stood at RMB7.92 billion, up RMB1.852 billion, representing a NPL ratio of 1.57%, up 0.16 percentage point over the end of the previous year.

(Unit: RMB1 million)

	End of 2019				End of 2018			
Product type	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Corporate loans	1,231,350	65.76	26,317	2.14	1,158,138	71.77	23,741	2.05
Personal loans	503,003	26.86	7,920	1.57	431,860	26.77	6,068	1.41
Discounted bills	138,249	7.38	–	–	23,518	1.46	–	–
Total	1,872,602	100.00	34,237	1.83	1,613,516	100.00	29,809	1.85

4.6.3 Distribution of loans and NPLs by industry

In the reporting period, the Group actively implemented the macro control and industrial policy requirements of the state with a focus on serving the supply-side structural reform, improving the industry mix of business continuously. At the end of the reporting period, leasing and commercial services and manufacturing were the top two sector borrowers of the Group's loans. Their loan balances recorded RMB275.65 billion and RMB190.969 billion, respectively, collectively taking up 24.92% of the Group's total loans. In terms of growth rate, loans to the water conservancy, environment and public facilities management, real estate, leasing and commercial services and electric power, heat, gas and water production and supply industry grew faster, up 19.82%, 18.28%, 15.04% and 12.09% over the end of the previous year, respectively.

Manufacturing and wholesale & retail pooled most of the Group's NPLs, collectively accounting for 53.92% of the Group's total NPLs and representing a NPL ratio of 5.20% and 5.79% respectively. During the reporting period, the Group's NPL balance increased by RMB390 million for the manufacturing industry and dropped by RMB588 million for the wholesale and retail industry, with the corresponding NPL ratio up 0.64 and 0.26 percentage point compared with the end of the previous year, respectively. Against the national macro-economic backdrop of deleveraging and overcapacity reduction, some highly cyclical traditional industries, such as manufacturing and wholesale & retail, have been greatly affected by economic cyclicity and structural adjustments. In addition, intensifying competition and declining profits have translated into greater operating pressure and exposed more credit risks.

(Unit: RMB1 million)

Industry	End of 2019 Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	End of 2018 Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Leasing and commercial services	275,650	14.72	402	0.15	239,616	14.85	444	0.19
Manufacturing	190,969	10.20	9,938	5.20	209,176	12.96	9,548	4.56
Wholesale and retail	147,086	7.86	8,523	5.79	164,831	10.22	9,111	5.53
Real estate	141,000	7.53	96	0.07	119,204	7.39	515	0.43
Water conservancy, environment and public facilities management	117,432	6.27	594	0.51	98,011	6.07	86	0.09
Construction industry	102,469	5.47	2,154	2.10	96,175	5.96	1,005	1.04
Electric power, heat, gas and water production and supply industry	62,067	3.31	645	1.04	55,373	3.43	366	0.66
Transportation, warehousing and post industry	51,476	2.75	662	1.29	51,110	3.17	460	0.90
Mining industry	27,612	1.48	1,931	6.99	26,959	1.67	1,215	4.51
Other corporate industries	115,589	6.17	1,372	1.19	97,683	6.05	991	1.01
Discounted bills	138,249	7.38	–	–	23,518	1.46	–	–
Personal loans	503,003	26.86	7,920	1.57	431,860	26.77	6,068	1.41
Total	1,872,602	100.00	34,237	1.83	1,613,516	100.00	29,809	1.85

Notes:

1. According to the *Notice of CBIRC on 2019 Offsite Regulatory Statements Preparation and Reporting of Banking Institutions* (Y.B.J.F. [2018] No. 69), the forfaiting business previously accounted for as discounted bills was moved to trade finance for industry-specific loan calculations, with data at the end of 2018 adjusted accordingly.

2. Other corporate industries mainly comprise agriculture, forestry, animal husbandry and fishery, information transmission, software and IT services, accommodation and catering, culture, sports and recreation, etc.

4.6.4 Distribution of loans and NPLs by geographical area

The Group further strengthened differentiated and high-quality classification management of branches by deepening its financial services in line with the national strategies regarding the Beijing-Tianjin-Hebei Region, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area. As at the end of the reporting period, the Group recorded RMB1,872.602 billion in total loans, up RMB259.086 billion or 16.06% over the end of the previous year. Specifically, the Beijing-Tianjin-Hebei Region, the Yangtze River Delta and Central and Eastern China were the top three regions by balance of loans, which stood at RMB523.662 billion, RMB468.276 billion and RMB320.096 billion, accounting for 27.96%, 25.01% and 17.09%, respectively. By growth rate, the Group recorded the fastest growth in loans for the Beijing-Tianjin-Hebei Region, the Guangdong-Hong Kong-Macao Greater Bay Area and the Yangtze River Delta, which reached 27.96%, 26.78% and 16.24%, up 2.60, 0.69 and 0.04 percentage point, respectively.

The Group's loans were mainly exposed to regional risks in the Beijing-Tianjin-Hebei Region, Central and Eastern China and Northeastern China where the NPL ratio was 2.53%, 2.55% and 5.09%, respectively. At the end of the reporting period, the Group's NPL balance increased by RMB4,178 million in the Beijing-Tianjin-Hebei Region, by RMB231 million in the Central and Eastern China and by RMB1,339 million in Northeastern China over the end of the previous year, with the corresponding NPL ratio up 0.32, 0.10 and 2.50 percentage points compared with the end of the previous year, respectively. The Group's NPL balances in the Yangtze River Delta, Western China and the Guangdong-Hong Kong-Macao Greater Bay Area decreased by RMB1,064 million, RMB262 million and RMB102 million from the end of the previous year, and their corresponding NPL ratios went down by 0.44, 0.30 and 0.29 percentage point, respectively.

The Group as a Beijing-based national joint-stock commercial bank has established relatively early and more branches in the Beijing-Tianjin-Hebei Region, Central and Eastern China, Northeast China and other provinces and cities adjacent to Beijing. These regions are home to many highly cyclical and traditional industries affected much by de-leveraging, overcapacity reduction and environmental policies. Local enterprises are generally under heavy pressure to maintain business continuity. Some enterprises with overcapacity or highly leveraged or indebted are under greater pressure, showing more risk exposures and NPL increases.

(Unit: RMB1 million)

	End of 2019				End of 2018			
Geographical area	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Beijing-Tianjin-Hebei Region	523,662	27.96	13,237	2.53	409,240	25.36	9,059	2.21
Yangtze River Delta	468,276	25.01	4,969	1.06	402,840	24.97	6,033	1.50
Guangdong-Hong Kong-Macao Greater Bay Area	151,480	8.09	1,151	0.76	119,481	7.40	1,253	1.05
Central and Eastern China	320,096	17.09	8,168	2.55	323,970	20.08	7,937	2.45
Western China	254,278	13.58	3,640	1.43	225,911	14.00	3,902	1.73
Northeastern China	54,885	2.93	2,792	5.09	56,124	3.48	1,453	2.59
Subsidiaries	99,925	5.34	280	0.28	75,950	4.71	172	0.23
Total	1,872,602	100.00	34,237	1.83	1,613,516	100.00	29,809	1.85

4.6.5 Distribution of loans and NPLs by guarantee type

During the reporting period, the Group continued to improve the loan guarantee structure. Its unsecured loans accounted for 20.25%, down 1.01 percentage points over the end of last year; its guaranteed loans took a 31.29% share, down 4.29 percentage points over the end of last year; and its mortgage/pledge loans made up 48.46%, up 5.30 percentage points over the end of last year.

(Unit: RMB1 million)

	End of 2019				End of 2018			
Guarantee method	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Unsecured loans	379,151	20.25	6,056	1.60	343,055	21.26	4,535	1.32
Guaranteed loans	585,920	31.29	17,079	2.91	574,133	35.58	15,240	2.65
Collateral loans	907,531	48.46	11,102	1.22	696,328	43.16	10,034	1.44
– Mortgage loans	609,017	32.52	8,962	1.47	529,378	32.81	6,550	1.24
– Pledged loans	298,514	15.94	2,140	0.72	166,950	10.35	3,484	2.09
Total	1,872,602	100.00	34,237	1.83	1,613,516	100.00	29,809	1.85

4.6.6 Distribution of loans by overdue period

As at the end of the reporting period, the balance of overdue loans at the Group was RMB41.167 billion, a decrease of RMB13.95 billion over the end of the previous year, with a ratio of 2.20%, down 1.22 percentage points compared with the end of the previous year. Specifically, loans overdue for up to 90 days amounted to RMB11.617 billion, accounting for 0.62%, and loans overdue for more than 90 days stood at RMB29.55 billion, accounting for 1.58%. The Group adopted prudential classification standards for overdue loans. At the end of the reporting period, the Group's loans overdue for more than 90 days and NPLs accounted for 86.31% of total overdue loans, down 60.81 percentage points year-on-year.

At the end of the reporting period, the book balance of the Group's restructured loans amounted to RMB686 million, an increase of RMB413 million and accounting for 0.04%, up 0.02 percentage point over the end of the previous year.

(Unit: RMB1 million)

	End of 2019		End of 2018	
	Balance	Percentage (%)	Balance	Percentage (%)
Performing loans	1,831,435	97.80	1,558,399	96.58
Overdue loans	41,167	2.20	55,117	3.42
Of which: Overdue for 1 to 90 days (inclusive)	11,617	0.62	11,262	0.70
Overdue for 91 to 360 days (inclusive)	13,732	0.73	12,633	0.78
Overdue for 361 days to 3 years (inclusive)	8,735	0.47	21,223	1.32
Overdue for more than 3 years	7,083	0.38	9,999	0.62
Total	1,872,602	100.00	1,613,516	100.00
Overdue for over 90 days	29,550	1.58	43,855	2.72
Restructured loans	686	0.04	273	0.02

Note: Overdue loans include the loans with overdue principal or interest. If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

4.6.7 Particulars of top 10 borrowers

During the reporting period, the Company strictly controlled the loan concentration risk. The balance of top 10 borrowers amounted to RMB47.52 billion, accounting for 2.68% of total loans and 15.77% of net capital at the end of the period, respectively. The balance of single largest legal-person customer loans of the Company was RMB9.65 million, accounting for 0.54% of total loans of the Company at the end of the reporting period and 3.20% of net capital.

(Unit: RMB1 million)

	End of 2019		End of 2018	
Item	Balance	Percentage in total loans (%)	Balance	Percentage in total loans (%)
Top 10 borrowers	47,520	2.68	42,538	2.77

4.6.8 Loan migration

Migration ratio is affected by amount of downward migrations, opening balance of loans and amount of decrease in the year. During the reporting period, the Group came under higher pressure of downward loan migration, evidenced by growing amounts of downgraded special mention, substandard and doubtful loans. Meanwhile, the Group strengthened recovery and disposal efforts, seeing a substantial decline in special mention, substandard and doubtful loans in the reporting period. The above two factors pushed up the migration ratio of these loans of the Group at the end of the reporting period.

Item (%)	End of 2019	End of 2018	End of 2017
Pass loan migration ratio	3.82	3.35	5.82
Special-mention loan migration ratio	33.35	23.98	22.45
Substandard loan migration ratio	71.00	26.46	40.83
Doubtful loan migration ratio	47.74	20.02	21.05

Note: Migration ratios were calculated according to relevant rules of CBIRC. Pass loan migration ratio = downward migrating amount of pass loans at the beginning of the period/(balance of pass loans at the beginning of the period – decreased amount of pass loans at the beginning of the period) × 100%; special-mention loan migration ratio = downward migrating amount of special-mention loans at the beginning of the period/(balance of special-mention loans at the beginning of the period – decreased amount of special-mention loans at the beginning of the period) × 100%; sub-standard loan migration ratio = downward migrating amount of sub-standard loans at the beginning of the period/(balance of sub-standard loans at the beginning of the period – decreased amount of sub-standard loans at the beginning of the period) × 100%; and doubtful loan migration ratio = downward migrating amount of doubtful loans at the beginning of the period/(balance of doubtful loans at the beginning of the period – decreased amount of doubtful loans at the beginning of the period) × 100%.

4.6.9 Basic Information on repossessed assets

(Unit: RMB1 million)

Category	End of 2019		End of 2018	
	Amount	Allowance for impairment losses	Amount	Allowance for impairment losses
Repossessed assets to be disposed of	2,511	605	4,314	474

4.6.10 Charge and write-off of allowance for impairment losses on loans

(Unit: RMB1 million)

Item	End of 2019	End of 2018
Balance at the end of the previous period	**47,275**	**38,497**
Changes in accounting policies	8,025	N/A
Balance at the beginning of the period	**55,300**	**38,497**
Charge for the year	29,259	20,186
Recovery in the year	645	258
Less: Transferred out in the year	831	647
Less: Write-offs in the year	35,785	11,019
Change in exchange rate	2	–
Balance at the end of the period	**48,590**	**47,275**

Methods used in charge of allowance for impairment losses on loans: The Group sets aside allowances for impairment losses on loans based on expected loss model as required by the new accounting standards in the light of customers' probability of default, loss given default, other quantitative risk parameters and macro forward-looking information, and states them in profit or loss.

4.6.11 NPLs at the end of the reporting period and measures taken

The Group saw its NPL balance rising in 2019, which was partially caused by macro-economic factors and also was associated with the Group's business characteristics and stricter identification and management of troubled loans. During the reporting period, the Group gave top priority to forestalling and defusing financial risks under the asset quality pressure. Solid moves were made to strictly control new defaults and delinquencies. Unprecedentedly intense efforts were invested in recovery and disposal of NPLs and overdue loans.

First, rigid management of credit policy implementation was strengthened. Underscoring the forward-looking guiding role of credit, investment and financing policies, the Group gradually applied the evaluation results of policy implementation to resource allocation, credit granting, authorization and performance assessment of branches based on innovation in management methods, breakdown of objectives, intensification of implementation supervision, strict assessment and evaluation and in-depth application of findings. A closed-loop policy management system featuring branch-specific, scientific management was carried out.

Second, the Group continued to improve the credit approval process, refined the credit access criteria, strengthened the management of group customers and cross-line financing of a customer and exerted adequate admission control. The credit business structure has been bettered.

Third, the Group continued to strengthen the management of key risk control areas. Major crackdown and risk screening were carried out over key points, including collateral acceptance, engagement of external assessment agencies and lending to non-local borrowers, so as to enhance the quality and efficiency of risk management.

Fourth, the Group strengthened overdue loan control and post-lending management. With an overdue loan control mechanism and a direct check mechanism for post-lending management featuring "monthly forecast, daily monitoring and deal-by-deal dispatching", the Group maintained three lines of defense ("zero occurrence, less occurrence and less migration"), worked hard on "high-risk outstanding problematic loans and large-value overdue loans" and further enhanced the capability of forward-looking management and intervention.

Fifth, the Group conducted stringent due diligence over problematic credit to facilitate debt collection, identified the root cause for credit management problems, strengthened accountability and case-based exemplary education and continued to foster a total-process, full-coverage risk management compliance culture.

Sixth, unprecedented efforts were made to strengthen recovery and disposal of NPLs. NPLs were recovered or disposed of through collection, restructuring, transfer, repossession, litigation and write-off. The disposals in the year increased significantly over one year ago. In addition, the Group kept close track of policy changes and communicated with regulators, peers and asset management companies. Moving faster forward in business innovation and following the policy orientation, the Group made active trials on new ways of disposing of problematic loans under the principle of higher efficiency, lower cost and mitigated risk. Disposal channels have been expanded markedly than before. In the year, RMB46.927 billion of NPLs were recovered or disposed of, including RMB4.897 billion of cash collection, RMB5.477 billion of debt transfer and RMB35.785 billion of write-offs.

Thanks to accelerated risk control over new loans and disposal of outstanding NPLs, the Group saw remarkable improvements in asset quality indicators in the reporting period when compared with the end of last year. The foundation of asset quality management has been further improved and fortified.

4.7 CAPITAL MANAGEMENT

4.7.1 Capital composition and its changes

(Unit: RMB1 million)

Item	31 December 2019 Consolidated	31 December 2019 Unconsolidated	31 December 2018 Consolidated	31 December 2018 Unconsolidated	31 December 2017 Consolidated	31 December 2017 Unconsolidated
1.Net capital base	314,020	301,242	276,056	265,799	223,035	214,212
1.1: Core tier-1 capital	209,153	205,041	198,200	195,221	148,850	146,723
1.2: Core tier-1 capital deductions	5	5,090	3	5,090	2	5,090
1.3: Net core tier-1 capital	209,148	199,951	198,197	190,131	148,848	141,633
1.4: Other tier-1 capital	60,154	59,971	20,116	19,978	20,081	19,978
1.5: Other tier-1 capital deductions	–	–	–	–	–	–
1.6: Net tier-1 capital	269,302	259,922	218,313	210,109	168,929	161,611
1.7: Tier-2 capital	44,718	41,320	57,743	55,690	54,106	52,601
1.8: Tier-2 capital deductions	–	–	–	–	–	–
2. Credit risk-weighted assets	2,111,272	2,012,281	1,956,605	1,881,942	1,676,454	1,621,645
3. Market risk-weighted assets	14,103	14,103	12,836	12,836	9,944	9,944
4. Operational risk-weighted assets	135,611	131,594	122,909	120,116	116,428	114,138
5. Total risk-weighted assets	2,260,986	2,157,978	2,092,350	2,014,894	1,802,826	1,745,727
6. Core tier-1 CAR (%)	9.25	9.27	9.47	9.44	8.26	8.11
7. Tier-1 CAR (%)	11.91	12.04	10.43	10.43	9.37	9.26
8. CAR (%)	13.89	13.96	13.19	13.19	12.37	12.27

Notes:

1. Calculated according to the *Regulation Governing Capital of Commercial Banks (Provisional)* (CBRC No. 1 Decree in 2012).
2. Net core tier-1 capital = Core tier-1 capital – core tier-1 capital deductions.
3. Net tier-1 capital = Net core tier-1 capital + other tier-1 capital – other tier-1 capital deductions.
4. Net capital base = Net tier-1 capital + tier-2 capital – tier-2 capital deductions.

4.7.2 Leverage ratio and its changes

(Unit: RMB1 million)

Item	31 December 2019	31 September 2019	30 June 2019	31 March 2019
Net tier-1 capital	259,922	253,898	249,308	206,121
Adjusted on and off-balance sheet asset balance	3,384,115	3,370,975	3,368,193	3,134,528
Leverage ratio (%)	7.68	7.53	7.40	6.58

Note: The above are unconsolidated data calculated according to the *Regulation Governing Leverage Ratio of Commercial Banks (Revised)* (CBRC Decree No. 1 in 2015).

4.7.3 According to the *Capital Rules for Commercial Banks (Provisional)* (CBRC Decree No. 1, 2012), the *Regulation Governing Leverage Ratio of Commercial Banks (Revised)* (CBRC Decree No. 1 in 2015) and other relevant regulatory rules, please refer to the special column of investor relationship at www.hxb.com.cn, the Company's official website, for disclosure of capital adequacy ratio and leverage ratio of the Group.

4.8 ANALYSIS OF INVESTMENTS

4.8.1 Material equity investments

During the reporting period, the Company contributed RMB250 million to National Financing Guarantee Fund Co., Ltd.

Holdings in other listed companies

(Unit: RMB1 million)

Stock code	Stock name	Initial investment cost	Shareholding percentage (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
V	Visa Inc.	1	0.0003	1	0.02	2.50	Other equity instrument investments	Membership fees converted to shares

Holdings in unlisted companies and companies to be listed

(Unit: RMB1 million)

Name	Initial investment cost	Shares held (million shares)	Shareholding percentage (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
National Financing Guarantee Fund Co., Ltd.	500	–	1.51	500	–	–	Other equity instrument investments	Investment with self-owned capital
China UnionPay Co., Ltd.	81	62.50	2.13	81	9.38	118.50	Other equity instrument investments	Investment with self-owned capital
Beijing Daxing Hua Xia Rural Bank Co., Ltd	100	–	80	100	–	–	Long-term equity investments	Investment with self-owned capital
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	35	35	70	35	–	–	Long-term equity investments	Investment with self-owned capital
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	35	52.50	70	35	–	–	Long-term equity investments	Investment with self-owned capital
Huaxia Financial Leasing Co., Ltd.	4,920	–	82	4,920	–	–	Long-term equity investments	Investment with self-owned capital

Note: The cost method was adopted for accounting of the Group's long-term equity investments. Except actual payments upon investment or announced but unpaid cash dividends/profits in consideration, cash dividends/profits announced by investees for distribution were recognized as return on investment into current profit or loss.

4.8.2 Analysis of major controlling and equity participation companies

4.8.2.1 Beijing Daxing Hua Xia Rural Bank Co., Ltd

The bank with a registered capital of RMB125 million started operation in December 2010, in which the Company holds an 80% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB1,102,996,800 and RMB121,749,400, respectively. The deposit balance stood at RMB805,038,700 and total loans at RMB816,420,400.

4.8.2.2 Kunming Chenggong Hua Xia Rural Bank Co., Ltd.

The bank, with a registered capital of RMB50 million, started operation in August 2011, in which the Company holds a 70% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB506,656,500 and RMB56,610,900, respectively. The deposit balance stood at RMB447,381,800 and total loans at RMB465,516,700.

4.8.2.3 Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.

The bank, with a registered capital of RMB75 million, started operation in December 2011, in which the Company holds a 70% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB1,088,537,800 and RMB115,911,200, respectively. The deposit balance stood at RMB960,885,400 and total loans at RMB853,436,000.

4.8.2.4 Huaxia Financial Leasing Co., Ltd

The company, with a registered capital of RMB6 billion, started operation in May 2013, in which the Company holds an 82% stake. At the end of the reporting period, the company's total assets, total liabilities and net assets were RMB100,210 million, RMB90,923 million and RMB9,287 million, respectively.

4.8.3 Material non-equity investments

During the reporting period, the Company did not make any material non-equity investment.

4.9 OTHER INFORMATION DISCLOSED PURSUANT TO REGULATORY REQUIREMENTS

4.9.1 Interest receivable

According to the *Notice on Amending and Issuing the Formats of Financial Statements for Financial Enterprises* (C.K. [2018] No. 36), the interest accrued on financial instruments using the effective interest rate method shall be included in the book balance of relevant financial instruments and presented in relevant statement items. Interest due and receivable but not received is stated under "other assets".

Charge of allowance for bad debts of interest receivables:

During the reporting period, as the Group inspected the interest receivables and there was no impairment, the allowance for bad debts was not set aside.

Writing-off procedures and policy of bad debts:

As for the items in line with the conditions of writing-off, the Company adopted the procedures of declaration by the branches and approval by the Head Office: relevant departments of branches organized the declaration and review for the bad debts writing-off, submitted to the president panel of branches for review and approval and then reported it to the Head Office; after being reviewed by relevant departments of the Head Office and approved by the Asset Risk Disposal Committee, the items were written off.

In the process of bad debts writing-off, the Company followed the principles of "confirming to identification conditions, following effective evidence, filing after writing-off, and maintaining recovery rights". After the bad debts were written off, the management responsibility was strictly carried out and diversified methods were adopted in the continuing recourse.

4.9.2 Financial assets measured at fair value

During the reporting period, the Company determined the fair value of bond investments measured at fair value using the quotation, transaction price or yield curve. The yield curve published by China Central Depository & Clearing Co., Ltd. was used as the RMB-denominated bond yield curve, and the yield curve provided by the Bloomberg system was adopted as the foreign currency-denominated bond yield curve.

(Unit: RMB1 million)

	End of 2018	Changes in accounting policies	Beginning of 2019	Changes in fair value through profit or loss during the period	Accumulated changes in fair value through equity	Allowances for impairment losses during the period	End of 2019
Financial assets measured at fair value through profit or loss	12,470	-12,470	–	–	–	–	N/A
Available-for-sale financial assets	124,933	-124,933	–	–	–	–	N/A
Derivative financial assets	1,130	–	1,130	-204	–	–	926
Loans and advances to customers measured at fair value through other comprehensive income	N/A	25,059	25,059	–	-139	502	133,731
Held-for-trading financial assets	N/A	49,782	49,782	831	–	–	89,783
Other debt investments	N/A	120,289	120,289	–	1,483	2	129,400
Other equity instrument investments	N/A	3,729	3,729	–	-606	–	4,961
Others	42	–	42	-1	–	–	–
Total financial assets	**138,575**	**61,456**	**200,031**	**626**	**738**	**504**	**358,801**
Derivative financial liabilities	1,054	–	1,054	-748	–	–	1,802

Note: There is no necessary articulation in the table.

4.9.3 Off-balance-sheet items that may have material impact on financial position and operating results

(Unit: RMB1 million)

Item	Balance at the end of 2019	Balance at the end of 2018
Credit commitments	693,101	588,104
Of which:		
Irrevocable loan commitments	6,203	14,892
Bank acceptance drafts	333,918	275,971
L/Gs and other payment commitments issued	29,368	23,648
L/Cs issued	136,609	97,495
Unused credit card limit	187,003	176,098
Lease commitments	7,231	7,324
Capital expenditure commitments	107	40

Note: Lease commitment means operating lease commitment.

The above-mentioned off-balance-sheet items might have impact on the Group's financial position and operating results, which depends on whether the related matters will occur in the future. Under certain conditions in the future, they may be converted to the actual obligation of the Group in accordance with the recognition principle of contingencies.

4.9.4 Innovative products

The Company remains customer-centric and market-oriented to accommodate the market changes and customer needs. It has continuously improved the product research and development mechanism and carried out product development and business innovation compliantly. There were 57 innovative or optimized products during the reporting period.

The Company furthered the combination of commercial banking and investment banking in corporate finance, remained problem-oriented and used integrated product and service solutions to enhance the capability of integrated financial services. Corporate finance launched distinctive financing products including city renewal loans and standby loans and improved the liability and cash management products. The green finance brand of Building a Beautiful Hua Xia through Green Finance was continued and the China Renewable Energy and Battery Energy Storage Promotion Project was successfully launched in cooperation with the World Bank. Investment banking launched the industrial-financial service fund, market-based debt-for-equity swap and matchmaking products and enhanced the Company's ability to serve large-scale customers. Trade finance kept improving its product system, enriched the forfaiting product series and launched the single-window cross-border payment settlement and re-factoring products.

Retail finance business was transformed with vigor to promote innovation in featured products. Retail finance spared no effort to build a scenario-based, online consumer credit system and promoted new personal loan products with differentiated scenarios, including Hua Xia e Loan, online auto loans, insured or guaranteed consumer loans and Elite Loan to meet the financial demands of consumption upgrades at the time. The wealth management and private banking business system was improved and the payment product acquiring system was refined continuously.

The financial markets segment innovated products with the aim of expanding the scope of investment and increasing the return on assets of customers and consolidated market resources to serve customers. The financial markets segment strengthened innovation in interbank investment products and supported the investment and financing needs of key customers. The asset management segment sped up innovation in wealth management products and rolled out the Longying fixed income enhanced wealth management products investing mainly in standard debt assets with appropriate allocations to derivative assets and equity assets to boost income, providing new options to serve investors with different preferences, optimize customers' asset allocations and increase income.

Internet finance segment kept enhancing user experience and improving the cash management service system. The Company developed nine distinctive cash management products, including "Account Link", "Bidding Link" and "Distribution Link" and launched the "Qiyue Treasury Manager" brand. Five online corporate service systems were built, including corporate online banking, cash management client, Bank-Corporate Direct Link, corporate mobile banking and interbank cash management cloud platform. The mobile banking was innovatively restructured to harness artificial intelligence, big data and other novel technologies to boost product performance. The bank-wide integrated payment platform was built to meet customers' demand for cross-bank online payment.

4.9.5 Structured entities controlled by the Company

For the consolidated structured entities of the Group and the interests and rights enjoyed in structured entities excluded from the consolidated financial statements in detail, please refer to Note XIV. Structured Entities.

4.9.6 Material asset and stock right sales

During the reporting period, the Group did not make any material asset or stock right sales.

4.10 BUSINESS REVIEW

Unless otherwise specially stated, Section 4 starting from 4.10 analyzes all data and information from the Company's perspective.

4.10.1 Corporate banking

During the reporting period, the Company stayed true to the strategy of basing its operation on deposit business, pursued a customer-centric approach to management customers more meticulously, and coordinated resources by a combination of commercial banking and investment banking. While working harder to enhance its comprehensive financial service capacity, it rendered customers with a full package of financial services including loan and guarantee, investment banking, green finance, supply chain finance, trade finance, and cash management, thus serving and supporting the development of real economy in a substantive way.

Corporate customer management

The Company further implemented the "3-3-1-1" customer[2] strategy, served the national strategies of coordinated development of the Beijing-Tianjin-Hebei Region, integrated regional development of the Yangtze River Delta and development of the Guangdong-Hong Kong-Macao Greater Bay Area, and supported the development of the local mainstream economy and real economy. By a combination of commercial banking and investment banking, the Company provided customers with a full range of financial services including credit, equity investment and mergers and acquisitions. The Company strengthened headquarters-level strategic cooperation with local governments and key companies. Comprehensive partnership agreements were signed with municipal governments of Chongqing, Guangzhou, Xiamen and Sanya, and corporations like China General Technology, Beijing Infrastructure Investment Co., Ltd., Suning Holdings Group and JiangSu Communications Holding Co, Ltd. to promote business cooperation. Seeking to become a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region financially, the Company stepped up financial service for the "Four Centers" drive of Beijing and boosted its ability to serve the capital economy. The Company created the bank-government cooperation platform, expanded the institutional customer base, enhanced the capability of serving the public finance, social security, land and housing, tobacco, healthcare, education as well as public security, procuratorial and court authorities. It won the bidding for the central government's non-tax revenue collection agent. The Company deepened its cooperation with the veterans affairs authority by issuing the Hua Xia "Veterans' Card" to provide comprehensive quality financial services for veterans. The Company seized the opportunity of the "Internet + Governance" drive to provide institutional customers with featured system development services, such as "Case Payment Express", "Smart Campus" and "Smart Hospital". At the end of the reporting period, the Company had 567,300 corporate accounts, an increase of 36,600 accounts or 6.91% over the end of the previous year. The Company had business cooperation with 4,550 or 27.85% of the 16,335 whitelisted "3-3-1-1" customers. The above whitelisted "3-3-1-1" customers contributed RMB202.654 billion of corporate deposits per day in average, up RMB31.494 billion or 18.40% from the previous year. The balance of loans stood at RMB165.575 billion, up RMB21.665 billion or 15.05% from the end of the previous year.

Corporate deposits

The Company strengthened the marketing of deposits, issued the guide to deposit sources, carried out list-based marketing, developed the integrated financial service plan for core customers and managed to grow corporate deposits rapidly. At the end of the reporting period, the Company's balance of corporate deposits stood at RMB1,341.642 billion, an increase of RMB125.593 billion or 10.33% over the end of the previous year. The cost of corporate deposits was 1.78%, up 0.12 percentage point from last year.

Corporate loans

The Company deepened financial services around the national strategies, "following the direction of industrial adjustments, mainstream economic trends and industry development" to serve the real economy. As at the end of the reporting period, outstanding loans of the Company amounted to RMB1,132.298 billion, an increase of RMB49.261 billion or 4.55% compared with the end of the previous year. The Company strengthened credit support for branches in key regions, including the Beijing-Tianjin-Hebei Region, Yangtze River Delta and Guangdong-Hong Kong-Macao Greater Bay Area. The balance of loans issued by branches in the Three Regions rose by RMB49.816 billion or 8.17% over the end of the previous year.

Investment banking

The Company continued to develop the service system combining commercial banking and investment banking, leveraging on the dual engines of asset organization and asset sales to achieve rapid growth in investment banking. Breakthroughs were made in matchmaking, financial bond underwriting and asset securitization. Zero material default in bond underwriting was recorded for 13 years in a row. Advising and matchmaking, market-based debt-for-equity swap, industry finance fund and bond underwriting were launched in succession. Both the scale of bond underwritings and fee-based income hit an all-time high. At the end of the reporting period, the Company's investment banking totaled RMB264.602 billion, up 76.76% over the previous year, realizing RMB939 million of business income. Specifically, bond underwritings and issues reached RMB182.903 billion, pushing the Company up by one notch in the joint-stock commercial bank ranking by size of bond underwritings. The matchmaking market turnover was close to RMB81.699 billion, among the top few.

[2] "3-3-1-1" customers broadly refers to the four key targeted customer groups of the Company. The numbers stand for over 3,000 domestic A-share listed companies, over 300 high-quality local state-owned enterprises, about 100 centrally controlled businesses, and about 10,000 NEEQ-listed companies.

Green finance business

The Company furthered the green finance development. Keeping in line with China's economic transformation and industry restructuring, the brand of Building a Beautiful Hua Xia through Green Finance became more influential. The Company established the Green Finance Management Committee in 2019 to take overall charge of its green finance business and improve relevant systems and mechanisms. Based on the Innovative Financing Project for Air Pollution Control in the Beijing-Tianjin-Hebei Region in the charge of the World Bank, the Company won the contract for the China Renewable Energy and Battery Energy Storage Promotion Project. The Project is funded jointly by the Company and the World Bank with over RMB5 billion to support China's energy storage and new way of renewable energy utilization at a relatively low capital cost. It is the first financial product dedicated to energy storage in China, and also the World Bank's largest energy storage project worldwide. As at the end of the reporting period, international on-lending funds had provided financing services for 80 projects in a total of 16 Chinese provinces, municipalities and autonomous regions, which could help save 2.96 million tons of standard coal, and reduce 6.40 million tons of carbon dioxide emission across the Chinese society every year. At the end of the reporting period, the Company's balance of green credit totaled RMB79,844 million, up RMB23,145 million or 40.82% over the year beginning.

Trade finance

Aligned with national strategies and under the guiding principle of "pursuing development, preventing risks, enhancing compliance and promoting transformation", the Company remained on the track of "growing bigger while putting quality first and prioritizing efficiency", strengthened product innovation and business marketing and enhanced the ability to serve the real economy. At the end of the reporting period, trade finance recorded RMB527.388 billion in on- and off-balance sheet balance of assets, up 28.63% year-on-year. International settlements totaled RMB135.125 billion, growing by 13.40% in spite of unfavorable environment and hitting a new high. With product innovation and utilization strengthened, the balance of domestic L/Cs and other capital-light business assets totaled RMB166.7 billion, up 47.58% year-on-year. Forfaiting products covered the primary and secondary markets to form a full-fledged product system with various business models. The correspondent banking network was built in line with the national strategies, with 645 or 52.69% of correspondent banks located along the Belt and Road.

4.10.2 Retail finance

During the reporting period, the Company spared no effort to create a smart retail business system which would focus on customer experience, base itself on data, and be driven by technologies. The Company actively implemented an array of development strategies. It provided services to consumers, created value for shareholders and created wealth for the society.

Personal customers and retail customers

The Company made all-out effort to build a customer service system "dedicated to your better life" following development strategy of expanding consumer credit, strengthening wealth management and improving acquiring services.

The customer base structure was further improved. As at the end of the reporting period, the Company had 26,902,500 personal customers, up 13.38% over the end of last year, 448,600 VIP customers[3], up 17.26% over the end of last year, 241,400 wealth management customers[4], up 26.35% over the end of last year, 20,500 high-net-worth individual (HNWI) customers[5], up 27.68% over the end of last year, and 9,800 private banking customers[6], up 19.60% over the end of last year.

Key customer groups grew fast. As at the end of the reporting period, the Company had 514,800 consumer credit customers, up 30% over the end of last year, 365,900 acquiring customers, up 16.34% over the end of last year, 4,029,700 elderly customers[7], up 21.12% over the end of last year, and 2,270,700 ETC customers, up 33.30% over the end of last year. Valid credit card holders[8] numbered 15,294,500, up 6.12% over the end of last year.

Personal deposits

The Company remained customer-centric to take personal deposits from all channels in a comprehensive way, putting focus on customer management, product utilization, project promotion and capacity enhancement. With a sustainable growth model in place, the Company managed to expand the personal deposit base with improved structure and quality. In terms of customer management, the Company promoted scenario-based development of personal customers and managed them by tier and category. In terms of products, the Company strengthened innovative development and effective utilization of key products, promoted products with great market influence, such as large-denomination certificates of deposits with monthly interest payment and Huiying structured deposits, increased varieties of Mobile Banking 5.0 deposit products, intensified product pricing management and precision marketing and developed a number of product brands including "Monday Shopping" and "Rosy Month". In terms of projects, the Company further pushed for major demolition projects and payroll projects and endeavored to build a scenario-based marketing platform. In terms of production capacity, the Company strengthened concentration of resources in key regions, improved the administrative measures for conformity of operating entities and promoted management of institutions by category. As at the end of the reporting period, the balance of personal deposits of the Company increased by RMB38.62 billion or 14.09% year-on-year to RMB312.663 billion.

Personal loans

The Company further tilted resource allocation to retail finance pursuant to the underlying principle of deepening the financial supply-side structural reform, enhancing the ability to serve the real economy and meeting the people's financial needs for living a better life, thus pushing for high-quality development of personal lending.

Persistently dedicated to meeting borrowers' reasonable consumer credit needs, the Company provided a full spectrum of multi-tier, professional financial products and services for homebuyers, shoppers and startup owners. The product development was strengthened and product models were upgraded to foster a better and stronger personal loan brand intended to meet customers' dwelling, working and living needs. The Company pursued "stronger housing loan business, bigger online loan business and better consumer credit business" on a policy-led and project-driven basis. Based on local characteristics, it seized market opportunities to diversify personal credit products and accelerate the integration and innovation of lending scenarios. Leveraging on industrial and technological strengths, the Company developed an online automobile consumer loan product, "Easy Auto Loan", to provide novel full-chain auto finance services for broad customer groups. Employee consumer loans were especially promoted among high-quality enterprises and well-performing industries through enhanced collaboration between corporate and personal finance segments. Cooperation with local provident fund management agencies was strengthened to create high-quality, featured and digital customer acquisition platform for consumer credit. At the end of the reporting period, the Company's balance of personal loans (excluding credit cards) was RMB333.868 billion, representing an increase of RMB67.698 billion or 25.43% over the end of the previous year.

The Company actively seized the high ground in the online retail credit platform. In a move to practice the development concept of technology-driven finance, online personal lending was developed as the priority of personal loan business innovation and transformation. Technology empowered personal lending in terms of online personal loans and online migration of personal loans. Scenario-based online credit platform project was further developed to develop online personal consumption loans in cooperation with partners and support personal consumption. The Company accelerated online development of personal loans. The mobile marketing platform for personal loans went live. The pad-based mobile marketing platform began to take loan application and disburse loans to enhance marketing service capacity, increase business efficiency and improve customer experience. The Company made progress in online development of personal loans in the year. Mobile Banking 5.0 credit business was launched. Hua Xia e Loan, Elite e Loan and Easy Auto Loan realized process reengineering, including e-contract signing, disbursement, repayment and inquiry via mobile banking. Hua Xia e Loan whitelist realized the development and launch of system functions and model strategy. At the end of the reporting period, the balance of online personal loans increased by RMB24.046 billion or 217.08% year-on-year to RMB35.123 billion. The balance of NPLs was RMB156 million, representing a NPL ratio of 0.44%.

The proprietary risk control models for personal loans were vigorously developed. The Company completed the development of proprietary risk control models for online personal loans, brought online the digital credit risk control platform, forestalled frauds and credit risk of online lending and enhanced the risk control and prevention for online personal loans.

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3 VIP customers mean individuals with an average daily balance of personal financial assets under management of RMB200,000 to RMB600,000 in a month.

4 Wealth management customers mean individuals with an average daily balance of personal financial assets under management of RMB600,000 to RMB3 million in a month.

5 HNWI customers mean individuals with an average daily balance of personal financial assets under management of RMB3 million to RMB6 million in a month.

6 Private banking customers mean individuals with an average daily balance of personal financial assets under management of over RMB6 million in a month.

7 Elderly customers mean individuals aged above 55.

8 Valid credit card holder means a customer with at least one valid credit card in his/her name.

Wealth management and private banking

The personal wealth management business segment built up its fund raising ability remarkably, with assets under management growing rapidly. The Company adhered to the development strategy, continued to strengthen the sales organization of wealth management products and launch wealth management products tailor-made for new customers, asset growth customer, ETC customers and credit card customers. It moved faster to launch the net-worth wealth management products, issued multi-tranche products, region-specific products and customized private banking products, and shifted from expected yield-based wealth management products to net-worth products to advance the transformation to net-worth wealth management products. The Company strengthened development of novel and featured products, launched a number of fixed income interval, private placement, cash management, foreign currency and cyclical products to further enrich the wealth management product line.

Integrated financial services for asset allocation were provided to meet customers' wealth management demand. Moreover, while cementing its collaboration with funds, insurers, trust companies, securities dealers, and other agencies, the Company selected a mix of premium trust, insurance, fund, precious metal, and other products from a wide range. It stepped up the product lineup development to meet customers' wealth management needs and provide customers with comprehensive financial services for asset allocation. Customers were provided with individualized investment advice and high-quality products and professional advisory service for wealth management, thus enhancing the customer stickiness. In addition, the Company vigorously transformed its wealth management business from such perspectives as product, system, service, and team, and helped wealth business lift its professional management standard and service capacity. During the reporting period, the Bank recorded a net fee and commission income of RMB1.708 billion from wealth management, up 41.16% from the previous year. The Company generated an agency insurance premium totaling RMB1.518 billion, a trust scale sold by proxy of RMB5.261 billion and a fund scale sold by proxy of RMB22.246 billion.

The Company implemented the FinTech strategy to upgrade the way of providing wealth management services. Enabling precision service with technological innovation, the Company developed the robo-advisor system to meet customers' demand for asset liquidity and trading convenience and long-tail customers' demand for wealth management, helping customers improve their personal portfolio of financial assets. The wealth management and private banking management system was developed to enhance the marketing management of wealth management and private banking customers and provide strong support for customer development and management. Benchmarking to leading peers, the wealth management and private banking systems and mechanisms were developed in a faster pace in line with the strategic plan. As part of its all-out effort on wealth management transformation and private banking development, the Company established tier-one departments and professional teams for wealth management and private banking in charge of the operation management, market development, marketing organization and promotion, tiered customer services, product R&D management and relevant risk management of wealth management and private banking. The Company selected outstanding partners market-wide and filtered quality products and strengthened supply of private banking products, so as to set up a system of premium private banking products and meet private banking customers' financial service demand. By enhancing the service capacity of professional teams, the Group tailored marketing and service plans for different customer groups. The VIP and higher-level customer groups were expanded to increase the value contribution of wealth management customers and lay a solid foundation for private banking development.

At the end of the reporting period, the Company recorded RMB780.826 billion in total financial assets of personal customers, up 22.94% over the end of the previous year. VIP customers had RMB156.757 billion in total financial assets, up 19.34%. Wealth management customers had RMB282.566 billion in total financial assets, up 28.70%. HNWI customers had RMB83.634 billion in total financial assets, up 29.43%. Private banking customers had RMB161.807 billion in total financial assets, up 16.60%.

Acquiring and payment services

The Company developed a distinctive acquiring product "Hua Xia Cashier" to integrate payment management, cashier management and purchase-sell-stock management, integrate online and offline operations, embed acquiring and payment features into various merchant scenarios to promote development of acquiring scenarios. The "10,000 Households in 100 Cities" marketing campaign was carried out to serve the real economy, MSEs and people's living standards by providing field financial services. Keeping pace with the times and making use of the achievements of financial science and technology innovation, the Company was one of the first banks to launch face scan payment services. The mobile payment project was furthered by introducing mobile payment service for various smartphones. The Company optimized the acquiring products, further improved the acceptance environment, and provided customers with a more convenient, secure and efficient new payment experience.

Scenario-based ETC payment marketing was carried out among car owners by taking the opportunity of serving the national livelihood enhancement program. The Company strengthened the headquarters-level cooperation with the Highway Monitoring & Response Center of the Ministry of Transport to enable bank-wide ETC services. The business modes were enriched by rolling out the headquarters-to-headquarters, non-local and branch-to-branch ETC services. The business processes were optimized to serve customers over the counter or through online channels including mini-apps and WeChat Official Account. The number of ETC customers grew fast to 2,270,700, up 33.30% from the end of the previous year, giving the Company a leading edge among joint-stock commercial banks.

Credit card

In the credit card business, the Company rode on the industry trends, properly handled various complex factors, implemented a more prudent risk control strategy, increased the proportion of high-quality customers and high-quality assets and strove to achieve balanced and coordinated business development and risk control.

The Company was dedicated to improving customer experience and service capability, further expanded the product fields, enriched product features, intensified development of consumer scenarios and worked hard to develop distinctive services for every aspect of customers' life, including "food, clothing, housing, transport, entertainment, tourism and education".

The Company continued to increase IT investment in credit cards, adopted a technology-led strategy, promoted digital transformation, developed artificial intelligence applications and boost the ability of FinTech to drive business development continuously.

As at the end of the reporting period, the Company had issued a cumulative number of 24.3592 million credit cards, an increase of 12.16% over the end of the previous year, and recorded RMB16.8262 billion balance of credit card loans, a growth of 2.08% over the end of the previous year. The number of effective credit cards at the end of the reporting period[9] was 17,810,700, up 4.73% year-on-year. During the reporting period, value of credit card-based transactions totaled RMB1,083,980 million, representing an increase of 8.58% year-on-year. The Company realized RMB15,947 million income from credit card business, a growth of 14.89% over the previous year.

Transformation of retail business towards digital operation

Progress was made in accelerating the digital transformation of retail business. As part of its strong effort on digital innovation, the Company pushed for preparation and launch of such key projects as the mobile marketing platform for personal loans and Mobile Banking 5.0 credit business, and successfully launched the Auto Loan 3.0, which were effective drivers of digital transformation of retail business. The Head Office strengthened the direct management of online loan data, brought discipline to P2P project entry and approval and regulated the cooperation with Internet platforms. Active explorations were made in API services for merchants' acquiring and application of the face scan payment technology.

The credit card-related FinTech capacity building was intensified to deepen big data application. External trusted data were imported in a faster pace, giving full play to the leading role of "data, model and technology". The big data and AI platforms were employed for modeling and the credit card business models were created or improved to effectively enhance the capability of business support and risk identification. The Company furthered its push for the digital management system for customer lifecycle, gradually established a multi-tier, classified pricing system for customers, accelerated the "Splendid Life" APP development and improved is capability of decision making on credit card business and customer management.

A panoramic view of retail customers was created to deepen the digital precision marketing. The Company completed the development and go-live of the retail customer information sharing platform project to share and integrate information on retail customers, increase 1,420 new tags for credit cards, channels, behaviors, P2P lending and related companies of retail customers. A multi-department automatic cross-marketing process was established to boost collaborative precision marketing and increase the customized level of customer services.

4.10.3 Financial market business

During the reporting period, the Company, through taking operational compliance and innovative development as its primary mission, propelled financial markets, assets management and asset custody, and other business lines towards coordinated advancement with the aim of serving the real economy. The business system was improved, operation management refined and ESG investment philosophy imported. Explorations were made in leveraging FinTech to enhance the capability of investment research, trading and investment management and ultimately increase the profitability of financial markets business. Channel development was intensified to establish a customer base for interbank cooperation, improve the open market business qualifications, enhance the customer acquiring and market influence and sharpen the edge in wealth management and custody services among joint-stock commercial banks. The Company continued to implement the diversification strategy, striving to become an "integrator of financial services" and boost the ability to serve the real economy and customers through diversification.

On 14 December 2019, the Company hosted the "First ESG Investment Summit of China Asset Management", together with attended representatives from associations and financial institutions, shared insights on "development philosophy of ESG investment" and "sustainable development with financial services", and released the Huaxia Bank ESG, which was jointly prepared with China Securities Index Co., Ltd.

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9 The number of effective credit cards at the end of the reporting period means the number of cards remaining unclosed and within the validity period at the end of the statistical period.

Financial market business

According to changes in the external macro environment (e.g. Sino-US trade war and US interest rate cuts) as well as domestic market changes (e.g. deeper financial supply-side reform and "six stabilities"), the Company strengthened research and judgment on domestic and foreign macro-economic trends, bond markets and foreign exchange markets, responded actively to bigger volatility of interest rate and exchange rate in the financial markets, adjusted trading strategies in due time, managed risks well and improved the investment management capabilities. In addition to scaling up stably overall, it appropriately adjusted bond duration and position structure, thus improving the return on bond investment continuously and steadily. In the meantime, it actively fulfilled the responsibilities due to dealers in the interbank market and the foreign exchange market, and solidly conducted the proprietary and agent fund transactions, so as to increase trading volume and profitability constantly. The Company further participated in the market and expanded the trading volume by currency trading, bond trading, foreign exchange trading and commodity trading. As a result, it became more influential in the market. During the reporting period, it completed 61,802 interbank lending transactions and pledged repurchase transactions, amounting to RMB70,093.265 billion, up 1.41% year-on-year. In 2019, the Company ranked second market-wide, or first among joint stock commercial banks[10], in the interbank money market transactions. The accumulative amount of RMB and foreign currency-denominated treasury transactions (group-level) reached RMB78,926,963 million, flat with one year ago.

Asset management services

On the premise of operational compliance, the Company strengthened product R&D innovation and investment capacity building, boosted FinTech support and optimized customer mix in pursuit of the steady development of the Company's assets management business. During the reporting period, a total of 4,538 wealth management products were issued with total sales of RMB2,099.972 billion, down 16.73%. At the end of the reporting period, there were 3,032 existing wealth management products with a balance of RMB652.208 billion, an increase of 38.97%. Among the existing wealth management products of the Company, the balance of personal wealth management products increased by 25.58% over the end of the previous year, and the balance of corporate wealth management products rose by 83.75% over the end of the previous year. During the reporting period, all the matured wealth management products of the Company had been paid at expected rate of return or performance benchmark. Because of the weakening overall yields in the wealth management market, RMB31.588 billion of investment income was created for customers, down RMB5.567 billion or 14.98% year-on-year. The fee-based business income from wealth management amounted to RMB2.043 billion, down RMB1.135 billion or 35.71% year-on-year.

Asset custody services

The Company endeavored to strengthen weaker areas of custody service, optimized the mix of products, made breakthroughs in securities investment funds and insurance fund custody and saw fast growth in banks' wealth management, securities dealers' asset management plans and segregated account custody. Collaborative marketing was further deepened based on internal and external resources, with collaboration strengths of relevant business lines consolidated. The Company strengthened branches' custody service, marketed key products with vigor and enhanced key branches' market capacity and contributions. During the reporting period, the Company had 7,193 products under custody, up 53.50% year-on-year, covering securities investment funds, securities dealers' asset management plans, banks' wealth management, insurance-related asset management schemes, asset-backed special plans, and equity investment funds. The assets under custody reached RMB3,738.937 billion, with a year-on-year increase of 31.74%. The fee-based business income from custody amounted to RMB1.085 billion accumulatively, up 11.59% year on year.

4.10.4 FinTech

During the reporting period, in the face of rapid technological advancement and environmental changes, the Company continued to deepen the FinTech development strategy and remained guided by "value creation" with a vision of "smart finance, digital Hua Xia". It unswervingly increased resource investment, focused on the five goals of "led by innovation, driven by data, smart transformation, safe operation and efficiency enhancement", and used big data and artificial intelligence and other emerging technologies to accelerate innovation. Improvements were made in product services, platform interconnection, risk prevention and control and user management. FinTech has become an effective supporter and driver of business development, making new breakthroughs in serving the real economy and providing convenient financial services for the public.

The overall FinTech capacity improved steadily

During the reporting period, the Company invested more resources in FinTech, with IT investment standing at RMB2.656 billion, up 36.91% year-on-year. Both the number of new systems and the number of requirements go-lives hit an all-time high. The Company completed 85% of the 15 key projects identified in the FinTech development plan. Innovative achievements were made in the cash management platform, Mobile Banking 5.0, digital credit, big data and artificial intelligence.

The technological innovation mechanism was improved, with digital transformation moving onto the fast track. The FinTech innovation fund was incepted and used to encourage innovation and creative ideas and boost creativity. The FinTech innovation incubation project was implemented mainly for such applications as healthcare and military-civilian integration ecospheres, branch-specific digital operation and Internet of Things. The FinTech innovation risk reserve was created to improve the innovation fault-tolerant mechanism. Agile development was promoted and the development process was streamlined to increase the efficiency of project development. The time length of the total process was reduced by 30%.The system architecture was reshaped to optimize core systems, laying the foundation for rapid, stable and continuous development of business.

[10] According to the Ranking of Excellent Money Market Dealers among the selection results of 2019 Interbank RMB Market released by China Foreign Exchange Trading System.

The infrastructure platforms were further cemented to significantly improve smart operation maintenance. The Company continued to build the private cloud platform housing over 200 application systems and more than 800 devices of the Head Office and branches, enabling centralized management of bank-wide systems and further reducing the time for system application. The operational maintenance APP "i Operation on Palm" was developed, with over 90% of versions released automatically. More than 80% of operation maintenance work can be done via the APP. The cyber-security defense-in-depth system was continuously improved and a secure operation team established to further enhance the capability of IT risk prevention and control.

The business support ability was further enhanced with fruitful FinTech application. The Company defined the overall strategy of transformation to a "centralized and distributed" hybrid architecture, focused on optimizing and restructuring the core systems. The system processing performance saw multi-fold improvements to meet the Company's needs regarding small-value, high-frequency Internet transactions. A digital credit service platform featuring automatic decision making, calculation and early warning was established to enable "approval in 40 seconds and disbursement in 3 seconds" to online credit applicants. Based on biometrics technology, the Company became one of the first joint-stock commercial banks to launch the facial recognition-based offline payment service. "Face Scan Pay", a smart payment product, was launched jointly with China UnionPay at the World Internet Conference. The Company built a big data integration platform, integrated massive customer data generated about 5,000 tags of customer behaviors and preferences, etc. and development a panoramic view of customers to meet the needs of business cross-marketing, credit risk control, robo-advisor and other scenarios. Based on its artificial intelligence service platform, the Company employed technologies such as big data, machine learning, knowledge graph, image recognition, etc. to develop anti-fraud, robo-advisor, intelligent customer service and online credit risk control systems, providing services for various scenarios such as intelligent marketing, fraud blocking, bill recognition and big data-based risk control.

The value-centric strategy of Internet finance delivered fast-growing outcomes

The Company continued to deepen the path of implementing the FinTech strategy, in consideration with the trend of digital transformation, gave full play to the role of Internet finance in creating value, dynamically adjusted business structure and developed new growth poles of value contribution. During the reporting period, the number of the Company's mobile banking customers increased by 2,509,600 to 13,610,100, with the balance of these customers increasing by 22.61%. The number of Internet finance transactions resulting in account balance changes increased by 27.36% year-on-year, with 98.52% of transactions deals conducted through electronic channels.

Innovation and service enhancement were both strengthened to create synergies in the retail segment. Mobile banking was upgraded under the mobile first strategy and employed to unify channels and service access points, integrate smart customer service, robo-advisor service and smart ecosphere and improve the security protection mechanism, thereby providing customers with innovative, considerate and integrated "financial + living" services offering peace of mind. Mobile Banking 5.0 has applied 31 technological innovations, including biometrics and artificial technology, optimized 22 processes for deposits, wealth management products, and launched over 30 business varieties and more than 140 product features for sale or service. Overall performance increased by 10 times when compared with the pre-upgrade level. The client boot-up time is less than 1 second and the daily active users rose by 1.5 times when compared with the pre-upgrade level. Integration of online and offline channels was accelerated and smart marketing tools were developed to create a closed loop of marketing. Marketing events were extensively carried out, including data model-based precision marketing to 4 million customers to improve customers' business journey experience in every respect.

A competitive edge in serving the real economy was sharpened by filling gaps and boosting strengths. Qiyue Treasury Manager, a cash management platform with industry-wide comparative advantages, was established to provide services to a batch of typical players in construction, transport, agriculture, wholesale and retail and manufacturing industries. It helps enterprises solve such problems as burdensome treasury management operations, account reconciliation disorders and management difficulties, increase their asset utilization rate and strengthen fund management. The platform covered 223 core enterprises and managed more than 2,300 accounts in the year. The "Integrated Payment Platform" featuring combination of online and offline operations was built, enabling the Company to perform its duties as a payment industry participant and meet customers' demand for integrated payments under Hua Xia and non-Hua Xia scenarios, online and offline scenarios as well as corporate and personal scenarios. Corporate mobile banking was built and a business exchange and opportunity sharing platform was established to shape a corporate ecosphere. In support of the coordinated development of the Beijing-Tianjin-Hebei Region, the "Platform Express Pal", cash management and other products quickly gained access to the Xiongan blockchain business platform to provide services for 21 enterprises, including China Xiongan Group, Xiongan Group Ecology Construction & Investment Co., Ltd., and support key projects in Xiongan New Area, such as Millennium Forest Project. Good economic and social benefits have been delivered.

Forward-looking planning joined with industrial-financial integration to upgrade industrial Internet. As the commercialization of 5G technology gains pace, digital economy and industrial Internet upgrades will usher in a new landscape. During the reporting period, Internet finance explored the forefronts of integrating 5G technology with other information technologies such as big data, cloud computing and artificial intelligence persistently under the philosophy of innovation-led development. Full-time team or joint laboratory was established in cooperation with industry leaders such as Huawei and Tsinghua Unisplendour to develop industrial-financial integration solutions related to industrial Internet, so as to create a new value creation model characterized by smart integration.

Stricter bottom line and stronger technological line of defense were put in place to ensure isolation of financial risks. The mushrooming online transformation has added to the difficulties and urgency of forestalling financial risks. During the reporting period, the Company strictly implemented regulatory requirements, checked for the payment security risks, brought discipline to industry practice and strengthened risk control over new forms of business comprehensively. The Company kicked off the development of the anti-fraud real-time risk control platform to enable real-time smart risk control. It cooperated effectively with the public security authority in cracking down on telecom frauds, with stop-payments and freezes amounting to RMB592 million in the year.

4.11 RISKS AND RISK MANAGEMENT

During the reporting period, the Company carried out its risk management with the aim of acting on regulatory requirements, adhering to the bottom line for risk management and preventing and controlling various risks effectively. It promoted and completed the organizational structure reform for comprehensive risk management, continued to strengthen credit risk control, strengthened risk control in key links and fields and exerted every effort to promote sustained and healthy business development of the Company.

4.11.1 Credit risk status

Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to a commercial bank, when the bank operates credit, inter-bank lending and investment businesses. The credit risk of the Company mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans and advances, placements with banks and other financial institutions, interbank lending, bond investments, bill acceptance, letters of credit, and letters of guarantee.

4.11.1.1 Organizational framework and division of responsibilities of credit risk management

The Company has established a credit risk management organizational framework with reasonable duty division and definite responsibilities. Established under the Board of Directors, the Related Party Transactions Control Committee is responsible for managing related party transactions and the Risk & Compliance Management Committee is responsible for formulating risk management policies and supervising the management of various risks by the senior management. Established under the senior management, the Credit, Investment and Financing Policy Committee of the Head Office is responsible for the formulation, organization and implementation of material credit risk management policies; risk management and internal control committees of the Head Office and branches review comprehensive risk management matters, arrange and coordinate risk management and internal control work; the Asset Risk Disposal Committee is responsible for researching and approving matters on asset risk handling; the risk management departments of the Head Office and branches are responsible for credit risk management of the whole bank and local branches; according to the authorization system and business risk profile, the Company conducts professional approval and authorization approval of important industries and businesses; the Company strengthens functions of each link of credit business, and sets up positions with definite responsibilities and smooth operation.

4.11.1.2 Credit asset risk classification procedures and methods

Pursuant to the requirements of the former CBRC's *Guidelines on Loan Risk Classification*, the Company classified credit asset risks in consideration of such non-financial factors as the solvency, willingness to repay, repayment records and guarantee condition of the borrowers and their internal management, according to the step-by-step identification procedures: preliminary classification by the customer manager, review by the customer manager in charge, and then review, recheck and identification by the branches' credit risk management personnel.

4.11.1.3 Credit risk profile

Credit exposures: At the end of the reporting period, without regard to the available collateral or other credit enhancements, total on- and off-balance-sheet credit exposures of the Group amounted to RMB3,610,134 million, including on-balance-sheet business exposure of RMB2,917,033 million, 80.80% of the total, and off-balance-sheet business exposure of RMB693,101 million, 19.20% of the total.

Large-value risk exposure management. The Company actively carried out the large risk exposure management in accordance with regulatory requirements and reported large risk exposures quarterly to regulatory authorities. At the end of the reporting period, the Company and the Group saw all their non-banking single customers, non-banking related customers, interbank single customers and interbank group customers meeting the regulatory requirements for large-value risk exposure.

For further details of credit risk management of the Company, please refer to "4.6 Loan Quality Analysis" and "4.12.1 Loan quality management" in this report.

4.11.2 Explanation on liquidity risk status

Liquidity risk is the risk that a commercial bank may be potentially unable to meet the asset growth and debt obligations when due at a reasonable cost. To strengthen liquidity risk management, the Company has established a well-functioning liquidity risk governance framework, made clear the responsibilities of the Board of Directors, Board of Supervisors, senior management, and specialized management departments. It set up the Asset and Liability Management Committee in charge of liquidity risk management, put in place a fairly complete set of liquidity risk appetite, strategy, procedures, and measures, and introduced specific responsibilities, flows and methods for liquidity management. In 2019, PBOC maintained reasonably ample market liquidity using a combination of monetary policy tools. The Company improved its responsiveness to changes in external environment and market conditions. It maintained a stable structure of assets and liabilities, increased the sources of stable funding, strengthened process management, improved liquidity limit management and assessment, conducted risk screening and made proper day-to-day deployment of funds to ensure payment security.

During the reporting period, the Company's asset-liability structure and liquidity remained stable as a whole without any payment difficulties, default or deferred payment. All regulatory indicators relating to liquidity reached the prescribed standards. At the end of the reporting period, the liquidity coverage ratio was 113.95% and net stable funding ratio was 103.16%.

Liquidity coverage ratio

(Unit: RMB1 million)

Item	31 December 2019
Stock of high-quality liquid assets	273,147
Net cash outflows over a 30-day time period	239,698
Liquidity coverage ratio (%)	113.95

Note: The above are consolidated data calculated according to the *Notice of CBIRC on 2019 Offsite Regulatory Statements Preparation and Reporting* (Y.B.J.F. [2018] No.69) and the *Liquidity Risk Management Measures of Commercial Banks* (CBIRC No.3 Decree in 2018).

Information on net stable funding ratio

(Unit: RMB1 million)

Item	31 December 2019	31 September 2019
Available stable funding	1,664,948	1,644,835
Required stable funding	1,613,971	1,601,478
Net stable funding ratio (%)	103.16	102.71

Note: The above are consolidated data calculated according to the *Notice of CBIRC on 2019 Offsite Regulatory Statements Preparation and Reporting* (Y.B.J.F. [2018] No.69) and the *Liquidity Risk Management Measures of Commercial Banks* (CBIRC No.3 Decree in 2018).

4.11.3 Explanation on market risk status

Market risk is defined as the risk of loss to the Bank's on- and off-balance sheet activities caused by adverse movements in market rates (including interest rates, exchange rates, stock prices and commodity prices). The main market risk confronting the Company includes interest rate risk and exchange rate risk. The Company established a sound market risk management system appropriate for the Company's business nature, size and complexity and spanning the entire process of identification, measurement, monitoring and control. It formulated the annual market risk management strategy and work guidelines, controlled market risk limits, regularly reviewed relevant policies, limits and models and effectively controlled market risk.

In the face of complex macro-economic and financial situations at home and abroad and in line with its annual strategy for risk management, the Company conducted ongoing analysis of the impact of major events on the market risk of relevant businesses, improved the market risk limit system, enhanced the limit management capability, strengthened risk control over key businesses and important links, conducted timely risk analysis, gave timely alerts and warnings and continued to boost the capability of market risk management. During the reporting period, the Company managed market risk well, keeping all market risk limits within target range and the market risk at a controlled level.

4.11.3.1 Interest rate risk management

4.11.3.1.1 Trading book

Interest rate risk in the trading book refers to the risk of on- and off-balance sheet transactions incurring market value losses due to unfavorable changes in interest rates. The Company measures and manages the interest rate risk in the trading book by setting an array of risk indicators, including exposure, stop-loss, value at risk (VaR) and interest rate sensitivity. Products with interest rate risk mainly include bonds and interest rate-related derivatives.

In terms of bond trading, the Company's trading-book investment mainly covers RMB bonds, especially domestic interest rate bonds. The investment grades of credit bonds are strictly controlled. In 2019, the bond market saw an inverted V-shaped yield curve. Based on its judgment on external situation, the Company took advantage of the interest rate declines in the bond market to flexibly adjust the portfolio duration structure and bond mix, controlled the overall VaR level, assessed the reasonableness of bond exposure, profit/loss and other limits through sensitivity analysis, stress testing and profit/loss attribution and increased the return on bond trading within risk appetite and limit. In terms of interest rate derivatives, the Company dynamically adjusted the exposure structure of trading portfolios and risk management strategies according to trends of market factors including interest rate swap price curves for various maturities and swap points, so as to effectively control the market risk of interest rate swap, foreign exchange swap and currency swap.

4.11.3.1.2 Banking book

Interest rate risk in the banking book is defined as the risk of loss in the economic value and overall profit arising from adverse movements in interest rate and maturity structure, mainly including gap risk, benchmark risk and option risk. The Company measures risks through sensitivity analysis of net interest income, sensitivity analysis of economic value, repricing gap and stress testing. While controlling interest rate risk, the asset and liability structure was reasonably adjusted in line with interest rate trends to boost net interest income.

Based on outcomes of management consulting and IT system projects, the Company substantially improved the ability to measure interest rate risk and went deeper in building an interest rate risk management system.

In terms of the use of multi-dimensional management tools, the interest rate risk management was quantitatively supported by stronger ability to identify and measure the effects of changes in interest rate and maturity structure on economic value and overall return, based on strengthened analysis of interest rate risk trends. Data governance was advanced further to new regulatory standards and good industry practices. The Company kept improving system features regarding interest rate risk management, completed system upgrades, enriched interest rate scenarios of systems, optimized the multi-dimensional report system and strengthened dynamic simulation features thus to better measure the interest rate risk. The Company completed the design of quantitative tools for reverse stress testing and business structure adjustment templates and gradually applied them to internal management to improve the capability of interest rate risk management in every respect.

In terms of in-depth management system, the Company strengthened internal management and explored how to combine the Bank's interest rate risk management and the management of branches and subsidiaries, thereby extending interest rate risk management to subsidiaries and branches. The Company intensified the interest rate risk management of subsidiaries and branches by implementing the interest rate risk management strategy, improving the assessment system, strengthening risk alerts and providing professional training. It also stroke a balance between risk management and business development, with the asset and liability structure adjusted reasonably.

At the end of 2019, the re-pricing maturity of major currency types like RMB and USD at the Company was distributed reasonably. The impact of interest rate risk changes on the Company's earnings and value was under control, the interest rate risk staying low.

4.11.3.2 Exchange rate risk management

Exchange rate risk refers to the risk of on- and off-balance sheet businesses of a bank incurring losses due to unfavorable changes in exchange rates. In 2019, RMB value became more volatile against US dollars partly due to the seesaw-like Sino-US trade frictions. The RMB/USD middle rate fell with fluctuation before a slight pickup, depreciating by 1.65% to 6.9762 over the year. The Company actively responded to the foreign exchange market volatility and kept improving the measurement and management of exchange rate risk across the bank.

In the banking book, the Company's businesses exposed to exchange rate risk mainly include foreign currency deposits, loans, interbank assets, interbank liabilities and foreign currency profits, principally denominated in US dollars. The Company reasonably matched assets and liabilities in RMB and foreign currencies and controlled the currency mismatches using exposure analysis, scenario analysis, stress testing and other measurement methods.

In the trading book, involved businesses mainly include foreign exchange settlement and sales on behalf of customers, foreign exchange trading on behalf of customers and proprietary foreign exchange trading. Exchange rate risk is managed with such risk indicators as exposure, stop-loss and market VaR, with the exchange rate risk taken by the Bank controlled at an acceptable level. In terms of agency business, the Company continued to improve the management procedures for foreign exchange settlement and sales on behalf of customers, strengthened the management of foreign exchange settlement and sale exposures and generated stable price spread income through the agency foreign exchange business. In terms of proprietary trading, the Company strengthened the forecast of exchange rate trends, dynamically adjusted the direction and size of exposure, intensified control over the exposure, sensitivity, stop-loss and other limits on spots, forwards and foreign exchange options to ensure conformity to market risk limits.

In 2020, the international political and economic situations are more complicated and changeful. There is great uncertainty in the Sino-US trade frictions, US general elections and the US Federal Reserve's monetary policy. China's economy is stable while under pressure, expected to see bigger volatility in interest rate and exchange rate. The Company will actively respond to the complicated market environment, strengthen market situation analysis and prejudgment, boost the ability to manage limits, keep strengthening risk analysis and control of key businesses, conduct stress testing and give risk alerts in a timely manner, continuously implement the new regulatory requirements and further improve management of market risk.

4.11.4 Explanation on operational risk status

Operational risk is the risk of loss arising from the Company's inadequate and faulty internal processes, staff and IT systems or caused by external events. It includes legal risk but not strategic or reputational risk.

The Company strictly follows regulatory requirements on operational risk management. The Board of Directors assumes the ultimate responsibility for monitoring the effectiveness of the operational risk management, and the Senior Management is responsible for implementing the strategy, overall policy and system for operational risk management approved by the Board of Directors. The Risk Management and Internal Control Committee under the Senior Management, as the organizer and coordinator of operational risk management, is responsible for hearing reports on operational risk management and carrying out work according to the working rules for the committee. The Company adopts an operational risk management framework based on three lines of defense. Business and functional departments, as the first line of defense against operational risk, are responsible for carrying out all the work on operational risk management within their respective business line. The legal and compliance departments as the second line of defense against operational risk are responsible for the arrangement and organization for the establishment and implementation of operational risk management system. Discipline enforcement, security, human resources, IT, finance and accounting, operation management, credit approval and risk management departments at all levels are classification control departments for operational risk in institutions at various levels, which are responsible for management and control on specific types of operational risk. These departments, together with legal and compliance departments, form the second line of defense of operational risk management. The internal audit departments as the third line of defense against operational risk are responsible for assessing the effectiveness of the operational risk management system and uncovering and reporting problems during assessment in line with provisions.

During the reporting period, the Company continued to strengthen operational risk control and organized efforts to identify, monitor, assess, measure and report on operational risk and carry out other relevant day-to-day management work. First, the Company effectively used a variety of operational risk management tools to strengthen operational risk identification, organized each major business line to streamline procedures and conduct self-assessment of operational risk and control and prevented and controlled operational risk at the source. It established a mechanism for monitoring and follow-up evaluation of key risk indicators, continuously improved the operational risk monitoring capability and issued early risk warnings. The Company collected operational risk events and loss data and enhanced the analysis of typical incidents. Second, the Company strengthened risk prevention and control in key fields, gave timely alerts to typical risk events, updated the handbook encompassing all important areas of operational risk in all business lines and the prevention and control measures, issued the collection of operational risk cases and inspected key operational risk issues. Third, the Company strengthened operational risk culture development, organized bank-wide trainings on operational risk management system and skill competitions, released developments on operational risk management at fixed intervals of time, and enhanced operational risk management personnel's capability of performing their duties. Fourth, the Company continued to improve the operational risk management system to improve the features of capital measurement, risk event collection and personnel management modules, which allowed the system to be used more conveniently and effectively. During the reporting period, the operational risk management system of the Company enjoyed stable operation, placing operational risk under control in the overall sense.

4.11.5 Explanation on status of other risks

Compliance risk status

Compliance risk is the risk of legal sanction, regulatory punishment, material financial losses or reputational damage arising from a commercial bank's failure to comply with laws, rules and standards.

The Company has established an effective compliance risk governance structure with well-defined duties of the Board of Directors, the Board of Supervisors, the Senior Management, specialized management departments and departments of the Head Office and branches. The Board of Directors is ultimately responsible for the compliance of the Bank's business activities. The Board of Supervisors supervises the performance of compliance management duties by the Board of Directors and the Senior Management. The Senior Management is responsible for effectively managing the compliance risk of the commercial bank. The Legal & Compliance Department of the Head Office is responsible for assisting the Senior Management in managing the bank-wide compliance risk. The legal & compliance departments of branches are responsible for assisting the branch management in managing branch-wide compliance risk. Other departments of the Head Office and branches are responsible for managing compliance risk of the corresponding business line.

During the reporting period, the Company operated in accordance with laws and regulations to ensure full regulatory compliance. It carried out the "Cement Achievements in Irregularities Crackdown, Enhance Compliance" and "Year of Compliance Enhancement" campaign. A company-wide videoconference was held to kick-off and arrange for relevant work. The system of principal officer's responsibility was strictly assigned to each level and the bank-wide work plan distributed. Consistently oriented to problems and risks, the Company organized branches and departments to conduct self-inspection and "double random" onsite inspections in a comprehensive and deep-going manner, so as to effectively forestall and defuse risks and fortify the foundation for compliance. The internal control policies and procedures were refined. The *Measures for Management of Business Processes of Hua Xia Bank* was revised to strengthen total-process risk management. The *Collection of Main Regulatory Rules of CBIRC* and the *Full List of Regulatory Bans* were issued to build the line of defense against compliance risk. The Company strengthened fraud risk prevention control, effectively assigned the duty of fraud prevention and maintained tough crackdown on frauds. Fraud risk screening was strengthened for "key regions, key businesses, key links and key positions". The *Code of Professional Conduct of Hua Xia Bank* was formulated to strengthen the management of employee conduct. The working mechanism for problem correction was optimized. The *Administrative Measures for Correction of Problems Identified in Internal and External Inspections of Hua Xia Bank* was revised. Efforts were intensified to check correction of problems and effectively strengthen the rectification of problems identified in internal and external inspections. The Company improved the working mechanism for anti-money laundering, formulated the money laundering risk management policy, revised the measures for management of money laundering risk and other policies, created the institutional money laundering risk assessment models and indicators, furthered the reform in centralized branch processing of suspicious transactions and effectively carried out money laundering data crackdown. The Company kept strengthening the compliance risk culture development, took the opportunity of the "Year of Compliance Enhancement" to carry out thematic events including case study, fraud prevention training and AML awareness, fortified the foundation for comprehensive, total-process compliance of all personnel and effectively boosted all employees' sense of compliance.

IT risk status

IT risk means operational, legal and reputational risk arising from natural factors, man-made factors, technical vulnerabilities or management deficiencies in the use of information technology by a commercial bank. During the reporting period, while fully implementing various requirements raised by the competent state authorities and regulators for IT risk management, the Company further stepped up the management of the three lines of defense against IT risk, namely, IT departments, IT risk management departments and IT audit departments. The Company carried out risk screening and security monitoring on a routine basis, continuously improved the in-depth cybersecurity defense system, created a 24/7 security management team, iteratively upgraded the real-time protection capacity of security devices, set and dynamically adjusted the joint handling strategy including attack monitoring and blocking, and continuously enhanced the ability to automatically monitor, detect and eliminate external threats. The IT risk prevention and control ability was further improved. The application security management system was improved. The security risk assessment and security review prior to version launch were strengthened. The IT risk monitoring indicators were improved to add dynamic monitoring items, making monitoring more targeted and effective. The business continuity management was increasingly strengthened and the business continuity drills were conducted to higher quality, indicating stronger capability of emergency handling. Solid progress was made in the disaster recovery of information systems. Cross-center information system transformation was carried out for higher availability. The disaster recovery covered 100% of important information systems. During the reporting period, the Company kept its information systems running stably and maintained a 100% overall availability of important production systems. The IT risk management system ran steadily and IT risk was kept under control overall.

Reputational risk status

Reputational risk is defined as the risk of negative assessment or comments on a commercial bank from stakeholders as a result of its operation, management and other behaviors or external events. Reputational risk management has been included in the Company's system of corporate governance and comprehensive risk management, with the aim of effectively identifying and managing reputational risk, properly tackling reputational incidents, preventing reputational risk, safeguarding the corporate image of the Company and minimizing the negative impact of reputational incidents on the Company and its customers, shareholders, other banks, regulators and other stakeholders by means of establishing a reputational risk management mechanism and improving the reputational risk management system. During the reporting period, the Company duly implemented regulatory requirements on reputational risk, made sustained efforts to build the reputational risk management system, improve the management mechanism and steadily enhance the reputational risk management. In addition, the Company strengthened internal and external risk monitoring, organized screening of potential reputational risk factors, and forecast and warned against and prevented risks at the source. Reputational risk training and drills were carried out, coupled with proactive response to public concerns and effective communication with stakeholders and the general public. Reputational risk management was incorporated in the comprehensive assessment of branches to further strengthen the operating entities' responsibility for reputational risk management. A series of influential and widespread news coverage was put in place to foster and maintain the Company's good social image.

Country risk status

Country risk is the risk of losses incurred in certain countries or regions due to local economic, political and social changes or local borrowers' inability and unwillingness to repay debts arising therefrom. During the reporting period, the Company kept a close eye on the risk of related countries and regions, by monitoring the assets exposed to country risk monthly, rating country risk and setting aside reserve quarterly, and reported country risk exposure and provision statements to regulatory authorities on a quarterly basis. The Company's country risk exposure was mainly to Hong Kong and the US. The business exposure accounted for a low proportion of the on-balance-sheet assets. So the country risk remained under control on the whole.

4.12 KEY CONCERNS IN OPERATION

4.12.1 Loan quality management

During the reporting period, the Company continued to maintain strong control over asset quality, strictly controlled customer access, refined the eligibility criteria for credit customers and improved the quality of new business assets. Strict control and follow-up management were applied to overdue loans, moving the control forward to earlier steps and continuously improving forward-looking management and intervention. Unprecedented efforts were made on debt collection and disposal. Policy rigidity was highlighted to promote the optimization of credit and investment and financing structure. With the top-level design strengthened, the reform plan for the comprehensive risk management system was issued and implemented. The organizational structure, departmental responsibilities, staffing and supporting mechanisms were integrated and optimized at multiple levels. Credit risk management resources were further centrally managed, with emphasis on comprehensive risk coverage and overall management. Pre-lending investigation, post-lending management and approval authorization were improved. By addressing both symptoms and root causes systematically, the risk prevention and control efforts yielded remarkable results. The asset quality remained stable and further improved. The Group's balance of overdue loans and its percentage share both fell from the end of last year. The proportion of loans overdue for more than 90 days and NPLs is 86.31%, down 60.81 percentage points year-on-year. NPL ratio was 1.83%, down 0.02 percentage point year-on-year.

2020 will see deeper and tougher changes in the business environment of banks. As the downward economic pressure mounts, banks will be challenged by deterioration in quality of the stock, insufficient effective demand for the increment and greater market impact across sectors. In this situation, the COVID-19 pandemic that started since the Chinese New Year significantly affected the global economy as well as China's social and economic development. Some industries have been hit hard, placing higher requirement on banks' ability to support social development and manage risks.

As for the Company, asset quality remains in a tough situation and asset quality management is still the top priority. The Company will adhere to the development logic and strategy of "adjusting structure, boosting quality, boosting efficiency and stabilizing scale", take the opportunity of reforming the comprehensive risk management system to address symptoms and root causes of asset quality problems and continuously enhance the asset quality comprehensively by deepening structural adjustments and strengthening the management mechanism.

First, the comprehensive risk management system reform will be deepened. The Company will continue to promote the comprehensive risk management system reform, effectively implement the risk management procedures, optimize the management of credit approval and credit authorization evaluation, and vigorously push forward the approval and entry management. The Company will strengthen risk identification and monitoring, boost the rigidity of implementing credit, investment and financing policies and strive to enhance the professionalism and foresight of risk management. The quality and efficiency of risk management will be enhanced, with a focus on key businesses and links. The communication and cooperation among business lines will be strengthened to promote joint prevention and control of risks. Information technology will be employed to improve risk control. Policies will be tracked to improve the capability of situation analysis, judgement and response, so as to make risk management increasingly comprehensive, systematic and effective.

Second, risk in the increment business will be strictly guarded against. The Company will strengthen the structural control of incremental business, ensure accurate approval and acceptance, persist in matching industrial structure adjustments with national industrial policies and tilt the regional structure adjustments toward "Three Regions, Two Lines and Multiple Points". Great efforts will be made to increase the proportion of high-quality customer groups, strengthen exit from low-quality credit customers, strengthen access management and prevent the spread of industrial and regional financial risks. The Company will strengthen the management of loan and interest collection, and strictly control the occurrence of new overdue loans. The risk management of new businesses and products will be intensified by strengthening the management responsibilities at all levels.

Third, all-out effort will made to mitigate the risk in outstanding debts. The Company will take an array of measures to effectively promote quick disposal of NPLs, expand disposal channels and tap the disposal potential to the maximum extent. Cash collection efforts will be stepped up to improve the debt transfer and write-off policy and expand the disposal channel for non-performing assets. The Company will work hard on recovery and transfer by promoting debt-for-equity swap and collaborative collection of repossessed assets and written-off assets. Active explorations will be made as to new ways of disposing of problematic assets. Company-wide initiative will be brought out to carry out effective intense disposal and fine-grained management and, without compromising compliance, boost the efficiency and quality of handling risks in existing assets through various channels and in various forms.

Fourth, the accountability for asset quality assessment will be enhanced. The Company will deepen and optimize the incentives and assessment mechanism, improve the risk management evaluation system and performance evaluation of branches' risk management personnel and assign responsibilities to every level and every step of the process. Accountability and punishment will be strengthened, with persistent efforts in place to develop a risk culture of duty performance and due diligence and pursue high-quality development of credit business.

4.12.2 Net interest margin

During the reporting period, the Group's net interest margin was 2.24%, an increase of 20 bps from the previous year. The Company actively improved the quality and efficiency of asset development and continuously improved the asset structure in support of the income from interest-generating assets. Meanwhile, the Company seized market opportunities to effectively reduce the cost of liabilities.

During the reporting period, the Group steadily boosted net interest margin. First, the management of asset allocations was improved to enhance the quality and efficiency of asset development. The Company grew its corporate finance business stronger by matching credit supply with national industry polices and tilting toward regions with healthier economic growth and higher overall return. The retail finance business expanded in size while further implementing the "SME financial service provider" initiative and strengthening the retail business development strategy. The financial market activity was increased to contribute more profit. Second, across-the-board liability management was implemented, with the deposits and market-oriented funds allocated reasonably to lower the cost of liabilities. In an easy monetary environment, the costs of different fund sources were well compared to strengthen the market-based control of liability volume and price, In the meantime, process management was strengthened in respect of customers, products, services, channels and platforms to comprehensively improve the capability of customer marketing services and take in more low-cost funds. Third, FinTech application was accelerated to generate synergies between FinTech and corporate finance, retail finance and financial market segments, speed up the formation of platform-based, wholesale and technology-driven marketing modes and boost the quality and efficiency of growth.

Currently the banks are under greater pressure to stabilize interest margin as the world economy is slowing down while China's economy faces more uncertainties in growth. The Company will conduct in-depth research into industry development and changes in market trends, remain customer-centric and market-oriented, take the opportunities of national strategies, regional strategies, industrial structure adjustments and consumption upgrades to improve the regional, business, industrial and customer mix of assets and liabilities, accelerate business transformation and effectively keep the Company's net interest margin at a reasonable level.

4.12.3 Inclusive finance

The Company followed the policy guidance from the central government and regulatory authorities, heighten the political stance, further implemented the major strategy of "SME financial service provider" and endeavored to improve distinctive operating mechanisms, build a distinctive product system, develop FinTech-based innovative and distinctive financial services and improve distinctive risk control models, so that all at the Company worked together to advance the financial services for micro and small businesses.

4.12.3.1 Business developments

First, the Company resolutely answered the requirements of the state and regulatory authorities and remained focused on the micro and small businesses each with a credit line of no more than RMB10 million within the scope of the "two no-less-than" policy. As at the end of the reporting period, the balance of MSE loans within the scope of "two no-less-than" stood at RMB100.14 billion, up RMB15.467 billion or 18.27% over the end of the previous year, 2.98 percentage points above the growth rate of total loans. 90,135 customers had outstanding loans with the Company, an increase of 18,505 over the end of the previous year. The interest rate and non-performing ratio of loans were kept at reasonable levels. CBIRC's regulatory requirements of "two no-less-than and two control" were fulfilled, demonstrating outstanding performance in meeting MSE regulatory targets for many years in a row. The Company is expected to remain entitled to preferential policies, including VAT reduction for interest income from eligible MSE loans, subject to final approval by relevant authorities.

Second, the Company implemented the national plans for the tough battle against poverty with strengthened coordination and collaboration that reaped great rewards. The "Shoulder the Mission and Responsibility for Poverty Alleviation through Financial Services" case was included in the *Cases of Precision Poverty Alleviation by Chinese Enterprises by Sector (2018)* compiled by the Department of International Cooperation and Social Poverty Alleviation of the State Council Leading Group Office of Poverty Alleviation and Development and the Research Center of Corporate Social Responsibility China Academy of Social Sciences. The Company won the "Best Contributor to Precision Poverty Alleviation" award at the top 100 CSR awards conference held by the China Banking Association.

Third, the Company improved the organizational structure to adopt relatively independent mechanisms for MSEs, such as credit planning, capital measurement, performance assessment, risk policy, credit approval and provisioning and write-off, and established specialized service institutions for MSEs at all levels of the Bank.

4.12.3.2 Innovation in products and FinTech

First, the inclusive "Private Enterprise Express" and MSE cards were launched to provide private enterprises and MSEs with a package of financial service solutions and a variety of financial services. For example, the "Lasting Access" service model was rolled out to automatically renew eligible loans, providing MSEs with more convenience for re-lending and loan renewal.

Second, Hua Xia Quick Loan was launched and the online loan product series were improved. By promoting FinTech innovation, the Company optimized business operation processes, boosted the efficiency of online business processing and enhanced the ability to quickly serve customers.

Third, the persistent efforts were made to foster the "SME financial service provider" brand. The Company won the special award for "Zhongrong Inclusive Finance" Case of the Year at the Second (2019) China Finance Annual Brand Cases Competition and the "2019 China Golden Orange Award – Best Inclusive Finance Services" from the *Time Weekly*. The "Longhui Small Enterprise Loan Asset-backed Securities Tranche 1 in 2018" won the "Rising Star of the Year" at the China Securitization Forum and the "Jie Fu Award – Product Recognized in Credit Asset Securitization Market" at the Fifth Structured Finance and Asset Securitization Forum.

4.12.3.3 Risk control and prevention

The Company closely followed the national strategic plans and the requirements regarding the tough battle to forestall and defuse risks and strengthened the requirements on risk management and policy rigidity. Under the risk control strategy of "following the direction of industrial adjustments, mainstream economic trends and industry development", the Company valued the guide to classified management of industries and customers and established a differentiated authorization mechanism for aggregate control, cascaded classification and dynamic adjustments.

4.12.4 Development in the Three Regions

Development in the Three Regions represented the Company's regional development strategy, and a move to implement the national strategies launched by the CPC Central Committee and the State Council to pursue the coordinated development of the Beijing-Tianjin-Hebei Region, integrated regional development of the Yangtze River Delta and development of the Guangdong-Hong Kong-Macao Greater Bay Area. Concentrating resources to accomplish large undertaking is a significant advantage of China's state regime and national governance system, and is also an important method for the Company to implement its regional development strategy in the new era. The Company will strengthen financial innovation and collaboration, explore a new model suitable for differentiated development of branches in the Three Regions in terms of development orientation, business objectives, resource allocation, performance assessment as well as streamlining of governance and delegation of powers. Branches in the Three Regions will be developed into leaders in the Company's transformation in the new era, growth poles for improving quality and efficiency, examples of financial innovation and models for collaborative development. They will contribute more to the Company with higher output/input-ratio and business efficiency, support the development of other branches and achieve the goal of "the rich first pushing on those being rich later". At the end of the reporting period, the Company's outstanding loans to the Three Regions amounted to RMB1,143,418 million, accounting for 64.50% of total loans, an increase of RMB211,857 million or 22.74% compared with the end of the previous year.

In the Beijing-Tianjin-Hebei Region, the Company will take the opportunity of dispersing Beijing's non-capital functions to improve the coordinated development mechanism for the Beijing-Tianjin-Hebei Region, further carry out the initiative to become a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region financially, improve the market share, competitiveness and social influence in the region. Keeping in line with Beijing's urban functions, the Company will harness its role as a "Beijing-based" bank and the capital city's strengths in ample liquidity, headquarters-based economy and strong policy effects to actively serve enterprises run by the central and local governments, with efforts focused on key fields such as construction of Beijing's sub-civic center, development of Xiongan New Area, the Beijing 2022 Games, infrastructure, tech startups, cultural and creative industries, livelihood improvement and green finance. We will embrace the opportunities in industry transformation and upgrading as part of the big picture of coordinated development in the region. At the end of the reporting period, the Company's outstanding loans to the Beijing-Tianjin-Hebei Region amounted to RMB523,662 million, an increase of RMB114,422 million or 27.96% compared with the end of the previous year.

Branches in the Yangtze River Delta will leverage on their strengths as earlier movers, bigger contributors to development and players with high quality and broad room of development, take strong measures that warrant breakthroughs, seize policy opportunities and make full use of resources to accelerate development. Structural adjustments are focused on developing an edge in industrial upgrading and real economic development, getting integrated into the mainstream economy, promoting business development combining commercial banking and investment banking and pursuing retail business transformation. Innovation-driven development are focused on digital transformation, financial actor market and FTZ development in terms of transaction flows, settlement flows and data flows, with the aim of achieving asset-light, capital-light operation. As for synergies, focus will be placed on the financial service requirements posed by integrated regional development and synergies will be created among branch clusters through integration of services, marketing and risk control. Branches will be vitalized based on local resource advantages and development foundation by implementing comprehensive differentiated management and creating a quick response mechanism. At the end of the reporting period, the Company's outstanding loans to the Yangtze River Delta amounted to RMB468,276 million, an increase of RMB65,436 million or 16.24% compared with the end of the previous year.

In the Guangdong-Hong Kong-Macao Greater Bay Area, the Company will leverage on strengths including privileged geographic location, clustering innovative elements and leadership in internationalization, focus efforts on developing retail finance, trade finance, financial markets and FinTech and make major breakthroughs in infrastructure and green finance. In Guangzhou, a central city and integrated transport hub of China, the Company will mainly support the development of infrastructure, strategic emerging industries, advanced manufacturing and modern services. In China's ongoing drive to build Shenzhen into a pilot demonstration area of socialism with Chinese characteristics, the Company will speed up FinTech development and establish a business innovation base in the city that is intense in leading FinTech firms and financial resources and flexible in business policies. In Hong Kong, an international center for finance and trade and a hub for global offshore RMB business, the Company will step up the development of trade finance and business innovation and create overseas customer service platforms and overseas investment, financing and trading platforms. At the end of the reporting period, the Company's outstanding loans to the Guangdong-Hong Kong-Macao Greater Bay Area Regions amounted to RMB151,480 million, an increase of RMB31,999 million or 26.78% compared with the end of the previous year.

On 13 November 2019, Chairman Li Minji paid a visit to Ma Xingrui, Governor of the People's Government of Guangdong Province. The two discussed and communicated on the subsequent cooperation expansion between Hua Xia Bank and Guangdong province.

4.13 OUTLOOK FOR DEVELOPMENT IN 2020

4.13.1 Development trends, risks and challenges in the future banking sector

Looking forward to 2020, the basic trend of steady long-term growth for China's economy will remain unchanged, despite a large number of global political and economic uncertainties and mounting downward pressure on Chines economy. Banking is at the core of modern service industry. In an economic landscape with major changes seen once a century, especially with the Chinese financial sector on the verge of another round of full opening-up, Chinese banking institutions will see both challenges and opportunities.

On the one hand, the banking industry faces challenges. The world economy continues to slow down, remaining in a deep correction in the wake of international financial crisis. The global landscape is changing faster with an increasing number of turmoil hotspots and risk areas. Banks see slow growth of balance sheets, rising credit risks, shrinking interest spreads and lack of momentum for income growth. The structural, cyclical and institutional problems of the domestic economy are intertwined, and the combined effects of deceleration in growth, painful economic restructuring and the hangover of previous stimulus policies are further felt, exposing risks in some regions, industries and enterprises. There is still uncertainty in the Sino-US trade frictions. The stock market and exchange rate markets may become more volatile. It is an arduous task to forestall and defuse financial risks.

On the other hand, the banking sector has opportunities. In 2020, China will uphold the general principle of pursuing progress while ensuring stability, the new development philosophy and the major task of supply-side structural reform. The macro governance policy of "prioritizing stability" provides a cushion period for the banking sector to deepen reform and development and address bottleneck issues. The monetary policy maker will intensify counter-cyclical adjustments, unblock the interest rate transmission mechanism and reasonably reduce the financing cost of the real economy through gradual adjustments of the loan prime rate (LPR). The fiscal policy will provide significant support to revitalize micro entities through massive tax cuts and fee reduction. The overshooting rise in macro leverage ratio has been curbed and the handling mechanism for bond defaults has been continuously improved, creating a good environment for asset quality management in the banking sector. The blockchain and other emerging technologies develop in a faster pace, shining light on the way for commercial banks to transform their retail finance business and seize the commanding heights of innovation in FinTech. The deep-going opening-up of the financial sector brings about historic opportunities for internationalization of the banking sector.

The Company will follow China's economic development trends, have a proper view of the current and future challenges and fully understand and grab the opportunities in economic transformation. It will adhere to a clear-cut stand in Party building while fully dedicated to pursuing development. Efforts will be made to adjust structure, enhance quality, increase profitability and stabilize scale by taking deepening structural adjustments and promoting business transformation as main tasks, taking differentiated development and fine-grained management as the starting point, placing focus on the development of the Beijing-Tianjin-Hebei Region, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area, so as to strengthen the internal drivers of development, improve the quality of operations on all front and promote high-quality development in every respect. With persistence in seeking to deliver positive results of operation and management and deepen the strict Party governance in every respect, the Company will do its best to ensure fulfillment of tasks and objectives set forth in the 2017-2020 development plan.

4.13.2 Operating plan and measures

In 2020, the Company will further implement the core messages conveyed at the 19th CPC National Congress and the Central Economic Work Conference, adhere to the general principle of "pursuing progress while ensuring stability" and the new development philosophy, stand fast with the established strategies and ensure business continuity. The Company will further execute the regional development strategy of "Three Regions, Two Lines and Multiple Points" to accelerate business transformation and accomplish the development plan by strengthening management, improving structure, enhancing quality and increase profitability.

4.13.2.1 Focus will be placed on primary responsibility and principal business under the guiding principle of pursuing progress while ensuring stability.

The Company will actively get integrated into the mainstream economy. Following the proactive fiscal policy and prudent monetary policy, the Company will step up financial services for advanced manufacturing, strategic emerging industries, weaker infrastructure fields and livelihood improvement and get involved deeper in the industry and consumption upgrades. It will actively serve the digital economy, improve the financial service mode for high-tech firms and strengthen the financial services for sci-tech listed companies.

Precision poverty alleviation will be strengthened. The Company will exert every effort to provide financial support for poverty alleviation. It will step up financial services in poverty alleviation, elderly care, communities, education and healthcare. While ensuring the fulfillment of all precision poverty alleviation tasks, the Company will make overall planning and coordination to accomplish the poverty alleviation work entrusted by local governments, and provide timely financial assistance to the people who return to poverty and the newly impoverished.

Financial services for MSEs and private enterprises will be further strengthened. The Company will sharpen its edge in inclusive finance products and services, continue to strengthen product innovation, deepen front-line marketing services and make contributions to easing financing difficulties and reducing financing costs, in a bid to achieve the goal of "two no-less-than and two control", and further polish the brand of "SME financial service provider".

Financial services for livelihood improvements will be well provided. The Company will promote in-depth development of green finance, put the ESG concepts into practice, strengthen financial cooperation with the World Bank and other international organizations and actively expand the coverage of green financial services. Strong efforts will be made to serve consumption upgrades with product innovation and service upgrading, so as to meet the growing demand for consumer finance. The Company will also enhance financial knowledge dissemination and consumer protection.

4.13.2.2 Business structure will be improved to facilitate business transformation.

The transformation of retail finance will gain pace. The Company will give full play to the counter-cyclical nature of retail business, take the transformation of retail business as a point of breakthrough in transforming the business model, and turn it into a new engine of value growth. It will accelerate the development of the wealth management and private banking system and improve service level. Credit cards will be developed as a major pillar for retail finance transformation, in an effort to strengthen allocation of resources, further expand the market share and maintain rapid growth.

The corporate finance will transform to a combination of commercial banking and investment banking. The corporate finance will transform to a business that is not intense in assets or capital. The Company will step up the development of distinctive businesses such as supply chain finance and cultural and creative finance. The development of investment banking will be sped up through active involvement in mergers, acquisitions, asset securitization, syndicated loans and matchmaking. The Company will improve customer relationship management and tailor solutions to strategic customers and core customers. Such resources such as corporate finance, investment banking and financial markets will be put together to provide customers with one-stop integrated financial services.

The capital-light transformation of financial market business will be accelerated. The trading business will be developed with vigor, at controlled risks, by harnessing the volatility of interest rate and exchange rate markets and the needs of risk-averse customers. The asset management business will be further transformed by means of front-office strategy, digital transformation, middle- and back-office capacity building and the establishment of wealth management subsidiary. The Company will accelerate the development of trading products related to exchange rate, interest rate, precious metal and their derivatives, improve the system of agency trading products and increase the proportion of agency trading.

Digital transformation will be promoted. The Company will fully digitalize core businesses with the aim of effectively serving customers by improving the quality and efficiency of customer acquisition, enhancing the risk control capability and improving operational efficiency. Taking mobile terminals as the center for integration of channels, the Company looks to seamless connection among mobile banking, online banking and physical outlets. It will strengthen the integration of technology with business, build an agile organization system and speed up the overall reshaping of the digital technology-based organizational system, business models and operational processes.

4.13.2.3 The regional development strategy of "Three Regions, Two Lines and Multiple Points" will be implemented to develop new drivers of growth.

Beijing-Tianjin-Hebei Region: The Company will improve the coordinated development mechanism for the Beijing-Tianjin-Hebei Region, further carry out the initiative to become a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region financially, improve the market share, competitiveness and social influence in the region. Keeping in line with Beijing's urban functions, it will actively serve enterprises run by the central and local governments, with efforts focused on key fields such as construction of Beijing's subsidiary administrative centers, development of Xiongan New Area, the Beijing 2022 Games, infrastructure, tech startups, cultural and creative industries, livelihood improvement and green finance.

Yangtze River Delta: The Company will harness advantages of this region as an early mover and big growth contributor with high quality and great potential of development. It will take deepening structural adjustments and promoting business transformation as the main tasks to develop systems and mechanisms for regional integration and achieve a higher level of development and greater financial innovation.

Guangdong-Hong Kong-Macao Greater Bay Area: The Company will leverage on strengths of this region, including privileged geographic location, clustering innovative elements and leadership in internationalization, focus efforts on developing retail finance, trade finance, financial markets and FinTech and make major breakthroughs in infrastructure and green finance, in a bid to turn this region into a new growth pole for business development.

"Two lines" and "multiple points" regions: The Company will strengthen regional coordination and collaboration, speed up business transformation and explore new growth momentum and breakthrough points for business growth, efficiency enhancement and quality improvement, taking into account local characteristics in social development, economic development and people's livelihood.

4.13.2.4 Asset management will be enhanced to strengthen comprehensive risk management.

The Company will strictly guard against risks in incremental business and mitigate risks in existing business. The Company will intensify structural adjustments of newly admitted industries and customers to curb new problematic loans at the source. It will strengthen exit from low-quality credit customers and strengthen access management. Besides, the Company will promote debt-for-equity swap and collaborative collection of repossessed assets and written-off assets, intensive operation and restructuring and actively explore new ways to dispose of problematic assets.

The risk management system reform will be deepened. The Company will continue to strengthen the development of risk management mechanism, optimize the credit risk approval mechanism, improve credit authorization management and strengthen post-lending management. It will strengthen the risk management of product concentration, business concentration and group customers, strengthen liquidity management, keep close track of fluctuations in interest rates and exchange rates and effectively control market risks.

Compliance will be ensured in operation. The Company will continue to foster a sound corporate culture, persist in total-process, comprehensive compliance management involving all people and establish the correct outlook on development and performance. It will strictly guard against fraud risks, manage operational risks and screen frauds. Sustained efforts will be in place to fight money laundering and gang crimes and ensure effective risk crackdown on P2P loans and other Internet finance activities.

The quality and efficiency of audit will be enhanced. The internal audit function will further play its role to strengthen the audit and supervision of credit risk, potential risks in emerging businesses, IT risk and other main risk areas. The Company will value overall internal control and compliance requirement and continuously strengthen the rectification follow-up mechanism. The professional management of auditing will be strengthened to improve internal auditors' ability to perform their duties.

SECTION V SIGNIFICANT EVENTS

5.1 PROFIT DISTRIBUTION PLAN FOR ORDINARY SHARES/ PLAN ON STRENGTHENING OF CAPITAL BASE WITH CAPITAL RESERVE FOR 2019

5.1.1 Formulation, implementation or adjustment of cash dividend policy

According to the *Articles of Association of Hua Xia Bank Co., Limited*, except for preference shares adopted with the specific dividend policy, the Company can distribute dividends in the form of cash or share or combination of both, and shall maintain the continuity and stability of profit distribution policy. The Company will give priority to the profit distribution in cash. Total profit distributed in the form of cash in the last three years was no less than 30% of the annual average distributable profit attributable to ordinary shareholders realized during the period.

The profit distribution plan for 2018 was reviewed and approved at the Annual General Meeting for 2018 and took effect on 11 July 2019. The distribution plan accorded with the *Articles of Association*, the distribution standard and proportion were definite and clear, and relevant decision-making procedures and mechanism were complete. Independent directors performed their duties and made their due contributions. Minority shareholders were provided with opportunities to fully express their opinions and appeals, and their legal rights and interests were sufficiently safeguarded. Total profit distributed in the form of cash in the last three years was no less than 30% of the annual average distributable profit attributable to ordinary shareholders realized during the period.

5.1.2 Profit distribution plan and plan on strengthening of capital base with capital reserve in the recent three years (including the reporting period)

(Unit: RMB1 million)

Distribution year	Bonus shares distributed per ten shares	Dividends distributed per ten shares (RMB, before tax)	Shares recapitalized per ten shares	Cash dividend (before tax)	Net profit attributable to ordinary shareholders of the listed company in the consolidated statement of the distribution year	Percentage of net profit attributable to ordinary shareholders of the listed company in the consolidated statement of the distribution year (%)
2019	–	2.49	–	3,831	19,125	20.03
2018	–	1.74	–	2,677	20,014	13.38
2017	–	1.51	–	1,936	18,979	10.20

According to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J.[2012] No. 20) released by the MOF and the *Articles of Association of Hua Xia Bank Co., Limited*, the parent company made statutory surplus reserve based on the audited net profit attributable to shareholders of the parent company in 2019, set aside general reserve from net profit at the end of the year to cover unidentified possible losses, and distributed ordinary share dividends to shareholders based on the distributable profit audited. The profit distribution plan for 2019 is set forth below:

1. RMB2,094 million or 10% of the audited net profit attributable to shareholders of the parent company of 2019 (RMB20,942 million) is set aside as statutory surplus reserve.

2. Pursuant to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J. [2012] No. 20) released by MOF, the balance of general reserve shall not be less than 1.5% of the balance of assets exposed to risks and losses at the end of the period. RMB3,671 million is to be set aside as general reserve for 2019.

3. With 15,387,223,983 ordinary shares outstanding of the Company at the end of 2019 as the base number, cash dividends will be distributed to all of the shareholders at RMB2.49 (before tax) per 10 shares, and the cash dividends are to be distributed in an amount of RMB3,831 million.

The above-mentioned profit distribution plan shall be implemented within two months after the Annual General Meeting for 2019 of the Company reviews and approves it.

4. The interest accrual period for preference shares issued in 2016 is from 28 March 2019 to 27 March 2020 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million. The above dividend distribution plan was considered and adopted at the 50th Meeting of the Seventh Board of Directors on 29 October 2019.

5. In June 2019, the Company publicly issued RMB40 billion of perpetual bonds in the national interbank bond market upon approval by CBIRC and PBOC, with the interest rate being 4.85% in the first interest interval and interest payable standing at RMB1.94 billion.

The Company is in the phase of deeper structural adjustments and faster business transformation. The retained profit will be used for capital replenishment to push for implementing strategic priorities of the development plan in support of business development and structural optimization, and gradually lift the profitability level and increase the risk tolerance constantly. In 2019, the cash dividend ratio remained stable overall and edged up slightly. Furthermore, the ratio has maintained an upward trend in recent three years. The profit distribution plan for 2019 gave due considerations to return on shareholders' investments, requirements raised by regulatory authorities, CAR indicators, and sustainable development of the Company.

5.2 PERFORMANCE OF COMMITMENTS

i. The Company's shareholder PICC Property and Casualty Company Limited committed not to transferring the Company's shares acquired from the transfer in 2016 within five years following the delivery date.

Committed by	PICC Property and Casualty Company Limited
Commitment type	Other commitment made in the equity change report
Commitment	Committed not to transferring the Company's shares acquired from the transfer within five years following the delivery date; and share transfer at maturity and qualification of the transferee for shareholder shall be subject to the consent of regulators.
Commitment date	17 November 2016
Commitment term	5 years
Implemented in a strict and timely way (Yes/No)	Yes

ii. Upon the approval of CSRC, the Company issued 2,564,537,330 ordinary shares (A shares) in a non-public offering in 2018, and these shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depositary and Clearing Co., Ltd. on 8 January 2019. Shareholders of the Company, namely Shougang Group, State Grid Yingda International Holdings Group Ltd., and Beijing Infrastructure Investment Co., Ltd., committed not to transferring the Company's shares acquired at this offering within five years following the delivery date; and share transfer at maturity and qualification of the transferee for shareholder shall be subject to the consent of regulators.

Committed by	Shougang Group, State Grid Yingda International Holdings Group Ltd., Beijing Infrastructure Investment Co., Ltd.,
Commitment type	Restrictions on sales of shares of re-financing
Commitment	Committed not to transferring the Company's shares acquired at this offering within five years following the delivery date; and share transfer upon maturity and qualification of the transferee for shareholder shall be subject to the consent of regulators.
Commitment date	8 January 2019
Commitment term	5 years
Implemented in a strict and timely way (Yes/No)	Yes

5.3 FUND OCCUPANCY AND RECOVERY DURING THE REPORTING PERIOD

During the reporting period, as audited and assured by Deloitte Touche Tohmatsu Certified Public Accountants LLP, no funds of the Company were occupied for non-operating purposes by controlling shareholder or other related parties.

5.4 EXPLANATION ON THE NONSTANDARD AUDITOR'S REPORT

Not applicable.

5.5 CHANGES IN ACCOUNTING POLICIES AND ESTIMATES DURING THE REPORTING PERIOD

As from 1 January 2019, the Group started to implement the revised *Accounting Standard for Business Enterprises No.22 – Recognition and Measurement of Financial Instruments, Accounting Standard for Business Enterprises No.23 – Transfer of Financial Assets, Accounting Standard for Business Enterprises No.24 – Hedging,* and *Accounting Standard for Business Enterprises No.37 – Presentation of Financial Instruments* issued by MOF in 2017. According to transitional rules and requirements of the New Financial Instrument Standards, the Group shall make retrospective adjustments in accordance with the New Financial Instrument Standards if financial instruments were recognized and measured before 1 January 2019 under different standards from the New Financial Instrument Standards. If comparable financial statement data from previous periods are not consistent with the New Financial Instrument Standards, there is no need to restate such comparable data for previous periods.

5.6 ENGAGEMENT AND REMOVAL OF INTERMEDIARIES

5.6.1 Engagement and disengagement of the accounting firm for auditing the financial report

The Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the external auditor of the 2019 financial statements with an audit fee of RMB5.18 million. Deloitte Touche Tohmatsu Certified Public Accountants LLP has provided audit service for the Company for seven years.

5.6.2 Engagement of the accounting firm for internal audit auditing

It engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the auditor of the 2019 internal control with an audit fee of RMB1.28 million.

5.6.3 Engagement of financial advisor

During the reporting period, the Company didn't engage any financial advisor.

5.6.4 Engagement of sponsor

During the reporting period, the Company didn't engage any sponsor.

5.7 MATERIAL LITIGATIONS AND ARBITRATIONS

During the reporting period, the Company was not involved in any material legal proceedings or arbitrations. Most of these litigation and arbitration cases were lodged by the Company proactively for recovering NPLs. As at the end of the reporting period, the Company had 142 outstanding litigation cases lodged against it involving a total value of RMB3.877 billion. Therefore, the Company believes that they won't have significant impact on its financial position or business results.

5.8 PENALTY IMPOSED ON THE COMPANY, AS WELL AS ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS

As far as the Company knows, during the reporting period, the Company and none of its directors, supervisors, or senior management members was subject to any investigation by competent authorities, coercive measures taken by judicial authorities or disciplinary inspection departments, transfer to judicial authorities or investigation for criminal responsibility, investigation or administrative penalty by CSRC, restricted access to market, identification as unqualified, material penalty by other administrative authorities, or public denouncement by the stock exchanges.

During the reporting period, the Company was not subject to any administrative supervision measures by CSRC or its agencies or request for rectification within the prescribed time limit.

5.9 STATEMENT ON CREDIT STANDING OF THE LISTED COMPANY

During the reporting period, there was no significant valid court judgment with which the Company had not complied, nor was there any outstanding debt of significant amount.

5.10 STOCK INCENTIVE PLAN, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVE MEASURES OF THE COMPANY AND INFLUENCE THEREOF

Not applicable.

5.11 MATERIAL RELATED PARTY TRANSACTIONS

5.11.1 Management, pricing principle and basis of related party transactions

During the reporting period, the Company revised the *Measures for Related Party Transactions of Hua Xia Bank Co., Limited* to further improve the mechanism for management of related party transactions. The Company effectively controlled related party transaction risks with sustained efforts to tighten the management of related party transactions, reasonably control limits of related party transactions and proactively adjust the transaction structures. The Company strictly implemented CBIRC's *Administrative Measures for Related Party Transactions between Commercial Banks and Their Insiders or Shareholders* and the *Interim Measures for the Equity Management of Commercial Banks* and the *Implementing Guidelines on Affiliated Transactions of Listed Companies on Shanghai Stock Exchange* conducted related party transactions in accordance with the commercial principles and based on the pricing principle and basis that the condition is not lower than that of similar non-related party transactions.

5.11.2 Related party transactions concerning daily operation

The 45th Meeting of the Seventh Board of Directors and the Annual General Meeting for 2018 were convened on 26 March 2019 and 15 May 2019, considering and adopting the *Proposal on the Credit Line Granted by Hua Xia Bank Co., Limited for the Related Party Transactions between Shougang Group and Its Related Enterprises*. According to the proposal, the Company agreed to approve the credit line worth RMB24 billion granted for the related party transactions between Shougang Group and its related enterprises (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) with a validity term of one year. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 28 March 2019. As at the end of the reporting period, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB12.475 billion.

The 45th Meeting of the Seventh Board of Directors and the Annual General Meeting for 2018 were convened on 26 March 2019 and 15 May 2019, considering and adopting the *Proposal on the Credit Line Granted by Hua Xia Bank Co., Limited for the Related Party Transactions between State Grid Yingda International Holdings Group Ltd. and Its Related Enterprises*. According to the proposal, the Company agreed to approve the credit line worth RMB24 billion granted for the related party transactions between State Grid Yingda International Holdings Group Ltd. and its related enterprises (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) with a validity term of one year. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 28 March 2019. As at the end of the reporting period, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB1.566 billion.

The 45th Meeting of the Seventh Board of Directors and the Annual General Meeting for 2018 were convened on 26 March 2019 and 15 May 2019, considering and adopting the *Proposal on the Credit Line Granted by Hua Xia Bank Co., Limited for the Related Party Transactions between PICC Property and Casualty Company Limited and Its Related Enterprises*. According to the proposal, the Company agreed to approve the credit line worth RMB24 billion granted for the related party transactions between PICC Property and Casualty Company Limited and its related enterprises (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) with a validity term of one year. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 28 March 2019. As at the end of the reporting period, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB8,167 million.

The 45th Meeting of the Seventh Board of Directors and the Annual General Meeting for 2018 were convened on 26 March 2019 and 15 May 2019, considering and adopting the *Proposal on the Credit Line Granted by Hua Xia Bank Co., Limited for the Related Party Transactions between Beijing Infrastructure Investment Co., Ltd. and Its Related Enterprises*. According to the proposal, the Company agreed to approve the credit line worth RMB12 billion granted for the related party transactions between Beijing Infrastructure Investment Co., Ltd. and its related enterprises (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) with a validity term of one year. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 28 March 2019. As at the end of the reporting period, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB1.001 billion.

The 45th Meeting of the Seventh Board of Directors was convened on 26 March 2019, considering and adopting the *Proposal on the Credit Line Granted by Hua Xia Bank Co., Limited for the Related Party Transactions between Yunnan Hehe (Group) Co., Ltd. and Its Related Enterprises.* According to the proposal, the Company agreed to approve the credit line worth RMB3 billion granted for the related party transactions between Yunnan Hehe (Group) Co., Ltd. and its related enterprises (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) with a validity term of one year. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 28 March 2019. As at the end of the reporting period, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at zero.

The 45th Meeting of the Seventh Board of Directors and the Annual General Meeting for 2018 were convened on 26 March 2019 and 15 May 2019, considering and adopting the *Proposal on the Credit Line Granted by Hua Xia Bank Co., Limited for the Related Party Transactions of Huaxia Financial Leasing Co., Ltd.* According to the proposal, the Company agreed to approve the credit line worth RMB15 billion granted for the related party transactions of Huaxia Financial Leasing Co., Ltd. (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) with a validity term of one year. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 28 March 2019. As at the end of the reporting period, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB500 million.

5.11.3 Related party transactions arising from the acquisition and sale of assets or equities

During the reporting period, there was no related party transaction arising from the acquisition or sale of assets or equities at the Company.

5.11.4 Related party transactions arising from the external investments made by the Company and its related parties jointly

During the reporting period, there was no major related party transactions arising from the external investments made by the Company or its related parties jointly.

5.11.5 Details of debt & claim, guarantee or other affairs between the Company and its related parties can be seen in the Notes to the Financial Statements as a part of the Report.

5.11.6 Other material related party transactions

During the reporting period, there was no other major related party transactions made by the Company.

5.11.7 For details of the Company's balance of transactions with, and risk exposures to, related natural persons, please see the Notes to the Financial Statements as a part of the Report.

5.12 MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

5.12.1 Material custody, contract and lease

During the reporting period, the Company did not engage in any material custody or contracting of assets of other companies, neither did other companies take custody, engage in contracting of or lease any assets of the Company.

5.12.2 Material guarantee

Except for financial guarantees within the business scope as approved by CBIRC, the Company had no material guarantees to be disclosed during the reporting period.

5.12.3 Other material contracts

During the reporting period, there was no any material dispute over contracts.

5.13 INDEPENDENT OPINIONS OF INDEPENDENT DIRECTORS ON EXTERNAL GUARANTEES

Pursuant to applicable regulations and requirements of CSRC, Independent Directors of the Company reviewed the external guarantees of the Company in 2019 on a fair, impartial and objective basis. Specific review opinions are hereby given below:

The external guarantee service of the Company is a part of the ordinary banking services within the business scope of the Company as approved by PBOC and CBIRC. As at the end of the reporting period, outstanding guarantees of the Company amounted to RMB29,184 million, an increase of RMB5,698 million compared with the end of the previous year.

The Company enhanced guarantee risk management by including guarantee activities into centralized credit facility management, conducting stringent due diligence, approval and management, and strengthening risk identification, assessment, monitoring and control, which had effectively controlled guarantee risks. During the reporting period, external guarantee service of the Company was run normally without any non-compliance.

5.14 FULFILLMENT OF SOCIAL RESPONSIBILITIES

5.14.1 Poverty alleviation efforts of the listed company

5.14.1.1 Plan on precision poverty alleviation

In actively implementing the national poverty alleviation policy, the Company has set up a leading group on poverty alleviation headed by Party Committee Secretary and Chairman of the Board of Directors in accordance with the decisions and plans on poverty alleviation made by the CPC Central Committee, the State Council, regulatory authorities and local CPC committees and governments at all levels. The Company formulated the implementation plan for poverty alleviation, established "four mechanisms" for overall planning, collaboration, active cooperation and support, innovated the service methods and contents focused on poverty alleviation, carried out precision poverty alleviation work solidly and fought the battle against poverty alleviation through financial services.

5.14.1.2 Summary of precision poverty alleviation efforts in 2018

During the reporting period, the Company deeply implemented China's anti-poverty policy and its plans for precision poverty alleviation. While increasing support to precision poverty alleviation through financial services, it implemented precision poverty alleviation in various ways including donation of money and materials and public welfare programs. As at the end of the reporting period, the Company provided fund of RMB4,309,677,100 (including credit funds and cash donations) for precision poverty alleviation, supplied materials worth RMB506,400 and accumulatively provided financing services to 54,769 registered poor people. During the reporting period, the Company won the "Best Contributor to Precision Poverty Alleviation" award at the top 100 CSR awards conference held by the China Banking Association.

Extend more credits to support precision poverty alleviation. During the reporting period, giving ongoing play to the guiding role of credit policy, the Company increased credit support for agriculture and forestry of poverty-stricken areas, supported the funding demand of local characteristic and advantageous industries like characteristic agriculture and agricultural product processing industry and used assorted financial products and services including corporate/personal credit to address the funding demand of fight against poverty. As at the end of the reporting period, the Company extended loans worth RMB2,876,014,800 in support of 57 projects of alleviating poverty through industrial development; disbursed personal loans totaling RMB366,355,000, serving 11,716 registered poor people; and granted the credit card overdraft limit worth RMB134,952,300, serving 12,942 registered poor people.

Charitable contributions were made to support precision poverty alleviation. During the reporting period, branches of the Company in many places launched donating events which raised funds of RMB12,893,600 and material supplies of RMB506,400. For example: Urumqi Branch of Hua Xia Bank spent RMB3.5 million in building education infrastructure and improving local education access in Hetian, Xinjiang.

The Company was awarded the "Best Contributor to Precision Poverty Alleviation" by the China Banking Association.

5.14.1.3 Achievements of precision poverty alleviation efforts made by the Company in 2019

(Unit: RMB10,000)

Indicator	Quantity & implementation
I. Overview	
Of which: 1. Cash	430,967.71
2. Supplies in monetary terms	50.64
3. Number of registered poor people served	54,769
II. Itemized contributions (by sector)	
1. Poverty elimination through industrial development	
Of which: 1.1 Project types	√ Agriculture and forestry √ Others
1.2 Project number	57
1.3 Project inputs	287,601.48
1.4 Number of registered poor people served	878
2. Poverty elimination through education progress	
Of which: 2.1 Funding for poor students	6.00
2.2 Number of poor students funded	800
2.3 Inputs into improving education resources in poverty-stricken areas	379.50
3. Bail-out guarantee	
Of which: 3.1 Amount of aids to left-behind rural people	20.00
3.2 Number of left-behind rural people aided	50
4. Others	
Of which: 4.1 Number of projects	7
4.2 Investment amount	545.98
4.3 Number of registered poor people who managed to shake off poverty with the Company's help	1,904

5.14.1.4 Subsequent plan on precision poverty alleviation

2020 is the decisive year for poverty alleviation. The Company will firmly win the battle against poverty as a central task of the Party Committee, focusing on key areas, fields and projects. Centered on the mechanism for preventing return to poverty, the Company will give full play to its strengths to seek practical results. It will adhere to the coordinated, integrated and collaborative approach to generate synergies, distinctive features and bright spots, in a bid to make new contributions to winning the battle against poverty and building a moderately prosperous society in all respects.

5.14.2 Fulfillment of social responsibilities

The Company implemented the five-pronged development philosophy, namely "Innovative, Coordinated, Green, Open and Shared", always operated in accordance with the law and regulations, continuously improved the corporate social responsibility management system and further strengthened the day-to-day management of corporate social responsibility. It actively communicated with stakeholders such as shareholders, government, customers, employees, communities and media and promoted the common and sustainable development of enterprises and the economy, society and environment.

In terms of economic responsibility, the Company actively contributed to coordinated development of the Beijing-Tianjin-Hebei Region in line with the "Four Centers" drive of Beijing. It endeavored to allocate more resources to integrated transport construction in the Beijing-Tianjin-Hebei Region, industrial transfer and upgrading, environmental protection/improvement, and shift of non-capital core functions from Beijing. It kept serving the real economy, took the initiative in supporting the Belt and Road Initiative, the Yangtze River Delta, Guangdong-Hong Kong-Macao Greater Bay Area and worked hard to facilitate industry structure transformation and upgrading. The "SME Financial Service Provider" strategy was deepened to lift private enterprises and MSEs from the difficulties in accessing affordable financing and grow hand in hand with them.

In terms of social responsibility, pursuant to the national poverty alleviation policy, the Company increased financial support and targeted assistance to help the state win the battle against poverty. It cemented the responsibility for consumer protection, strengthened the consumer protection systems and mechanisms, properly handled all kinds of consumer complaints, respected and protected the rights and interests of consumers and continuously improved the quality and experience of customer services. Being people-oriented, the Company safeguarded the legitimate rights and interests of employees, broadened the path of career development and promoted the organic unity of employee growth and corporate development. It took the initiative in public welfare undertakings, organized employee voluntary activities and contribute Hua Xia's strengths to building a harmonious society where the people live a better life.

In terms of environmental responsibility, following the state's economic transformation and industrial restructuring, the Company deepened green finance to support the development of green industries, put the ESG investment philosophy into practice, continued to build a green finance brand of Building a Beautiful Hua Xia through Green Finance and contributed to ecological conservation

For details, please refer to the *CSR Report 2018 of Hua Xia Bank Co., Limited.*

5.15 OTHER SIGNIFICANT EVENTS

As approved by the former CBIRC and PBOC, the Company issued RMB40 billion of 2019 Undated Additional Tier 1 Capital Bonds of Hua Xia Bank Co., Ltd. (hereinafter referred to as perpetual bonds) at a coupon rate of 4.85% for the first five years in the national interbank bond market on 24 June 2019. All proceeds, after deduction of the expenses relating to the issuance, were received 26 June 2019 and used to replenish additional tier 1 capital.

5.16 SIGNIFICANT EVENTS OF SUBSIDIARIES

During the reporting period, no subsidiaries underwent any significant event.

5.17 INDEX OF INFORMATION DISCLOSURES

Matter	Published in journals	Date of publication	Published on website
Announcement of Hua Xia Bank on Signing the Agreement on Supervision of Raised Fund Account	*China Securities Journal, Shanghai Securities News, Securities Times*	3 January 2019	http://www.sse.com.cn
Announcement of Hua Xia Bank on Results of Non-public Offering of Ordinary Shares and Changes in Shares	Ditto	10 January 2019	Ditto
Announcement of Hua Xia Bank on Adjustment of Mandatory Conversion Price	Ditto	11 January 2019	Ditto
Announcement on Resolutions of the 44th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	2 March 2019	Ditto
Notice of Hua Xia Bank on Holding the First Extraordinary General Meeting for 2019	Ditto	2 March 2019	Ditto
Announcement on Resignation of Supervisor of Hua Xia Bank	Ditto	2 March 2019	Ditto
Announcement on 2018 Earnings Guidance of Hua Xia Bank	Ditto	9 March 2019	Ditto
Announcement of Hua Xia Bank on Distribution of Dividends for Preference Shares	Ditto	19 March 2019	Ditto
Announcement on Resignation of Director of Hua Xia Bank	Ditto	21 March 2019	Ditto
Announcement on Resolutions of the First Extraordinary General Meeting for 2019 of Hua Xia Bank	Ditto	21 March 2019	Ditto
Announcement on Resolutions of the 45th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	28 March 2019	Ditto
Announcement on Related Party Transaction of Hua Xia Bank	Ditto	28 March 2019	Ditto
Announcement on Annual Report of Hua Xia Bank in 2018	Ditto	19 April 2019	Ditto
Announcement on Resolutions of the 46th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	19 April 2019	Ditto
Announcement on Resolutions of the 26th Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	19 April 2019	Ditto
Special Report of Hua Xia Bank on Deposit and Use of Proceeds of Non-public Offering of RMB Ordinary Shares (A-shares)	Ditto	19 April 2019	Ditto
Announcement of Hua Xia Bank on Changes in Accounting Policies	Ditto	19 April 2019	Ditto
Notice of Hua Xia Bank on Holding the Annual General Meeting for 2018	Ditto	19 April 2019	Ditto
Announcement on Advance Notice about the Explanation Session of Cash Dividend Distribution of Hua Xia Bank	Ditto	24 April 2019	Ditto
Announcement on First Quarterly Report of Hua Xia Bank in 2019	Ditto	30 April 2019	Ditto

Matter	Published in journals	Date of publication	Published on website
Announcement on Resolutions of the Annual General Meeting for 2018 of Hua Xia Bank	Ditto	16 May 2019	Ditto
Announcement on Resolutions of the 28th Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	30 May 2019	Ditto
Announcement of Hua Xia Bank on Issuance of Perpetual Bonds Approved by CBIRC	Ditto	1 June 2019	Ditto
Announcement of Hua Xia Bank on Issuance of Perpetual Bonds Approved by PBOC	Ditto	18 June 2019	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of Perpetual Bonds	Ditto	28 June 2019	Ditto
Announcement on Annual Equity Distribution for 2018 of Hua Xia Bank	Ditto	3 July 2019	Ditto
Announcement of Hua Xia Bank on Attending the Investors Open Day for SSE Listed Companies based in Beijing	Ditto	13 July 2019	Ditto
Announcement on Resolutions of the 48th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	20 July 2019	Ditto
Announcement of Hua Xia Bank on Exercise of Redemption Option over Tier-2 Capital Bond	Ditto	27 July 2019	Ditto
Announcement on Resignation of Director and Secretary to the Board of Directors of Hua Xia Bank	Ditto	8 August 2019	Ditto
Announcement on Interim Report of Hua Xia Bank in 2019	Ditto	13 August 2019	Ditto
Announcement on Resolutions of the 49th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	13 August 2019	Ditto
Announcement on Resolutions of the 29th Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	13 August 2019	Ditto
Announcement of Hua Xia Bank on Approval of CBIRC for Qualification of Directors	Ditto	25 September 2019	Ditto
Announcement of Hua Xia Bank on Obtaining Banking License from Hong Kong Monetary Authority	Ditto	28 September 2019	Ditto
Announcement on Third Quarterly Report of Hua Xia Bank in 2019	Ditto	31 October 2019	Ditto
Announcement on Resolutions of the 50th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	31 October 2019	Ditto
Announcement on Resolutions of the 30th Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	31 October 2019	Ditto
Announcement of Hua Xia Bank on Amendments to the Articles of Association	Ditto	31 October 2019	Ditto
Announcement on Appointment of Secretary to the Board of Directors of Hua Xia Bank	Ditto	7 November 2019	Ditto

SECTION VI DETAILS OF CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

6.1 CHANGES IN ORDINARY SHARES

6.1.1 Changes in ordinary shares

6.1.1.1 Changes in registered shares

(Unit: share)

	31 December 2018		Increase/ Decrease (+,-)	31 December 2019	
	Number	Percentage (%)	New shares	Number	Percentage (%)
I. Shares subject to restrictions on sales	**–**	**–**	**2,564,537,330**	**2,564,537,330**	**16.67**
1. State-owned shares	–	–	–	–	–
2. Shares held by state-owned corporations	–	–	2,564,537,330	2,564,537,330	16.67
3. Shares held by other domestic investors	–	–	–	–	–
Of which: shares held by domestic non-state-owned corporations	–	–	–	–	–
Shares held by domestic natural persons	–	–	–	–	–
4. Shares held by foreign investors	–	–	–	–	–
Of which: shares held by foreign corporations	–	–	–	–	–
Shares held by foreign natural persons	–	–	–	–	–
II. Shares not subject to restrictions on sales	**12,822,686,653**	**100.00**	**–**	**12,822,686,653**	**83.33**
1. RMB-denominated ordinary shares	12,822,686,653	100.00	–	12,822,686,653	83.33
2. Foreign shares listed domestically	–	–	–	–	–
3. Foreign shares listed overseas	–	–	–	–	–
4. Others	–	–	–	–	–
III. Total number of shares	**12,822,686,653**	**100.00**	**2,564,537,330**	**15,387,223,983**	**100.00**

6.1.1.2 Explanation on changes in shares

The Company privately issued 2,564,537,330 ordinary shares (A shares) in 2018 upon the approval of CSRC, and wrapped up related subscription payment and capital verification work. These shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depositary and Clearing Co., Ltd. on 8 January 2019.

6.1.2 Changes in registered shares subject to restrictions on sales

(Unit: share)

Name of shareholder	Number of shares subject to restrictions on sales at the beginning of the reporting period	Number of shares released from restrictions on sales during the reporting period	Increase of shares subject to restrictions on sales in the reporting period	Number of shares subject to restrictions on sales at the end of the reporting period	Reason for restrictions on sales	Date on which shares become tradable
Shougang Group	0	0	519,985,882	519,985,882		
State Grid Yingda International Holdings Group Ltd.	0	0	737,353,332	737,353,332	(Refer to notes for details)	2024 8 January
Beijing Infrastructure Investment Co., Ltd.	0	0	1,307,198,116	1,307,198,116		
Total	0	0	2,564,537,330	2,564,537,330	–	–

Notes: The 2,564,537,330 ordinary A-shares in this non-public offering got registration and sale restriction procedures done with Shanghai Branch of China Securities Depositary and Clearing Co., Ltd. on 8 January 2019, and the subscribers may not transfer these shares within five years since the date of subscription. Where the lock-up period and the transfer at maturity are subject to other regulatory requirements, these requirements shall prevail. Upon the expiration of lock-up period, the transfer of related shares shall be conducted as per the applicable laws and regulations like the *Company Law of the People's Republic of China* as well as the relevant provisions of CSRC and Shanghai Stock Exchange.

6.2 SECURITIES ISSUE AND OFFERING

6.2.1 Securities issue during the reporting period

The Company issued to Shougang Group, State Grid Yingda International Holdings Group Ltd., and Beijing Infrastructure Investment Co., Ltd. 2,564,537,330 ordinary shares (A shares) in a non-public offering. At the price of RMB11.40 per share, these shares raised funds totaling RMB29,235,725,562.00. This non-public offering wrapped up subscription payment and capital verification on 28 December 2018 and got registration and sale restriction procedures done with Shanghai Branch of China Securities Depositary and Clearing Co., Ltd. on 8 January 2019.

6.2.2 Changes in the total number of shares and shareholder structure

Upon the completion of the above non-public offering, the Company's total number of ordinary shares jumped from 12,822,686,653 to 15,387,223,983. Before this offering, shareholders holding over 5% shares of the Company were Shougang Group (20.28%), PICC Property and Casualty Company Limited (19.99%) and State Grid Yingda International Holdings Group Ltd. (18.24%). After this offering, shareholders holding over 5% shares of the Company were Shougang Group (20.28%), State Grid Yingda International Holdings Group Ltd. (19.99%), PICC Property and Casualty Company Limited (16.66%) and Beijing Infrastructure Investment Co., Ltd. (8.50%).

6.2.3 Individual employee stock ownership

The Company had no individual employee stock during the reporting period.

6.3 PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLER

6.3.1 Number of shareholders and shareholdings

(Unit: share)

Total number of shareholders at the end of the reporting period	114,249	Total number of shareholders at the end of the month immediately before disclosing date of this Annual Report					113,872
Shareholdings of the top 10 shareholders							
						Number of pledged or frozen shares	
Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Number of shares held by shareholders	Increase/ decrease during the reporting period	Number of shares subject to restrictions on sales that were held	Shares Status	Number
Shougang Group	State-owned legal person	20.28	3,119,915,294	519,985,882	519,985,882	None	
State Grid Yingda International Holdings Group Ltd.	State-owned legal person	19.99	3,075,906,074	737,353,332	737,353,332	None	
PICC Property and Casualty Company Limited	State-owned legal person	16.66	2,563,255,062	0	0	None	
Beijing Infrastructure Investment Co., Ltd.	State-owned legal person	8.50	1,307,198,116	1,307,198,116	1,307,198,116	None	
Yunnan Hehe (Group) Co., Ltd.	State-owned legal person	3.64	560,851,200	0	0	None	
China Securities Finance Corporation Limited	State-owned legal person	2.50	384,598,542	0	0	None	
Runhua Group Co., Ltd.	Domestic non-state-owned legal person	1.78	273,312,100	0	0	Pledged	273,312,004
Huaxia Life Insurance Company Limited – Universal Insurance Product	Other	1.47	225,758,339	0	0	None	
Hong Kong Securities Clearing Company Limited	Foreign legal person	1.18	181,655,663	92,003,566	0	None	
Central Huijin Asset Management Co., Ltd.	State-owned legal person	1.08	166,916,760	0	0	None	

(Unit: share)

Shareholdings of the top 10 shareholders not subject to restrictions on sales		
Name of shareholder	Number of shares not subject to restrictions on sales that were held	Type of shares
Shougang Group	2,599,929,412	RMB-denominated ordinary shares
PICC Property and Casualty Company Limited	2,563,255,062	RMB-denominated ordinary shares
State Grid Yingda International Holdings Group Ltd.	2,338,552,742	RMB-denominated ordinary shares
Yunnan Hehe (Group) Co., Ltd.	560,851,200	RMB-denominated ordinary shares
China Securities Finance Corporation Limited	384,598,542	RMB-denominated ordinary shares
Runhua Group Co., Ltd.	273,312,100	RMB-denominated ordinary shares
Huaxia Life Insurance Company Limited - Universal Insurance Product	225,758,339	RMB-denominated ordinary shares
Hong Kong Securities Clearing Company Limited	181,655,663	RMB-denominated ordinary shares
Central Huijin Asset Management Co., Ltd.	166,916,760	RMB-denominated ordinary shares
Shanghai Giant Lifetech Co., Ltd.	137,971,900	RMB-denominated ordinary shares
Remarks on the connected relations or concerted action of the above shareholders	The Company has no knowledge of any other connected relations among the above-mentioned shareholders.	

6.3.2 Number of shares subject to restrictions on sales held by shareholders and restrictions on sales

(Unit: share)

Name of shareholder subject to restrictions on sales	Number of shares subject to restrictions on sales that were held	Particulars of trading of shares subject to restrictions on sales: Tradable time	Particulars of trading of shares subject to restrictions on sales: Number of new tradable shares	Restrictions on sales
Shougang Group	519,985,882	8 January 2024	519,985,882	The Company issued 2,564,537,330 ordinary shares (A shares) in a non-public offering, and these shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depositary and Clearing Co., Ltd. on 8 January 2019. All subscribers may not transfer their shares within five years since the date of subscription. Where the lock-up period and the transfer at maturity are subject to other regulatory requirements, these requirements shall prevail. These shares are expected to become tradable on 8 January 2024 (which will be postponed to the subsequent trading day in case of a statutory public holiday/festival or rest day).
State Grid Yingda International Holdings Group Ltd.	737,353,332		737,353,332	
Beijing Infrastructure Investment Co., Ltd.	1,307,198,116		1,307,198,116	

6.3.3 Particulars of shareholders holding over 5% shares of the Company

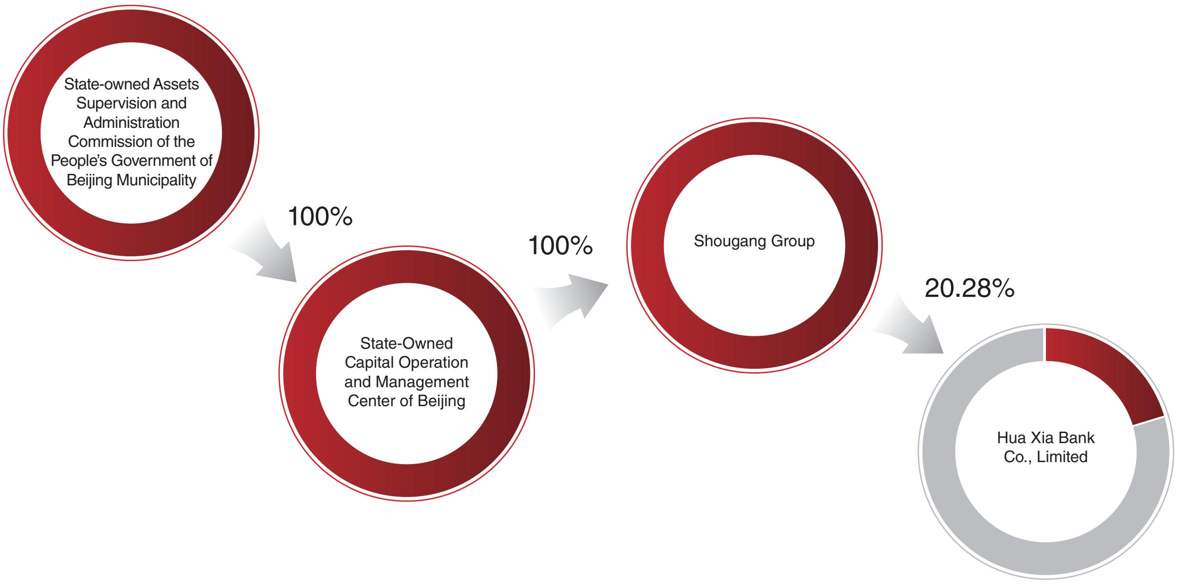
The Company has no controlling shareholder or de facto controller. Shougang Group is the largest shareholder of the Company.

At the end of the reporting period, shareholders holding over 5% shares of the Company were Shougang Group (20.28%), State Grid Yingda International Holdings Group Ltd. (19.99%), PICC Property and Casualty Company Limited (16.66%) and Beijing Infrastructure Investment Co., Ltd. (8.50%).

6.3.3.1 Shougang Group

Shougang Group (formerly known as "Shougang Corporation") was changed into its current name in May 2017 and restructured from an enterprise owned by the whole people into a wholly state-owned company with the approval of the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality. With unified social credit code as 911100001011200015, its legal representative is Zhang Gongyan and its registered capital is RMB28,755 million. Shougang Group is a large enterprise group with the operation covering different industries, regions and countries. Its core businesses include industries, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, scientific research and comprehensive technological service, domestic commerce, public catering, material supply and sales, warehouse, real estate, residential service, consultation, leasing, agriculture, forestry, husbandry, fishery (except for those without special license) and authorized management of state-owned assets; establishment of the newspaper *Shougang Daily*; design and production of TV ads; release of ads with its self-owned TV station; design and production of prints and ads; placement of ads on its self-owned *Shougang Daily*; sewage treatment and recycling; seawater desalination; art creation and performance; operations of sports events (except those involving high risk); operations of sports venues; Internet information service; and municipal domestic waste treatment.

The equity relationship between the Company and Shougang Group as the largest shareholder is illustrated below:



6.3.3.2 State Grid Yingda International Holdings Group Ltd.

State Grid Yingda International Holdings Group Ltd. (formerly known as "State Grid Asset Management Co., Ltd."), founded on 18 October 2007, is a wholly-owned subsidiary of State Grid Corporation of China with Li Ronghua as its legal representative. Its unified social credit code is 91110000710935089N. Its registered capital is RMB19.9 billion. Business scope: Investment and assets operation and management and assets custody; rendering services for enterprise restructuring, M&A, strategic placement and venture capital investment; investment consultation and investment advisory.

6.3.3.3 PICC Property and Casualty Company Limited

PICC Property and Casualty Company Limited was sponsored by People's Insurance Company of China in July 2003 after obtaining approval from the State Council and the former China Insurance Regulatory Commission. It is the largest property insurer in Asia. The unified social credit code is 91100000710931483R and the legal representative is Miao Jianmin. The registered capital is RMB22,242.77 million. The scope of its business covers: property loss insurance, liability insurance, credit insurance, accident insurance, short-term health insurance, guarantee insurance and other kinds of RMB or foreign-currency insurance business; reinsurance business in relation to the above-mentioned business; service and consulting in relation to property insurance, accident insurance and short-term health insurance and their reinsurance; business handling on behalf of insurers; investment and fund utilization business permitted by national laws and regulations, and other business prescribed by national laws and regulations or approved by China's insurance regulatory authority.

6.3.3.4 Beijing Infrastructure Investment Co., Ltd.

Founded in 2003, Beijing Infrastructure Investment Co., Ltd. is a wholly state-owned company of the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality. With unified social credit code as 911100001011241849, its legal representative is Zhang Yanyou. Its registered capital is RMB145,290.55 million. The scope of its business covers: manufacturing of subway vehicles and subway equipment; management and investment of state-owned assets as authorized, and planning and construction of new subway lines; operation and management of completed subway lines; import and export business of various commodities and technologies on proprietary or agent basis, except for commodities and technologies that are restricted or banned from operation by the state; design and repair of subway vehicles; design and installation of subway equipment; project supervision; property management; real estate development; subway ad design and production.

6.3.4 Other substantial shareholders

As prescribed by the former CBRC's *Interim Measures for the Equity Management of Commercial Banks*, other substantial shareholders of the Company included Yunnan Hehe (Group) Co., Ltd. and Runhua Group Co., Ltd. as at the end of the reporting period.

Yunnan Hehe (Group) Co., Ltd. held 3.64% shares of the Company. It had a registered capital of RMB6 billion and its legal representative was Li Jianbo. Hongta Tobacco (Group) Co., Ltd. holds 75% of Yunnan Hehe (Group) Co., Ltd. It is the controlling shareholder of the latter and its de facto controller is China Tobacco. Hongta Tobacco (Group) Co., Ltd. was incorporated on 15 September 1995, with a registered capital of RMB6 billion and its legal representative is Wang Yong.

Runhua Group Co., Ltd. held 1.78% shares of the Company. It had a registered capital of RMB109 million and its legal representative was Luan Tao. Luan Tao holds 50.58% shares of Runhua Group Co., Ltd. and serves as its controlling shareholder and de facto controller.

6.3.5 Special explanation on the Company without controlling shareholder

The Company has no controlling shareholder. Shougang Group is the largest shareholder of the Company.

6.3.6 Special explanation on the Company without de facto controller

The Company has no de facto controller. Shougang Group is the largest shareholder of the Company.

SECTION VII PREFERENCE SHARES

7.1 ISSUANCE AND LISTING OF PREFERENCE SHARES

(Unit: 10,000 shares)

Preference share code	Preference share name	Date of issuance	Issuance price (RMB yuan)	Coupon rate (%)	Number of shares	Date of listing	Number of shares listed for trading	Date of de-listing
360020	华夏优1	2016-3-23	100	4.20	20,000	2016-4-20	20,000	–

Notes:

1. According to the *Reply of CBRC on the Non-public Issuance of Preference Shares and the Modification of the Articles of Association by Hua Xia Bank* (Y.J.F. [2015] No.427) and the *Reply on Approving the Non-public Issuance of Preference Shares by Hua Xia Bank Co., Limited* (ZH.J.X.K. [2016] No.342), the Bank issued 200 million preference shares in a non-public manner on 23 March 2016 and started transferring them on the comprehensive business platform of Shanghai Stock Exchange since 20 April 2016.

2. The coupon rate of Hua Xia Preference Share 1 in the first five years was 4.20%, including the arithmetic mean (2.59%) of the five-year T-bonds 20 trading days before the cut-off date of payment for the preference shares issued this time (the date just 20 trading days before the cut-off date of payment was excluded) and the fixed premium (1.61%). The coupon rate was adjusted once every five years in light of the change in benchmark interest rates.

3. Use of raised capital: As approved by CSRC, the Company privately issued 200 million preference shares at a par value of RMB100 each on 23 March 2016. All the money actually raised after deducting the issuing expenses, netted to RMB19,978 million, were used to replenish the tier-1 capital.

7.2 NUMBER OF PREFERENCE SHAREHOLDERS AND PARTICULARS OF SHAREHOLDING OF THE TOP 10 PREFERENCE SHAREHOLDERS AS AT THE END OF THE REPORTING PERIOD

(Unit: share)

Total number of preference shareholders as at the end of the reporting period	15	Total number of preference shareholders at the end of the month immediately before the disclosure date of this Annual Report				14
Particulars of shareholding of the top 10 preference shareholders						
Name of shareholder	Shares held at the end of the period	Increase/ decrease during the reporting period	Percentage (%)	Nature of shareholder	Number of pledged or locked-up shares	Class of shares
Ping An Property & Casualty Insurance Company of China, Ltd. – Traditional – Ordinary insurance product	39,600,000	500,000	19.80	Other	None	Preference share
Ping An Life Insurance Company of China, Ltd. – Universal – Universal personal insurance product	39,100,000	0	19.55	Other	None	Preference share
Ping An Life Insurance Company of China, Ltd. – Participating – Participating personal insurance product	39,100,000	0	19.55	Other	None	Preference share
Tebon Fund Management Co., Ltd.	19,000,000	19,000,000	9.50	Other	None	Preference share
BOCOM Schroder Asset Management Co., Ltd.	11,200,000	0	5.60	Other	None	Preference share
BOCOM Schroder Fund Management Co., Ltd.	8,600,000	0	4.30	Other	None	Preference share
Bank of Beijing Scotiabank Asset Management Co., Ltd.	8,400,000	0	4.20	Other	None	Preference share
China Resources SZITIC Trust Co., Ltd. – Investment No. 1 Stand-alone Money Trust	7,300,000	0	3.65	Other	None	Preference share
Bosera Fund Management Co., Ltd.	5,600,000	0	2.80	Other	None	Preference share
China CITIC Bank Co., Ltd.	5,600,000	0	2.80	Other	None	Preference share
AXA SPDB Investment Managers Co., Ltd.	5,600,000	0	2.80	Other	None	Preference share
Remarks on connected relations or concerted action among top 10 preference shareholders and among the afore-mentioned shareholders and top 10 ordinary shareholders	Ping An Property & Casualty Insurance Company of China, Ltd. – Traditional – Ordinary insurance product, Ping An Life Insurance Company of China, Ltd. – Universal – Universal personal insurance product and Ping An Life Insurance Company of China, Ltd. – Participating – Ordinary insurance product are persons acting in concert. BOCOM Schroder Asset Management Co., Ltd. and BOCOM Schroder Fund Management Co., Ltd. are connected.					

7.3 PAYOUT OF DIVIDENDS ON PREFERENCE SHARES

7.3.1 Distribution of profit from preference shares

Dividends on the preference shares issued by the Bank are paid annually in cash in a non-cumulative way. After receiving dividends at the agreed-upon coupon rate, preference shareholders of the Company will not join ordinary shareholders in the distribution of remaining profit.

On 30 March 2020, the Company paid dividends to all the holders of Hua Xia Preference Share 1 (Stock Code: 360020) that were registered by the closure of market on 27 March 2020. A cash dividend of RMB4.2 (before tax) was paid per preference share at the coupon rate of 4.20% and the dividends distributed this time totaled to RMB840 million.

Please refer to the announcements disclosed by the Company on the website of Shanghai Stock Exchange and the website of the Company for details on the dividend payment.

7.3.2 Amount and proportion of dividends distributed on preference shares in the latest three years

(Unit: RMB1 million)

Year	Amount distributed	Distribution proportion
2019	840	100%
2018	840	100%
2017	840	100%

Notes: Distribution proportion = (Dividend amount distributed/agreed-upon dividend amount paid of the year) × 100%

7.4 REDEMPTION OR CONVERSION OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the reporting period, the Company did not redeem or convert any preference shares.

7.5 RESTORATION OF VOTING RIGHTS OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the reporting period, the Bank did not restore any voting right of preference shares.

7.6 ACCOUNTING POLICY ADOPTED FOR PREFERENCE SHARES AND RATIONALE

According to the *Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, the Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments* and the *Rules for Distinguishing Financial Liabilities and Equity Instruments and Relevant Accounting Treatment* promulgated by MOF as well as the preference share issuing plan, preference shares issued by the Bank this time shall be calculated as equity instruments.

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Company classifies the financial instruments it has issued into equity instruments when all of the following conditions are met: (1) The financial instrument shall not include delivery of cash or other financial assets to other parties, or any contractual obligation of exchanging financial assets or liabilities with other parties under potentially unfavorable conditions; (2) and the Company's own equity instruments should be or can be used for settlement of such financial instruments in the future. In case of a non-derivative instrument, it shall not include any contractual obligation of settlement with the delivery of variable number of the Company's own equity instruments; in case of a derivative instrument, it can only be settled with the fixed number of the Company's own equity instruments exchanging for cash or other financial assets with the fixed amount.

On 23 March 2016, the Company issued non-cumulative preference shares to domestic investors in an aggregate amount of RMB20 billion, all of which after deducting issuing cost was recognized into other tier-1 capital. During the existence of the preference shares, the Company has the right to exercise the right to redeem them all or in part on the interest calculation day of each year if being approved by CBIRC and meeting relevant requirements five years after the end of the issuance (i.e. 28 March 2016). Preference shareholders have no right to ask the Company to redeem the preference shares and should not have the expectation on the preference shares being redeemed. The coupon rate of the preference shares is adjusted by stages, i.e. the dividends are distributed in cash at a fixed dividend rate once a year within the five-year dividend rate adjustment period. Upon approval of the Shareholders' General Meeting, the Company has the right to cancel all or part of the dividends distributed on the preference shares, which is not deemed a default event.

Upon the approval of CBIRC, all or part of the preference shares issued by the Company this time and still in existence will be converted into ordinary shares of the Company upon the occurrence of the following events that will trigger mandatory conversion of shares to the Company: (1) when core tier-1 capital adequacy ratio of the Company falls to 5.125% or below, the Company shall have the right to convert all or part of the preference shares that have been issued and are still in existence into ordinary shares as per the total par value without the prior consent of preference shareholders, in order to restore the core tier-1 capital adequacy ratio of the Company to above 5.125%; (2) when the trigger event of tier-2 capital instruments takes place, the Bank is entitled to convert all the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders.

When the triggers for compulsory share conversion are met, the preference shares that are still in existence will be wholly or partially converted into ordinary shares at a price of RMB14.00 per share subject to the approval of regulatory authority. As approved by CSRC, the Company privately issued 2,564,537,330 ordinary shares in a non-public offering on 28 December 2018. Calculated by the mandatory conversion price adjustment formula as set out in the related articles of the *Prospectus for Non-public Issuance of Preference Shares by Hua Xia Bank Co., Limited*, the mandatory conversion price of shares was adjusted into RMB10.58/share upon the completion of the non-public offering of ordinary shares. From the day when the Board of Directors of the Company approved the preference share issuing plan, the Company will change the price of mandatory share conversion and disclose relevant information according to pertinent provisions whenever shares of the Company change due to distribution of stock dividend, share conversion to strengthen capital base and additional issuance (excluding share capital increase due to conversion of financing instruments issued by the Company and with articles allowing conversion into ordinary shares, e.g. preference share and convertible corporate bond) and rights issue.

In accordance with applicable laws and regulations and the *Reply of CBRC on the Non-public Issuance of Preference Shares and the Modification of the Articles of Association by Hua Xia Bank* (Y.J.F. [2015] No. 427), funds raised from the preference share issuance are used to replenish other tier-1 capital of the Company. When the Company liquidates, preference shareholders of the Company take precedence over ordinary shareholders to be distributed the residual properties of the Company. That is, when the Company liquidates, dividends that have not been canceled nor distributed but have been announced to distributed but not been paid for the period yet as well as the total carrying amount of preference shares held shall be paid from the residual properties after liquidation firstly to preference shareholders; if the residual properties are not sufficient to pay, such dividends and carrying amount will be paid on the basis of the shareholding ratio of preference shareholders.

In conclusion, the Company recognizes the preference shares into other equity instruments according to the articles of the contract on the issuance of preference shares and the economic substance.

SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS, OTHER EMPLOYEES AND BRANCHES

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

8.1.1 Changes in shares held by directors, supervisors and senior management members and their remunerations during the reporting period

Name	Position	Gender	Year of birth	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Increase/decrease of shares during the reporting period	Remuneration (in RMB 10,000) (before tax) paid by the Company during the reporting period)	Equity incentives granted by the Company during the reporting period	Paid by related party of the Company (yes/no)
Li Minji	Chairman of the Board of Directors, Executive Director	Male	1965	14 April 2017 to the reelection of the Board of Directors	0	0	0	66.68	None	No
Wang Hongjun	Non-executive Directors Vice Chairman of the Board of Directors	Male	1969	30 November 2016 to the reelection of the Board of Directors 26 December 2019 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Zhang Jianhua	Executive Directors President	Male	1965	14 April 2017 to the reelection of the Board of Directors Since 14 April 2017	0	0	0	66.67	None	No
Li Jianbo	Non-executive Directors	Male	1965	27 February 2014 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Liu Chunhua	Executive Directors CAO	Female	1970	27 February 2014 to the reelection of the Board of Directors Since 18 December 2013	0	0	0	189.48	None	No
Ren Yongguang	Executive Directors Vice President	Male	1959	30 October 2010 to the reelection of the Board of Directors Since 14 October 2010	0	0	0	157.26	None	No
Ma Xiaoyan	Non-executive Directors	Female	1969	18 September 2019 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Zou Libin	Non-executive Directors	Male	1967	27 February 2014 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Zhang Wei	Non-executive Directors	Male	1975	29 December 2017 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Zeng Xiangquan	Independent Director	Male	1955	30 October 2010 to the reelection of the Board of Directors	0	0	0	20.80	None	No
Yu Changchun	Independent Director	Male	1952	30 October 2010 to the reelection of the Board of Directors	0	0	0	22.60	None	No
Xiao Wei	Independent Director	Male	1960	27 February 2014 to the reelection of the Board of Directors	0	0	0	21.40	None	No
Chen Yonghong	Independent Director	Male	1962	27 February 2014 to the reelection of the Board of Directors	0	0	0	23.20	None	No
Yang Delin	Independent Director	Male	1962	27 February 2014 to the reelection of the Board of Directors	0	0	0	20.20	None	No
Wang Huacheng	Independent Director	Male	1963	27 February 2014 to the reelection of the Board of Directors	0	0	0	21.40	None	No
Li Liangang	Supervisor Representing Shareholder	Male	1968	30 October 2010 to the reelection of the Board of Supervisors	0	0	0	7.20	None	No

Name	Position	Gender	Year of birth	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Increase/ decrease of shares during the reporting period	Remuneration (in RMB 10,000) (before tax) paid by the Company during the reporting period)	Equity incentives granted by the Company during the reporting period	Paid by related party of the Company (yes/no)
Tian Ying	Supervisor Representing Shareholder	Female	1965	28 September 2007 to the reelection of the Board of Supervisors	0	0	0	7.20	None	Yes
Zhu Wei	External Supervisor	Male	1965	27 February 2014 to 10 March 2020	0	0	0	17.20	None	No
Lin Xin	External Supervisor	Male	1966	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	17.20	None	No
Wu Changqi	External Supervisor	Male	1955	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	14.80	None	No
Ma Yuanju	External Supervisor	Male	1957	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	17.20	None	No
Sun Tongjun	Employee Supervisor	Male	1961	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	226.41	None	No
Cheng Yanhong	Employee Supervisor	Female	1958	29 June 2004 to the reelection of the Board of Supervisors	0	0	0	42.11	None	No
Li Qi	Employee Supervisor	Male	1958	19 July 2001 to the reelection of the Board of Supervisors	0	0	0	0.36	None	No
Wang Liying	Employee Supervisor	Female	1962	27 February 2014 to the reelection of the Board of Supervisors	0	0	0	0.36	None	No
Guan Wenjie	Vice President Principal of Financial Affairs	Male	1970	Since 24 January 2017 Since 27 February 2014	0	0	0	60.68	None	No
Wang Yiping	Vice President	Male	1963	Since 24 January 2017	0	0	0	60.66	None	No
Yang Wei	Vice President	Male	1966	Since 12 February 2019	0	0	0	72.47	None	No
Li Min	Vice President	Male	1976	Since 14 February 2019	0	0	0	85.94	None	No
Song Jiqing	Secretary to the Board	Male	1965	Since 2 November 2019	0	0	0	245.35	None	No
Lin Zhiyong	Former Non-Executive Director	Male	1963	29 December 2017 to 19 March 2019	0	0	0	0	None	Yes
Zhao Junxue	Former Executive Director Former Secretary to the Board	Male	1958	10 September 2002 to 6 August 2019 10 August 2002 to 6 August 2019	0	0	0	40.78	None	No
Ding Shilong	Former Non-Executive Director	Male	1963	28 September 2007 to 19 March 2019	0	0	0	0	None	Yes
Cheng Chen	Former Supervisor Representing Shareholder	Female	1975	28 September 2007 to 28 February 2019	0	0	0	0.20	None	Yes
Total	/	/	/	/	0	0	0	1,525.81	/	/

Notes:

1. The total remuneration received by the directors and supervisors except for executive directors and employee supervisors from the Company during the reporting period was determined according to the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors*.

2. Mr. Wang Hongjun, Mr. Li Jianbo, Ms. Ma Xiaoyan, Mr. Zou Libin, Mr. Zhang Wei, Mr. Lin Zhiyong and Mr. Ding Shilong voluntarily gave up receiving allowance from the Company.

3. Remunerations of the Chairman of the Board of Directors, President and other principals of the Company are subject to the policy of Beijing government on reform of remunerations of executives of local state-owned enterprises.

4. Pre-tax remunerations of the Chairman of the Board of Directors, President, employee supervisors and other senior management members serving in the Company are under confirmation and will be disclosed thereafter.

5. The pre-tax remuneration of Ms. Liu Chunhua, Mr. Ren Yongguang, Mr. Yang Wei and Mr. Li Min in 2019 included the pre-tax remuneration during the period when they did not serve as company officers in the charge of Beijing municipality.

6. Pre-tax remunerations of the Chairman of the Board of Directors, President, employee supervisors and other senior management members serving the Company in 2019 include the contribution by the Company to social insurance, enterprise annuity, additional medical insurance and housing provident fund.

The rest-part remuneration of company officers in 2018 approved and verified by the competent authorities is disclosed as below:

Name	The rest part of pre-tax remunerations for 2018 (RMB10,000)
Li Minji	40.22
Zhang Jianhua	40.22
Liu Chunhua	32.61
Ren Yongguang	32.61
Guan Wenjie	32.61
Wang Yiping	32.61
Cheng Yanhong	16.60

The rest-part remuneration for other personnel in 2018:

Name	The rest part of pre-tax remunerations for 2018 (RMB10,000)
Zhao Junxue	69.19
Sun Tongjun	130.43
Li Qi	84.66

Notes: Part of remunerations paid to the Secretary to the Board and employee supervisors during the reporting period have been disclosed in the Annual Report 2018, and the rest part of pre-tax remunerations for such personnel in 2018 is hereby disclosed. Bonus to the above-mentioned persons shall be delayed in payment. The total bonus subject to delayed payment in 2018 is RMB1,924,800 and is not paid to those individuals yet.

8.1.2 Changes in directors, supervisors and senior management members of the Company

On 30 October 2018, the Seventh Board of Directors of the Company reviewed and adopted the *Proposal on Engaging Vice President* at its 42nd Meeting, according to which Mr. Yang Wei and Mr. Li Min were engaged as vice president of the Company. The qualification of Mr. Yang and Mr. Li for serving as vice president was approved by CBIRC on 12 February 2019 and 14 February 2019, respectively.

On 28 February 2019, the Board of Supervisors of the Company received a written resignation report from Ms. Cheng Chen. Ms. Cheng resigned from the posts of the Company's supervisor representing shareholder and member of relevant committees of the Board of Supervisors due to work engagement.

On 19 March 2019, the Board of Directors of the Company received a written resignation from Mr. Lin Zhiyong and Mr. Ding Shilong, respectively. Mr. Lin and Mr. Ding resigned from the posts of the Company's director and member of relevant committees of the Board of Directors due to work engagement.

The *Proposal on Election of Directors of Hua Xia Bank Co., Limited* was reviewed and approved at the 2018 Annual General Meeting on 15 May 2019. Mr. Luo Qianyi, Ms. Ma Xiaoyan and Mr. Xie Yiqun were elected as directors. The qualification of Ms. Ma Xiaoyan for serving as director was approved by CBIRC on 18 September 2019. The qualification of Mr. Luo Qianyi and Mr. Xie Yiqun for serving as directors is pending approval by CBIRC.

On 18 July 2019, the Seventh Board of Directors of the Company reviewed and adopted the *Proposal on Election of Vice Chairmen of the Board of Directors* at its 48th Meeting, according to which Mr. Wang Hongjun and Mr. Luo Qianyi were elected Vice Chairmen of the Board of Directors of the Company. The qualification of Mr. Wang Hongjun for serving as Vice Chairman was approved by CBIRC on 26 December 2019. The qualification of Mr. Luo Qianyi for serving as Vice Chairman of the Board of Directors is pending approval by CBIRC.

On 6 August 2019, the Board of Directors of the Company received a written resignation report from Mr. Zhao Junxue. Mr. Zhao Junxue resigned from the posts of the Company's director, Secretary to the Board and members of relevant committees of the Board of Directors as he reached the retiring age.

On 9 August 2019, the Seventh Board of Directors of the Company reviewed and adopted the *Proposal on Engaging Secretary to the Board of Directors* at its 49th Meeting, according to which Mr. Song Jiqing was engaged as Secretary to the Board of Directors of the Company. The qualification of Mr. Song Jiqing for serving as Secretary to the Board was approved by CBIRC on 2 November 2019.

On 27 February 2020, the Board of Directors of the Company received written resignation reports from Mr. Xiao Wei, Mr. Chen Yonghong, Mr. Yang Delin and Mr. Wang Huacheng. Mr. Xiao Wei, Mr. Chen Yonghong, Mr. Yang Delin and Mr. Wang Huacheng applied for resignation from independent directors according to regulatory rules for the term of service of independent directors of listed companies. Since the resignation of Mr. Xiao Wei, Mr. Chen Yonghong, Mr. Yang Delin and Mr. Wang Huacheng caused the number of independent directors on the Board of Directors of the Company to become less than the quorum, Mr. Xiao Wei, Mr. Chen Yonghong, Mr. Yang Delin and Mr. Wang Huacheng would continue to carry out the functions and powers of independent directors in accordance with laws and regulations and the Articles of Association before new directors elected by the Shareholders' General Meeting took office upon approval by regulators.

On 10 March 2020, the Board of Supervisors of the Company received a written resignation report from Mr. Zhu Wei. Mr. Zhu Wei resigned from the posts of the Company's external supervisor and member of relevant committees of the Board of Supervisors due to expiration of term of office.

The *Proposal on Nomination of Candidates for Directors of the Eighth Board of Directors* was reviewed and approved at the 51st Meeting of the Seventh Board of Directors of the Company on 12 March 2020. The Board of Directors approved the nomination of Mr. Wang Hongjun, Mr. Zou Libin, Mr. Luo Qianyi, Ms. Ma Xiaoyan, Mr. Xie Yiqun, Mr. Zhang Wei and Ms. Zou Xiulian as candidates for non-executive directors of the Eighth Board of Directors, and the nomination of Mr. Li Minji, Mr. Zhang Jianhua, Mr. Guan Wenjie, Mr. Wang Yiping and Mr. Song Jiqing as candidates for executive directors of the Eighth Board of Directors, and nomination of Ms. Ding Yi, Mr. Guo Qingwang, Ms. Zhao Hong, Mr. Gong Zhiqiang and Mr. Lv Wendong as candidates for independent directors of the Eighth Board of Directors.

The *Proposal on Nomination of Candidates for Supervisors of the Eighth Board of Supervisors* was reviewed and approved at the 31st Meeting of the Seventh Board of Directors of the Company on 12 March 2020. The Board of Supervisors approved the nomination of Mr. Hua Shiguo and Mr. Ding Zhaohua as candidates for supervisors representing shareholders of the Eighth Board of Supervisors, and nomination of Mr. Lin Xin, Mr. Wu Changqi, Mr. Ma Yuanju, Ms. Zhu Xiaofang and Mr. Zhao Xijun as candidates for external supervisors of the Eighth Board of Supervisors.

8.1.3 Main work experiences of directors, supervisors and senior management members

Li Minji, Chairman and Executive Director, male, was born in January 1965, and holds the title of senior economist. He majored in Finance in Renmin University of China and graduated with a Master's Degree in Economics. He majored in Business Administration in Huazhong University of Science and Technology and graduated with a PhD in Management. He ever held such positions as Member of the Party Committee, Director and Executive Deputy General Manager at Beijing State-owned Assets Management Co., Ltd.; Party Committee Secretary and Chairman of Beijing International Trust Co., Ltd.; and Deputy President of China Trustee Association and Member of China Trust Protection Fund Council concurrently. He now serves as a Member of the 12th CPC Beijing Municipal Committee; and Party Committee Secretary, Chairman and Executive Director of Hua Xia Bank.

Wang Hongjun, Vice Chairman, Non-executive Director, male, was born in March 1969. He holds a master's degree and is a senior accountant. He was Deputy Chief Accountant and Chief Accountant of BBMG Corporation, as well as Head of Financial Department, CFO and Director of BBMG Corporation. He currently serves as CFO of Shougang Group.

Zhang Jianhua, Executive Director and President, male, was born in March 1965. He is a PhD in Management and a research fellow. The positions he ever held are: Deputy Chief and Chief of Regulatory Division for Financial Leasing Company, Regulatory Department for Non-banking Financial Institutions, PBOC; Chief of Regulatory Division III, Regulatory Department for Non-banking Financial Institutions, PBOC; Chief of Fiscal Taxation Research Division, PBOC Research Bureau; Deputy Head of PBOC Financial Stability Bureau; Head of PBOC Research Bureau; Party Committee Secretary and General Manager of PBOC Hangzhou Central Sub-branch and Head of State Administration of Foreign Exchange (SAFE) Zhejiang Branch concurrently; and Deputy Party Committee Secretary, Director and President of Beijing Rural Commercial Bank Co., Ltd. He currently serves as Deputy Party Committee Secretary, Executive Director and President of Hua Xia Bank.

Li Jianbo, Non-Executive Director, male, was born in June 1965. He holds a bachelor's degree and is a senior economist. The positions he ever held are: Deputy Chief and Chief of Planning and Statistics Section of Yuxi Cigarette Factory, Deputy Chief Economist, Chief Economist, Director, Chairman of the Board of Supervisors and Vice President of Hongta Tobacco (Group) Co., Ltd., Chairman of Yunnan Hongta Group Co., Ltd., and Director, Deputy Party Committee Secretary, Executive Deputy General Manager, Party Committee Secretary, and General Manager of Yunnan Hehe (Group) Co., Ltd. He currently serves as Party Committee Secretary and Chairman of Yunnan Hehe (Group) Co., Ltd.

Liu Chunhua, Executive Director, Chief Audit Officer, female, was born in January 1970. She holds a master's degree and is a senior economist. She was ever Deputy Chief (director level) of Planning and Treasury Division of Jiangxi International Trust and Investment Corporation; Full-time Discipline Inspector of Discipline Inspection Team of Leading Party Group (director level) and Deputy Director of Inspection Office, General Manager of Human Resources Department, Deputy Leader of Preparatory Group of Hua Xia Bank Fund Company, and Director of Inspection Office and Deputy Secretary of the Party Discipline Committee of Hua Xia Bank. She once temporarily served as Assistant to Director of Business Innovation Supervision & Cooperation Department of CBRC. She also served as Director, Member of the Party Committee, Secretary of the Party Discipline Committee and Chief Audit Officer of Hua Xia Bank. Now she is Executive Director and Chief Audit Officer of Hua Xia Bank.

Ren Yongguang, Executive Director, Vice President, male, was born in December 1959. He holds a bachelor's degree and is a senior economist. He used to be Deputy Head and Head of Foreign Fund Management Division, Head of Foreign Exchange Management Division, Director of Executive Office and Head of Plan Fund Division of PBOC Beijing Branch, Head of Credit Management Division of Business Management Department, Deputy Director and Member of Leading Party Group of Business Management Department of the PBOC, member of the Preparation Team for and Deputy Director General and Member of Leading Party Group of CBRC Beijing Office, and Director, Vice President and Deputy Party Committee Secretary of Hua Xia Bank, and Director, Vice President, Member of the Party Committee and Chairman of the Labor Union of Hua Xia Bank. Now he is Executive Director and Vice President of Hua Xia Bank.

Ma Xiaoyan, Non-executive Director, female, was born in July 1969. She holds a bachelor's degree and is a senior accountant. She once served as Deputy Director of the Audit Department of Henan Electric Power Company; Chief Accountant and Member of the Party Leading Group of Chang'an Insurance Broker Co., Ltd.; Head of the Financial Assets Division of the Financial Asset Management Department of State Grid Corporation of China (State Grid Asset Management Co., Ltd.); Chief Accountant of Yingda International Holdings Group Ltd.; Chief Accountant and Member of the Party Committee of State Grid Yingda International Holdings Group Ltd. She is now Deputy General Manager and Party Committee Member of State Grid Yingda International Holdings Group Ltd. and Chairman and Head of Party Organization of Yingda Asset Management Co., Ltd.

Zou Libin, Non-Executive Director, male, was born in September 1967. He holds a master's degree and is a senior accountant. He was ever a clerk of Malaysia Division of International Trade Department, JV Division of Overseas Headquarters, JV Division of International Trade Department and Foreign Economic Division of Economic and Trade Department of Shougang, a professional of JV Management Division of Industrial Development Department of Shougang. Then he served as Assistant to Chief and Deputy Chief of Listed Company Management Division of Capital Operation Department of Shougang Corporation, Deputy Division Chief of Bodi Investment Co., Ltd., Deputy Chief of Treasury Division of Budget and Finance Department of Shougang Xingang Co., Ltd., and Assistant to Head and Head of Capital Operation Department, Head of Investment Management Department, and Head of Planning and Finance Department of Shougang Corporation. He currently serves as Head of Operation and Finance Department of Shougang Group.

Zhang Wei, Non-Executive Director, male, was born in April 1975. He is a PhD and an economist. The positions he ever held are: Senior Manager of Division of Comprehensive Affairs, General Office, PICC Investment Holding Co., Ltd.; Senior Manager of Secretariat, General Office (Party Committee Office), the People's Insurance Company (Group) of China; General Manager Assistant to the Board of Secretariat (Office of the Board of Supervisors) and Senior Manager of Secretariat to the Executive Office (Party Committee Office), the People's Insurance Company (Group) of China; Deputy General Manager to the Board of Secretariat (Office of the Board of Supervisors) and Senior Manager of Secretariat to the General Office (Party Committee Office), the People's Insurance Company (Group) of China; Deputy General Manager of the Board of Secretariat (Office of the Board of Supervisors), the People's Insurance Company (Group) of China; and General Manager of Department of Investment and Financial Management, the People's Insurance Company (Group) of China. He now serves as General Manager of Department of Operation Sharing, the People's Insurance Company (Group) of China.

Zeng Xiangquan, Independent Director, male, was born in November 1955. He is a PhD in Economics, professor and tutor to PhD students. He was the Dean of the School of Labor and Human Resources of Renmin University of China. Now, he is a professor of the School of Labor and Human Resources of Renmin University of China.

Yu Changchun, Independent Director, male, was born in February 1952. He is a PhD and professor. He used to be associate professor, dean of the teaching-research section and Deputy Dean of the Accounting Department of Jilin Finance and Trade College; Dean, professor and MA student adviser of the Accounting Department of Changchun Taxation College; and Director of Teaching and Research Center, Professor and tutor to PhD students of Beijing National Accounting Institute. Now, he is a professor of Beijing National Accounting Institute.

Xiao Wei, Independent Director, male, was born in December 1960. He holds a master's degree in law and once served as Director of Hainan Office of China Legal Affairs Center. He established Jun He Law Offices in Beijing in 1989 and is the Offices' Director now.

Chen Yonghong, Independent Director, male, was born in December 1962. He holds a bachelor's degree and is a Chinese CPA and senior accountant. He is a leading talent in China's accounting sector. He was ever Senior Staff Member and Principal Staff Member of Investment Audit Division of Hunan Audit Office; Deputy Director and Director of Hunan Auditors Office, Chairman and Chief Accountant of Baker Tilly China, and Principal Partner and Chief Accountant of Baker Tilly China Certified Public Accountants, and Chairman of Tianzhi Engineering Project Management Co., Ltd. Now, he is Partner of Baker Tilly China Certified Public Accountants and Chairman of Greetec Co., Ltd.

Yang Delin, Independent Director, male, was born in April 1962. He is a PhD and professor. He once taught Physics at No. 2 Middle School of Xiangfan and Hubei Provincial Supply and Marketing Institute, was an engineer of (Planning Division) and Assistant Researchers of Mathematics Department Office of Department Co-office of Wuhan Institute of Physics, Chinese Academy of Sciences; held a temporary post of Deputy Director/Member of Party Leading Group of Lanzhou Economic Commission; and Lecturer and Associate Professor of School of Economics and Management of Tsinghua University. Now, he is a professor of School of Economics and Management of Tsinghua University.

Wang Huacheng, Independent Director, male, was born in January 1963. He is a PhD and professor. He was once Teaching Assistant, Lecturer, Associate Professor and Deputy Director of Accounting Department and Vice Dean of School of Business of Renmin University of China. Now, he is a professor and tutor to PhD students at Division of Accounting & Finance, School of Business of Renmin University of China.

Li Liangang, Supervisor Representing Shareholder, male, was born in May 1968. He holds a bachelor's degree and is a senior economist. He used to be Deputy General Manager of the Finance Department of Shandong

Office, and General Manager of the Shandong Securities Operations Department of China New Technology Venture Capital Company, Head of the Corporate Banking Division of Jinan Branch of Hua Xia Bank, and Deputy Director and Director of the Board of Directors' Office and Director of the President's Office, Director, Secretary to the Board of Directors and Chief Financial Officer of Runhua Group, and General Manager of Qingdao Zhujian Ecological Health-and-Fitness Co., Ltd. Now he is director of Shandong Juya Environmental Protection Co., Ltd.

Tian Ying, Supervisor Representing Shareholder, female, was born in April 1965. She holds a master's degree and is a senior accountant. She previously taught at Beijing Finance College and was Manager of the Fund and Finance Department, Chief Accountant and Deputy General Manager of Beijing Sanjili Energy Co., Ltd. and Chairman of Huaxing Electricity Co., Ltd. Now, she is Vice President of Yongtai Group Co., Ltd.

Zhu Wei, External Supervisor, male, was born in August 1965. He holds a master's degree and is a senior economist and Chinese CPA. He was ever Deputy Division Chief of Industrial Transportation Department and Economic and Trade Department of the Ministry of Finance, and Director and Deputy General Manager of Zhong Sheng Environmental Protection Technology Development and Investment Co., Ltd. Now, he is Chief Partner of Jonten Certified Public Accountants. Mr. Zhu Wei resigned from the posts of the Company's external supervisor and member of relevant committees of the Board of Supervisors on 10 March 2020.

Lin Xin, External Supervisor, male, was born in October 1966. He is a PhD and lawyer. He previously was a lawyer at China Legal Affairs Center and Partner of Beijing Zhongming Law Firm. Now, he is a lawyer of Beijing Zhongming Law Firm.

Wu Changqi, External Supervisor, male, was born in June 1955. He holds a PhD degree and is a professor. He was Director of the Center of Executive Master of Business Administration (EMBA) Degree Program and Vice Dean of the Guanghua School of Management of Peking University and a part-time professor of HKUST Business School. Now, he is a professor teaching strategic management at the Guanghua School of Management of Peking University, Director of National Hi-tech Industrial Development Zone Development Strategy Research Institute of Peking University, Director of Guanghua Leadership Research Center of Peking University, Executive Vice Director of International Operation & Management Research Institute of Peking University and Dean and Chair Professor of the School of Management, Shandong University.

Ma Yuanju, External Supervisor, male, was born in March 1957. He is a PhD and professor. He taught accounting and did scientific research at Zhuhai Radio & TV University. Now, he is a professor at the Accounting School of Capital University of Economics and Business.

Sun Tongjun, Employee Supervisor, male, was born in November 1961. He holds a master's degree and is a senior economist. He served as Head and Party Committee Secretary of Agricultural Bank of China Penglai Sub-branch and Vice Head and Party Committee Member of Agricultural Bank of China Yantai Branch. When he joined Hua Xia Bank, he was successively Head and Party Committee Secretary of Yantai Sub-branch, Head and Party Committee Secretary of Shenyang Branch, Head and Party Committee Secretary of Ji'nan Branch and Employee Supervisor, Internal Control & Compliance Director and General Manager of Internal Control & Compliance Department of Hua Xia Bank. Now, he is Employee Supervisor and Internal Control & Compliance Director of Hua Xia Bank.

Cheng Yanhong, Employee Supervisor, female, was born in February 1958. She holds a bachelor's degree and is a senior accountant. She served as Deputy Head of the General Planning Division, Deputy Head and Head of the Debt Division, Deputy Director General and Member of Leading Party Group of Beijing Municipal Bureau of Finance, Party Committee Secretary and General Manager of Beijing Securities Co., Ltd., Deputy Secretary and Secretary of the Beijing Finance Working Committee, Head of the Finance Office of Beijing Municipal Government, Chairman of the Board of Supervisors, Deputy Party Committee Secretary and Secretary of the Party Discipline Committee of Hua Xia Bank; and Chairman of the Board of Supervisors and Deputy Party Committee Secretary of Hua Xia Bank. She currently serves as Deputy Director of the Financial and Economic Committee under Beijing Municipal Peoples' Congress (director general level), and Employee Supervisor of Hua Xia Bank.

Li Qi, Employee Supervisor, male, was born in August 1958. He holds a bachelor's degree and is a senior economist. He once was a teacher of the Law Department of Shandong University, Deputy General Manager of Rural Credit Cooperative of China in Shandong and Deputy General Manager of Shandong Yingtai Group Corporation. He took several positions in Hua Xia Bank, including Head of the Audit and Compliance Department of Ji'nan Branch, Member of the Discipline Inspection Committee, General Manager of Legal Affairs Department and Special Assets Resolution Department, Party Committee Secretary and General Manager of Chongqing Branch, Employee Supervisor, General Manager of Audit Department and Member of the Discipline Inspection Committee, as well as Employee Supervisor, General Manager of Audit Department and Member of the Discipline Inspection Committee of Hua Xia Bank. He currently serves as Employee Supervisor of Hua Xia Bank.

Wang Liying, Employee Supervisor, female, was born in May 1962. She holds a bachelor's degree and is a senior accountant. She was ever Deputy Director of Taiyuan Audit Office of Shanxi Branch of China Construction Bank, Chief of Budget and Finance Division & Director of Bills Center of Taiyuan Sub-branch of Hua Xia Bank, Vice President and Member of Party Committee of Taiyuan Branch of Hua Xia Bank, Vice President and Member of Party Committee of Tianjin Branch of Hua Xia Bank, Deputy General Manager and General Manager of Compliance Department of Hua Xia Bank, as well as Employee Supervisor, Director of Inspection Office and Deputy Secretary of the Party Discipline Committee of Hua Xia Bank. She currently serves as Employee Supervisor of Hua Xia Bank.

Guan Wenjie, Vice President, Principal of Financial Affairs and CFO, male, was born in October 1970. He holds a master's degree and is a senior accountant. He was once Deputy Chief (in charge of specific work) and Chief of Budget & Finance Division of Qingdao Sub-branch of Hua Xia Bank, General Manager of Budget & Finance Department of Qingdao Branch of Hua Xia Bank, Member of Party Committee and Vice General Manager of Qingdao Branch of Hua Xia Bank, Secretary of Party Committee and General Manager of Qingdao Branch of Hua Xia Bank, General Manager of Accounting Department, Principal of Financial Affairs and General Manager of Budget and Finance Department of Hua Xia Bank, CFO, General Manager of Budget and Finance Department and General Manager of Financial Markets Department of Hua Xia Bank. Now, he is Member of the Party Standing Committee, Vice President, Principal of Financial Affairs, and CFO of Hua Xia Bank.

Wang Yiping, Vice President, male, was born in June 1963. He holds a master's degree and is a senior economist. The positions he ever held are: Secretary of Secretariat, General Office, Ministry of Energy; Secretary to Minister (director level) of Secretariat, General Office, Ministry of Coal Industry; Secretary (director level) of Secretariat, General Office, the State Bureau of Coal Industry; Assistant President of China Coal Trust & Investment Co., Ltd.; Deputy General Manager of Corporate Financing Department and General Manager of Financial Interbank Department of Hua Xia Bank; and Party Committee Secretary and General Manager of Taiyuan Branch, Hua Xia Bank. Now, he is Member of the Party Standing Committee and Vice President of Hua Xia Bank.

Yang Wei, Vice President, male, was born in January 1966. He holds a bachelor's degree and is an engineer. He once served as Head of Special Assets Resolution Division II, Assistant to General Manager and Deputy General Manager of the Special Assets Resolution Department of Hua Xia Bank; Member of the Party Committee and Deputy Head of Xi'an Branch of Hua Xia Bank, Member of the Party Committee and Deputy Head of Kunming Branch & Secretary of the Party General Branch and Head of Yuxi Sub-branch of Hua Xia Branch; Deputy Secretary of the Party Committee, Secretary of the Party Committee and Head of Kunming Branch; Secretary of the Party Committee and Head of Beijing Branch of Hua Xia Bank, and Secretary of the Party Committee and Head of Guangzhou Branch of Hua Xia Bank. Now, he is Member of the Party Standing Committee and Vice President of Hua Xia Bank.

Li Min, Vice President, male, was born in September 1976. He holds a master's degree and is an economist. He once served as Deputy Divisional Head of the Wealth Management Product Sales Management Division of the Personal Banking Department and Deputy General Manager of the Private Banking Department (Expert Team) of the Industrial and Commercial Bank of China; Deputy General Manager of the Personal Business Department, Deputy General Manager (in charge of specific work) of the Asset Management Department and General Manager of the Asset Management Department of Hua Xia Bank. Now, he is Member of the Party Standing Committee and Vice President of Hua Xia Bank.

Song Jiqing, Secretary to the Board, male, was born in January 1965. He holds a PhD and is a senior economist. He once served as a Consultant (deputy director level) of Beijing Municipal Finance Bureau, Member of the Party Leading Group and Deputy Director General of the Local Taxation Bureau of Beijing Mentougou District, Deputy Secretary of the Party Leading Group and Director General of the Beijing Mentougou District Bureau of Finance & Secretary of the Party Leading Group and Director General of the Local Taxation Bureau of Beijing Mentougou District & Director General of the State-Owned Assets Administration Bureau of Beijing Mentougou District; Member of the Party Leading Group and Deputy Head of the Government of Beijing Mentougou District; Deputy Director of Fund Finance Department, Deputy Director of General Office, Director of General Office and Director of Information Research Department of the National Council for Social Security Fund; Deputy Chief Financial Officer and General Manager of Planning and Finance Department of Hua Xia Bank; Principal of Financial Affairs, Chief Financial Officer and General Manager of Planning and Finance Department of Hua Xia Bank; Principal of Financial Affairs, Chief Financial Officer and General Manager of Development Research Department of Hua Xia Bank; Chief Financial Officer and General Manager of Development Research Department of Hua Xia Bank; Director of Marketing and General Manager of Strategic Development Department of Hua Xia Bank; Director of Marketing and Director of Executive Office of Hua Xia Bank. He currently serves as Party Committee Member, Secretary to the Board of Directors and Director of Executive Office of Hua Xia Bank.

8.1.4 Positions or concurrent jobs of directors, supervisors and senior management members in shareholder entities or other entities

Name	Shareholder entity	Position	Tenure
Wang Hongjun	Shougang Group	CFO	Since August 2015
Li Jianbo	Yunnan Hehe (Group) Co., Ltd.	Party Committee Secretary, Chairman	Since June 2018
Ma Xiaoyan	State Grid Yingda International Holdings Group Ltd.	Deputy General Manager, Party Committee Member	Since January 2019
Zou Libin	Shougang Group	Head of Operation and Finance Department	Since December 2015

Name	Position or concurrent position in other entities excluding shareholder entities
Li Jianbo	Chairman of Hongta Securities Co., Ltd.
Ren Yongguang	Director of Huaxia Financial Leasing Co., Ltd.
Ma Xiaoyan	Chairman and head of Party organization of Yingda Asset Management Co., Ltd.
Zou Libin	Director of Beijing West Fund Management Co., Ltd.; Director of Beijing Shougang Construction Investment Co., Ltd.; Director of Shougang Shuicheng Iron & Steel (Group) Co., Ltd.; Director of China Bond Insurance Corporation; and Chairman of Shougang Group Finance Co., Ltd.
Zhang Wei	General Manager of Department of Operation Sharing at the People's Insurance Company (Group) of China; and Director of PICC Asset Management Company Limited
Zeng Xiangquan	Professor of the School of Labor and Human Resources of Renmin University of China
Yu Changchun	Professor of Beijing National Accounting Institute; Independent Director of Shandong Haihua Co., Ltd.; and Independent Director of Sino Medical Science Technology Inc.
Xiao Wei	Director of Jun He Law Offices; Deputy to the 15th Beijing Municipal People's Congress; Legal Consultant to the State-owned Assets Supervision and Administration Commission of the State Council; Adviser to the Ministry of Industry and Information Technology of China; and Member of the Legal Expert Base affiliated to the CPC Beijing Municipal Committee
Chen Yonghong	Partner of Baker Tilly China Certified Public Accountants; Chairman of Tianzhi Engineering Project Management Co., Ltd., Independent Director of Inner Mongolia Jinyu Bio-technology Co., Ltd. and Outside Director of Beijing Science Park Development (Group) Co., Ltd.
Yang Delin	Professor of Tsinghua University School of Economics and Management; Independent Director of Changjiang Publishing & Media Co., Ltd.; Independent Director of Juewei Food Co., Ltd.; Secretary General of Chinese Society of Technology Economics; and Executive Vice Chairman of Chinese Institute of Business Administration
Wang Huacheng	Professor of School of Business of Renmin University of China
Li Liangang	Director of Shandong Juya Environmental Protection Co., Ltd.
Tian Ying	Vice President of Yongtai Group Co., Ltd.; Vice Chairman of Hong Kong-based Greatime International Holdings Limited Company; and General Manager of CDB Jintai Capital Investment Co., Ltd.
Zhu Wei	Chief Partner of Jonten Certified Public Accountants
Lin Xin	Now, he is a lawyer of Beijing Zhongming Law Firm and Independent Director of Tangshan Caofeidian Wood Industry Co., Ltd.
Wu Changqi	Professor teaching strategic management at the Guanghua School of Management of Peking University; Director of National Hi-tech Industrial Development Zone Development Strategy Research Institute of Peking University; Director of Guanghua Leadership Research Center of Peking University; Executive Vice Director of International Operation & Management Research Institute of Peking University; Dean and Chair Professor of the School of Management, Shandong University; Non-executive Director of Qingdao Haier Co., Ltd.; Independent Director of Tianneng Battery Group Co Ltd.; Independent Director of Yijiahe Technology Co., Ltd.; Independent Director of Aixin Life Insurance Co., Ltd.; and Independent Non-executive Director of Beijing Media Co., Ltd.
Ma Yuanju	Professor at the Accounting School of Capital University of Economics and Business; Non-executive Independent Director of Sound Global Limited; Independent Director of Jinhe Biotechnology Co., Ltd.; and Independent Director of Qinghai Huading Industrial Co., Ltd.
Cheng Yanhong	Deputy Director of the Financial and Economic Committee (Office) under Beijing Municipal Peoples' Congress (director general level)
Song Jiqing	Supervisor of China UnionPay Co., Ltd.

8.1.5 Remunerations of directors, supervisors and senior management members during the reporting period

8.1.5.1 Basis for the assessment and incentive mechanism of directors, supervisors and senior management members

The total remuneration received by the directors and supervisors except for executive directors and employee supervisors from the Company during the reporting period was determined according to the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors* that had been considered and adopted by the Shareholders' General Meeting. As to the executive directors, other senior management members and employee supervisors who are included in the remuneration management scope of officers of SOEs governed by Beijing Municipal Government, their remuneration shall be determined as per the management policies fit for the abovementioned officers. As to the executive directors and other senior management members who are not included in the remuneration management scope of officers of SOEs governed by Beijing Municipal Government, their remuneration shall be determined as per the *Administrative Measures for Remunerations of Head Office-level Senior Management of Hua Xia Bank*. As to the employee supervisors who are not included in the remuneration management scope of officers of SOEs governed by Beijing Municipal Government, their remuneration shall be determined as per the Company's related employee remuneration management measures. The remunerations of directors, supervisors and senior management members shall be disclosed after being considered and adopted by the Board of Directors and the Board of Supervisors.

Remunerations (salaries) payable to directors, supervisors and senior management members are related to their annual duty performance. The annual duty performance of directors and supervisors shall be supervised and assessed by the Board of Supervisors according to the *Duty Performance Evaluation Measures for Directors of Hua Xia Bank Co., Limited (Provisional)* and the *Duty Performance Evaluation Measures for Supervisors of Hua Xia Bank Co., Limited (Provisional).* The annual duty performance assessment for directors consists of the following steps: self-assessment by directors, peer assessment among directors, assessment by the Board of Directors, and assessment by the Board Supervisors. The annual duty performance assessment for supervisors consists of the following steps: self-assessment by supervisors, peer assessment among supervisors, and assessment by the Board Supervisors. The aspects of assessment cover attendance and speaking at related meetings, inspections, surveys and trainings, compliance with applicable policies, and years of working at the Company, among others. The assessment results shall be approved by the Shareholders' General Meeting and submitted to CBIRC. The annual duty performance of senior management members shall be preliminarily assessed by the Remuneration and Assessment Committee of the Board of Directors as per the *Annual Performance Assessment Measures for Senior Management Members of Hua Xia Bank*. The assessment results shall be disclosed publicly after being considered and adopted by the Board of Directors. Given the annual assessment results issued by the Board of Directors and the daily supervision information gathered by the Board of Supervisors, the Board of Supervisors shall produce the annual duty performance assessment opinions on senior management members, disclose the opinions and submit them to CBIRC for filing purpose.

The Remuneration and Assessment Committee of the Board of Directors has examined remuneration data of directors, supervisors and senior management members to be disclosed in the Annual Report 2019 of the Company. In the opinion of the committee, the remunerations of directors, supervisors and senior management members to be disclosed in the Annual Report 2019 of the Company comply with relevant assessment system and remuneration management policy of the Company, and are paid in overall consideration of the prevailing economic conditions, control policies of China and Beijing as well as actual operation of the Company and its peers, and the disclosure meets requirements of relevant laws and regulations.

8.1.5.2 Remunerations actually paid to directors, supervisors and senior management members

During the reporting period, RMB15,258,100 (before tax) was actually paid to all of the directors, supervisors and senior management members.

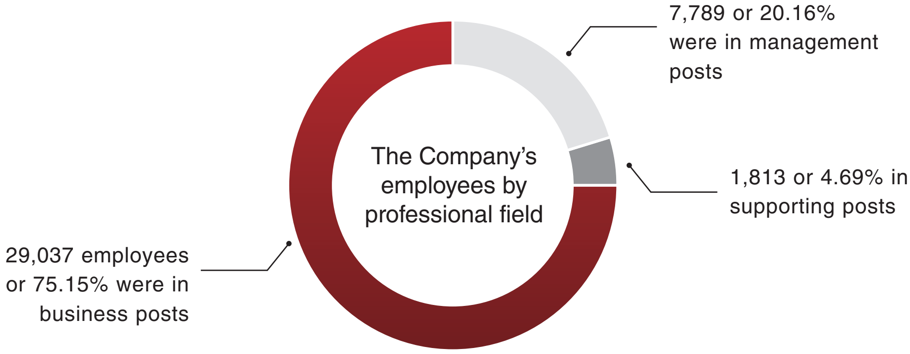
8.1.6 Penalties imposed on directors, supervisors and senior management members of the Company by securities regulatory authority in the past three years

As far as the Company knows, there have been no penalties imposed on its directors, supervisors or senior management members by securities regulatory authorities in the recent three years.

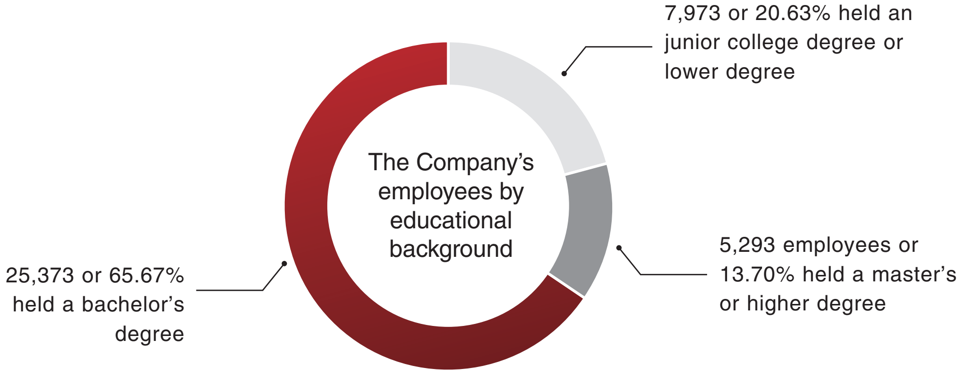
8.2 EMPLOYEES

At the end of the reporting period, the Group had 38,948 service employees, including 38,639 ones working in the Company and 309 ones working in the major subsidiaries. The Group paid for 861 retired employees.

8.2.1 The Company's employees by professional field



8.2.2 The Company's employees by educational background



8.2.3 Remuneration policy and training plan of the Company

The Company kept improving its incentives and constraints mechanism in line with the development strategy and business objectives, strengthened the risk-adjusted income assessment, highlighted the per-capita and per-outlet efficiency evaluation, continuously improved the risk control and compliance management capabilities and accelerated the business transformation and structural adjustment.

The Company continued to improve the training system, stepped up the development of training resources, constantly created a smart, efficient mobile learning platform, provided tiered and specialized training more systematically and effectively, and sped up the knowledge upgrade in a bid to help employees enhance their comprehensive capabilities.

8.3 TIERED MANAGEMENT AND NUMBER AND REGIONAL DISTRIBUTION OF INSTITUTIONS

8.3.1 Basic information on branches and overview of tiered management

The Company focuses on economically central cities while radiating over the whole country. It conducts the institutional planning and setup, routine operation and internal management under the three-level organizational management system which consists of the Head Office, branches and sub-branches.

As at the end of the reporting period, the Company had set up 42 tier-1 branches, 73 tier-2 branches, 7 non-local branches and 1,025 outlets in 116 Chinese cities at prefecture level and above. The Company added seven new tier-two branches during the reporting period in Chifeng, Luoyang, Suqian, Fuyang, Ganzhou, Changji and Liuzhou (upgraded). The newly established Hong Kong Branch was issued a banking license by the Hong Kong Monetary Authority.

8.3.2 Branches

Region	Institution name	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Beijing-Tianjin-Hebei Region Regions	Head Office	22 Jianguomennei Street, Dongcheng District, Beijing	–	4,817	1,708,149
	Beijing Branch	11 Financial Street, Xicheng District, Beijing	72	2,239	291,689
	Tianjin Branch	Tower E, Huanbohai Development Center, Zeng 9 Binshui Road, Hexi District, Tianjin	17	689	47,080
	Shijiazhuang Branch	48 Zhongshan West Road, Shijiazhuang	61	1,779	84,573
	Tianjin FTZ Branch	Railway Construction Building, 32 Central Ring West Road, Tianjin Free Trade Zone (Airport Economic Zone)	9	42	2,311
Yangtze River Delta	Nanjing Branch	333 and 329-2 (Jin'ao International Center) Jiangdong Middle Road, Jianye District, Nanjing	66	2,332	170,388
	Hangzhou Branch	No.2 Building, Oceanwide International Center, 2 Xiangzhang Street, Sijiqing Sub-district, Jianggan District, Hangzhou	61	1,927	155,520
	Shanghai Branch	256 Pudong South Road, China (Shanghai) Pilot Free Trade Zone	31	861	92,410
	Wenzhou Branch	Southeast of No.17-05 Plot, Riverside CBD, Wenzhou	18	549	30,529
	Ningbo Branch	366 Heyuan Road, Yinzhou District, Ningbo	11	407	22,658
	Shaoxing Branch	354 Zhongxing South Road, Shaoxing	11	413	33,930
	Changzhou Branch	No.9 Building, Fuxi Garden, 1598 Longjin Road, Xinbei District, Changzhou	16	424	40,708
	Suzhou Branch	188 Xinghai Street, Suzhou Industrial Park, Suzhou	19	662	65,282
	Wuxi Branch	3 Finance No.1 Street, Binhu District, Wuxi	23	575	56,094
	Hefei Branch	Building C, Wealth Plaza, 278 Suixi Road, Hefei	15	627	34,318
	Shanghai FTZ Branch	2 Taizhong South Road, China (Shanghai) Pilot Free Trade Zone	1	34	3,107
Guangdong-Hong Kong-Macao Greater Bay Area	Shenzhen Branch	Zhongzhou Plaza, 3088 Jintian Road, Futian Sub-district, Futian District, Shenzhen	38	1,296	139,339
	Guangzhou Branch	Nanyue Mansion, 13 Huaxia Road, Tianhe District, Guangzhou	44	1,641	137,279
	Hong Kong Branch	F18, International Finance Center (Phase II), 8 Finance St., Central Hong Kong	–	43	0

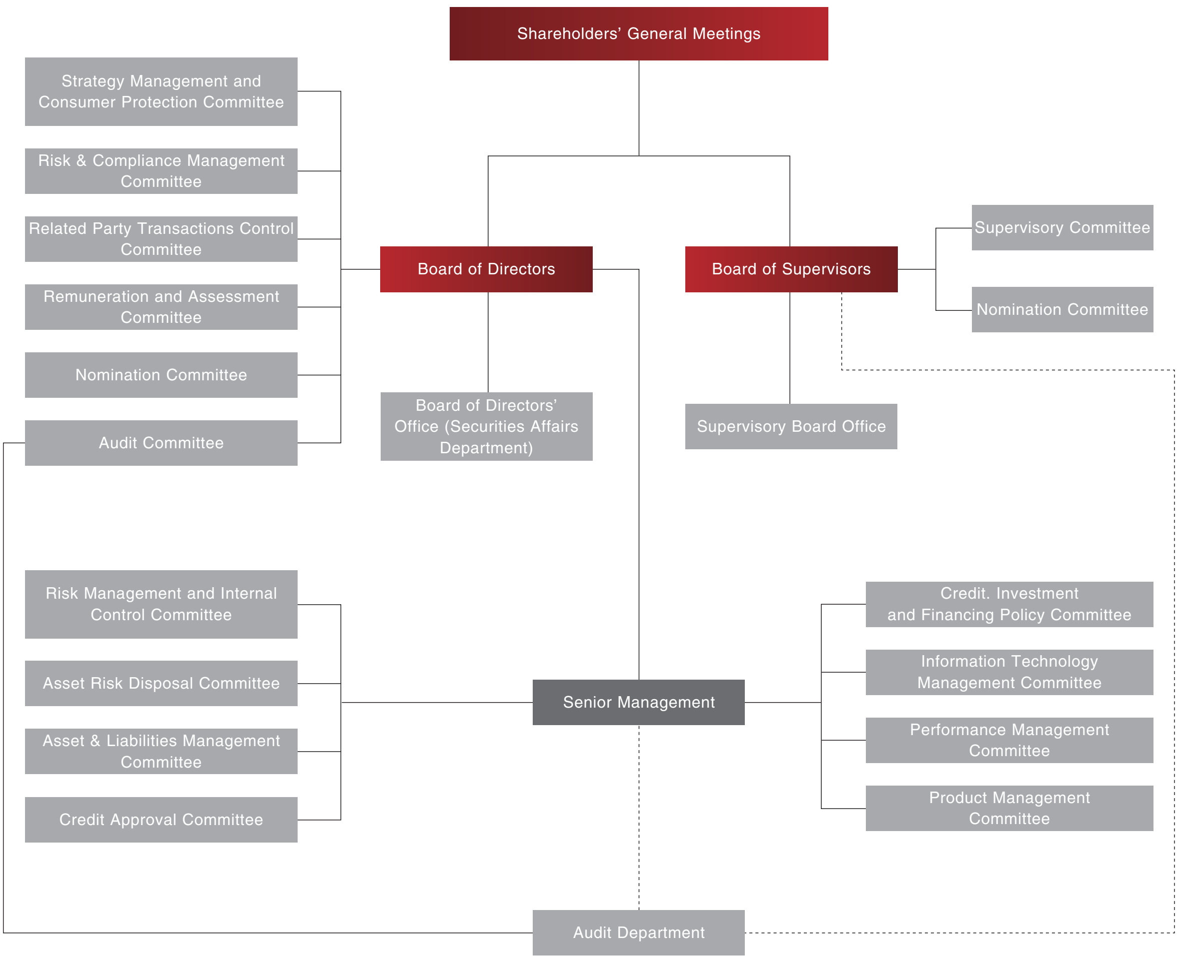
Region	Institution name	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Central and Eastern China Regions	Ji'nan Branch	138 Wei'er Road, Ji'nan	55	1,817	97,777
	Wuhan Branch	786 Minzhu Road, Wuchang District, Wuhan	65	1,585	101,458
	Qingdao Branch	5 Donghai West Road, Shinan District, Qingdao	37	987	60,643
	Taiyuan Branch	113 Yingze Street, Yingze District, Taiyuan	30	1,024	67,071
	Fuzhou Branch	Huaxia Mansion, 1 Gutian Zhilu, Gulou District, Fuzhou	20	588	24,157
	Changsha Branch	Huameiou International Mansion, 389 Wuyi Road, Furong District, Changcha	11	581	37,211
	Xiamen Branch	10, 11 and 16 Lingshiguan Road, Siming District, Xiamen	6	321	22,602
	Zhengzhou Branch	129 Business Outer Ring Road, Zhengdong New District, Zhengzhou	13	834	56,959
	Nanchang Branch	10 Binjiang Shoufu, Zhongshan West Road, Xihu District, Nanchang	15	438	26,738
	Haikou Branch	61 Guoxing Avenue, Meilan District, Haikou	3	161	6,445
Western China	Kunming Branch	Hua Xia Bank Tower, 98 Weiyuan Road, Kunming	28	1,036	84,267
	Chongqing Branch	Annex 1, Annex 2, Annex 3-2-1, 27 Jiangbeichengxi Street, Jiangbei District, Chongqing	32	938	80,499
	Chengdu Branch	2 Building, Jinjiang Zhichun, 229 Yong'an Road, Jinjiang District, Chengdu City	31	986	71,696
	Xi'an Branch	111 Chang'an North Road, Beilin District, Xi'an	27	810	52,395
	Urumqi Branch	15 Dongfeng Road, Tianshan District, Urumqi	14	444	26,198
	Hohhot Branch	57 Airport Expressway, Hohhot	18	824	30,857
	Nanning Branch	Tower B, Huarun Mansion, 136-2 Minzu Avenue, Nanning	12	549	43,936
	Yinchuan Branch	168 Xinchang East Road, Jinfeng District, Yinchuan	7	233	12,067
	Guiyang Branch	55 Changling North Road, Guansanhu District, Guiyang	2	255	11,251
	Xining Branch	Hua Xia Bank Mansion, 79 Haiyan Road, Chengxi District, Xining	1	116	4,661
	Lanzhou Branch	Zhihui Plaza, 333 Tianshui North Road, Chengguan District, Lanzhou	2	204	6,620
Northeastern China	Shenyang Branch	51 Qingnian Street, Shenhe District, Shenyang	31	996	32,528
	Dalian Branch	World Trade Center, 25 Tongxing Street, Zhongshan District, Dalian	27	614	37,940
	Changchun Branch	4888 Renmin Street, Changchun	19	665	26,012
	Harbin Branch	Tower A, Headquarters of Huizhi Finance Enterprise, Intersection of Qunli No. 5 Avenue and Lijiang Road, Daoli District, Harbin	6	276	7,685
Regional summarization adjustment			–	–	-1,220,220
Total			1,025	38,639	2,924,817

Notes:

1. Hong Kong Branch obtained a banking license from Hong Kong Monetary Authority in September 2019 and officially opened for business in January 2020.
2. Headcount of the Head Office includes the staff of Credit Card Center.

SECTION IX CORPORATE GOVERNANCE

9.1 CORPORATE GOVERNANCE FRAMEWORK



9.2 CORPORATE GOVERNANCE STRATEGY

The Company remains guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, earnestly implementing the guiding principles of relevant meetings of the 19th National Congress of the CPC, the National Conference on Party Building of State-owned Enterprises, the National Financial Work Conference and the Central Economic Work Conference and strictly abiding by laws, regulations and regulatory rules and guidelines. It is persistently dedicated to establishing a corporate governance mechanism composed of the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the Senior Management and the Party Committee, characterized by complete structure, sound policies, clear-cut boundaries, independent operation, effective checks and balances mutual cooperation and coordinated functioning. With active efforts to foster a sound corporate governance culture, the Company works unswervingly toward a modern "big and strong" financial service group that demonstrates "stability and excellence".

The Shareholders' General Meeting, which holds the ultimate power, decides on the Company's business policies, election and replacement of directors and relevant supervisors, financial budget and final accounts, profit distribution, changes in registered capital, issuance of bonds, revision of the *Articles of Association* and other significant events. The Company has a clear and stable shareholding structure, with the conduct of shareholders increasingly improved. Substantial shareholders actively supports the Company's equity structure and regulatory compliance. Small and medium-sized shareholders take part in decision making by attending general meetings to maintain stable foundation for the Company's development.

The Board of Directors as a strategic guide and decision maker is responsible for: formulating the Company's medium and long-term development plans, strengthening the implementation of evaluation supervision and ensuring the expectations and goals are achieved; deepening the reform and development, strengthening the rational allocation of resources, and ensuring the effectiveness of business transformation; always assuming the ultimate responsibility for risk management, guiding and deepening the development of internal control and internal audit and effectively forestalling and defusing financial risks; firmly practicing the national strategies, actively integrating into the mainstream economy and fully supporting the development of the real economy; actively making self-improvements, attaching importance to strengthening communication with the Company's Party Committee and other corporate governance entities, paying due attention to the legitimate rights and interests of stakeholders and striving to take the lead in creating a sound, efficient and harmonious governance environment. The special committees of the Board of Directors fully leverage their specialized strengths to work within the scope of mandate in a well-organized manner. All types of directors work with loyalty and diligence and give independent and objective opinions, providing strong support for the Board of Directors to make scientific decisions.

The Board of Supervisors fully performs its supervisory function, conducts supervisory inspections focused on duty performance of the Board of Directors and the senior management, financial activities, risk management and risk control in line with regulatory orientation and the Company's work priorities. It strengthens risk warnings and alerts, urges the Company to operate compliantly and defends the risk bottom line. The Board of Supervisors also strengthens its self-development, innovates or improves the ways and methods of work and continuously increases the effectiveness of supervision. The special committees of the Board of Supervisors work efficiently pursuant to their respective work rules. All types of supervisors fulfill their duties and contribute to effective supervision by the Board of Supervisors as expected.

The Senior Management as a strong executor carries out various management activities efficiently in line with the three major tasks of financial work and the goals and missions set forth in the Company's four-year development plan and reports relevant information to the Board of Directors and the Board of Supervisors in a timely manner. It adheres to the new development philosophy, promptly studies, launches and implements a series of practical work measures to cushion the impact of the downward economic pressure and legacy burdens on asset quality, unite and lead all people across the Company to accomplish annual business and development tasks. During the reporting period, the senior management members worked in a diligent and well-organized manner within their authorizations and well accomplished tasks assigned to them.

9.3 CORPORATE GOVERNANCE PRACTICE

The Company earnestly implements regulatory requirements on corporate governance, continuously improves corporate governance framework, brings more disciplines to the operation of the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the Senior Management in accordance with the *Company Law*, the *Commercial Bank Law,* the *Securities Law*, the *Code of Corporate Governance for Listed Companies*, the *Guidelines on Corporate Governance of Commercial Banks*, the *Guidelines on the Work of the Board of Supervisors of Commercial Banks* and other relevant laws and regulations. The core objective is to maximize shareholders' long-term value on the premise of respecting and protecting the interests of depositors. The actual condition of corporate governance has no material discrepancies with the normative documents on governance of listed companies released by CSRC.

During the reporting period,, the Company revised the *Articles of Association of Hua Xia Bank Co., Limited,* the *Administrative Measures for Related Party Transactions of Hua Xia Bank Co., Limited,* the *Work Rules of the Strategy Committee of Hua Xia Bank Co., Limited,* the *Measures for Remuneration Management of Head Office-level Executives* and the *Information Disclosure Policy of Hua Xia Bank Co., Limited* in line with the newly revised *Company Law*, the *Code of Corporate Governance for Listed Companies* and the *Guidance on the Articles of Association of Listed Companies.* These revisions have been reviewed and approved by the Board of Directors. The *Articles of Association of Hua Xia Bank Co., Limited* is pending review and approval by the Shareholders' General Meeting and approval by CBIRC before implementation. The *Measures for Equity Management of Hua Xia Bank Co., Limited* and the *Directors' Allowances Policy of Hua Xia Bank Co., Limited* were formulated and approved by the Board of Directors. The *Supervisors' Allowances Policy of Hua Xia Bank Co., Limited* was formulated and approved by the Board of Directors. These policies are pending review and approval by the Shareholders' General Meeting before implementation.

Under the strong leadership of CPC Beijing Committee, the Company held the fourth plenary meeting of Party members of Hua Xia Bank in July 2019. The new Party Committee and Party Discipline Committee and the first Party Standing Committee of the Company were elected. The guidelines for development, objectives of work and key tasks in the five years were defined, sounding the horn for building the Company into a modern "big and strong" financial service group that demonstrates "stability and excellence" and breaking new ground for the reform and development of Hua Xia Bank. This meeting further unified the thoughts and actions of all the Company's institutions and employees to implement the decisions and plans of the CPC Central Committee and the CPC Beijing Municipal Committee in a deep-going manner, starting a new chapter of building on past achievements and opening up the future.

9.4 BRIEFING OF THE SHAREHOLDERS' GENERAL MEETING

During the reporting period, the Company called and held two Shareholders' General Meetings and considered and adopted 18 proposals in strict accordance with the *Rules on the Shareholders' General Meetings of Listed Companies,* the *Articles of Association* and the procedural rules on the Shareholders' General Meeting. The Company established and improved effective channels of communication with shareholders, increased representation of public shareholders at the Shareholders' General Meetings through online voting and ensured equality of shareholders and their full exercise of rights, including the rights to be informed of, participate in and vote on significant matters of the Company.

General Meeting	Date	Website designated for publishing resolutions	Disclosure date
First Extraordinary General Meeting for 2019	20 March 2019	http://www.sse.com.cn	21 March 2019
Annual General Meeting for 2018	15 May 2019	http://www.sse.com.cn	16 May 2019

9.5 DUTY PERFORMANCE OF THE DIRECTORS

9.5.1 Attendance of directors at Board meetings and General Meeting

		Attendance at Board Meeting						Attendance at Shareholders' General Meetings
Director	Independent Director (Yes/no)	Board meetings to be attended this year	Meetings attended in person	Meetings attended by correspondence	Meetings attended by proxy	Absence	Absent from two consecutive meetings (Yes/no)	Shareholders' General Meetings attended
Li Minji	No	7	7	2	0	0	No	2
Wang Hongjun	No	7	6	2	1	0	No	1
Zhang Jianhua	No	7	6	2	1	0	No	1
Li Jianbo	No	7	7	2	0	0	No	0
Liu Chunhua	No	7	5	2	2	0	No	2
Ren Yongguang	No	7	7	2	0	0	No	1
Ma Xiaoyan	No	1	1	0	0	0	No	0
Zou Libin	No	7	6	2	1	0	No	1
Zhang Wei	No	7	5	2	2	0	No	0
Zeng Xiangquan	Yes	7	5	2	2	0	No	0
Yu Changchun	Yes	7	6	2	1	0	No	1
Xiao Wei	Yes	7	7	2	0	0	No	0
Chen Yonghong	Yes	7	7	2	0	0	No	1
Yang Delin	Yes	7	5	2	2	0	No	2
Wang Huacheng	Yes	7	7	2	0	0	No	0
Lin Zhiyong	No	1	1	0	0	0	No	0
Zhao Junxue	No	5	3	2	2	0	No	2
Ding Shilong	No	1	1	0	0	0	No	0

Number of Board meetings held this year	7
Of which: Number of onsite meetings	5
Number of meetings held by correspondence	2

9.5.2 Dissents of independent directors on relevant issues of the Company

During the reporting period, independent directors did not raise any dissents on relevant issues of the Company.

During the reporting period, there were six independent directors on the Board of Directors of the Company, accounting for over one third of its members. They earnestly attended meetings and reviewed proposals, performed the role of conveners for the Related Party Transactions Control Committee, the Nomination Committee, the Remuneration and Assessment Committee and the Audit Committee and gave independent opinions on cash dividends, external guarantee, reappointment of accounting firm, related party transactions, election of directors, appointment of senior management members and other major issues, and voiced the prior approval opinions on related party transactions and related issues throughout the year in the interest of depositors and minority shareholders pursuant to laws, regulations and the *Articles of Association*.

9.6 DUTY PERFORMANCE OF SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD

During the reporting period, all special committees of the Board of Directors operated in a well-disciplined manner, made good use of their respective advantages in line with their working rules, issued professional opinions and suggestions, and performed their duties diligently.

The Strategy Management and Consumer Protection Committee held one meeting and reviewed and approved the proposals relating to the Committee's annual work plan for 2019, interim assessment report on 2017-2020 Development Program, report on the work of consumer protection in 2018 and work arrangements for 2019, and report on internal capital adequacy assessment process for 2018. It also reviewed the report on progress of the New Basel Capital Accord implementation.

The Risk & Compliance Management Committee held two meetings and reviewed and approved the proposals relating to the Committee's annual work plan for 2019, report on risk management in 2018, risk management strategy for 2019, risk appetite assessment results for 2018 and adjustment opinion for 2019, report on liquidity risk management in H1 2019, report on market risk management in H1 2019,report on credit risk management in H1 2019, formulation of the administrative measures for large risk exposures and formulation of code of professional conduct.

The Related Party Transactions Control Committee held two meeting, and reviewed and approved the following proposals: the annual work plan for 2019 of the Committee, the report on implementation of related party transactions management policies and conditions of related party transactions in 2018, the credit line granted for related party transactions between Shougang Group and its related enterprises, the credit line granted for related party transactions between State Grid Yingda International Holdings Group Ltd. and its related enterprises, the credit line granted for related party transactions between PICC Property and Casualty Company Limited and its related enterprises, the credit line granted for related party transactions between Beijing Infrastructure Investment Co., Ltd. and its related enterprises, the credit line granted for related party transactions between Yunnan Hehe (Group) Co., Ltd. and its related enterprises, the credit line granted for related party transactions with Huaxia Financial Leasing Co., Ltd. and revision of the administrative measures for related party transactions.

The Audit Committee held four meetings and reviewed and approved the proposals relating to the Committee's annual work plan for 2019, report on duty performance in 2018, final accounts report in 2018, profit distribution plan in 2018, financial budget report for 2019, engagement of external auditor for 2019 and its compensation, changes in accounting policies, consolidated management report for 2018, special report on deposit and use of proceeds from non-public offering of RMB ordinary A-shares in 2018, annual report for 2018, internal control audit report of 2018, internal audit work plan for 2019, internal control assessment report of 2018, internal control audit report of 2018, first quarterly report of 2019, interim report of 2019, internal audit work report in H1 2019, internal control assessment plan for 2019, 2019 performance contract of the Audit Department, third quarterly report of 2019, distribution of dividends for preference shares in 2019, and engagement of General Manager of the Audit Department. It also heard the external audit work report for 2018 and the report on review of the interim report for 2019 presented by Deloitte Touche Tohmatsu Certified Public Accountants LLP.

The Remuneration and Assessment Committee held three meetings and reviewed the proposals relating to the Committee's annual work plan for 2019, 2018 assessment results of senior management members, bonus pool for senior management members not in the charge of Beijing municipality in 2018, plan on bonus distribution to senior management members not in the charge of Beijing municipality in 2018, suggestions on remuneration distribution to senior management members in the charge of Beijing municipality in 2018, suggestions on assessment results and remuneration distribution to departing senior management members in the charge of Beijing municipality in 2018, refund of risk security deposits to Head Office-level senior management members in 2019, remuneration of directors, supervisors and senior management members disclosed in the annual report 2018, determination of salary level of the Secretary to the Board, quantitative performance assessment plan for senior management in 2019, formulation of the director allowance policy and revision of the administrative measures for remuneration of Head Office-level senior management. It also assessed and appraised the duty performance of senior management members in 2018.

The Nomination Committee held two meetings and reviewed and approved the Committee's work plan for 2019, and examined the proposals on qualifications of candidates for directors and Secretary to the Board.

9.7 DUTY PERFORMANCE OF THE BOARD OF SUPERVISORS

During the reporting period, the Board of Supervisors supervised duty performance of the Company's directors and senior management members, financial decisions and their implementation, internal control building and risk management and implementation of information disclosure policies having no dissents on those matters under supervision.

During the reporting period, the Board of Supervisors held 10 meetings of the Board of Supervisors and its special committees, and reviewed and adopted 19 resolutions covering the Company's regular reports, financial statements, special inspection reports, internal control assessment report and social responsibility report in accordance with the *Articles of Association* of the Company and the procedural rules on the Board of Supervisors. At the same time, it conducted the following 10 inspections and surveys: discussion with the senior management about the actual operation in 2018 and working ideas for 2019; supervisory inspection on the duty performance of directors and senior management members in 2018; survey of mid-term implementation of the strategic plan; survey of the Company's ongoing crackdown on financial market irregularities pursuant to regulatory requirements; field survey of the FTZ business development of the Company; inspection on non-performing asset management of the Company; field survey of the work of tier-one branches in the three northeastern provinces to cement the development quality and support the revitalization of Northeastern China; survey of retail business transformation, survey of progress in the incentives and constraints mechanism reform and field survey of reform acceleration at Beijing and Shenzhen branches.

9.8 STATEMENT ON INDEPENDENCE FROM THE LARGEST SHAREHOLDER

The Company is fully independent from the largest shareholder in terms of business, personnel, assets, institutional set-up and financials and is capable of independent business operation.

9.9 INFORMATION DISCLOSURE AND INVESTOR RELATIONS MANAGEMENT

The Company regulates day-to-day information disclosures pursuant to the state's laws and regulations, regulatory provisions and the Company's policies to effectively protect investors' right to know, ensure timeliness, impartiality, authenticity, accuracy and completeness of the information disclosed and safeguard investors' interests. During the reporting period, the Company's information disclosure policy was revised and the in-house training on information disclosure was strengthened to ensure timely and accurate reporting of major information. The Company prepared and disclosed four regular reports and 36 interim announcements and informed the investors of such significant information as financial data, related party transactions, profit distribution plan and bond issuance on a timely basis.

The Company made interactions and communication with investors through multiple channels and platforms, as part of its sustained effort to deepen the investor relations management. Specifically, it held meetings with investors and analysts as well as online explanatory session on cash dividend distribution, actively participated in the investors receipt day for listed companies in Beijing and made full use of the platform sseinfo.com to communicate with investors online and offline, so as to inform investors and analysts of the connotation and values of the Company, further enhance their understanding of the Company and promote positive interaction between the Company and capital market.

9.10 REPORT ON THE INTERNAL CONTROL SELF-ASSESSMENT

The Board of Directors of the Company assessed the effectiveness of the Company's internal control as at 31 December 2019 in line with the requirements of the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, as well as other regulatory requirements for internal control. In the opinion of the Board of Directors, the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the requirements of the system of enterprise internal control standards and relevant regulations. During the reporting period, the Company had not any significant or material deficiencies of internal control over financial reporting, nor did it discover any significant or material deficiencies of internal control over non-financial reporting. For details, please refer to the *2019 Report on Internal Control Evaluation of Hua Xia Bank Co., Limited* disclosed by the Company.

9.11 EXPLANATION ON AUDITOR'S REPORT ON INTERNAL CONTROL

The Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as auditor of the effectiveness of internal control over financial reporting of the Company in accordance with the requirements of the *Basic Standard for Enterprise Internal Control and the Guideline for Enterprise Internal Control Audit.* The auditor deems that the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the *Basic Standard for Enterprise Internal Control* and relevant regulations. For details, please refer to the *Auditor's Report on Internal Control of Hua Xia Bank Co., Limited* disclosed by the Company.

SECTION X FINANCIAL STATEMENTS

SECTION XI LIST OF DOCUMENTS FOR INSPECTION

11.1 Accounting Statements Bearing Seals and Signatures of the Legal Representative, President, and Principal of Financial Affairs

11.2 Original of the Auditor's Report Bearing Common Seal of the Accounting Firm and Seals and Signatures of CPAs

11.3 Original of the Annual Report Bearing the Signature of Chairman of the Company

11.4 Originals of All Documents and Announcements Disclosed by the Company on the *China Securities Journal, Shanghai Securities News and Securities Times* during the Reporting Period

11.5 *Articles of Association of Hua Xia Bank Co., Limited*

Chairman: Li Minji

Board of Directors of Hua Xia Bank Co., Limited

15 April 2020

WRITTEN CONFIRMATION OF THE ANNUAL REPORT 2019 BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS OF HUA XIA BANK CO., LIMITED

Pursuant to relevant provisions and requirements of the Securities Law and the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 2 – Contents and Formats of Annual Reports (2017 Revision), we, in the capacity of Directors, Supervisors and Senior Management Members of Hua Xia Bank Co., Limited, after a full understanding and review of the Annual Report 2019 of the Company and its summary, are in the opinion that:

1. The Company operates in strict compliance with the Accounting Standards for Business Enterprises and its application guidelines; the Annual Report 2019 of the Company and its summary present the financial position and operating results of the Company during the reporting period in a fair way.

2. The Auditor's Report 2019 of Hua Xia Bank Co., Limited issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP is true, objective and impartial.

We undertake that the information contained in the Annual Report 2019 of the Company and its summary is authentic, accurate and complete without any false record, misleading statement or material omission, and assume individual and joint and several liabilities to the authenticity, accuracy and completeness of the information herein.

15 April 2020

Name	Position	Signature
Li Minji	Chairman and Executive Director	
Wang Hongjun	Vice Chairman and Non-Executive Director	
Zhang Jianhua	Executive Director, President	
Li Jianbo	Non-Executive Director	
Liu Chunhua	Executive Director, CAO	
Ren Yongguang	Executive Director, Vice President	
Ma Xiaoyan	Non-Executive Director	
Zou Libin	Non-Executive Director	
Zhang Wei	Non-Executive Director	
Zeng Xiangquan	Independent Director	
Yu Changchun	Independent Director	

Name	Position	Signature
Xiao Wei	Independent Director	
Chen Yonghong	Independent Director	
Yang Delin	Independent Director	
Wang Huacheng	Independent Director	
Li Liangang	Supervisor Representing Shareholder	
Tian Ying	Supervisor Representing Shareholder	
Lin Xin	External Supervisor	
Wu Changqi	External Supervisor	
Ma Yuanju	External Supervisor	
Sun Tongjun	Employee Supervisor	
Cheng Yanhong	Employee Supervisor	
Li Qi	Employee Supervisor	
Wang Liying	Employee Supervisor	
Guan Wenjie	Vice President, Principal of Financial Affairs	
Wang Yiping	Vice President	
Yang Wei	Vice President	
Li Min	Vice President	
Song Jiqing	Secretary to the Board of Directors	

Auditor’s Report

AUDITOR'S REPORT

D.SH.B. (SH) Z. (20) No. P01586

(Page 1 of 5)

To the shareholders of Hua Xia Bank Co., Limited,

I. AUDIT OPINION

We have audited the financial statements of Hua Xia Bank Co., Limited (the "Bank"), which comprise balance sheet as at 31 December 2019, income statement, statement of cash flows and statement of changes in equity of the Group and the Bank for the year then ended and notes to these Financial Statements.

In our opinion, the attached financial statements comply with the requirements of the Accounting Standards for Business Enterprises in all material respects and present fairly the financial position of the Group and the Bank as at 31 December 2019 and the operating results and cash flows of the Group and the Bank for the year then ended.

II. BASIS FOR AUDIT OPINION

We conducted our audit in accordance with the Auditing Standards for Chinese Certified Public Accountants. Our responsibilities under those standards are further described in the "Certified Public Accountant's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Bank in accordance with the Code of Ethics for Certified Public Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. KEY AUDIT ISSUES

Key audit issues are those matters that, in our professional judgment, are of most significance in our audit of the financial statements of the current year. These issues are addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these issues. We determine the followings are the key audit issues that merit communication in our auditor's report.

1. Measurement of expected credit losses (ECL) on loans and advances to customers measured at amortized cost:

Issue description

As indicated by Note IX – 8. Loans and advances to customers to the Financial Statements, the Group's and the Bank's balance of loans and advances to customers measured at amortized cost stood at RMB1,738,871 million and RMB1,638,946 million respectively, with the balance of relevant allowances for credit losses being RMB47,922 million and 44,609 million respectively. As indicated by Note V – 3, the Management should make major accounting estimates and judgments on whether the credit risk has increased significantly, grouping of assets with similar credit risk characteristics and assumptions and forward-looking information used by ECL measurement model in measuring ECL. As the balance of loans and advances to customers is of importance and significant estimations and judgments are involved while the senior management measures expected credit losses, we have identified the measurement of expected credit losses on loans and advances to customers measured at amortized cost as a key audit issue.

AUDITOR'S REPORT (CONTINUED)

D.SH.B. (SH) Z. (20) No. P01586

(Page 2 of 5)

III. KEY AUDIT ISSUES (CONTINUED)

1. Measurement of expected credit losses on loans and advances to customers measured at amortized cost (continued):

Audit countermeasure:

The major audit procedures we have implemented are listed as below:

- Testing and assessing the effectiveness of the design and implementation of internal controls relating to the measurement of credit losses on loans and advances to customers;
- Reviewing the appropriateness and reasonableness of expected credit loss model with the assistance from in-house credit risk model experts and evaluating the reasonableness of stages, probability of default (PD), loss given default (LGD), exposure at default (EAD), forward-looking information and other parameters and assumptions;
- Conducting credit review with selected samples and examining and evaluating the basis of the Management's major judgments on identification of defaulted and credit-impaired loans and whether credit risk has increased significantly and its reasonableness;
- Executing re-calculation procedures with samples to test the accuracy of calculations related to the expected credit loss model;
- Assessing the adequacy and appropriateness of disclosures made in the financial statements relating to the expected credit losses on loans and advances to customers measured at amortized cost.

2. Consolidated recognition of structured entities:

Issue description

As indicated by Note XIV. Structured Entities, structured entities mainly include wealth management products, asset-backed securities, financial institutions' asset management plans, beneficiary rights of assets and fund investments the Bank issues, manages or invests in. The Bank enjoys rights and interests in structured entities by initiating establishment, directly holding investments, reserving equity shares, or other means. As indicated by Note V – 4, while determining whether the Bank should include the structured entities into the consolidated scope, the senior management needs to consider powers exercised by the Bank over such entities, risks exposed to it due to them and compensation entitled to it through the related activities of the structured entities as well as the ability though which it may wield the related authority to influence its variable returns. The recognition of structured entities requires the senior management to make significant accounting estimation and judgment, and whether these entities can be consolidated will have major bearings on the Bank's financial statements.

AUDITOR’S REPORT (CONTINUED)

D.SH.B. (SH) Z. (20) No. P01586

(Page 3 of 5)

III. KEY AUDIT ISSUES (CONTINUED)

2. Consolidated recognition of structured entities (continued):

Audit countermeasure:

The major audit procedures we have implemented are listed as below:

- examining the internal controls relating to consolidation of structured entities;
- Sampling and checking the related contract documents, and assessing the appropriateness of the conclusion on whether the Bank can control and should consolidate the structured entities in terms of the powers exercised by the Bank over these entities, the variable returns from such entities, and the ability of the Bank to influence such returns by wielding its authority;
- Assessing the adequacy and appropriateness of disclosures made in the financial statements relating to the structured entities.

IV. OTHER INFORMATION

The senior management of the Bank shall be liable for other information. The other information comprises the information included in the 2019 annual report, other than the financial statements and our auditor’s report thereon.

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

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

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

V. THE SENIOR MANAGEMENT’S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The senior management of the Bank shall prepare the financial statements in accordance with the Accounting Standards for Enterprises and present them fairly; design, implement and maintain necessary internal controls so that the financial statements are free from material misstatement, whether due to fraud or error.

While drafting the financial statements, the senior management shall assess the business continuity of the Bank, disclose the affairs relating to business continuity (if applicable), and employ the assumption on business continuity, unless it plans to liquidate the Bank, terminates its operation or has no other feasible choice.

The governance body shall oversee the financial reporting process of the Bank.

AUDITOR'S REPORT (CONTINUED)

D.SH.B. (SH) Z. (20) No. P01586

(Page 4 of 5)

VI. CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. At the same time we also do the following work:

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

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the senior management.

(4) Reach a conclusion on the appropriateness of the senior management's using the assumption on business continuity. Conclude based on the audit evidence obtained whether there are material uncertainties on the affairs or conditions which may cast significant doubt on the Bank's business continuity. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, we should issue the non-unqualified auditing opinion. Our conclusions are based on the information obtained up to the issue date of the auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for guiding, overseeing and executing the group-wide audit, and assume full liability for the audit opinion.

AUDITOR'S REPORT (CONTINUED)

D.SH.B. (SH) Z. (20) No. P01586

(Page 5 of 5)

VI. CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

From the matters communicated with the governance body, we determine those matters that are of the most significance in the audit of the financial statements of the current period and are therefore the key audit issues. We describe these issues in our auditor's report unless law or regulation precludes public disclosure about the issues or when, in extremely rare circumstances, we determine that an issue should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership)	Certified Public Accountants Registered in China	Wen Qisi (Engagement Partner)
	Certified Public Accountants Registered in China	Ma Xiaobo

Shanghai, China

15 April 2020

BALANCE SHEET OF THE GROUP AND THE BANK

31 December 2019 (In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note IX	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Assets					
Cash on hand and balances with central banks	1	192,911	210,204	192,428	209,528
Due from banks	2	15,938	21,871	15,896	21,919
Placements with banks and other financial institutions	3	23,461	40,663	23,961	40,663
Financial assets measured at fair value through profit or loss	4	N/A	12,470	N/A	12,470
Derivative financial assets	5	926	1,130	926	1,130
Financial assets purchased under agreements to resell	6	24,050	1,723	24,050	1,583
Interest receivable	7	N/A	17,350	N/A	17,311
Loans and advances to customers	8	1,829,171	1,566,241	1,732,552	1,492,239
Financial investments					
Held-for-trading financial assets	9	89,783	N/A	89,783	N/A
Debt investments	10	675,286	N/A	673,615	N/A
Other debt investments	11	129,400	N/A	129,400	N/A
Other equity instrument investments	12	4,961	N/A	4,946	N/A
Available-for-sale financial assets	13	N/A	125,265	N/A	125,265
Held-to-maturity investments	14	N/A	415,524	N/A	415,250
Investments classified as receivables	15	N/A	233,762	N/A	232,875
Long-term equity investments	16	–	–	5,090	5,090
Fixed assets	17	13,466	13,582	13,435	13,549
Intangible assets		80	81	75	78
Deferred income tax assets	18	8,574	7,410	7,886	7,083
Other assets	19	12,782	13,304	10,774	11,655
Total assets		3,020,789	2,680,580	2,924,817	2,607,688

BALANCE SHEET OF THE GROUP AND THE BANK (CONTINUED)

31 December 2019 (In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note IX	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Liabilities					
Due to central banks	21	143,617	171,064	143,566	171,000
Due to banks and other financial institutions	22	302,337	293,072	303,561	293,490
Placements from banks and other financial institutions	23	104,064	77,111	26,409	19,871
Derivative financial liabilities	5	1,802	1,054	1,802	1,054
Financial assets sold under agreements to repurchase	24	93,774	14,378	93,423	14,126
Deposits taken	25	1,671,276	1,492,492	1,669,062	1,490,092
Accrued payroll	26	6,647	5,799	6,526	5,708
Taxes and dues payable	27	5,572	7,167	5,083	7,021
Interest payable	28	N/A	19,151	N/A	18,737
Debt obligations payable	29	403,584	360,469	398,495	357,969
Projected liabilities	30	2,147	–	2,135	–
Other liabilities	31	16,632	20,108	9,911	13,421
Total liabilities		2,751,452	2,461,865	2,659,973	2,392,489
Equity					
Share capital	32	15,387	15,387	15,387	15,387
Other equity instruments	33	59,971	19,978	59,971	19,978
Of which: Preference shares		19,978	19,978	19,978	19,978
Perpetual bonds		39,993	–	39,993	–
Capital reserve	34	53,292	53,292	53,291	53,291
Other comprehensive income	48	1,084	625	1,087	625
Surplus reserve	35	15,662	13,635	15,662	13,635
General risk reserve	36	34,706	31,788	33,753	31,019
Retained profit	37	87,486	82,436	85,693	81,264
Total equity attributable to shareholders of the parent company		267,588	217,141	264,844	215,199
Minority interests		1,749	1,574	–	–
Total shareholders' equity		269,337	218,715	264,844	215,199
Total liabilities and equity		3,020,789	2,680,580	2,924,817	2,607,688

The accompanying notes are an integral part of these financial statements

The financial statements on pages 123-261 are signed by:

Legal representative	President	Principal of Financial Affairs	Seal
Li Minji	Zhang Jianhua	Guan Wenjie	

INCOME STATEMENT OF THE GROUP AND THE BANK

1 January to 31 December 2019 (In RMB millions, unless otherwise stated)

	Note IX	The Group 2019	The Group 2018	The Bank 2019	The Bank 2018
I. Operating income		84,734	72,227	81,401	70,480
Net interest income	38	64,561	51,538	61,866	50,428
Interest income		128,437	116,036	122,923	112,709
Interest expense		(63,876)	(64,498)	(61,057)	(62,281)
Net fee and commission income	39	18,016	17,758	17,417	17,169
Fee and commission income		21,081	20,129	20,455	19,509
Fee and commission expenses		(3,065)	(2,371)	(3,038)	(2,340)
Investment loss/(gain)	40	1,231	4,068	1,231	4,071
Of which: Gains on derecognition of financial assets measured at amortized cost		–	N/A	–	N/A
Gains/(losses) from the changes in fair value	41	823	(1,463)	823	(1,463)
Exchange gains/losses	42	(132)	204	(132)	204
Other operating income		192	107	155	57
Profit/loss from the disposal of assets		15	(14)	15	(14)
Other income		28	29	26	28
II. Operating expenses		(57,237)	(45,539)	(55,452)	(44,726)
Tax and surcharges	43	(890)	(867)	(856)	(844)
General and administrative expenses	44	(25,920)	(23,533)	(25,588)	(23,292)
Impairment losses on credit	45	(30,251)	N/A	(28,842)	N/A
Other impairment losses on assets		(154)	N/A	(154)	N/A
Impairment losses on assets	46	N/A	(21,117)	N/A	(20,580)
Other business costs		(22)	(22)	(12)	(10)
III. Operating profit		27,497	26,688	25,949	25,754
Plus: Non-operating income		168	167	149	140
Less: Non-operating expenses		(102)	(72)	(101)	(71)
IV. Total profit		27,563	26,783	25,997	25,823
Less: Income tax expense	47	(5,448)	(5,797)	(5,055)	(5,557)
V. Net profit		22,115	20,986	20,942	20,266
i. Classified by operational continuity					
1. Net profit from continuous operation		22,115	20,986	20,942	20,266
2. Net profit from ceased operation		–	–	–	–
ii. Classified by ownership affiliation					
1. Net profit attributable to shareholders of the parent company		21,905	20,854	20,942	20,266
2. Minority shareholders' gains/losses		210	132	–	–
VI. After-tax other comprehensive income	48	(69)	1,777	(66)	1,777
i. Other comprehensive income not to be classified as profit/loss		(455)	–	(452)	–
1. Change in fair value of other equity instruments		(455)	N/A	(452)	N/A
ii. Other comprehensive income to be classified as profit/loss		386	1,777	386	1,777
1. Change in fair value of financial assets measured at fair value through other comprehensive income		95	N/A	95	N/A
2. Change in fair value of allowances for credit losses on investment in financial assets measured at fair value through other comprehensive income		291	N/A	291	N/A
3. Change in fair value of available-for-sale financial assets		N/A	1,777	N/A	1,777
After-tax other comprehensive income attributable to shareholders of the parent company		(69)	1,777	(66)	1,777
After-tax other comprehensive income attributable to minority shareholders		–	–	–	–
VII. Total Comprehensive Income		22,046	22,763	20,876	22,043
Total comprehensive income attributable to shareholders of the parent company		21,836	22,631	20,876	22,043
Total comprehensive income attributable to minority shareholders		210	132	–	–
VIII. Earnings Per Share					
Basic earnings per share (RMB yuan)	49	1.37	1.56		

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS OF THE GROUP AND THE BANK

1 January to 31 December 2019 (In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note IX	2019	2018	2019	2018
Cash flows from operating activities					
Net increase in customer deposits and due to banks and other financial institutions		172,057	120,301	173,079	116,725
Net increase in due to central banks		–	55,045	–	55,000
Net decrease in balances with central banks and due from banks and other financial institutions		28,528	37,879	28,476	37,935
Net increase in placements from banks and other financial institutions and financial assets purchased under agreements to resell		105,451	–	85,601	–
Net decrease in placements with banks and other financial institutions and financial assets purchased under agreements to resell		14,752	–	14,252	–
Net decrease in held-for-trading financial assets		1,141	–	1,141	–
Net increase in business debt obligations payable		63,140	–	63,140	–
Proceeds from interest and fee & commission		122,738	109,108	116,633	105,221
Other proceeds received related to operating activities		2,364	2,761	1,605	2,365
Sub-total of cash inflows from operating activities		510,171	325,094	483,927	317,246
Net increase in loans and advances to customers		(295,951)	(231,100)	(271,884)	(211,791)
Net decrease in placements from banks and other financial institutions and financial assets purchased under agreements to resell		–	(43,558)	–	(58,682)
Net increase in placements with banks and other financial institutions and financial assets purchased under agreements to resell		–	(18,492)	–	(18,492)
Net decrease in due to central banks		(29,513)	–	(29,500)	–
Net decrease in business debt obligations payable		–	(29,720)	–	(29,720)
Cash paid as interest and fee & commission expenses		(59,515)	(59,334)	(57,143)	(57,063)
Cash paid to and for employees		(15,381)	(14,937)	(15,147)	(14,749)
Taxes and dues paid		(13,346)	(12,933)	(12,961)	(12,587)
Other cash paid related to operating activities		(17,383)	(15,955)	(16,233)	(12,639)
Sub-total of cash outflows from operating activities		(431,089)	(426,029)	(402,868)	(415,723)
Net cash flows from operating activities	51	79,082	(100,935)	81,059	(98,477)
Cash flows from investing activities					
Proceeds from disposal of investments		518,775	1,166,355	517,900	1,166,302
Investment gains received		34,851	34,765	34,788	34,711
Net gains on disposal of fixed assets, intangible assets and other long-term assets		332	123	331	123
Sub-total of cash inflows from investing activities		553,958	1,201,243	553,019	1,201,136
Acquisition of investments		(614,588)	(1,185,730)	(613,043)	(1,184,803)
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(1,014)	(1,843)	(1,012)	(1,840)
Sub-total of cash outflows from investing activities		(615,602)	(1,187,573)	(614,055)	(1,186,643)
Net cash flows from investing activities		(61,644)	13,670	(61,036)	14,493

STATEMENT OF CASH FLOWS OF THE GROUP AND THE BANK (CONTINUED)

1 January to 31 December 2019 (In RMB millions, unless otherwise stated)

	Note IX	The Group 2019	The Group 2018	The Bank 2019	The Bank 2018
Cash flows from financing activities					
Proceeds from disposal of investments		39,993	29,231	39,993	29,231
Proceeds from issuance of bonds		2,500	20,500	–	18,000
Sub-total of cash inflows from financing activities		42,493	49,731	39,993	47,231
Cash paid for debt repayment		(25,000)	–	(25,000)	–
Cash paid for dividends and profit distribution or interest repayment		(8,663)	(7,044)	(8,558)	(7,043)
Sub-total of cash outflows from financing activities		(33,663)	(7,044)	(33,558)	(7,043)
Net cash flows from financing activities		8,830	42,687	6,435	40,188
Effect of exchange rate changes on cash and cash equivalents		195	591	195	591
Net change of cash and cash equivalents	51	26,463	(43,987)	26,653	(43,205)
Plus: Opening balance of cash and cash equivalents		66,204	110,191	65,514	108,719
Closing balance of cash and cash equivalents	50	92,667	66,204	92,167	65,514

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 January to 31 December 2019 (In RMB millions, unless otherwise stated)

		Equity attributable to shareholders of the parent company									
	Note IX	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Sub-total	Minority interests	Total
I. Balance as at 31 December 2018		15,387	19,978	53,292	625	13,635	31,788	82,436	217,141	1,574	218,715
Changes in accounting policies		–	–	–	528	–	–	(8,393)	(7,865)	(35)	(7,900)
Balance as at 1 January 2019		15,387	19,978	53,292	1,153	13,635	31,788	74,043	209,276	1,539	210,815
II. Changes during the year											
i. Net profit		–	–	–	–	–	–	21,905	21,905	210	22,115
ii. Other comprehensive income	48	–	–	–	(69)	–	–	–	(69)	–	(69)
Subtotal of the above i and ii		–	–	–	(69)	–	–	21,905	21,836	210	22,046
iii. Capital injection by equity holders											
1. Capital injection by holders of other equity instruments	33	–	39,993	–	–	–	–	–	39,993	–	39,993
iv. Profit distribution											
1. Surplus reserve withdrawn	35	–	–	–	–	2,027	–	(2,027)	–	–	–
2. General risk reserve withdrawn	36	–	–	–	–	–	2,918	(2,918)	–	–	–
3. Distribution of dividends on ordinary shares	37	–	–	–	–	–	–	(2,677)	(2,677)	–	(2,677)
4. Distribution of dividends on preference shares	37	–	–	–	–	–	–	(840)	(840)	–	(840)
III. Balance as at 31 December 2019		15,387	59,971	53,292	1,084	15,662	34,706	87,486	267,588	1,749	269,337

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

1 January to 31 December 2019 (In RMB millions, unless otherwise stated)

	Note IX	Equity attributable to shareholders of the parent company								Minority interests	Total
		Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Sub-total		
I. Balance as at 1 January 2018		12,823	19,978	26,625	(1,152)	11,703	30,055	68,023	168,055	1,443	169,498
II. Changes during the year											
i. Net profit		–	–	–	–	–	–	20,854	20,854	132	20,986
ii. Other comprehensive income	48	–	–	–	1,777	–	–	–	1,777	–	1,777
Subtotal of the above i and ii		–	–	–	1,777	–	–	20,854	22,631	132	22,763
iii. Capital injection by equity holders											
1. Capital injection by equity holders	34	2,564	–	26,667	–	–	–	–	29,231	–	29,231
iv. Profit distribution											
1. Surplus reserve withdrawn	35	–	–	–	–	1,932	–	(1,932)	–	–	–
2. General risk reserve withdrawn	36	–	–	–	–	–	1,733	(1,733)	–	–	–
3. Distribution of dividends on ordinary shares	37	–	–	–	–	–	–	(1,936)	(1,936)	(1)	(1,937)
4. Distribution of dividends on preference shares	37	–	–	–	–	–	–	(840)	(840)	–	(840)
III. Balance as at 31 December 2018		15,387	19,978	53,292	625	13,635	31,788	82,436	217,141	1,574	218,715

The accompanying notes are an integral part of these financial statements

BANK STATEMENT OF CHANGES IN EQUITY

1 January to 31 December 2019

(In RMB millions, unless otherwise stated)

	Note IX	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Total
I. Balance as at 31 December 2018		15,387	19,978	53,291	625	13,635	31,019	81,264	215,199
Changes in accounting policies		–	–	–	528	–	–	(8,235)	(7,707)
Balance as at 1 January 2019		15,387	19,978	53,291	1,153	13,635	31,019	73,029	207,492
II. Changes during the year									
i. Net profit		–	–	–	–	–	–	20,942	20,942
ii. Other comprehensive income	48	–	–	–	(66)	–	–	–	(66)
Subtotal of the above i and ii		–	–	–	(66)	–	–	20,942	20,876
iii. Capital injection by equity holders									
1. Capital injection by holders of other equity instruments	33	–	39,993	–	–	–	–	–	39,993
iv. Profit distribution									
1. Surplus reserve withdrawn	35	–	–	–	–	2,027	–	(2,027)	–
2. General risk reserve withdrawn	36	–	–	–	–	–	2,734	(2,734)	–
3. Distribution of dividends on ordinary shares	37	–	–	–	–	–	–	(2,677)	(2,677)
4. Distribution of dividends on preference shares	37	–	–	–	–	–	–	(840)	(840)
III. Balance as at 31 December 2019		15,387	59,971	53,291	1,087	15,662	33,753	85,693	264,844

BANK STATEMENT OF CHANGES IN EQUITY (CONTINUED)

1 January to 31 December 2019 (In RMB millions, unless otherwise stated)

	Note IX	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Total
I. Balance as at 1 January 2018		12,823	19,978	26,624	(1,152)	11,703	29,467	67,258	166,701
II. Changes during the year									
i. Net profit		–	–	–	–	–	–	20,266	20,266
ii. Other comprehensive income	48	–	–	–	1,777	–	–	–	1,777
Subtotal of the above i and ii		–	–	–	1,777	–	–	20,266	22,043
iii. Capital injection by equity holders									
1. Capital injection by equity holders	34	2,564	–	26,667	–	–	–	–	29,231
iv. Profit distribution									
1. Surplus reserve withdrawn	35	–	–	–	–	1,932	–	(1,932)	–
2. General risk reserve withdrawn	36	–	–	–	–	–	1,552	(1,552)	–
3. Distribution of dividends on ordinary shares	37	–	–	–	–	–	–	(1,936)	(1,936)
4. Distribution of dividends on preference shares	37	–	–	–	–	–	–	(840)	(840)
III. Balance as at 31 December 2018		15,387	19,978	53,291	625	13,635	31,019	81,264	215,199

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 January to 31 December 2019 (In RMB millions, unless otherwise stated)

I. PROFILE OF THE BANK

Hua Xia Bank Co., Limited (hereinafter “the Bank”), formerly known as Hua Xia Bank, was established as a nationwide commercial bank on 14 October 1992 with the approval of People’s Bank of China (“PBOC”). On 10 April 1996, Hua Xia Bank was approved by PBOC to be restructured as a joint-stock limited company by means of promoter incorporation, and then renamed as Hua Xia Bank Co., Limited. On 21 July 2003, the Bank obtained approval from China Securities Regulatory Commission (“CSRC”) for offering of A shares. On 12 September 2003, the Bank was listed.

The Bank held the License for Financial Business (No. B0008H111000001) upon approval by China Banking Regulatory Commission (“CBRC”) (now renamed into “China Banking and Insurance Regulatory Commission”, “the former CBRC” or “CBIRC”), and it acquired the Business License for Enterprises with a unified social credit code of 9111000010112001XW upon approval by the Beijing Administration for Industry and Commerce (now remained into “Beijing Municipal Administration for Market Regulation”).

As at 31 December 2019, in addition to the Head Office, the Bank had established 42 tier-1 branches in Chinese mainland, with outlets totaling 1,025.

The business scope of the Bank and its subsidiaries (collectively referred to as the “Group”) covers: public deposit-taking, granting of short, medium and long-term loans; domestic and international settlement, bill acceptance and discount, issuance of financial bonds, issuance, encashment and underwriting of government bonds as an agent, trading of government bonds and financial bonds, inter-bank lending and borrowing, trading of foreign exchange on its own behalf and as an agent, bank card service, provision of letter of credit and letter of guarantee, collection and payment service as an agent, safety box service, foreign exchange settlement and sale, sideline insurance agency, leasing service and other services approved by CBIRC.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group follows the Accounting Standards for Business Enterprises and relevant rules (hereinafter referred to as “Accounting Standards for Business Enterprises”) promulgated by the Ministry of Finance of PRC (the “MOF”). Besides, the Group also discloses relevant financial information in accordance with the *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 15 – General Provisions on Financial Report* issued by CSRC.

Ongoing concern

The Group has assessed its ability to sustain ongoing operation over the 12 months since 31 December 2019, finding no issue or condition that incurs a material ongoing concern. Therefore, the financial statements are drafted on the assumption of ongoing operation.

III. DECLARATION ON COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements prepared by the Group truly and fairly represent the financial position of the Group and the Bank as at 31 December 2019, and the operating results and cash flows of the Group and the Bank for the year then ended, in compliance with the Accounting Standards for Business Enterprises.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting period

The accounting period of the Group begins on 1 January and ends on 31 December of the Gregorian calendar.

2. Bookkeeping base currency

Renminbi is the functional currency in the major economic environments of the operating activities of the Bank and its subsidiaries. The Bank and its subsidiaries take Renminbi as the bookkeeping base currency. The Bank and its subsidiaries adopt Renminbi in the preparation of these financial statements.

3. Basis of accounting and measurement

The Group's accounting is on an accrual basis. Except some financial instruments that are measured at fair value, these financial statements are measured on the basis of historical costs. In case of impairment losses on assets, corresponding allowance for impairment losses shall be set aside according to relevant rules.

Measured on the basis of historical costs, assets shall be measured at the amount of cash or cash equivalents paid for purchasing them or the fair value of the consideration received. Liabilities shall be measured at the proceeds or assets received upon the assumption of obligations, or the contractual amount received upon the assumption of obligations, or the amount of cash or cash equivalents expected to be paid for debt repayment in daily activities.

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements.

If the fair value of a financial asset is set at its transaction price upon initial recognition and subsequently measured using a valuation technique involving non-observable inputs, the valuation technique will be calibrated in the valuation process so that the initial recognition result determined by the valuation technique is equal to the transaction price.

Fair value is measured based on the observability of the input value of fair value and the overall importance of such input value to measurement of fair value, and divided into the following three levels:

The input value at Level 1 is the unadjusted quotation of the same assets or liabilities obtainable in the active market on the measurement date.

The input value at Level 2 is the directly or indirectly observable input value of related assets or liabilities other than the input value in Level 1.

The input value at Level 3 is the unobservable input value of related assets or liabilities.

4. Business combination

Business combination not under common control and goodwill

A business combination not under common control is a business combination in which all of the combining entities or businesses are not ultimately controlled by the same party or parties both before and after the business combination.

Combination cost is the fair value of the assets paid, liabilities occurred or assumed and equity instruments issued by the buyer for acquiring the control right of the acquiree. The buyer's relevant expenses arising from business combination shall be recorded into current profit or loss upon occurrence.

At the acquisition date, recognizable assets, liabilities or contingent liabilities of the acquiree acquired by the buyer in the business combination are measured at fair value. For the balance between the combination cost and the fair value of recognizable net assets of acquiree acquired during the business combination, it will be recognized into goodwill as an asset and initially measured at cost.

Goodwill arising from business combination will be separately presented in the consolidated financial statements, and will be measured at the amount generated from the cost deducting accumulative allowance for impairment losses. Impairment test shall be conducted for goodwill at the end of each year at least.

The impairment loss on goodwill will be recognized as current profit or loss upon occurrence and will not be reversed in the subsequent accounting periods.

5. Preparation of consolidated financial statements

The consolidated scope of the consolidated financial statements shall be determined based on control. Control means that the Group has power over the investee, obtains variable return by participating in related activities of the investee and is able to influence its return amount by its power over the investee.

For subsidiaries disposed of by the Group, operating results and cash flows prior to the disposal date (date of losing control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows.

For subsidiaries acquired by business combination under different control rights, operating results and cash flows as of the acquisition date (date of obtaining control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows, and the opening balance and comparison amount of the consolidated financial statements will not be adjusted.

The major accounting policies and accounting period adopted by subsidiaries shall be determined based on those uniformly prescribed by the Bank.

All material accounts and transactions between the Bank and a subsidiary and among subsidiaries shall be offset at the time of business combination.

The part of the owners' equity of the subsidiaries not attributable to the parent company will be recognized as minority interest and be presented as "minority interests" under the item "shareholders' equity" of the financial statements. The part of the current profit or loss of the subsidiaries recognized as minority interests shall be presented as "minority interests" under the "net profit" item in the consolidated income statement.

If the loss of a subsidiary borne by a minority shareholder exceeds its share of equity at the beginning of the period in this subsidiary, the balance will be written off against the minority interests.

6. Recognition of the cash and cash equivalents

Cash refers to the cash on hand and deposits available for payment at any time. Cash equivalents refer to short-term investments with high liquidity held by the Group which are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

7. Foreign currency transactions

In the initial recognition of foreign currency transactions, the spot exchange rate on the transaction date shall be adopted. On the balance sheet date, foreign currency items shall be translated to RMB amounts by the spot exchange rate. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and that in the initial recognition or prior to the balance sheet date is recorded into current profit or loss, except the following circumstances: (1) the balance of exchange arising from foreign currency borrowings eligible for capitalization is recognized into cost of relevant assets after capitalization during the capitalization period; (2) balance of exchange arising from hedging instruments that are used to avoid foreign exchange risks will be treated by the accounting treatment to hedging; (3) balance of exchange arising from changes in book balance other than the amortized cost of monetary items measured at fair value through other comprehensive income is recognized as other comprehensive income.

The foreign currency-denominated non-monetary items measured at historical cost shall be recorded by the amount presented in the bookkeeping base currency converted by the spot exchange rate on the transaction date. Foreign currency-denominated non-monetary items measured at fair value shall be converted by the spot exchange rate on the determination date of fair value. The difference between the amount in the post-conversion bookkeeping base currency and that in the original bookkeeping base currency is recorded in current profit or loss or recognized as other comprehensive income as change in fair value (including change in exchange rate).

8. Financial instruments

A financial asset or financial liability is recognized when the Group becomes a party to a financial instrument contract.

For a financial asset purchased or sold in a regular manner, the asset to be received or liability to be assumed will be recognized at the transaction date or the sold asset will be derecognized at the transaction date.

A financial asset or liability is measured at fair value upon initial recognition. For financial assets and financial liabilities measured at fair value through profit or loss, the transaction costs thereof are directly recorded through profit or loss; for other categories of financial assets and financial liabilities, the transaction expenses thereof are included in the initially recognized amount.

Effective interest rate method is the method of calculating the amortized cost of a financial asset or financial liability and amortizing interest income/expenses over accounting periods.

Effective interest rate refers to the interest rate used when discounting the future cash flows of a financial asset or financial liability over its estimated lifetime into the book value of the financial asset or the amortized cost of the financial liability. Upon confirming the effective interest rate, the expected cash flow should be estimated based on the consideration of all contract terms of financial assets or financial liabilities (such as prepayment, extension, call option or other similar options), but the expected credit loss should not be considered.

The amortized cost of a financial asset or financial liability is calculated by deducting the repaid principal from the initially recognized amount of the financial asset or financial liability, then adding or subtracting the accumulated amortization amount generated by amortizing the difference between the initial recognition amount and the maturity-date amount using the effective interest rate method, and finally deducting the accumulated allowance for impairment losses (for the financial asset only).

8.1 Classification, recognition and measurement of financial assets

After initial recognition, the Group subsequently measures financial assets at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss as appropriate.

If the contractual terms of a financial asset give rise on specified dates to cash flows that were solely payments of principal and interest on the principal amounts outstanding and the financial asset is managed by the Group in a business model whose objective is achieved by collecting contractual cash flows, the financial asset will be classified as financial asset measured at amortized cost. These financial assets mainly include cash on hand and balances with central banks, due from banks, placements with banks and other financial institutions, financial assets purchased under agreements to resell, loans and advances to customers measured at amortized cost and debt investments.

If the contractual terms of a financial asset give rise on specified dates to cash flows that were solely payments of principal and interest on the principal amounts outstanding and the financial asset is managed by the Group in a business model whose objective is achieved by both collecting contractual cash flows and selling financial asset, the financial asset will be classified as financial asset measured at fair value through other comprehensive income.

Upon initial recognition, the Group may, based on a single financial asset, irrevocably designate equity instrument investments not held for trading as financial assets measured at fair value through other comprehensive income. Such financial assets are stated as other equity instrument investments.

If a financial asset meets any of the following conditions, the Group holds the financial asset for trading purposes:

(1) The purpose of acquiring relevant financial assets is mainly for selling in a short term;

(2) The financial asset is part of a recognizable financial instrument portfolio under centralized management upon initial recognition and there is objective evidence proving that there is a short-term profit-making method;

(3) The financial asset is a derivative instrument, except for the derivative instrument that meets the definition of financial guarantee contract and is designated as effective hedging instrument.

Financial assets measured at fair value through profit or loss include financial assets classified as at fair value through profit or loss and financial assets designated at fair value through profit or loss:

(1) Financial assets not eligible for classification as financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss;

(2) Upon initial recognition, to eliminate or significantly reduce accounting mismatches, the Group may irrevocably designate financial assets as measured at fair value through profit or loss.

Except for derivative financial assets, financial assets measured at fair value through profit or loss are stated as held-for-trading financial assets.

Financial assets measured at amortized cost

Financial assets measured at amortized cost are subsequently measured at amortized cost using the effective interest rate method, and the gains or losses arising from impairment or derecognition are recorded through current profit or loss.

The Group recognizes interest income on financial assets measured at amortized cost using the effective interest rate method. The Group calculates and determines the interest income on a financial asset by multiplying its book balance by effective interest rate, unless in the following circumstances:

(1) For a purchased or originated credit-impaired financial asset, the Group calculates and determines its interest income since initial recognition at the amortized cost of the financial asset and credit-adjusted effective interest rate.

(2) For a purchased or originated non-credit-impaired financial asset that has become credit-impaired in subsequent periods, the Group calculates and determines its interest income during subsequent periods at the amortized cost of the financial asset and effective interest rate. If the financial instrument ceases to be credit-impaired in subsequent periods due to credit risk improvements that are linked to an event that occurs after application of the above provisions, the Group will shift to calculating and determining the interest income by multiplying the book value of the financial asset by effective interest rate.

Financial assets measured at fair value through other comprehensive income

Impairment losses or gains on financial assets measured at fair value through other comprehensive income, their interest income calculated using the effective interest rate method and their exchange gains are recorded through current profit or loss. Other changes in fair value of these financial assets are recorded through other comprehensive income. The amount of the financial asset stated in the profit or loss for each period is equal to that stated in profit or loss for each period as if it were always measured at amortized cost. Upon derecognition of the financial asset, the accumulated gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income to current profit or loss.

Changes in the fair value of not-held-for-trading equity instrument investment designated at fair value through other comprehensive income are recognized in other comprehensive income. Upon derecognition of the financial asset, accumulated gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income to retained earnings. During the period when the Group holds such not-held-for-trading equity instrument investments, dividend income is recognized and recorded in current profit or loss when the Group's right to dividend is established and the economic benefits related to the dividend in a reliably measurable amount is likely to flow into the Group.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are subsequently measured at fair value, and any gain or loss arising from changes in fair value, as well as dividends and interest income relating to such financial assets will be recorded through current profit or loss.

8.2 Impairment of financial instruments

The Group accounts for impairment and recognizes allowance for impairment losses based on ECL for financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, financial lease receivables and loan commitments other than financial liabilities measured at fair value through profit or loss.

For other financial instruments, except for purchased or originated credit-impaired financial assets, the Group assesses the changes in credit risk of relevant financial instruments after initial recognition on each balance sheet date. If the financial instrument has had a significant increase in credit risk since initial recognition, the Group will measure the allowance for impairment losses on the financial instrument at an amount equal to its lifetime ECL. If the financial instrument has not had a significant increase in credit risk since initial recognition, the Group will measure the allowance for impairment losses on the financial instrument at an amount equal to its 12-month ECL. The increase or reversal of allowance for credit losses, except for financial assets measured at fair value through other comprehensive income, is recorded into current profit or loss as impairment losses or gains. For a financial asset measured at fair value through other comprehensive income, the Group recognizes its allowance for credit losses in other comprehensive income, and recorded the impairment losses or gains in current profit or loss without reducing book value of the financial asset listed in the balance sheet.

Where the Group measured the allowance for impairment losses on a financial instrument at an amount equal to its lifetime ECL during the previous accounting period but the financial instrument no longer has had a significant increase in credit risk since initial recognition on the current balance sheet date, the Group will measure the allowance for impairment losses on the financial instrument at an amount equal to its 12-month ECL on the current balance sheet date, and the resulting reversal of allowance for impairment losses will be recorded in current profit or loss as impairment gains.

8.2.1 Significant increase in credit risk

The Group uses reasonable and supportable forward-looking information that is available to determine whether a financial instrument has had a significant increase in credit risk since initial recognition by comparing the default risk of the financial instrument on the balance sheet date with the default risk at the initial recognition date. For loan commitments, the Group takes the date when the Group becomes the party making irrevocable commitments as the initial recognition date for applying the rules for impairment of financial instruments.

In assessing whether credit risk has increased significantly since initial recognition, the Group will compare the default risk of the financial instrument on the report date and its default risk upon initial recognition. In such assessment, the Group will consider reasonable and supportable quantitative and qualitative information, including historical experience and forward-looking information that is available without undue cost or effort. For the criteria for significant increase in credit risk, please see Note XV – 3.1 Credit risk management.

8.2.2 Credit-impaired financial assets

When the Group expects one or more events to occur that will have a detrimental impact on the future cash flows of a financial asset, the financial asset becomes a credit-impaired financial asset. Evidence that a financial asset is credit-impaired include observable information. Please see Note XV – 3.1 Credit risk management.

8.2.3 Determination of expected credit loss

ECL is measured based on probability of default, loss given default and exposure at default. For measurement and recognition of ECL, please see Note XV – 3.1 Credit risk management.

8.3 Transfer of financial assets

Where a financial asset meets any of the following conditions, it will be derecognized:

(1) Where the contractual rights for collecting cash flows of the said financial asset are terminated;

(2) Where the financial asset has been transferred and nearly all of the risks and returns in connection with the ownership of the financial asset have been shifted to the transferee;

(3) Where the financial asset has been transferred and the Group has not retained control over the financial asset, though it does not transfer or retain almost all of the risks and returns in connection with the ownership of the financial asset.

In case that the Group neither transfers nor retains almost all the risks and returns relevant to ownership of the financial asset and it does not waive control over the financial asset, it shall continue to recognize the transferred financial asset based on the degree of subsequent involvement and concurrently recognize relevant liabilities.

When a fully transferred financial asset meets derecognition conditions, the difference between (a) the book value of the transferred financial asset at derecognition date and (b) the sum of the consideration for the transferred financial asset and the corresponding derecognized part of the accumulated changes in fair value originally recorded into other comprehensive income will be recorded through profit or loss. If the financial asset transferred by the Group is not-held-for-trading equity instrument investment measured at fair value through other comprehensive income, the accumulated gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income to retained earnings. When the partially transferred financial asset meets the conditions for derecognition, the pre-transfer book value of the entire financial asset is apportioned between the derecognized part and still-recognized part at their respective fair value on the transfer date, and the difference between (a) the sum of the received consideration for the derecognized part and the corresponding derecognized part of the accumulated changes in fair value originally recorded into other comprehensive income and (b) the book value of the derecognized part on derecognition date will be recorded through profit or loss. If the financial asset transferred by the Group is not-held-for-trading equity instrument investment measured at fair value through other comprehensive income, the accumulated gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income to retained earnings.

If the transfer of an entire financial asset does not meet derecognition conditions, the Group will continue to recognize the transferred financial asset in its entirety and recognize the received consideration as financial liability.

8.4 Classification of financial liabilities and equity instruments

The Group classifies the financial instruments or their components into financial liabilities or equity instruments in the initial recognition, based on contractual clauses regarding the financial instruments issued and their underlying economic substance instead of the legal form only, with reference to the definition of financial liability and equity instrument.

8.4.1 Classification, recognition and measurement of financial liabilities

In the initial recognition, financial liabilities are classified into financial liabilities measured at fair value through profit or loss and other financial liabilities.

Financial liabilities measured at fair value through profit or loss include held-for-trading financial liabilities (including derivative instruments classified as financial liabilities) and those designated as financial liabilities measured at fair value through profit or loss. Except for derivative financial liabilities stated separately, financial liabilities measured at fair value through profit or loss are stated as held-for-trading financial liabilities.

Financial liabilities other than the financial liabilities arising from the ineligibility of financial assets for derecognition or continuing involvement in the transferred financial assets and loan commitments are classified as financial liabilities measured at amortized cost and subsequently measured at amortized cost, with the gains or losses on derecognition or amortization stated in profit or loss.

8.4.2 Equity instrument

Equity instruments are contracts which can prove the Group's remaining equity of the assets after deducting all the liabilities. The Group treats the offering (including refinancing), repurchase, sale or deregistering of equity instruments as equity movements. It does not recognize the movements of equity instruments' fair value. The expenses in relation to equity trading are deducted from the equity.

The Group treats its distribution to equity instrument holders as distribution of profits, and the stock dividend issued does not affect the total equity.

8.5 Derivatives and embedded derivatives

Derivatives include forward foreign exchange contracts, currency and exchange rate swap contracts, interest rate swap contracts and foreign exchange option contracts. Derivatives are initially measured at fair value on the signing date of relevant contract, and subsequently measured at fair value.

In the case of a hybrid contract comprised of embedded derivatives and a host contract that is a financial asset, the Group will account for the hybrid contract in its entirety using the accounting standards for classification of financial assets other than separate the embedded derivatives from the hybrid contract.

If the hybrid contract includes a host contract that is not a financial asset and also meets the following conditions, the Group will separate the embedded derivatives from the hybrid contract and account for them as if they were stand-alone derivatives:

(1) The economic characteristic and risk of the embedded derivatives are not closely related to the economic characteristic and risk of the host contract.

(2) A stand-alone instrument with the same terms and conditions as the embedded derivatives meets the definition of derivatives.

(3) The hybrid contract is not measured at fair value through profit or loss.

If the embedded derivatives are separated from the hybrid contract, the Group will account for the host contract of the hybrid contract in accordance with applicable accounting standards. If the Group cannot reliably measure the fair value of the embedded derivatives in accordance with the terms and conditions on embedded derivatives, the fair value of the embedded derivative instrument will be determined according to the difference between the fair value of hybrid contract and that of host contract. If the fair value of the embedded derivatives still cannot be separately measured on the acquisition date or subsequent balance sheet date after the above method is used, the Group will designate the hybrid contract in its entirety as a financial instrument measured at fair value through profit or loss.

8.6 Offset between financial assets and financial liabilities

Where the Group has a legally enforceable right to offset a recognized financial asset and a recognized financial liability and intends either to settle the asset and the liability on a net basis or to realize the asset and settle the liability simultaneously, the net value after offsetting the financial asset against the financial liability will be stated in the balance sheet. Otherwise, financial assets and financial liabilities shall be presented on the balance sheet separately, instead of offsetting with each other.

9. Financial assets purchased under agreements to resell and financial assets sold under agreements to repurchase

Financial assets purchased under agreements to resell means the money lent by the Group by buying financial assets and then selling them back at a fixed price under the agreements to resell. Financial assets sold under agreements to repurchase means the money borrowed by the Group by selling financial assets and then repurchasing them at a fixed price under the agreements to repurchase.

Financial assets purchased under agreements to resell and financial assets sold under agreements to repurchase are recorded and presented in the balance sheet in the amounts actually paid or received upon occurrence of transaction. In the case of financial assets purchased under agreements to resell, the purchased assets will not be recognized. In the case of financial assets sold under agreements to repurchase, the sold assets will continue to be recognized in balance sheet.

The bid-ask spread of financial assets purchased under agreements to resell and financial assets sold under agreements to repurchase is amortized using effective interest rate method during the transaction period and recognized as "interest income" and "interest expenses" respectively.

10. Long-term equity investments

Control means that the investor has power over the investee, obtains variable return by participating in related activities of the investee and is able to influence its return amount by its power over the investee. Joint control refers to the control over a certain arrangement shared by more than one parties as agreed and related activities of this arrangement must be determined upon consent of all participants of the control power. Significant influence means an entity has the power to participate in the financial affairs and operating policy of an enterprise but is unable to control or jointly control formulation of these policies together with other parties. At the time of determining whether to control or exert significant influence on the investee, the investee's current convertible corporate bonds and exercisable warrants held by the investor and other parties as well as other potential voting factors are taken into account.

The audit, legal service, valuation, advisory and other intermediary fees and other relevant administrative expenses incurred by the combining party or the buyer for combination of businesses are recorded in profit or loss upon occurrence.

A long-term equity investment is measured initially at cost. For long-term equity investment acquired by business combination not under common control, the initial investment cost is the combination cost on the acquisition date.

Long-term equity investments acquired by means other than business combination are initially measured at cost. In the case that the investee is under significant influence or joint control but is not controlled, the cost of long-term equity investment is the fair value of originally held equity investment determined according to the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments* plus the new investment costs.

Long-term equity investment by cost accounting

The Group adopts the cost method to calculate its long-term equity investment in subsidiaries. Subsidiaries refer to investees controlled by the Group.

When the cost method is adopted, the long-term equity investment is priced at the initial investment cost. The cost of long-term equity investment will be adjusted upon addition or withdrawal of investment. The investment return for the current period is recognized based on cash dividend or profit announced to be distributed by the investee.

Long-term equity investment accounted by equity method

The Group applies the equity method to investment of associates and joint ventures. An associate refers to an investee that can be significantly influenced by the Group. A joint venture refers to a joint arrangement where the Group only has right over net assets of the arrangement.

When the equity method is adopted for accounting, for long-term equity investments with investment cost larger than the shares of the fair value of recognizable net assets of the investee during investment, the investment cost of long-term equity investments is not adjusted; and for long-term equity investments with investment cost smaller than the shares of the fair value of recognizable net assets of the investee during investment, the difference will be recorded through current profit or loss and the investment cost of the long-term equity investments will be adjusted.

When the equity method is adopted for accounting, the investment income and other comprehensive income shall be recognized separately based on the share of net profit or loss and other comprehensive income of the investee to be attributable to the Group, and the book value of long-term equity investments shall be adjusted at the same time. The profit or cash dividend attributable shall be calculated based on that to be distributed by the investee and the book value of long-term equity investments shall be reduced accordingly. Changes in owners' equity other than the investee's net profit or loss, other comprehensive income and profit distribution are recorded into capital reserve and the book value of long-term equity investments shall be adjusted accordingly. The attributable share of the investee's net profit or loss shall be determined based on the fair value of recognizable assets of the investee at the time of being invested, and recognized after adjustment to the net profit of the investee according to the Group's accounting policies and accounting period. The unrealized profit or loss of internal transactions of the Group with associates and joint ventures attributable to the Group is calculated and offset as per the shareholding proportion, and the investment gains or losses are recognized after the offset. The unrealized loss arising from internal transactions of the Group with the investee that is categorized as impairment loss on transferred assets shall not be offset.

The net loss of the investee to be shared will be to the extent that the book value of long-term equity investment and other long-term equity substantially constituting net investment to the investee are written down to zero. In addition, if the Group has the obligation to assume additional loss of the investee, the projected liabilities will be recognized based on the obligation to be assumed and recorded through current investment loss. If the investee realizes net profit in the following periods, the Group will resume recognition of the attributable income after the income offsets the unrecognized loss.

Disposal of long-term equity investment

When the Group disposes of long-term equity investment, it records the difference between its book value and the actual acquisition cost through current profit or loss. The disposal of long-term equity investment accounted with equity method applies to the same basis with that used by the investee in directly disposing of relevant assets or liabilities. Accounting treatment will be conducted for the part of investment originally recorded into other comprehensive income by corresponding proportion.

11. Fixed assets

The fixed assets of the Group refer to tangible assets held for rendering of labor service, lease or operating management whose useful life exceeds one accounting year.

Fixed assets are measured initially at cost. Depreciation of fixed assets will be set aside based on the straight-line method over the useful life starting from the following month after the fixed assets reach their scheduled usable condition. The usable life, estimated residual rate and annual depreciation rate of all categories of fixed assets are shown as follows:

Category	Usable life	Estimated residual rate	Annual depreciation rate
Houses and buildings	20 – 35 years	5%	2.71% – 4.75%
Office supplies and electronic devices	3 – 5 years	5%	19.00% – 31.67%
Transportation facilities	5 – 10 years	5%	9.50% – 19.00%

Estimated residual value refers to the amount obtained by the Group from disposal of the asset deducting the estimated disposal expense, assuming that the fixed asset comes to the end of its estimated useful life at the expected status.

Any subsequent expenditure related to the fixed asset is recognized as cost of the fixed asset and the book value of the replaced part is derecognized in case that the future economic benefits associated with the asset is very likely to flow to the entity and the cost of the asset can be measured reliably. Other subsequent expenditures are recorded through current profit or loss at the time of occurrence.

At least at the end of every accounting year, the Group reviews the useful life, estimated residual value and depreciation methods for the fixed assets. Any changes will be treated as changes in accounting estimation.

The balance of disposal income from sale, transfer, retirement or destruction of fixed assets deducting their book value and related taxes and dues shall be recorded through profit or loss.

The cost of construction-in-process will be determined based on the actual expenditures of the project, including various project expenditures and other relevant expenses incurring during the construction period. Construction-in-process is converted into fixed asset when it reaches scheduled usable condition.

12. Intangible assets

Intangible assets refer to recognizable non-monetary assets with no physical form that are owned or controlled by the Group.

Intangible assets are measured initially at cost. For an intangible asset with a limited useful life, its original value will be amortized over its estimated useful life starting from the time when it is available for use. Intangible assets with uncertain useful life will not be amortized.

Land use right obtained is generally treated as an intangible asset in accounting. For self-developed houses and buildings, relevant land use right expenditure and the construction cost will be treated as intangible asset and fixed asset in accounting, respectively. For purchased houses and buildings, the cost will be allocated between the land use right and the buildings. If it is hard to realize reasonable allocation, all the cost will be accounted as fixed asset.

At the end of the period, the Group reviews the useful life and amortization method of the intangible asset with a limited useful life. Any changes will be treated as changes in accounting estimation.

13. Repossessed assets

Repossessed assets are initially recognized at fair value, and subsequently measured at the book value or recoverable amount at the end of the period, whichever is lower. When the recoverable amount of the repossessed asset is lower than its book value, impairment reserve for the asset will be set aside.

Gains or losses from disposal of the repossessed asset are recorded through current profit or loss.

If the repossessed asset is converted for private use, it shall be carried forward by its book balance on the date of transfer. If impairment reserve for the repossessed asset is set aside, the reserve shall also be carried forward.

14. Impairment of non-financial assets

At the end of the reporting period, the Group reviews the book value of long-term equity investments, fixed assets, construction-in-process and intangible assets, to confirm whether there is sign of impairment. If there is any sign of impairment on the asset, the recoverable amount shall be estimated. The Group estimates the recoverable amount based on a single asset; if it is hard to estimate the recoverable amount of a single asset, that of the asset portfolio where the single asset belongs will be measured. If the recoverable amount of the asset is lower than the book value, impairment reserve will be set aside based on the difference and be recorded through current profit or loss.

Recoverable amount is determined based on the fair value deducting disposal expense of the asset and present value of estimated future cash flows of the asset, whichever is higher. The fair value of assets is determined based on the price specified in the sales agreements of fair transactions; if there is active market but no sales agreement for the asset, its fair value will be determined based on the buyer's offer; if there is neither active market nor sales agreement, the fair value will be estimated based on the best information accessible. Disposal expenses include legal expense, taxes and carriage expense relating with the asset disposal as well as direct expenses for the asset to be available for sale. The present value of the estimated future cash flows of the assets will be determined based on the estimated future cash flows generated from continuous use and final disposal of the assets discounted by an appropriate discounting rate.

The above impairment loss of assets will not be reversed in the subsequent accounting periods once it is recognized.

15. Staff remuneration and welfare

Employee Compensation

The Group recognizes employees' short-term compensation actually incurred as liabilities during the reporting periods when the employees render services and records it through current profit or loss or relevant asset cost. The Group's employee welfare is recorded through current profit or loss or relevant asset cost based on the actual amount upon occurrence. Non-monetary employee welfare will be measured at fair value.

Social welfare

The Group joins in the social security system for employees established by the government as required, including basic endowment insurance, medical insurance, housing provident fund and other social security systems. During the reporting periods when the employees render services, the social welfare will be recognized as liabilities based on the amount payable and recorded through current profit or loss.

Annuity Plan

In addition to basic endowment insurance, employees of the Bank also participate in the employee retirement benefits plan created by the Bank (hereinafter referred to as "Annuity Plan"). The Bank contributes fund to the Annuity Plan as per a certain percentage of wages, and the contributions are recorded through current profit or loss. The Bank contributes a fixed amount of fund to the Annuity Plan. However, if the Annuity Plan is not sufficient to pay employees' future retirement benefits, the Bank is not obliged to make fund injection.

16. Projected liabilities

If an obligation in connection with contingencies meets the following conditions, the Group will recognize it as a projected liability: (1) The obligation is a current obligation; (2) Performance of the obligation will likely cause outflow of the related economic benefit; and (3) The amount of the obligation can be reliably measured.

On the balance sheet date, factors pertaining to a contingency such as risks, uncertainties and time value of money are taken into account, while the contingent liabilities are initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of time value of money is material, the best estimate is determined by discounting the expected future cash flows.

Where all or partial expenses paid for the liquidation of projected liabilities are expected to be compensated by a third party, the compensation can only be separately recognized as an asset when it is basically confirmed to be recoverable. The recognized compensation amount should not exceed the book value of the projected liabilities.

Allowances for impairment losses on loan commitments and financial guarantee contracts recognized by the Group based on expected credit loss are stated as projected liabilities.

17. Preference shares, perpetual bonds and others financial instruments

The preference shares, perpetual bonds and others financial instruments issued by the Group are taken as equity instruments, provided that the following conditions are met:

(1) The financial instrument does not include delivery of cash or other financial assets to other parties, or any contractual obligation of exchanging financial assets or liabilities with other parties under potentially unfavorable conditions;

(2) Where the financial instrument shall or can be settled with the Group's own equity instruments in the future, (a) in case of a non-derivative instrument, it shall not include any contractual obligation of settlement with the delivery of variable number of the Group's own equity instruments; or (b) in case of a derivative instrument, it can only be settled with fixed number of the Group's own equity instruments exchanging for cash or other financial assets with fixed amount.

Except for other financial instruments that can be classified as equity instruments under the above conditions, financial instruments issued by the Group are classified as financial liabilities.

For preference shares, perpetual bonds and other financial instruments classified as financial liabilities, the interest expenses or dividend distributions are accounted for as borrowing expenses and the gains or losses on their repurchase or redemption are recorded in current profit or loss. Where financial liabilities are measured at amortized cost, relevant transaction expenses are included in the initial measured amount.

For preference shares, perpetual bonds and other financial instruments classified as equity instruments, the interest expenses or dividend distributions are accounted for as the Group's profit distribution, their repurchase or deregistration is accounted for as equity changes and relevant transaction expenses are deducted from equity.

18. Recognition of income

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount can be reliably measured. The specific recognition principles are determined as follows by nature of the revenue:

Interest income and expenses

The interest income and expenses are calculated by the effective interest rate method based on the amortized cost of relevant financial assets and financial liabilities and recorded into current profit or loss.

Fee and commission income and expenses

The fee and commission income and expenses will be recognized on an accrual basis at the time of rendering or receiving services.

19. Government subsidies

Government subsidies refer to the monetary and non-monetary assets that the Group obtains free-of-charge from the Government. Government subsidies can be confirmed when they meet the attached conditions and can be received.

If such subsidies are monetary assets, they shall be measured at the received or receivable amount. Where the subsidies are non-monetary assets, they shall be measured at fair value; if the fair value cannot be obtained in a reliable way, they shall be measured at the nominal amount. The government subsidies, obtained at the nominal amount, shall be directly accounted through profit or loss. Government subsidies can be divided by the targets explicitly set forth by the related government documents into asset-related subsidies and benefit-related subsidies.

The government subsidies related to assets are determined as deferred income, and accounted into profit or loss after they are amortized averagely according to the service life. The government subsidies related to benefit, after covering the relevant expenses or losses in future periods, are determined as deferred income and accounted into profit or loss after the relevant expenses are recognized. If used for covering the already incurred expenses and losses, they shall be directly accounted through profit or loss.

For relating to the Group's daily activities, the government subsidies shall be accounted into other incomes in the light of the economic nature of business. Otherwise, they shall be accounted into non-operating income and expenditure.

Where an already recognized government subsidy needs to be returned, the book balance of related deferred income shall be written down if there is an outstanding deferred income, and the exceeding part shall be accounted through profit or loss; if not, it shall be accounted through profit or loss directly.

20. Income tax

Income tax expense includes the current income tax and the deferred income tax.

Current tax

On the balance sheet date, the income tax liabilities (or assets) that are formed during the current and previous periods shall be measured based on the amount of income tax that should be paid (or rebated) based on the tax law. The taxable income, namely the basis of current tax calculation, is obtained after the pre-tax accounting profit of the period is adjusted pursuant to the tax laws.

Deferred income tax

For the difference between the book value and the tax base of some assets and liabilities and the temporary difference between the book value and tax base of items that are not recognized as assets and liabilities but whose tax base can be determined according to the tax law, the deferred income tax assets and liabilities will be recognized based on the balance sheet liability method.

For taxable temporary differences relating with the initial recognition of goodwill, or the initial recognition of assets or liabilities generated from transactions that are not a business combination and that will not affect the accounting profit and taxable income (or deductible losses), relevant deferred income tax liabilities will not be recognized. In addition, for taxable temporary differences in connection with investments in subsidiaries and associates, if the Group can control the time for the reversal of such temporary differences and the temporary differences are unlikely to be reversed in the foreseeable future, relevant deferred income tax liabilities will not be recognized. Except the above cases, the Group will recognize all deferred income tax liabilities generated from taxable temporary differences.

For deductible temporary differences relating with the initial recognition of assets or liabilities generated from transactions that are not a business combination and that will not affect the accounting profit and taxable income (or deductible losses), relevant deferred income tax liabilities will not be recognized. Besides, for deductible temporary differences in connection with investments in subsidiaries and associates, if temporary differences are not likely to be reversed in the foreseeable future and taxable income is not likely to be obtained in the future to offset deductible temporary difference, relevant deferred income tax assets shall not be recognized. Except the above case, the Group recognizes the deferred income tax assets arising from other deductible temporary difference up to the amount of taxable income that may be obtained in the future to offset the deductible temporary difference.

For deductible losses that could be carried forward to the following years and tax credits, the Group recognizes relevant income tax assets within the limit of future taxable income that is very likely to be obtained by the Group to offset deductible losses and tax credits.

On the balance sheet date, the deferred income tax assets and liabilities are measured based on the tax rate in the expected period to collect the assets or repay the liabilities, according to the tax law.

On the balance sheet date, the book value of the deferred income tax assets will be reviewed. In case that the Group is not likely to obtain adequate amount of taxable income in the future to offset the deferred income tax assets, the book value of the deferred income tax assets will be written down. When the Group is able to obtain an adequate amount of taxable income, the written-down amount will be reversed.

Except that current income tax and deferred income tax relating with transactions or events recognized into other comprehensive income or directly recorded as shareholders' equity are recognized as other comprehensive income or shareholders' equity, and that book value of the goodwill is adjusted for deferred income tax arising from business combination, all the other expenses or income from current income tax and deferred income tax will be recorded through current profit or loss.

Offset of income tax

When the Group has the statutory right to settle on a net basis, or intends either to settle on a net basis or realize assets and repay liabilities at the same time, its current income tax assets and liabilities will be presented by the net amount after offset.

The deferred income tax assets and liabilities of the Group will be presented by the net amount after offset in the case that the Group has the statutory right to settle the current income tax assets and liabilities on a net basis, and the deferred income tax assets and liabilities are related to the income tax levied from a single subject of taxation by a single taxation authority or related to the income tax levied from different subjects of taxation, but the subjects of taxation involved intend to settle the current income tax assets and liabilities on a net basis or realize assets and repay liabilities at the same time during a future period in which a significant deferred income tax asset and liability is reversed.

21. Fiduciary business

Generally, the Group manages assets on behalf of customers as the agent, trustee or other fiduciary capacities in accordance with the agent agreement concluded with securities investment fund, social security fund, insurance company, trust company and other institutions. The Group only provides services and charges fees according to the agent agreement and does not take risks and interests relating with the agency assets. The agency assets will not be recognized in the balance sheet of the Group.

The Group also engages in entrusted loans. The Group grants loans to borrowers as an intermediary based on the borrower, purpose, amount, interest rate and repayment plan determined by the principal, in accordance with the entrusted loan contract. The Group is responsible for granting and collecting entrusted loans and charges fees for services provided, but it does not take risks and interests relating with the entrusted loans. The entrusted loans and entrusted loan assets will not be recognized in the balance sheet of the Group.

22. Leasing

Financial lease is substantially a type of lease where all risks and compensations relating with the assets are transferred. Operating lease includes all leases other than the financial lease.

The Group records operating lease as the leaser

The rental income from operating lease is recognized through current profit or loss in each period of the lease term based on the straight-line method. The initial direct expenses with larger amount are capitalized at occurrence and recorded through current profit or loss over the whole lease period by phase according to the same basis as rental income recognition; other initial direct expenses with smaller amount are recorded through current profit or loss at occurrence. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

The Group records financial lease as the leaser

On the starting date of the financial lease, the sum of the minimum rental income and the initial direct expense will be posted as the financial lease receivable and recorded into loans and advances to customers in the balance sheet. The unsecured balance will be recorded at the same time. The difference between the sum of minimum rental income, initial direct expense and unsecured balance and the present value thereof will be recognized as unrealized financing income. Within the lease period, the current interest income will be recognized based on the effective interest rate method. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

The Group records operating lease as the leasee

The rental expenses for operating lease are recognized as current profit or loss in each period of the lease term based on the straight-line method. Initial direct expenses are recorded through profit or loss. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

In the case that the leaser offers incentives for the operating lease, all the preferential factors arising from the incentives will be deducted from the rental expenses based on the straight-line method.

23. Debt restructuring

Debt restructuring means a concession granted by the creditor to the debtor in financial difficulties in accordance with the agreement with the debtor or the court order.

Where the debt restructuring takes the form of debt service with non-cash asset, the Group initially recognizes the asset other than transferred financial asset at cost. The difference between fair value and book value of waived debts is recognized into current profit or loss. Where the debt restructuring in the form of debt swap to equity instruments leads to the Group converting its debt claim to equity instrument in associates or joint ventures, the Group measures their initial investment cost according to the fair value of waived debt and taxes and other costs directly attributable to the asset. The difference between fair value and book value of waived debts is recognized into current profit or loss.

Where the debt restructuring takes the form of modifying other terms and conditions, the Group recognizes and measures the restructured debts in accordance with the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments*.

Where debt restructuring takes the form of debt service with multiple assets or a combination of methods, the received financial assets and restructured debt will be recognized and measured first in accordance with the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments*. Then the fair value of waived debt net of the recognized amount of financial assets and restructured debt will be distributed in proportion to assets other than received financial assets, and on this basis the costs of assets are recognized respectively using the foregoing method. The difference between fair value and book value of waived debts is recognized into current profit or loss.

V. MAJOR JUDGMENTS MADE IN ACCOUNTING POLICY APPLICATION AND KEY ASSUMPTIONS AND UNCERTAINTIES ADOPTED IN ACCOUNTING ESTIMATION

During the process of applying the accounting policies described in Note IV, the Group needs to make judgments, estimates and assumptions on the book value of statement items that cannot be measured accurately due to the inherent uncertainties of the operating activities. These judgments, estimates and assumptions are made based on the historical experience of the Management of the Group and other relevant factors, and therefore the actual results may be different from the estimates of the Group.

The Group regularly checks the foresaid judgments, estimates and assumptions on an ongoing basis. If the change in accounting estimates only has impact on the current period, it will be recognized in the current period; if it has impact on both the current period and future periods, it will be recognized in the current period and future periods.

On the balance sheet date, the Group needs to make judgments, estimates and assumptions on the amount of items in the financial statements in the following fields:

1. Classification of financial assets

Major judgments the Group makes in classification of financial assets include the analysis of business models and contractual cash flow characteristics.

The Group determines the business model for financial asset management at the level of financial asset portfolio. Considerations include the way of evaluating and reporting to key management personnel the performance of financial assets, risks affecting the performance of financial assets and their management methods and the way of remunerating relevant business management personnel.

The Group makes the following major judgments in assessing whether the contractual cash flows of financial assets are consistent with basic lending arrangements: whether the principal undergoes changes in time distribution or amount during the life due to prepayment; whether the interest only includes the consideration for time value of money, credit risks, other basic lending risks, costs and profits. For example, whether the prepayment amount reflects the outstanding principal and interest on outstanding principal and the reasonable compensation for early termination of contract.

2. Fair value of financial instruments

As for the financial instruments without active market, the Group adopts various valuation methods to determine their fair value. These methods include the discounted cash flow model, option pricing model and market comparison method. The valuation models developed by the Group use as much market information as possible and use as less information specific to the Group as possible. However, the Management needs to estimate observable market information that is unavailable. These changes in related assumptions will influence the fair value of the financial instruments.

3. Measurement of credit impairment loss

i. Significant increase in credit risk: The impairment allowances are recognized in the ECL model based on the 12-month ECL in Stage 1 and based on the lifetime ECL in Stage 2 and Stage 3. If the credit risk has increased significantly since initial recognition, the asset will move to Stage 2; if the asset is credit-impaired, it will move to Stage 3 (not purchased or originated credit-impaired asset). In assessing whether the credit risk of the asset increases significantly, the Group will consider qualitative and quantitative forward-looking information that is both reasonable and supportable;

ii. Grouping of assets with similar credit risks characteristics: When ECL is measured on a portfolio basis, financial instruments are grouped on the basis of similar risk characteristics. The Group keeps assessing whether these financial instruments maintain similar credit risk characteristics to ensure financial instruments will be properly reclassified once credit risk characteristic change. This may lead to the creation of a new asset portfolio or reclassification of assets to an existing asset portfolio to better reflect the similar credit risk characteristic of such assets;

iii. Use of models and assumptions: The Group uses different models and assumptions to assess the fair value and ECL of a financial asset. By making judgment, the Group determines the model most suitable for each financial asset and the assumptions used by the model, including assumptions related to key drivers of credit risk;

iv. Forward-looking information: In assessing ECL, the Group uses reasonable and supportable forward-looking information that is based on assumptions regarding future trends in different economic drivers and how these economic drivers influence each other;

v. Probability of default: PD is an important input for ECL. PD is an estimate of the likelihood of default in a given future period. Its calculation involves historical data, assumptions and future expectations;

vi. Loss given default: LGD is an estimate of the loss caused by default. It is based on the difference between contractual cash flows and expected cash flows to be received by the borrower, taking into account the cash flows and overall credit enhancement generated by collateral.

4. Judgment on control over structured entity

Where the Group serves as the manager or investor of the structured entity, it is necessary to assess whether the Group is the principal or agent so as to decide whether it has control over the structured entity. The Group decides whether it is the principal or agent based on such factors as its decision-making scope as the manager or investor, power of other parties, compensation of management services and the risk exposure of variable income.

5. Derecognition of financial assets

The Group transfers financial assets in its normal operating activities through various methods such as conventional transactions, asset securitization, and repurchase agreements. While determining whether the transferred financial assets can be derecognized entirely, the Group needs to make significant judgments and estimations.

Where financial assets are transferred to special-purpose entities through structured transactions, the Group shall analyze and assess whether its relations with these entities virtually indicate that it exercises the control power over these entities, thus entailing the combination. The decision on combination will determine whether the analysis for derecognition shall occur on the level of combined entities or single entities from which financial assets are transferred.

The Group needs to analyze the rights and obligations relating to the contracted cash flow arising from the transfer of financial assets, and then confirms whether the conditions for derecognition can be met with reference to the following basis:

(1) Where the contractual rights for collecting cash flows of the said financial asset are terminated;

(2) Where the financial asset has been transferred and nearly all of the risks and returns in connection with the ownership of the financial asset have been shifted to the transferee;

(3) Where the financial asset has been transferred and the Group has not retained control over the financial asset, though it does not transfer or retain almost all of the risks and returns in connection with the ownership of the financial asset.

6. Income tax

In the normal operating activities of the Group, there is uncertainty in the ultimate tax treatment and calculation of some transactions. Whether some items can be disbursed before tax is subject to the approval of the competent taxation authorities. If there is any difference between the ultimate determination result and the initially estimated amount of these tax items, the difference will pose impact on the current income tax and deferred income tax for the ultimate recognition period. At the same time, the Management of the Group needs to estimate the amount of deferred income tax assets that can be reversed in the future.

VI. MAJOR CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Changes in accounting policies

New Financial Instrument Standards

As from 1 January 2019, the Group started to implement the revised *Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets, Accounting Standard for Business Enterprises No. 24 – Hedging, and Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments* revised by MOF in 2017 (the "New Financial Instrument Standards").

With respect to classification and measurement of financial assets, the New Financial Instrument Standards require that financial assets shall be classified into financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss, depending on their contractual cash flow characteristics and the business model whereby these financial assets are managed. The classifications as loans and receivables, held-to-maturity investments and available-for-sale financial assets under the former financial instrument standards have been cancelled. Equity instrument investments are normally classified as financial assets measured at fair value through profit or loss. Equity instrument investments not held for trading are also allowed to be designated as financial assets measured at fair value through other comprehensive income. But such designation is irrevocable and, upon disposal, the accumulated changes in fair value previously recorded in other comprehensive income shall not be carried over to current profit or loss.

With respect to impairment, impairment requirements set forth in the New Financial Instrument Standards are applicable to financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, lease receivables, specified undrawn loan commitments and financial guarantee contracts. The New Financial Instrument Standards require that the allowance for credit losses should be recognized using the expected credit loss model instead of the previous incurred credit loss model. The new impairment model is a three-stage one, which calculates and allocates allowances for 12-month or lifetime ECL according to whether the credit risk of relevant items has increased significantly or not since initial recognition. The Group sets aside allowances equal to lifetime ECL for financial lease receivables arising from transactions subject to the *Accounting Standard for Business Enterprises No. 21 – Leases*.

According to transitional rules and requirements of the New Financial Instrument Standards, the Group will make retrospective adjustments in accordance with the New Financial Instrument Standards if financial instruments were recognized and measured before 1 January 2019 under different standards from the New Financial Instrument Standards. If comparable financial statement data from previous periods are not consistent with the New Financial Instrument Standards, there is no need to restate such comparable data for previous periods. The Group records the difference between the book value as at 31 December 2018 and that as at 1 January 2019 in the opening retained earnings or other comprehensive income for the period including the first implementation date.

The *Accounting Standard for Business Enterprises No. 24 – Hedging* has no significant effects on the Group.

Effects of the New Financial Instrument Standards adopted by the Group

The Management of the Group assesses its financial assets based on existing facts and circumstances on 1 January 2019. Changes in financial assets of the Group and effects resulting from classification and measurement (including impairment) are as follows:

Summary of Effects of Initial Implementation of the New Financial Instrument Standards on 1 January 2019

The Group	31 December 2018 Book value stated under old standards	Reclassified Transferred from previously financial assets measured at fair value through profit or loss (Note 1)	Transferred from previously available-for-sale financial assets (Note 2)	Transferred from previously held-to-maturity investments (Note 3)	Transferred from investments previously classified as receivables (Note 4)	Remeasured Transferred from other assets (Note 5)	Expected credit loss (Note 6)	1 January 2019 At fair value in lieu of at cost/ amortized cost	Book value stated under new standards
Due from banks	21,871	–	–	–	–	–	(1)	–	21,870
Placements with banks and other financial institutions	40,663	–	–	–	–	–	(5)	–	40,658
Financial assets measured at fair value through profit or loss	12,470	(12,470)	–	–	–	–	–	–	N/A
Financial assets purchased under agreements to resell	1,723	–	–	–	–	–	(503)	–	1,220
Loans and advances to customers	1,566,241	–	–	–	–	–	(7,859)	332	1,558,714
Available-for-sale financial assets	125,265	–	(125,265)	–	–	–	–	–	N/A
Held-to-maturity investments	415,524	–	–	(415,524)	–	–	–	–	N/A
Investments classified as receivables	233,762	–	–	–	(233,762)	–	–	–	N/A
Held-for-trading financial assets	N/A	12,470	10,412	427	26,046	–	–	427	49,782
Debt investments	N/A	–	–	408,597	207,716	–	(363)	–	615,950
Other debt investments	N/A	–	113,730	6,500	–	–	6	53	120,289
Other equity instrument investments	N/A	–	1,123	–	–	2,606	–	–	3,729
Deferred income tax assets	7,410	–	–	–	–	–	2,078	5	9,493
Other assets	13,304	–	–	–	–	(2,606)	2	–	10,700
Projected liabilities	–	–	–	–	–	–	2,072	–	2,072
ii Other comprehensive income	625	–	–	–	–	–	239	289	1,153
Retained profit	82,436	–	–	–	–	–	(8,922)	529	74,043
Minority interests	1,574	–	–	–	–	–	(35)	–	1,539

Note 1: Transferred from previously classified as financial assets measured at fair value through profit or loss

On 1 January 2019, RMB12,470 million of financial assets measured at fair value through profit or loss were reclassified as held-for-trading financial assets, for the cash flows of these investments were not solely payments of principal and interest on the principal amounts outstanding as set forth in the New Financial Instrument Standards.

Note 2: Transferred from previously classified as available-for-sale financial assets

Transfer from available-for-sale financial assets to held-for-trading financial assets

On 1 January 2019, RMB10,412 million of funds were reclassified from available-for-sale financial assets to held-for-trading financial assets, for the cash flows of these investments were not solely payments of principal and interest on the principal amounts outstanding as set forth in the New Financial Instrument Standards.

Transfer from available-for-sale financial assets to other debt investments

On 1 January 2019, RMB113,730 million of bonds were reclassified from available-for-sale financial assets to other debt investments, for they were held in a business model whose objective was achieved by both collecting contractual cash flows and selling financial assets and their cash flows were solely payments of principal and interest on the principal amounts outstanding.

Transfer from available-for-sale financial assets to other equity instrument investments

On 1 January 2019, RMB1,123 million of equity investments were reclassified from available-for-sale financial assets to equity instrument investments measured at fair value through other comprehensive income and stated under other equity instrument investments, for the Management of the Group designated relevant equity instrument investments not held for trading as financial assets measured at fair value through other comprehensive income.

Note 3: Transferred from previously classified as held-to-maturity investments

Transfer from held-to-maturity investments to held-for-trading financial assets

On 1 January 2019, RMB427 million of bond investments were reclassified from held-to-maturity investments to held-for-trading financial assets, for the cash flows of these investments were not solely payments of principal and interest on the principal amounts outstanding as set forth in the New Financial Instrument Standards.

Transfer from held-to-maturity investments to debt investments

On 1 January 2019, RMB408,597 million of bond investments were reclassified from held-to-maturity investments to debt investments, for they were held in a business model whose objective was achieved by collecting contractual cash flows and their contractual terms gave rise on specified dates to cash flows that were solely payments of principal and interest on the principal amounts outstanding.

Transfer from held-to-maturity investments to other debt investments

On 1 January 2019, RMB6,500 million of bond investments were reclassified from held-to-maturity investments to other debt investments, for they were held in a business model whose objective was achieved by both collecting contractual cash flows and selling financial assets and their cash flows were solely payments of principal and interest on the principal amounts outstanding.

Note 4: Transferred from investments previously classified as receivables

Transfer from investments classified as receivables to held-for-trading financial assets

On 1 January 2019, RMB26,046 million of financial assets were reclassified from investments classified as receivables to held-for-trading financial assets, for the cash flows of these investments were not solely payments of principal and interest on the principal amounts outstanding as set forth in the New Financial Instrument Standards.

Transfer from investments classified as receivables to debt investments

On 1 January 2019, RMB207,716 million of debt instruments were reclassified from investments classified as receivables to debt investments, for they were held in a business model whose objective was achieved by collecting contractual cash flows and their contractual terms gave rise on specified dates to cash flows that were solely payments of principal and interest on the principal amounts outstanding.

Note 5: Transferred from other assets

On 1 January 2019, RMB2,606 million of repossessed equity were reclassified from other assets to other equity instrument investments, for the Management of the Group designated relevant repossessed equity not held for trading as financial assets measured at fair value through other comprehensive income.

Note 6: Expected credit loss

On 1 January 2019, the Group recognized impairment allowances for credit losses on loans and advances to customers, debt investments, other debt investments, due from banks, placements with banks and other financial institutions, financial assets purchased under agreements to resell and other assets and credit commitments in accordance with the New Financial Instrument Standards. Specific effects are as follows:

For financial assets measured at amortized cost, mainly including due from banks, placements with banks and other financial institutions, financial assets purchased under agreements to resell, loans and advances to customers and debt investments, the Group measured the ECL using the three-stage model in accordance with the New Financial Instrument Standards, and set aside allowances for 12-month or lifetime ECL according to whether the credit risk of relevant items has increased significantly or not since initial recognition. As a result, on 1 January 2019, the impairment allowances increased by RMB1 million for due from banks, increased by RMB5 million for placements with banks and other financial institutions, increased by RMB503 million for financial assets purchased under agreements to resell, increased by RMB8,184 million for loans and advances to customers, increased by RMB363 million for debt investments, were written back for RMB6 million for other debt investments and decreased by RMB2 million for other assets.

For financial assets measured at fair value through other comprehensive income, including loans and advances to customers and other debt investments, the Group measured the ECL for other debt investments using the three-stage model in accordance with the New Financial Instrument Standards, and set aside allowances for 12-month or lifetime ECL according to whether the credit risk of relevant items has increased significantly or not since initial recognition. As a result, the impairment allowances decreased by RMB159 million for loans measured at fair value through other comprehensive income and increased by RMB32 million for other debt investments.

For credit commitments provided by the Group, the Group measured the ECL using the three-stage model in accordance with the New Financial Instrument Standards, and set aside allowances for 12-month or lifetime ECL according to whether the credit risk of relevant items has increased significantly or not since initial recognition. As a result, projected liabilities increased by RMB2,072 million on 1 January 2019.

For adjustments made by the Group to allowance for impairment losses on financial assets measured at amortized cost, measured at fair value through other comprehensive income and credit commitments recognized before adoption of the New Financial Instrument Standards, the allowances recognized in accordance with the Accounting Standards for Business Enterprises No. 13 – Contingent Matters and the impairment losses for credit losses recognized in accordance with the New Financial Instrument Standards on 1 January 2019, please see the table below.

Adjustments to allowance for credit losses as at 1 January 2019:

	Balance of allowances as at 31 December 2018	Reclassified	Allowances remeasured through retained earnings	Allowances remeasured through other comprehensive income	Balance of allowances as at 1 January 2019
Due from banks	32	–	1	–	33
Placements with banks and other financial institutions	116	–	5	–	121
Financial assets purchased under agreements to resell	306	–	503	–	809
Loans and advances to customers measured at amortized cost	47,275	(325)	8,184	–	55,134
Loans and advances to customers measured at fair value through other comprehensive income	N/A	325	–	(159)	166
Available-for-sale financial assets	6	(6)	–	–	N/A
Held-to-maturity investments	5	(5)	–	–	N/A
Investments classified as receivables	2,077	(2,077)	–	–	N/A
Debt investments	N/A	2,082	363	–	2,445
Other debt investments	N/A	6	–	32	38
Other assets	1,680	(3)	(2)	–	1,675
Projected liabilities	N/A	–	2,072	–	2,072
Total	51,497	(3)	11,126	(127)	62,493

Below are the effects of changes in the foregoing accounting policies on opening balances in the consolidated balance sheet of the Group:

Item	31 December 2018	Reclassified	Remeasured	1 January 2019
Assets				
Cash on hand and balances with central banks	210,204	–	–	210,204
Due from banks	21,871	–	(1)	21,870
Placements with banks and other financial institutions	40,663	–	(5)	40,658
Financial assets measured at fair value through profit or loss	12,470	(12,470)	–	N/A
Derivative financial assets	1,130	–	–	1,130
Financial assets purchased under agreements to resell	1,723	–	(503)	1,220
Interest receivable	17,350	–	–	17,350
Loans and advances to customers	1,566,241	–	(7,527)	1,558,714
Held-for-trading financial assets	N/A	49,355	427	49,782
Debt investments	N/A	616,313	(363)	615,950
Other debt investments	N/A	120,230	59	120,289
Other equity instrument investments	N/A	3,729	–	3,729
Available-for-sale financial assets	125,265	(125,265)	–	N/A
Held-to-maturity investments	415,524	(415,524)	–	N/A
Investments classified as receivables	233,762	(233,762)	–	N/A
Long-term equity investments	–	–	–	–
Fixed assets	13,582	–	–	13,582
Intangible assets	81	–	–	81
Deferred income tax assets	7,410	–	2,083	9,493
Other assets	13,304	(2,606)	2	10,700
Total assets	2,680,580	–	(5,828)	2,674,752
Liabilities				
Due to central banks	171,064	–	–	171,064
Due to banks and other financial institutions	293,072	–	–	293,072
Placements from banks and other financial institutions	77,111	–	–	77,111
Derivative financial assets	1,054	–	–	1,054
Financial assets sold under agreements to repurchase	14,378	–	–	14,378
Deposits taken	1,492,492	–	–	1,492,492
Accrued payroll	5,799	–	–	5,799
Taxes and dues payable	7,167	–	–	7,167
Interest payable	19,151	–	–	19,151
Debt obligations payable	360,469	–	–	360,469
Projected liabilities	–	–	2,072	2,072
Other liabilities	20,108	–	–	20,108
Total liabilities	2,461,865	–	2,072	2,463,937

Item	31 December 2018	Reclassified	Remeasured	1 January 2019
Equity				
Share capital	15,387	–	–	15,387
Other equity instruments	19,978	–	–	19,978
Capital reserve	53,292	–	–	53,292
Other comprehensive income	625	–	528	1,153
Surplus reserve	13,635	–	–	13,635
General risk reserve	31,788	–	–	31,788
Retained profit	82,436	–	(8,393)	74,043
Minority interests	1,574	–	(35)	1,539
Total shareholders' equity	218,715	–	(7,900)	210,815
Total liabilities and shareholders' equity	2,680,580	–	(5,828)	2,674,752

New Debt Restructuring Standards

As from 17 June 2019, the Group started to implement the revised *Accounting Standard for Business Enterprises No. 12 – Debt Restructurings* issued by MOF in 2019 (the "New Debt Restructuring Standards"). The New Debt Restructuring Standards has revised the definition of debt restructuring, specified the scope of application of the standards, modified the accounting treatment of debt restructuring and simplified disclosure requirements of debt restructuring. The revised debt restructuring standards have had no significant impact on the Group.

Formats of financial statements

MOF issued the *Notice on Amending and Issuing the Formats of Financial Statements for Financial Enterprises* (C.K. [2018] No. 36) in 2018. The Group has prepared the 2019 financial statements in accordance with the above notice without restating information in comparable periods. The interest accrued on financial instruments using the effective interest rate method should be included in the book balance of relevant financial instruments and presented in relevant accounting items. Interest receivable only presents the interest due and receivable on relevant financial instruments but not received on the balance sheet date and included in other assets (Note IX – 19). Interest payable only presents the interest due and payable on relevant financial instruments but unpaid on the balance sheet date and included in other liabilities. Except for the above modifications, the resulting changes in financial statements did not have significant impact on the Group's financial statements.

VII. MAJOR ITEMS

1. Enterprise income tax

Subjects of taxation of the Group pay the enterprise income tax at 25% of the taxable income pursuant to the *Enterprise Income Tax Law of the People's Republic of China*.

2. Value-added Tax (VAT)

Since 1 May 2016, the Group has paid VAT instead of business tax, with the basis of taxation being assessable value added. The tax payable under the general tax computation method shall be calculated by subtracting deductible input taxes from the result of multiplying the assessable income by the applicable tax rate. The tax payable under the simple tax computation method shall be calculated by multiplying the assessable sales amount by the applicable tax rate.

Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, has been a pilot enterprise for the trial implementation of replacing business tax with VAT in Kunming. As at 1 August 2013, the company has paid VAT for tangible personal property. Since 1 April 2019, it has paid VAT for tangible personal property at the rate of 13% (previously 16%) and for advisory services at the rate of 6% (previously 6%).

3. Urban maintenance and construction tax

The Group calculates and pays the urban maintenance and construction tax at 5% or 7% of VAT.

4. Education fee and surcharges

The Group calculates and pays the education fee and surcharges at 3% of VAT.

VIII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries acquired through establishment or investment as at 31 December 2019 are as follows:

Name	Date of establishment	Register place	Registered capital/ paid-in capital RMB millions	Shareholding percentage (%)	Voting rights percentage (%)	Minority entity RMB millions	Business nature
Beijing Daxing Hua Xia Rural Bank Co., Ltd.	2010	Beijing	125	80.00	80.00	25	Bank
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	2011	Kunming	50	70.00	70.00	17	Bank
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	2011	Jiangyou	75	70.00	70.00	35	Bank
Huaxia Financial Leasing Co., Ltd.	2013	Kunming	6,000	82.00	82.00	1,672	Financial leasing

For details on structured entities included in consolidated scope of the Group, please see Note XIV. Structured Entities.

IX. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Cash on hand and balances with central banks

		The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Cash on hand		1,980	2,223	1,971	2,210
Statutory reserves with central banks	(1)	154,079	176,745	153,931	176,548
Excess reserves with central banks	(2)	35,693	29,968	35,367	29,502
Other balances with central banks	(3)	1,159	1,268	1,159	1,268
Total		192,911	210,204	192,428	209,528

(1) The Group deposits statutory reserves for general deposits with PBOC as required. The percentage of reserves is specified below:

	31 December 2019	31 December 2018
RMB:		
The Bank	9.50%	12.00%
Beijing Daxing Hua Xia Rural Bank Co., Ltd	7.50%	9.00%
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	7.50%	9.00%
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	6.50%	8.00%
Foreign currency:	5.00%	5.00%

(2) Excessive reserves with the central bank refer to the funds placed by the Group with the central bank in addition to the statutory reserves to ensure the normal withdrawal of deposits and business operations.

(3) Other funds placed with the central bank are deemed as fiscal deposits and exchange risk reserve at the central bank, and PBOC pays no interest for the fiscal deposits and exchange risk reserve.

2. Due from banks

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Due from domestic banks and other financial institutions	8,231	15,074	8,188	15,122
Due from overseas banks and other financial institutions	7,691	6,829	7,691	6,829
Accrued interest	41	N/A	42	N/A
Less: Allowance for impairment losses	(25)	(32)	(25)	(32)
Book value of due from banks and other financial institutions	15,938	21,871	15,896	21,919

3. Placements with banks and other financial institutions

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Placements with domestic banks and other financial institutions	1,045	2,762	1,045	2,762
Placements with other domestic financial institutions	22,486	38,017	22,986	38,017
Accrued interest	15	N/A	15	N/A
Less: Allowance for impairment losses	(85)	(116)	(85)	(116)
Book value of placements with banks and other financial institutions	23,461	40,663	23,961	40,663

4. Financial assets measured at fair value through profit or loss

	The Group and the Bank	
	31 December 2019	31 December 2018
Bonds of public entities and quasi-governments	N/A	202
Bonds of financial institutions	N/A	533
Corporate bonds	N/A	3,198
Fund investment	N/A	8,537
Total	N/A	12,470

5. Derivative financial instruments

Non-hedging instruments:

	The Group and the Bank		
	31 December 2019		
	Contractual/ nominal principal	Fair value	
		Assets	Liabilities
Foreign exchange forwards	7,192	59	41
Foreign exchange swaps	646,602	856	1,749
Interest rate swaps	18,950	5	6
Option contracts	1,060	6	6
Total		**926**	**1,802**

	The Group and the Bank		
	31 December 2019		
	Contractual/ nominal principal	Fair value	
		Assets	Liabilities
Foreign exchange forwards	14,880	159	187
Foreign exchange swaps	971,707	949	851
Interest rate swaps	17,050	11	10
Option contracts	1,236	6	6
Credit risk mitigation certificates	300	5	–
Total		**1,130**	**1,054**

Contractual/nominal amount refers to the unfinished trade volume on the balance sheet date instead of the risk amount.

6. Financial assets purchased under agreements to resell

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
By collateral type:				
Bonds	16,867	726	16,867	586
Bills	7,449	1,303	7,449	1,303
Accrued interest	40	N/A	40	N/A
Less: Allowance for impairment losses	(306)	(306)	(306)	(306)
Book value of financial assets purchased under agreements to resell	**24,050**	**1,723**	**24,050**	**1,583**

7. Interest receivable

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Interest of loans and advances to customers	N/A	7,525	N/A	7,487
Interest of held-to-maturity investment	N/A	6,299	N/A	6,298
Interest of available-for-sale financial assets	N/A	1,766	N/A	1,766
Interest of investments classified as receivables	N/A	1,449	N/A	1,448
Interest of deposits and placements with banks and other financial institutions	N/A	282	N/A	283
Interest of financial assets measured at fair value through profit or loss	N/A	26	N/A	26
Interest of financial assets purchased under agreements to resell	N/A	3	N/A	3
Total	**N/A**	**17,350**	**N/A**	**17,311**

MOF issued the *Notice on Amending and Issuing the Formats of Financial Statements for Financial Enterprises* (C.K. [2018] No. 36) in 2018. The Group has prepared the 2019 financial statements in accordance with the above notice without restating information in comparable periods. The interest accrued on financial instruments using the effective interest rate method should be included in the book balance of relevant financial instruments and presented in relevant accounting items. Interest receivable only presents the interest due and receivable on relevant financial instruments but not received on the balance sheet date and included in other assets (Note IX – 19).

8. Loans and advances to customers

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Loans and advances to customers measured at amortized cost (1)	1,738,871	1,613,516	1,638,946	1,537,566
Less: Allowance for impairment losses	(47,922)	(47,275)	(44,609)	(45,327)
Sub-total	1,690,949	1,566,241	1,594,337	1,492,239
Loans and advances to customers measured at fair value through other comprehensive income (2)	133,731	N/A	133,731	N/A
Accrued interest	4,491	N/A	4,484	N/A
Total	1,829,171	1,566,241	1,732,552	1,492,239

(1) The loans and advances to customers measured at amortized cost are distributed as follows:

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Corporate loans and advances to customers	1,235,868	1,181,656	1,136,816	1,106,555
Of which: Loan	1,201,602	1,158,138	1,102,550	1,083,037
Discounting	34,266	23,518	34,266	23,518
Personal loans and advances to customers	503,003	431,860	502,130	431,011
Of which: Housing mortgage	215,921	177,642	215,884	177,608
Credit Cards	168,262	164,841	168,262	164,841
Others	118,820	89,377	117,984	88,562
Total loans and advances to customers	1,738,871	1,613,516	1,638,946	1,537,566
Less: Allowance for impairment losses on loans and advances to customers	(47,922)	(47,275)	(44,609)	(45,327)
Of which: Individual assessment	N/A	(11,971)	N/A	(11,827)
Collective assessment	N/A	(35,304)	N/A	(33,500)
12-month ECL	(16,458)	N/A	(13,980)	N/A
Lifetime ECL	(31,464)	N/A	(30,629)	N/A
Total	1,690,949	1,566,241	1,594,337	1,492,239

(2) The loans and advances to customers measured at fair value through other comprehensive income are distributed as follows:

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Corporate loans and advances to customers				
Of which: Loan	29,748	N/A	29,748	N/A
Discounting	103,983	N/A	103,983	N/A
Total	133,731	N/A	133,731	N/A

(3) The loans and advances to customers are presented as follows by assessment method:

	The Group			
31 December 2019	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total loans and advances to customers measured at amortized cost	1,637,051	67,458	34,362	1,738,871
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost	(16,458)	(8,253)	(23,211)	(47,922)
Net loans and advances measured at amortized cost	1,620,593	59,205	11,151	1,690,949
Loans and advances to customers measured at fair value through other comprehensive income	133,731	–	–	133,731
Allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(668)	–	–	(668)

	The Bank			
31 December 2019	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total loans and advances to customers measured at amortized cost	1,539,882	64,981	34,083	1,638,946
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost	(13,980)	(7,636)	(22,993)	(44,609)
Net loans and advances measured at amortized cost	1,525,902	57,345	11,090	1,594,337
Loans and advances to customers measured at fair value through other comprehensive income	133,731	–	–	133,731
Allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(668)	–	–	(668)

The Group						
		Impaired loans and advances identified (ii)				
	Loans and advances to customers for which allowance is set aside based on collective assessment (i)	Collective assessment on allowance for impairment	Individual assessment on allowance for impairment	Sub-total	Total	Percentage of impaired loans and advances to customers identified in total loans and advances to customers
31 December 2018						
Total loans and advances to customers	1,583,707	6,068	23,741	29,809	1,613,516	1.85%
Allowance for impairment losses on loans and advances to customers	(30,376)	(4,928)	(11,971)	(16,899)	(47,275)	
Book value of loans and advances to customers	**1,553,331**	**1,140**	**11,770**	**12,910**	**1,566,241**	

The Bank						
		Impaired loans and advances identified (ii)				
	Loans and advances to customers for which allowance is set aside based on collective assessment (i)	Collective assessment on allowance for impairment	Individual assessment on allowance for impairment	Sub-total	Total	Percentage of impaired loans and advances to customers identified in total loans and advances to customers
31 December 2018						
Total loans and advances to customers	1,507,929	6,068	23,569	29,637	1,537,566	1.93%
Allowance for impairment losses on loans and advances to customers	(28,572)	(4,928)	(11,827)	(16,755)	(45,327)	
Book value of loans and advances to customers	**1,479,357**	**1,140**	**11,742**	**12,882**	**1,492,239**	

(i) Referring to loans and advances to customers whose impairment is yet to be identified. The allowance will be set aside by collective method.

(ii) Impaired loans and advances to customers identified include loans whose impairment is objectively evidenced and identified. The allowance for impairment losses on these loans can be assessed and set aside by individual or collective methods.

(4) Changes in allowance for impairment losses on loans and advances to customer measured at amortized cost

	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2019	15,536	7,078	32,520	55,134
Transfer to Stage 1	77	(62)	(15)	–
Transfer to Stage 2	(152)	552	(400)	–
Transfer to Stage 3	(72)	(1,505)	1,577	–
Charge/(reversal) for the year	1,068	2,190	25,499	28,757
Recovery of written-off loans and advances to customers	–	–	645	645
Transfer-out due to increase of present value	–	–	(831)	(831)
Write-offs for the year	–	–	(35,785)	(35,785)
Change in exchange rate	1	–	1	2
31 December 2019	**16,458**	**8,253**	**23,211**	**47,922**

	The Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2019	13,876	6,685	32,375	52,936
Transfer to Stage 1	71	(56)	(15)	–
Transfer to Stage 2	(142)	542	(400)	–
Transfer to Stage 3	(71)	(1,478)	1,549	–
Charge/(reversal) for the year	245	1,943	25,360	27,548
Recovery of written-off loans and advances to customers	–	–	642	642
Transfer-out due to increase of present value	–	–	(828)	(828)
Write-offs for the year	–	–	(35,691)	(35,691)
Change in exchange rate	1	–	1	2
31 December 2019	**13,980**	**7,636**	**22,993**	**44,609**

	31 December 2018					
	The Group			The Bank		
	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total
Balance at the beginning of the year	9,599	28,898	38,497	9,492	27,556	37,048
Charge/(reversal) for the year	12,301	7,885	20,186	12,240	7,424	19,664
Recovery of written-off loans and advances to customers	143	115	258	143	113	256
Transfer-out due to increase of present value	(599)	(48)	(647)	(598)	(47)	(645)
Write-offs for the year	(9,473)	(1,546)	(11,019)	(9,450)	(1,546)	(10,996)
Balance at the end of the year	11,971	35,304	47,275	11,827	33,500	45,327

9. Held-for-trading financial assets

	The Group and the Bank	
	31 December 2019	31 December 2018
Held-for-trading financial assets:		
Government bonds	182	N/A
Bonds of public entities and quasi-governments	2,449	N/A
Bonds of financial institutions	2,898	N/A
Corporate bonds	12,904	N/A
Fund investment	3,735	N/A
Other investments measured at fair value through profit or loss:		
Asset management plan of financial institutions	19,752	N/A
Fund investment	45,735	N/A
Beneficiary rights of assets	2,004	N/A
Sub-total	89,659	N/A
Accrued interest	124	N/A
Total	89,783	N/A

10. Debt investments

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Government bonds	274,564	N/A	273,620	N/A
Bonds of public entities and quasi-governments	67,351	N/A	67,351	N/A
Bonds of financial institutions	52,301	N/A	52,301	N/A
Corporate bonds	149,332	N/A	148,432	N/A
Asset management plan of financial institutions	123,052	N/A	123,052	N/A
Beneficiary rights of assets	1,828	N/A	1,828	N/A
Sub-total	668,428	N/A	666,584	N/A
Accrued interest	9,415	N/A	9,408	N/A
Less: Allowance for impairment losses	(2,557)	N/A	(2,377)	N/A
Including: 12-month ECL	(1,344)	N/A	(1,164)	N/A
Lifetime credit loss	(1,213)	N/A	(1,213)	N/A
Total	**675,286**	**N/A**	**673,615**	**N/A**

Credit risk and expected credit loss of bond investments:

	The Group			
	31 December 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total debt investment	659,485	7,579	1,364	668,428
Accrued interest	9,364	51	–	9,415
Less: Allowance for impairment losses	(1,344)	(283)	(930)	(2,557)
Book value of debt investments	**667,505**	**7,347**	**434**	**675,286**

	The Bank			
	31 December 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total debt investment	657,641	7,579	1,364	666,584
Accrued interest	9,357	51	–	9,408
Less: Allowance for impairment losses	(1,164)	(283)	(930)	(2,377)
Book value of debt investments	665,834	7,347	434	673,615

Changes in allowance for impairment losses on debt investments are as follows:

	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2019	1,052	516	877	2,445
Transfer to Stage 1	261	(261)	–	–
Transfer to Stage 2	(2)	2	–	–
Charge/(reversal) for the year	31	26	53	110
Effect of exchange rate	2	–	–	2
31 December 2019	1,344	283	930	2,557

	The Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2019	1,034	516	877	2,427
Transfer to Stage 1	261	(261)	–	–
Transfer to Stage 2	(2)	2	–	–
Charge/(reversal) for the year	(131)	26	53	(52)
Effect of exchange rate	2	–	–	2
31 December 2019	1,164	283	930	2,377

11. Other debt investments

	The Group and the Bank	
	31 December 2019	31 December 2018
Government bonds	16,278	N/A
Bonds of public entities and quasi-governments	36,408	N/A
Bonds of financial institutions	44,641	N/A
Corporate bonds	19,364	N/A
Certificates of deposit with banks and other financial institutions	10,917	N/A
Sub-total	127,608	N/A
Accrued interest	1,792	N/A
Total	129,400	N/A

	The Group and the Bank	
	31 December 2019	31 December 2018
Initial investment cost of other debt investments	126,125	N/A
Changes in fair value recorded in other comprehensive income accumulatively	1,483	N/A
Sub-total	127,608	N/A
Accrued interest	1,792	N/A
Allowance for impairment losses on credit set aside accumulatively	(40)	N/A

Credit risk and expected credit loss of other bond investments:

	The Group and the Bank			
	31 December 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Other debt investments	127,608	–	–	127,608
Accrued interest	1,792	–	–	1,792
Book value of other debt investments	129,400	–	–	129,400
Allowance for impairment losses on other debt investments recorded into other comprehensive income	(40)	–	–	(40)

Changes in allowance for impairment losses on other debt investments are as follows:

	The Group and the Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2019	38	–	–	38
Charge/(reversal) for the year	2	–	–	2
31 December 2019	40	–	–	40

12. Other equity instrument investments

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Equity investment	4,961	N/A	4,946	N/A

Analysis of information on other equity instrument investments is as follows:

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Initial investment cost of other equity instrument investments	5,567	N/A	5,548	N/A
Changes in fair value recorded in other comprehensive income accumulatively	(606)	N/A	(602)	N/A
Total	4,961	N/A	4,946	N/A

13. Available-for-sale financial assets

		The Group and the Bank	
		31 December 2019	31 December 2018
Debt instruments			
Government bonds		N/A	16,666
Bonds of public entities and quasi-governments		N/A	40,618
Bonds of financial institutions		N/A	35,138
Corporate bonds		N/A	15,433
Certificates of deposit with banks and other financial institutions		N/A	5,881
Less: Collective assessment on allowance for impairment losses on available-for-sale financial assets		N/A	(6)
Sub-total		N/A	113,730
Equity instrument			
At cost	(1)	N/A	332
Accumulated changes in fair value through equity		N/A	791
Sub-total		N/A	1,123
Funds		N/A	10,412
Total		**N/A**	**125,265**
Of which:			
Amortized cost of the available-for-sale debt instruments		N/A	112,902
Changes in fair value recorded in other comprehensive income accumulatively		N/A	834
Allowance for impairment losses set aside accumulatively		N/A	(6)
Fair value of the available-for-sale debt instruments		**N/A**	**113,730**

(1) As the Group's some equity instruments classified as available-for-sale financial assets for accounting have no quotation in the active market and their fair value can't be reliably measured, they are measured at cost.

14. Held-to-maturity investments

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Government bonds	N/A	261,820	N/A	261,528
Bonds of public entities and quasi-governments	N/A	59,700	N/A	59,700
Bonds of financial institutions	N/A	62,732	N/A	62,750
Corporate bonds	N/A	31,277	N/A	31,277
Less: Collective assessment on allowance for impairment losses on held-to-maturity investments	N/A	(5)	N/A	(5)
Total	N/A	415,524	N/A	415,250

15. Investments classified as receivables

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Government bonds	N/A	214	N/A	214
Bonds of financial institutions	N/A	100	N/A	100
Corporate bonds	N/A	46,995	N/A	46,095
Wealth management products	N/A	7,200	N/A	7,200
Beneficiary rights of assets	N/A	3,691	N/A	3,691
Asset management plan of financial institutions	N/A	177,639	N/A	177,639
Less: Allowance for impairment losses on investments classified as receivables	N/A	(2,077)	N/A	(2,064)
Of which: Individual assessment	N/A	(626)	N/A	(626)
Collective assessment	N/A	(1,451)	N/A	(1,438)
Total	N/A	233,762	N/A	232,875

16. Long-term equity investments

	The Bank	
	31 December 2019	31 December 2018
Subsidiaries		
– Huaxia Financial Leasing Co., Ltd.	4,920	4,920
– Beijing Daxing Hua Xia Rural Bank Co., Ltd.	100	100
– Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	35	35
– Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	35	35
Total	5,090	5,090

As at 31 December 2019 and 31 December 2018, there was no impairment in the Group's long-term equity investments.

17. Fixed assets

	The Group				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction in-process	Total
Original value					
1 January 2019	12,816	7,499	141	1,064	21,520
Acquisition in the year	142	824	7	41	1,014
Transfer-in/(transfer-out) of construction-in-process	1,105	–	–	(1,105)	–
Sale/disposal	(11)	(350)	(6)	–	(367)
31 December 2019	14,052	7,973	142	–	22,167
Accumulative depreciation					
1 January 2019	(2,455)	(5,397)	(86)	–	(7,938)
Charge for the year	(354)	(729)	(11)	–	(1,094)
Sale/disposal	5	320	6	–	331
31 December 2019	(2,804)	(5,806)	(91)	–	(8,701)
Allowance for impairment losses					
1 January 2019	–	–	–	–	–
31 December 2019	–	–	–	–	–
Net amount					
1 January 2019	10,361	2,102	55	1,064	13,582
31 December 2019	11,248	2,167	51	–	13,466

	The Bank				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction in-process	Total
Original value					
1 January 2019	12,786	7,475	139	1,064	21,464
Acquisition in the year	142	822	7	41	1,012
Transfer-in/(transfer-out) of construction-in-process	1,105	–	–	(1,105)	–
Sale/disposal	(11)	(349)	(6)	–	(366)
31 December 2019	14,022	7,948	140	–	22,110
Accumulative depreciation					
1 January 2019	(2,451)	(5,379)	(85)	–	(7,915)
Charge for the year	(353)	(727)	(11)	–	(1,091)
Sale/disposal	5	320	6	–	331
31 December 2019	(2,799)	(5,786)	(90)	–	(8,675)
Allowance for impairment losses					
1 January 2019	–	–	–	–	–
31 December 2019	–	–	–	–	–
Net amount					
1 January 2019	10,335	2,096	54	1,064	13,549
31 December 2019	11,223	2,162	50	–	13,435

	The Group				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction in-process	Total
Original value					
1 January 2018	10,905	7,217	140	1,724	19,986
Acquisition in the year	531	585	6	720	1,842
Transfer-in/(transfer-out) of construction-in-process	1,380	–	–	(1,380)	–
Sale/disposal	–	(303)	(5)	–	(308)
31 December 2018	12,816	7,499	141	1,064	21,520
Accumulative depreciation					
1 January 2018	(2,125)	(4,918)	(79)	–	(7,122)
Charge for the year	(330)	(760)	(12)	–	(1,102)
Sale/disposal	–	281	5	–	286
31 December 2018	(2,455)	(5,397)	(86)	–	(7,938)
Allowance for impairment losses					
1 January 2018	–	–	–	–	–
31 December 2018	–	–	–	–	–
Net amount					
1 January 2018	8,780	2,299	61	1,724	12,864
31 December 2018	10,361	2,102	55	1,064	13,582

	The Bank				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction in-process	Total
Original value					
1 January 2018	10,876	7,191	138	1,724	19,929
Acquisition in the year	530	584	6	720	1,840
Transfer-in/(transfer-out) of construction-in-process	1,380	–	–	(1,380)	–
Sale/disposal	–	(300)	(5)	–	(305)
31 December 2018	12,786	7,475	139	1,064	21,464
Accumulative depreciation					
1 January 2018	(2,123)	(4,899)	(78)	–	(7,100)
Charge for the year	(328)	(759)	(11)	–	(1,098)
Sale/disposal	–	279	4	–	283
31 December 2018	(2,451)	(5,379)	(85)	–	(7,915)
Allowance for impairment losses					
1 January 2018	–	–	–	–	–
31 December 2018	–	–	–	–	–
Net amount					
1 January 2018	8,753	2,292	60	1,724	12,829
31 December 2018	10,335	2,096	54	1,064	13,549

As at 31 December 2019 and 31 December 2018, the Group has several houses and buildings that are in use but whose registration of title is in process. The Management of the Group expects that relevant formalities will neither affect the Group's succession of the asset rights nor cause adverse impact on its operation.

18. Deferred taxation

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deferred income tax assets	8,574	7,410	7,886	7,083

(1) Change in balance of deferred income tax

	The Group		The Bank	
	2019	2018	2019	2018
31 December 2018	7,410	6,533	7,083	6,291
Effects of changes in accounting policies	2,083	N/A	2,019	N/A
1 January 2019	9,493	6,533	9,102	6,291
Recorded into profit or loss	(826)	1,469	(1,122)	1,384
Recorded into other comprehensive income	(93)	(592)	(94)	(592)
31 December 2019	8,574	7,410	7,886	7,083

(2) Deferred income tax assets and liabilities

	The Group			
	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Allowance for impairment losses on loans	21,064	5,265	21,901	5,475
Wages set aside but not paid	6,540	1,635	5,685	1,421
Allowance for impairment losses on other assets	5,682	1,420	2,966	742
Changes in fair value of derivative financial instruments	876	219	(76)	(19)
Changes in fair value of available-for-sale financial assets	N/A	N/A	(834)	(209)
Financial assets measured at fair value through profit or loss	N/A	N/A	(16)	(4)
Changes in fair value of held-for-trading financial assets	(1,274)	(318)	N/A	N/A
Changes in fair value of other debt investments	(1,483)	(371)	N/A	N/A
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	139	35	N/A	N/A
Changes in fair value of other equity instrument investments	606	151	N/A	N/A
Projected liabilities	2,147	536	–	–
Others	8	2	17	4
Total	34,305	8,574	29,643	7,410

	The Bank			
	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Allowance for impairment losses on loans	18,649	4,663	20,713	5,178
Wages set aside but not paid	6,445	1,611	5,614	1,405
Allowance for impairment losses on other assets	5,451	1,363	2,928	732
Changes in fair value of derivative financial instruments	876	219	(76)	(19)
Changes in fair value of available-for-sale financial assets	N/A	N/A	(834)	(209)
Financial assets measured at fair value through profit or loss	N/A	N/A	(16)	(4)
Changes in fair value of held-for-trading financial assets	(1,274)	(318)	N/A	N/A
Changes in fair value of other debt investments	(1,483)	(371)	N/A	N/A
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	139	35	N/A	N/A
Changes in fair value of other equity instrument investments	602	150	N/A	N/A
Projected liabilities	2,135	534	–	–
Others	1	–	1	–
Total	31,541	7,886	28,330	7,083

19. Other assets

		The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Receivables and payment on account	(1)	6,412	5,434	4,491	3,850
Funds to be cleared		2,231	2,403	2,226	2,403
Long-term prepaid expenses		1,306	1,333	1,279	1,287
Repossessed assets to be disposed of	(2)	1,906	3,840	1,905	3,821
Interest receivable		670	N/A	616	N/A
Others		257	294	257	294
Total		12,782	13,304	10,774	11,655

(1) Receivables and payment on account presented by aging

	The Group							
	31 December 2019				31 December 2018			
Aging	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	5,377	73.92	(92)	5,285	4,106	65.82	(58)	4,048
1 – 2 years (inclusive)	826	11.35	(59)	767	1,127	18.06	(79)	1,048
2 – 3 years (inclusive)	196	2.69	(88)	108	332	5.32	(264)	68
More than 3 years	876	12.04	(624)	252	674	10.80	(404)	270
Total	7,275	100.00	(863)	6,412	6,239	100.00	(805)	5,434

	The Bank							
	31 December 2019				31 December 2018			
Aging	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	4,127	77.79	(85)	4,042	2,649	57.17	(58)	2,591
1 – 2 years (inclusive)	215	4.05	(38)	177	1,028	22.19	(77)	951
2 – 3 years (inclusive)	124	2.34	(71)	53	295	6.37	(248)	47
More than 3 years	839	15.82	(620)	219	661	14.27	(400)	261
Total	5,305	100.00	(814)	4,491	4,633	100.00	(783)	3,850

(2) Repossessed assets to be disposed of

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Repossessed assets to be disposed of	2,511	4,314	2,510	4,292
Less: Allowance for impairment losses	(605)	(474)	(605)	(471)
Book value of repossessed assets to be disposed of	1,906	3,840	1,905	3,821

20. Allowance for impairment losses on assets

The Group	31 December 2018	Effects of changes in accounting policies	1 January 2019	Charge/ (reversal)	Transfer-in/ transfer-out	Recovery for the year	Write-offs for the year	Change in exchange rate	31 December 2019
Due from banks	32	1	33	(8)	–	–	–	–	25
Placements with banks and other financial institutions	116	5	121	4	–	–	(45)	5	85
Financial assets purchased under agreements to resell	306	503	809	(503)	–	–	–	–	306
Loans and advances to customers measured at amortized cost	47,275	7,859	55,134	28,757	(831)	645	(35,785)	2	47,922
Loans and advances to customers measured at fair value through other comprehensive income	N/A	166	166	502	–	–	–	–	668
Available-for-sale financial assets	6	(6)	–	–	–	–	–	–	N/A
Held-to-maturity investments	5	(5)	–	–	–	–	–	–	N/A
Investments classified as receivables	2,077	(2,077)	–	–	–	–	–	–	N/A
Debt investments	N/A	2,445	2,445	110	–	–	–	2	2,557
Other debt investments	N/A	38	38	2	–	–	–	–	40
Others	1,680	(5)	1,675	1,466	(22)	–	(157)	–	2,962
Total	51,497	8,924	60,421	30,330	(853)	645	(35,987)	9	54,565

The Bank	31 December 2018	Effects of changes in accounting policies	1 January 2019	Charge/ (reversal)	Transfer-in/ transfer-out	Recovery for the year	Write-offs for the year	Change in exchange rate	31 December 2019
Due from banks	32	1	33	(8)	–	–	–	–	25
Placements with banks and other financial institutions	116	5	121	4	–	–	(45)	5	85
Financial assets purchased under agreements to resell	306	503	809	(503)	–	–	–	–	306
Loans and advances to customers measured at amortized cost	45,327	7,609	52,936	27,548	(828)	642	(35,691)	2	44,609
Loans and advances to customers measured at fair value through other comprehensive income	N/A	166	166	502	–	–	–	–	668
Available-for-sale financial assets	6	(6)	–	–	–	–	–	–	N/A
Held-to-maturity investments	5	(5)	–	–	–	–	–	–	N/A
Investments classified as receivables	2,064	(2,064)	–	–	–	–	–	–	N/A
Debt investments	N/A	2,427	2,427	(52)	–	–	–	2	2,377
Other debt investments	N/A	38	38	2	–	–	–	–	40
Others	1,655	1	1,656	1,435	(22)	–	(156)	–	2,913
Total	49,511	8,675	58,186	28,928	(850)	642	(35,892)	9	51,023

	The Group						
	2018						
	Opening balance	Charge/ (reversal) for the year	Transfer-in/ (transfer-out) for the year	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks	44	(15)	–	–	–	3	32
Placements with banks and other financial institutions	111	–	–	–	–	5	116
Loans and advances to customers	38,497	20,186	(647)	258	(11,019)	–	47,275
Investments classified as receivables	1,995	137	(55)	–	–	–	2,077
Available-for-sale financial assets	7	(2)	–	–	–	1	6
Held-to-maturity investments	15	(11)	–	–	–	1	5
Financial assets purchased under agreements to resell	–	306	–	–	–	–	306
Other assets	1,255	516	(24)	–	(70)	3	1,680
Total	41,924	21,117	(726)	258	(11,089)	13	51,497

	The Bank						
	2018						
	Opening balance	Charge/ (reversal) for the year	Transfer-in/ (transfer-out) for the year	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks	44	(15)	–	–	–	3	32
Placements with banks and other financial institutions	111	–	–	–	–	5	116
Loans and advances to customers	37,048	19,664	(645)	256	(10,996)	–	45,327
Investments classified as receivables	1,982	137	(55)	–	–	–	2,064
Available-for-sale financial assets	7	(2)	–	–	–	1	6
Held-to-maturity investments	15	(11)	–	–	–	1	5
Financial assets purchased under agreements to resell	–	306	–	–	–	–	306
Other assets	1,245	501	(24)	–	(70)	3	1,655
Total	40,452	20,580	(724)	256	(11,066)	13	49,511

21. Due to central banks

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Mid-term credit facility	141,500	171,000	141,500	171,000
Others	51	64	–	–
Accrued interest	2,066	N/A	2,066	N/A
Total	143,617	171,064	143,566	171,000

Mid-term credit facility refers to the monetary policies tools issued by PBOC to commercial banks and policy banks by means of pledge. On 31 December 2019, the Bank held the facilities for an original term of one to twelve months at the interest rate of 3.15% – 3.30% which was pledged with its bonds worth of RMB156,910 million. At the end of 2018, the Bank held mid-term credit facilities for twelve months at the interest rate of 3.25% – 3.30% which was pledged with its bonds worth of RMB187,524 million.

22. Due to banks and other financial institutions

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Due to domestic banks	94,482	82,286	95,706	82,704
Due to other domestic financial institutions	206,650	210,786	206,650	210,786
Accrued interest	1,205	N/A	1,205	N/A
Total	302,337	293,072	303,561	293,490

23. Placements from banks and other financial institutions

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Placements from domestic banks	102,650	76,262	26,258	19,472
Placements from overseas banks	–	399	–	399
Placements from other domestic financial institutions	600	450	–	–
Accrued interest	814	N/A	151	N/A
Total	104,064	77,111	26,409	19,871

24. Financial assets sold under agreements to repurchase

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Bonds	86,440	11,141	86,090	10,889
Bills	7,250	3,237	7,250	3,237
Accrued interest	84	N/A	83	N/A
Total	93,774	14,378	93,423	14,126

For details on the Group's assets taken as collateral for repurchase, please see Note XII-6 Collateral.

25. Deposits taken

		The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Demand deposits					
Corporate deposits		632,009	615,009	631,304	614,089
Personal deposits		116,909	106,523	116,751	106,318
Time deposits					
Corporate deposits		462,889	409,205	462,515	408,691
Personal deposits		143,733	114,321	142,932	113,696
Security deposit received	(1)	173,627	142,006	173,486	141,880
Structured deposits		121,657	101,905	121,657	101,905
Outward remittances and remittances outstanding		5,639	3,514	5,634	3,504
Others		26	9	26	9
Sub-total		1,656,489	1,492,492	1,654,305	1,490,092
Accrued interest		14,787	N/A	14,757	N/A
Total		**1,671,276**	**1,492,492**	**1,669,062**	**1,490,092**

(1) Security deposit received is presented by item as follows:

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Security deposit for bank acceptance	127,700	105,549	127,644	105,488
Security deposit for L/C issuance	22,652	16,868	22,652	16,868
Security deposit for L/G issuance and guarantee	5,400	4,642	5,388	4,638
Other security deposits	17,875	14,947	17,802	14,886
Total	**173,627**	**142,006**	**173,486**	**141,880**

26. Accrued payroll

	The Group			
	2019			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Wages and bonuses	5,687	12,552	(11,699)	6,540
Employee welfare	–	428	(428)	–
Social insurance	54	2,166	(2,166)	54
Housing provident fund	10	797	(797)	10
Labor union funds and employee education expense	48	286	(291)	43
Total	5,799	16,229	(15,381)	6,647

	The Group			
	2018			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Wages and bonuses	6,420	10,462	(11,195)	5,687
Employee welfare	–	403	(403)	–
Social insurance	49	2,250	(2,245)	54
Housing provident fund	13	796	(799)	10
Labor union funds and employee education expense	53	290	(295)	48
Total	6,535	14,201	(14,937)	5,799

	The Bank			
	2019			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Wages and bonuses	5,614	12,333	(11,502)	6,445
Employee welfare	–	425	(425)	–
Social insurance	47	2,135	(2,142)	40
Housing provident fund	9	791	(790)	10
Labor union funds and employee education expense	38	281	(288)	31
Total	5,708	15,965	(15,147)	6,526

	The Bank			
	2018			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Wages and bonuses	6,335	10,322	(11,043)	5,614
Employee welfare	–	399	(399)	–
Social insurance	42	2,226	(2,221)	47
Housing provident fund	13	789	(793)	9
Labor union funds and employee education expense	44	287	(293)	38
Total	6,434	14,023	(14,749)	5,708

The Group joins in the endowment insurance and unemployment insurance programs set up by the Government and also establishes the enterprise annuity program. According to these programs, the Group makes contributions to each of them monthly at a designated ratio of employee wages. On top of the monthly contribution, the Group takes no further payment obligations. The corresponding expenditures are accounted through profit or loss at the time of actual occurrence.

27. Taxes and dues payable

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Enterprise income tax	3,597	5,637	3,155	5,514
VAT	1,556	1,203	1,537	1,189
Others	419	327	391	318
Total	5,572	7,167	5,083	7,021

28. Interest payable

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Interest of deposits from customers	N/A	11,022	N/A	10,888
Interest of debt obligations payable	N/A	3,038	N/A	3,020
Interest of due to central banks	N/A	2,988	N/A	2,988
Interest of due from banks and other financial institutions	N/A	1,667	N/A	1,667
Interest of placements from banks and other financial institutions	N/A	419	N/A	158
Interest of financial assets sold under agreements to repurchase	N/A	17	N/A	16
Total	N/A	19,151	N/A	18,737

MOF issued the *Notice on Amending and Issuing the Formats of Financial Statements for Financial Enterprises* (C.K. [2018] No. 36) in 2018. The Group has prepared the 2019 financial statements in accordance with the above notice without restating information in comparable periods. The interest accrued on financial instruments using the effective interest rate method should be included in the book balance of relevant financial instruments and presented in relevant accounting items. Interest payable only presents the interest due and payable on relevant financial instruments but unpaid on the balance sheet date and included in other liabilities.

29. Debt obligations payable

		The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Bonds payable					
Financial bonds	(1)	70,000	82,500	65,000	80,000
Tier-2 capital bonds	(2)	30,000	40,000	30,000	40,000
Sub-total		100,000	122,500	95,000	120,000
Certificates of deposit with banks and other financial institutions	(3)	301,109	237,969	301,109	237,969
Accrued interest		2,475	N/A	2,386	N/A
Total		**403,584**	**360,469**	**398,495**	**357,969**

(1) Financial bonds

(i) As approved by the former CBRC and PBOC, the Bank issued the financial bonds of Hua Xia Bank Co., Ltd. for 2016 from 3 to 7 March 2016 and the issuance volume was RMB40 billion. This issue of bonds has two types. The type one bonds have an issuance volume of RMB15 billion with a term of three years. The coupon rate is fixed at 3.03%, and the interest will be paid annually. The value date is 7 March 2016, and the maturity date is 7 March 2019. The type two bonds have an issuance volume of RMB25 billion with a term of five years. The coupon rate is fixed at 3.25%, and the interest will be paid annually. The value date is 7 March 2016, and the maturity date is 7 March 2021.

(ii) As approved by the former CBRC and PBOC, the Bank issued the phase 1 financial bonds of Hua Xia Bank Co., Ltd. for 2017 from 1 to 5 September 2017 and the issuance volume was RMB22 billion. The bonds have a term of three years, the coupon rate is fixed at 4.30% and the interest will be paid annually. The value date is 5 September 2017 and the maturity date is 5 September 2020.

(iii) As approved by CBIRC and PBOC, the Bank issued the phase 1 financial bonds of Hua Xia Bank Co., Ltd. for 2018 from 20 to 24 April 2018 and the issuance volume was RMB18 billion. The bonds have a term of three years, the coupon rate is fixed at 4.30% and the interest will be paid annually. The value date is 4 April 2018 and the maturity date is 24 April 2021.

(iv) As approved by CBIRC Yunnan Office and PBOC, Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, issued the phase 1 financial bonds for 2018 from 25 to 29 October 2018 and the issuance volume was RMB2.5 billion. The bonds have a term of three years, the coupon rate is fixed at 4.15% and the interest will be paid annually. The value date is 29 October 2018 and the maturity date is 29 October 2021.

(v) As approved by CBIRC Yunnan Office and PBOC, Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, issued the phase 1 financial bonds for 2019 from 6 to 11 March 2019 and the issuance volume was RMB2.5 billion. The bonds have a term of three years, the coupon rate is fixed at 3.52% and the interest will be paid annually. The value date is 11 March 2019 and the maturity date is 11 March 2022.

(2) Tier-2 capital bonds

(i) As approved by the former CBRC and PBOC, the Bank issued the tier-2 capital bonds of Hua Xia Bank Co., Ltd. for 2014 from 24 to 25 July 2014 and the issuance volume was RMB10 billion. The bonds are 10-year bonds at a fixed interest rate, and at the end of the fifth year the issuer may exercise the redemption option to redeem all or part of bonds at face value. The coupon rate is fixed at 6.14% and the interest will be paid annually. The value date is 25 July 2014. If the issuer does not exercise its redemption right, the interest period of the bonds ranges between 25 July 2014 and 24 July 2024. If the issuer does exercise the redemption right, the interest period of the bonds for the part redeemed ranges between 25 July 2014 and 24 July 2019. As at 31 December 2019, the issuer has exercised the redemption right.

(ii) As approved by the former CBRC and PBOC, the Bank issued the first tier-2 capital bonds of Hua Xia Bank Co., Ltd. for 2017 on 26 May 2017, and the issuance volume was RMB30 billion. The bonds are 10-year bonds at a fixed interest rate, and at the end of the fifth year the issuer may exercise the redemption option to redeem all or part of bonds at face value. The coupon rate is fixed at 4.80% and the interest will be paid annually. The value date is 26 May 2017. If the issuer does not exercise its redemption right, the interest period of the bonds ranges between 26 May 2017 and 25 May 2027. If the issuer does exercise the redemption right, the interest period of the bonds for the part redeemed ranges between 26 May 2017 and 25 May 2022.

(3) Certificates of deposit with banks and other financial institutions

As at 31 December 2019, there were 286 outstanding certificates of deposit with banks and financial institutions with the total face value of RMB305,017 million and terms of 1 month to 1 year. Except two certificates of deposit with banks and other financial institutions issued at fixed rates and paid with interest upon maturity in a sum, others are issued in discount.

30. Projected liabilities

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Credit commitments	2,147	N/A	2,135	N/A
Pending legal proceedings	–	–	–	–
Total	2,147	–	2,135	–

ECL of loan commitments are classified into three stages:

	31 December 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
The Group	1,868	106	173	2,147
The Bank	1,856	106	173	2,135

31. Other liabilities

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Funds to be settled and cleared payable	1,432	1,902	1,432	1,902
Security deposit for financial lease	4,927	4,226	–	–
Agency collection for asset securitization business	2,931	5,611	2,931	5,611
On-lending	2,789	2,132	2,789	2,132
Deferred income	1,997	2,543	628	715
Others	2,556	3,694	2,131	3,061
Total	16,632	20,108	9,911	13,421

32. Share capital

	31 December 2019		31 December 2018	
	Total number of shares (million)	Nominal amount	Total number of shares (million)	Nominal amount
A shares with par value of RMB1 per share registered, issued and paid in full amount	15,387	15,387	15,387	15,387

Note: A shares refer to ordinary shares domestically offered, and subscribed and traded in Renminbi.

In 2018, the Bank issued 2,564,537,330 RMB-denominated ordinary shares (A shares) in a non-public offering to Shougang Group, State Grid Yingda International Holdings Group Ltd., and Beijing Infrastructure Investment Co., Ltd., raising funds in RMB29,235,725,562.00. With the issuing cost deducted, the funds were booked into share capital in RMB2,564,537,330.00, and the funds were booked into capital reserve in RMB26,667,582,830.32. The newly increased capital has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP, with the Capital Verification Report (D.SH.B.(Y).Z. (18) No. 00556). All subscribers of the non-publicly issued shares cannot transfer their shares within five years since the date of acquisition.

As at 31 December 2019, the Bank's paid-in capital had amounted to RMB15,387 million (31 December 2018: RMB15,387 million), with the par value of each share being RMB1.

33. Other equity instruments

(1) Preference shares

On 23 February 2016, the Bank was approved by CSRC to privately issue up to 200 million domestic preference shares and the par value of each share is RMB100. The offering of preference shares valuing RMB20 billion was completed in March 2016, and the payment of the proceeds has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP.

Information on outstanding preference shares at the year end:

Outstanding financial instrument	Issuing time	Accounting category	Dividend rate	Issuance price	Number	Amount	Maturity date	Share conversion condition	Conversion
				RMB/ share	Million shares	RMB millions			
Preference shares	March 2016	Equity instrument	Note 1	100	200	20,000	No maturity day	Note 2	No conversion

Note 1: These preference shares were issued at a dividend rate which can be adjusted for several periods. Every five years is an interest period from the payment deadline, and the dividend rate remains the same in each interest period. The dividend rate for the first interest period was determined as 4.20% by the Board of Directors of the Bank authorized by the Shareholders' General Meeting after taking into account the national policies, market conditions, specific conditions of the Bank, the demands of investors, etc. by way of inquiry. The coupon dividend rate consists of benchmark interest rate and fixed premium. The bench mark interest rate will be adjusted every five years from the deadline for payment of the preference shares. The fixed premium was determined as 1.61% which was the dividend rate of the first interest period 4.20% deducted by the benchmark interest rate 2.59%, and will not be adjusted.

Note 2: (1) When the trigger event of other tier-1 capital instruments takes place, i.e. the core tier-1 capital adequacy ratio becomes as low as 5.125% (or below), the Bank is entitled to convert the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders so as to recover the Bank's core tier-1 capital adequacy ratio to above 5.125%. If some preference shares are converted, the preference shares issued this time will be converted based on the same ratio and under the same conditions. If the preference shares are converted to ordinary shares, they will not be converted back under any conditions.

(2) When the trigger event of tier-2 capital instruments takes place, the Bank is entitled to convert all the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders. If the preference shares are converted to ordinary shares, they will not be converted back under any conditions. The trigger event of tier-2 capital instruments is the earlier one in: (1) CBIRC determines that the Bank will not survive if it does not conduct share conversion or write-down and (2) the relevant authorities determine that the Bank will not survive if it does not obtain capital injection from the public sector or the support with the same effect.

Main provisions:

The Bank will pay the dividend of the preference shares with cash. The dividends of preference shares issued this time will not be accumulated, i.e. the dividends which are not distributed in full to their shareholders will not be accumulated to those which will be distributed for the next interest period, and such act will not constitute breach of contract. The shareholders of the preference shareholders issued this time will not participate in the distribution of residue profits along with ordinary shareholders after being paid the dividends as per the coupon dividend rate.

Subject to ensuring the capital adequacy ratio satisfy the regulatory requirements, the Bank may distribute dividends to preference shareholders if there are after-tax profit after it replenish losses and appropriates legal reserve and general risk reserve. The dividends of preference shares will be distributed before that of ordinary shares, and their payment is not linked to the rating of the Bank, and will not be adjusted along with the changes in rating. With approval of the Shareholders' General Meeting, the Bank is entitled to cancel the dividend distribution of the preference shares issued this time in whole or in part under any circumstances, and such act does not constitute breach of contract. The Bank may repay other matured debts with the profit which is canceled to pay dividends at its own discretion. Canceling dividend distribution will not restrict the Bank from any acts except distributing dividends to ordinary shareholders. When exercising the above rights, the Bank will fully consider the rights and interests of preference shareholders. If the Bank decides to cancel the payment of dividends to preference shareholders, it will notify them at least ten working days before the dividend payment day. If it decides to cancel the dividend payment of these preference shares in whole or in part, the Bank will not distribute dividends to ordinary shareholders before the declaration and distribution of dividends of the preference shares.

The redemption right of these preference shares is vested in the Bank. The approval of CBIRC is the prerequisite to the exercising of this right. The preference shareholders have no right to request the Bank to buy back the preference shares, and should not hold the expectation that the preference shares may be bought back by the Bank. These preference shares are not subject to a put-back provision, i.e. the preference shareholders have no right to sell their preference shares back to the Bank.

The price of initial forced conversion is the average trading price of ordinary shares of the Bank 20 trading days before the day of announcement on the resolution of the Board of Directors which reviews the issuance of the preference shares issued this time (17 April 2015), i.e. RMB14.00/share. Since the day when the Bank's Board of Directors approves the plan on the issuance of the preference shares, if any changes in the Bank's shares take place as a result of the Bank's distribution of stock dividends, conversion into share capital, issuance of new shares (excluding the share capital increase due to conversion of financing instruments with provision for the possibility of conversion into ordinary shares, such as preference shares, convertible bank bonds, etc.), allotment of shares, the price of forced share conversion will be adjusted one by one, and relevant information disclosure will be conducted as required.

On 28 December 2018, with approval of CSRC, the Bank issued 2,564,537,330 RMB-denominated ordinary shares (A shares) in a non-public offering to three designated investors. Calculated by the mandatory conversion price adjustment formula as set out in the related articles of the *Prospectus for Non-public Issuance of Preference Shares by Hua Xia Bank Co., Limited*, the mandatory conversion price of preference shares was adjusted into RMB10.58/share upon the completion of the non-public offer of ordinary shares.

Preference shareholders of the Bank take precedence over ordinary shareholders to be distributed the residual properties of the Bank. That is, when the Bank liquidates, the total carrying amount of preference shares that have been issued and are still in existence as well as dividends that have been announced to distributed but not been paid for the period shall be paid firstly to preference shareholders; if not sufficient to pay, such dividends and carrying amount will be paid on the basis of the shareholding ratio of preference shareholders. As at 31 December 2019, the net funds of RMB19,978 million raised by the Bank were all used for replenishing tier-1 capital.

Information on outstanding preference shares:

	1 January 2019		Increase over the year		Decrease over the year		31 December 2019	
	Number	Book value	Number	Book value	Number	Book value	Number	Book value
	Million shares	RMB millions	Million shares	RMB millions	Million shares	RMB millions	Million shares	RMB millions
Preference shares	200	20,000	–	–	–	–	200	20,000
Issuing cost		(22)						(22)
Total preference shares	**200**	**19,978**					**200**	**19,978**

(2) Perpetual bonds

In June 2019, the Bank publicly issued RMB40 billion of perpetual bond (the "Bond") in the national interbank bond market and completed the Bond registration and custody formalities with China Central Depository & Clearing Co., Ltd. (CCDC).

Information on issued and outstanding perpetual bonds at the end of 2019:

Outstanding financial instrument	Issuing time	Accounting category	Coupon rate	Issuance price	Number	Amount	Maturity date	Write-down clauses
				RMB yuan/ RMB100 par value	Million shares	RMB millions		
Perpetual bonds	June 2019	Equity instrument	Note 1	100	400	40,000	Duration of ongoing concern	Note 2

Note 1: The Bond will carry a coupon rate adjustable at regular intervals. Starting from the cut-off date for issue payments, every five years will be an interval for coupon rate adjustment. During each interval, interest will be paid at the fixed coupon rate agreed upon. The interest rate is 4.85% in the first interval. The coupon rate of the Bond consists of the benchmark rate and a fixed spread. The benchmark interest rate is the arithmetic mean (rounded to 0.01%) of the ChinaBond 5Y Treasury Bond YTM published by ChinaBond.com (or other website recognized by the CCDC) in the five trading days prior to the publication date of the Bond subscription documents. The fixed spread is the coupon rate determined at the time of this bond issue minus the benchmark rate at the time of this issue. Once determined, the fixed spread will remain constant.

Note 2: (1) When the trigger event of other tier-1 capital instruments takes place, i.e. the issuer's core tier-1 capital adequacy ratio becomes as low as 5.125% (or below), the issuer is entitled, upon the approval by CBIRC and without the consent of bond holders, to write down all or part of the issued and outstanding bond based on the total par value so as to recover the core tier-1 capital adequacy ratio to above 5.125%. In the case of partial write-down, all the bond issued and outstanding and other tier-1 capital instruments of the issuer with a write-down feature under the same terms and conditions are written down in the same proportion of the par value. Before the total par value of the bond is fully written down, the issuer may conduct one or more write-downs so as to recover the core tier-1 capital adequacy ratio to above 5.125%.

(2) When the trigger event of tier-2 capital instruments takes place, the issuer is entitled to write down all the issued and outstanding bonds based on the total par value at that time without the approval of bond holders. The trigger event of tier-2 capital instruments is the earlier one in: (1) CBIRC determines that the issuer will not survive if it does not conduct write-down; and (2) the relevant authorities determine that the issuer will not survive if it does not obtain capital injection from the public sector or the support with the same effect. The bond is permanently terminated upon write-down of its principal and will no longer recover under any conditions.

Information on changes in issued perpetual bonds:

	1 January 2019		Increase over the year		Decrease over the year		31 December 2019	
	Number	Book value	Number	Book value	Number	Book value	Number	Book value
	Million shares	RMB millions	Million shares	RMB millions	Million shares	RMB millions	Million shares	RMB millions
Perpetual bonds	–	–	400	40,000	–	–	400	40,000
Issuing cost		–		(7)				(7)
Total perpetual bonds	–	–					400	39,993

Main provisions:

This bond issue has provisions on conditional redemption by the issuer. The issuer may redeem the issued bond in part or in whole on the interest payment date in the fifth or any subsequent year following the issue date. Where this issued bond is no longer included in other tier-one capital due to any unpredictable changes in regulatory rules following this bond issue, the issuer may redeem this issued bond in whole other than in part. The issuer shall obtain the CBIRC approval and meet the following preconditions to exercise the redemption right: (1) the issuer replaces the redeemed instrument with capital instruments of equivalent or better quality, and such replacement is permitted only when the earning capacity remains sustainable; or (2) the capital level remains obviously higher than the regulatory capital requirement of CBIRC after the issuer exercises the redemption right.

The issuer may cancel all or part of the interest payment on the bond without constituting an event of default. The issuer will give full consideration to the interests of bond holders in exercising this right. The Bank may freely use the cancelled interest payment on the bond to repay any other debt obligation when due. Canceling part or all of the dividend distribution on the bond in question will not restrict the issuer from any acts except distributing dividends to ordinary shareholders. Full or partial cancellation of the interest payment on the bond is subject to consideration and approval by the Shareholders' General Meeting and shall be notified promptly to investors.

The bond has a lower priority of payment than depositors, general creditors and subordinated debt taking precedence over the bond, and has a higher priority of payment than all classes of shares held by shareholders of the issuer. The bond has the same priority of payment as other tier-one capital instruments issued by the issuer. Where the *Bankruptcy Law of the People's Republic of China* is revised in the future or relevant laws and regulations otherwise provide for the priority of debt payment applicable to the issuer, relevant laws and regulations will prevail.

Information on items attributable to holders of equity instruments is presented below:

	31 December 2019	31 December 2018
	RMB millions	RMB millions
Equity attributable to parent company		
Equity attributable to ordinary shareholders of parent company	207,617	197,163
Equity attributable to other shareholders of parent company	59,971	19,978
Of which: Net profit	840	840
Distributed profit for the period	(840)	(840)
Equity attributable to minority shareholders	1,749	1,574
Total shareholders' equity	**269,337**	**218,715**

34. Capital reserve

	The Group			
	2019			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	53,291	–	–	53,291
Investment by minority shareholders at premium	1	–	–	1
Total	53,292	–	–	53,292

	The Group			
	2018			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	26,624	26,667	–	53,291
Investment by minority shareholders at premium	1	–	–	1
Total	26,625	26,667	–	53,292

	The Bank			
	2019			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	53,291	–	–	53,291

	The Bank			
	2018			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	26,624	26,667	–	53,291

Capital reserve increase in the previous year is the premium of the ordinary shares the Bank issued to designated investors in a non-public offering in 2018. Reasons for the changes to capital reserve can be seen in Note IX – 32. Equity.

35. Surplus reserve

	The Group and the Bank	
	31 December 2019	31 December 2018
Statutory surplus reserve	15,551	13,524
Discretionary surplus reserve	111	111
Total	**15,662**	**13,635**

(1) According to relevant laws of the People's Republic of China, the Bank must appropriate statutory surplus reserve at 10% of the net profit based on the PRC GAAP until the statutory surplus reserve accumulated to 50% of the share capital. After the statutory surplus reserve is appropriated, the Bank can determine its amount of discretionary surplus reserve on its own upon approval by the Shareholders' General Meeting.

(2) As at 31 December 2019, statutory surplus reserve accumulatively appropriated by the Bank had exceeded 50% of the share capital and the statutory surplus reserve in excess of 50% shall be subject to approval by the Shareholders' General Meeting.

(3) For details on surplus reserve, please refer to Note IX-37 Retained Profit.

36. General risk reserve

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
General risk reserve	34,706	31,788	33,753	31,019

(1) As at 1 July 2012, the Bank has set aside general risk reserve in accordance with the *Administrative Measures for Reserve Provisioning of Financial Enterprises* (C.J. [2012] No. 20). The general risk reserve is treated as profit distribution and its balance shall not be lower than 1.5% of the ending balance of risk assets in principle.

(2) For details on surplus reserve, please refer to Note IX-37 Retained Profit.

(3) According to the regulatory rules, some subsidiaries of the Bank should appropriate certain amount from the net profit as general risk reserve. Such general risk reserve is treated as profit distribution.

37. Retained profit

(1) Profit distribution for 2019

The profit distribution plan for 2019 that is passed by the Board of Directors and submitted to the Shareholders' General Meeting for approval on 15 April 2020 is as follows:

(i) Set aside statutory surplus reserve of RMB2,094 million based on the Bank's net profit for 2019 which is RMB20,942 million;

(ii) Set aside general risk reserve of RMB3,671 million, after which the Bank's balance of general risk reserve reaches 1.5% of the outstanding risk assets on 31 December 2019;

(iii) Distribute dividends to all ordinary shareholders at the rate of RMB2.49 (pre-tax) per 10 shares, totaling RMB3,831 million, based on the Bank's total ordinary share capital of 15,387,223,983 shares at the end of 2019.

The above profit distribution plan is subject to approval by the Bank's Shareholders' General Meeting. Before that, accounting treatment is not made to the proposed surplus reserve, general risk reserve and dividend distribution.

(iv) The interest accrual period for preference shares issued in 2016 is from 28 March 2019 and 27 March 2020 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million. Dividends on preference shares were paid on 30 March 2020.

The above plan for distribution of dividends of preference shares was approved by the Board of Directors on 29 October 2019.

(v) The interest accrual period for RMB perpetual bonds issued in June 2019 is from 26 June 2019 to 25 June 2020 (at an interest rate of 4.85% for the first interest accrual period), and the accrued interest is RMB1,940 million.

(2) Profit distribution for 2018

The Bank has implemented the profit distribution plan for 2018 that was approved by the Shareholders' General Meeting on 15 May 2019. Particulars are as follows:

(i) Set aside statutory surplus reserve of RMB2,027 million based on the Bank's net profit for 2018 which is RMB20,266 million; such statutory surplus has been recorded in the balance sheet of the Group and the Bank dated 31 December 2019.

(ii) Set aside general risk reserve of RMB2,734 million, after which the Bank's balance of general risk reserve reaches 1.5% of the outstanding risk assets on 31 December 2018; such general risk reserve has been recorded in the balance sheet of the Group and the Bank dated 31 December 2019.

(iii) Distribute dividends to all ordinary shareholders at the rate of RMB1.74 (pre-tax) per 10 shares, totaling RMB2,677 million, based on the Bank's total ordinary share capital of 15,387,223,983 shares at the end of 2018. The aforesaid dividends have been distributed in 2019.

(iv) The interest accrual period for preference shares issued in 2016 is from 28 March 2018 and 27 March 2019 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million. The aforesaid dividends have been distributed in 2019.

(3) Profit distribution for 2017

The Bank has implemented the profit distribution plan for 2017 that was approved by the Shareholders' General Meeting on 24 May 2018. Particulars are as follows:

(i) Set aside statutory surplus reserve of RMB1,932 million based on the Bank's net profit for 2017 which is RMB19,321 million; such statutory surplus has been recorded in the balance sheet of the Group and the Bank dated 31 December 2018.

(ii) Set aside general risk reserve of RMB1,552 million, after which the Bank's balance of general risk reserve reaches 1.5% of the outstanding risk assets on 31 December 2017; such general risk reserve has been recorded in the balance sheet of the Group and the Bank dated 31 December 2018.

(iii) Distribute dividends to all ordinary shareholders at the rate of RMB1.51 (pre-tax) per 10 shares, totaling RMB1,936 million, based on the Bank's total ordinary share capital of 12,822,686,653 shares at the end of 2017. The aforesaid dividends have been distributed in 2018.

(iv) The interest accrual period for preference shares issued in 2016 is from 28 March 2017 and 27 March 2018 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million. The aforesaid dividends have been distributed in 2018.

38. Net interest income

	The Group		The Bank	
	2019	2018	2019	2018
Interest income				
Loans and advances to customers	85,684	74,305	80,258	71,052
Of which: Corporate loans and advances to customers	62,626	58,032	57,255	54,833
Personal loans and advances to customers	20,051	15,523	19,996	15,469
Discounted bills	3,007	750	3,007	750
Financial investments	35,681	N/A	35,613	N/A
Of which: Debt investments	30,523	N/A	30,455	N/A
Other debt investments	5,158	N/A	5,158	N/A
Held-to-maturity investments	N/A	15,454	N/A	15,447
Investments classified as receivables	N/A	12,150	N/A	12,099
Available-for-sale financial assets	N/A	4,252	N/A	4,252
Balances with central banks	2,681	3,163	2,678	3,160
Placements with banks and other financial institutions	1,949	2,895	1,942	2,898
Financial assets purchased under agreements to resell	2,089	2,597	2,084	2,595
Due from banks	353	1,010	348	996
Financial assets measured at fair value through profit or loss	N/A	210	N/A	210
Sub-total	128,437	116,036	122,923	112,709
Interest expense				
Deposits taken	(29,557)	(24,544)	(29,523)	(24,514)
Debt obligations payable	(14,023)	(15,222)	(13,847)	(15,204)
Due to banks and other financial institutions	(8,850)	(13,368)	(8,866)	(13,388)
Due to central banks	(4,789)	(5,067)	(4,787)	(5,066)
Placements from banks and other financial institutions	(4,150)	(3,705)	(1,535)	(1,554)
Financial assets sold under agreements to repurchase	(2,390)	(1,910)	(2,385)	(1,906)
Others	(117)	(682)	(114)	(649)
Sub-total	(63,876)	(64,498)	(61,057)	(62,281)
Net interest income	64,561	51,538	61,866	50,428
Of which: Interest income from impaired financial assets identified	831	702	828	700

39. Net fee and commission income

	The Group		The Bank	
	2019	2018	2019	2018
Fee and commission income				
Bank card business	12,983	11,238	12,983	11,238
Agency business	3,648	4,648	3,648	4,647
Credit commitments	1,928	2,003	1,928	2,003
Custody and other fiduciary services	1,090	973	1,090	973
Leasing service	626	619	–	–
Other business	806	648	806	648
Sub-total	**21,081**	**20,129**	**20,455**	**19,509**
Fee and commission expenses				
Fee expense	(3,065)	(2,371)	(3,038)	(2,340)
Net fee and commission income	**18,016**	**17,758**	**17,417**	**17,169**

Fee and commission expenses mainly include expenses for UnionPay card services, agency settlement, international agency payment, etc.

40. Investment loss/(gain)

	The Group		The Bank	
	2019	2018	2019	2018
Held-for-trading financial assets	928	N/A	928	N/A
Disposal of debt instruments measured at fair value through other comprehensive income	312	N/A	312	N/A
Gains on derecognition of financial assets measured at amortized cost	–	N/A	–	N/A
Other equity instrument investments	9	N/A	9	N/A
Derivative financial instruments	2	1,931	2	1,931
Financial assets measured at fair value through profit or loss	N/A	11	N/A	11
Available-for-sale financial assets	N/A	199	N/A	202
Held-to-maturity investments	N/A	2,091	N/A	2,091
Others	(20)	(164)	(20)	(164)
Sub-total	**1,231**	**4,068**	**1,231**	**4,071**

41. Gains/(losses) from the changes in fair value

	The Group and the Bank	
	2019	2018
Financial assets measured at fair value through profit or loss	N/A	22
Held-for-trading financial assets	831	N/A
Derivative financial instruments	(7)	(1,486)
Others	(1)	1
Total	823	(1,463)

42. Exchange gains/losses

According to the *Notice on Amending and Issuing the Formats of Financial Statements for Financial Enterprises* (C.K. [2018] No. 36), the exchange gains/losses of the Group and the Bank in 2019 mainly include income from foreign exchange differences and translation differences from foreign currency-denominated currency assets and liabilities and the gains/losses on foreign exchange derivatives.

The exchange gains of the Group and the Bank in 2018 mainly include income from foreign exchange differences and translation differences from foreign currency-denominated currency assets and liabilities.

43. Tax and surcharges

	The Group		The Bank	
	2019	2018	2019	2018
Urban maintenance and construction tax	417	377	404	369
Education fee and surcharges	299	270	289	264
Others	174	220	163	211
Total	890	867	856	844

44. General and administrative expenses

		The Group		The Bank	
		2019	2018	2019	2018
Staff remuneration and welfare	(1)	16,229	14,201	15,965	14,023
Business expenses		6,583	6,122	6,547	6,093
Depreciation and amortization		3,108	3,210	3,076	3,176
Total		25,920	23,533	25,588	23,292

(1) Staff remuneration and welfare

	The Group		The Bank	
	2019	2018	2019	2018
Wages and bonuses	12,552	10,462	12,333	10,322
Employee welfare	428	403	425	399
Social insurance	2,166	2,250	2,135	2,226
Housing provident fund	797	796	791	789
Labor union funds and employee education expense	286	290	281	287
Total	16,229	14,201	15,965	14,023

45. Impairment losses on credit

	The Group		The Bank	
	2019	2018	2019	2018
Impairment losses of loans and advances to customers	29,259	N/A	28,050	N/A
Impairment losses of due from banks	(8)	N/A	(8)	N/A
Impairment losses of placements with banks and other financial institutions	4	N/A	4	N/A
Impairment losses of financial assets purchased under agreements to resell	(503)	N/A	(503)	N/A
Impairment losses of debt investments	110	N/A	(52)	N/A
Impairment losses of other debt investments	2	N/A	2	N/A
Projected liabilities	75	N/A	68	N/A
Other	1,312	N/A	1,281	N/A
Total	30,251	N/A	28,842	N/A

46. Impairment losses on assets

	The Group		The Bank	
	2019	2018	2019	2018
Loans and advances to customers	N/A	20,186	N/A	19,664
Financial assets purchased under agreements to resell	N/A	306	N/A	306
Investments classified as receivables	N/A	137	N/A	137
Due from banks	N/A	(15)	N/A	(15)
Held-to-maturity investments	N/A	(11)	N/A	(11)
Available-for-sale financial assets	N/A	(2)	N/A	(2)
Others	N/A	516	N/A	501
Total	N/A	21,117	N/A	20,580

47. Income tax expense

	The Group		The Bank	
	2019	2018	2019	2018
Current income tax expense	4,622	7,266	3,933	6,941
Deferred income tax expense	826	(1,469)	1,122	(1,384)
Total	5,448	5,797	5,055	5,557

Adjustments to income tax expense and accounting profit are presented as follows:

	The Group		The Bank	
	2019	2018	2019	2018
Pre-tax profit	27,563	26,783	25,997	25,823
Income tax at statutory tax rate of 25%	6,891	6,696	6,499	6,456
Tax effect of non-deductible expense	1,226	1,395	1,225	1,395
Tax effect of tax-exempt income	(2,669)	(2,294)	(2,669)	(2,294)
Total	5,448	5,797	5,055	5,557

48. Other comprehensive income

Changes in other comprehensive income

The Group	31 December 2018	Effects of changes in accounting policies	1 January 2019	Amount in the year	Transferred from other comprehensive income to profit or loss	31 December 2019
Other comprehensive income to be classified as profit/loss						
Changes in fair value of other debt investments	N/A	886	886	743	(146)	1,483
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	N/A	332	332	(139)	(332)	(139)
Allowance for credit losses on other debt investments	N/A	38	38	14	(12)	40
Allowance for credit losses on loans and advances to customers measured at fair value through other comprehensive income	N/A	166	166	668	(166)	668
Changes in fair value of available-for-sale financial assets	834	(834)	N/A	N/A	N/A	N/A
Income tax influence	(209)	(60)	(269)	(322)	78	(513)
Sub-total	625	528	1,153	964	(578)	1,539
Other comprehensive income not to be classified as profit/loss						
Changes in fair value of other equity instrument investments	N/A	–	–	(606)	–	(606)
Income tax influence	N/A	–	–	151	–	151
Total	**625**	**528**	**1,153**	**509**	**(578)**	**1,084**

The Bank	31 December 2018	Effects of changes in accounting policies	1 January 2019	Amount in the year	Transferred from other comprehensive income to profit or loss	31 December 2019
Other comprehensive income to be classified as profit/loss						
Changes in fair value of other debt investments	N/A	886	886	743	(146)	1,483
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	N/A	332	332	(139)	(332)	(139)
Allowance for credit losses on other debt investments	N/A	38	38	14	(12)	40
Allowance for credit losses on loans and advances to customers measured at fair value through other comprehensive income	N/A	166	166	668	(166)	668
Changes in fair value of available-for-sale financial assets	834	(834)	N/A	N/A	N/A	–
Income tax influence	(209)	(60)	(269)	(322)	78	(513)
Sub-total	625	528	1,153	964	(578)	1,539
Other comprehensive income not to be classified as profit/loss						
Changes in fair value of other equity instrument investments	N/A	–	–	(602)	–	(602)
Income tax influence	N/A	–	–	150	–	150
Total	625	528	1,153	512	(578)	1,087

Other comprehensive income to be classified as profit/loss

The Group and the Bank	2018				
		Changes in other comprehensive income for the year			
	Opening balance	Increase over the year	Decrease over the year	Sub-total of changes	Ending balance
Net fair value changes of available-for-sale financial assets	(1,535)	2,369	–	2,369	834
Impact of changes in fair value of available-for-sale financial assets on income tax	383	(592)	–	(592)	(209)
Total	(1,152)	1,777	–	1,777	625

49. Earnings per share

	2019	2018
Net profit attributable to shareholders of the parent company in the year	21,905	20,854
Net profit attributable to ordinary shareholders of the parent company	21,065	20,014
Weighted average ordinary shares in issue (million shares)	15,387	12,823
Basic earnings per share (RMB yuan)	1.37	1.56

The offering of domestic preference shares in RMB20 billion approved in February 2016 was wrapped up in March 2016. While calculating the earnings per share, the net profit attributable to ordinary shareholders of the Bank in the year was deducted with the dividends for preference shares that had been declared for distribution in the year. Besides, it didn't impact the basic earnings per share and the diluted earnings per share in 2019 and 2018.

At the end of 2019, the Company had no potential diluted ordinary shares.

50. Cash and cash equivalents

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Cash on hand	1,980	2,223	1,971	2,210
Balances with central banks	35,693	29,968	35,367	29,502
Due from banks, placements with banks and other financial institutions and financial assets purchased under agreements to resell with the original term less than three months	54,994	34,013	54,829	33,802
Total	92,667	66,204	92,167	65,514

51. Supplementary information on the statement of cash flows

	The Group		The Group	
	2019	2018	2019	2018
Net profit adjusted into cash flows from operating activities:				
Net profit	22,115	20,986	20,942	20,266
Plus: Impairment losses on assets	N/A	21,117	N/A	20,580
Impairment losses on credit	30,251	N/A	28,842	N/A
Other impairment losses on assets	154	N/A	154	N/A
Depreciation of fixed assets	1,094	1,102	1,091	1,098
Amortization of intangible assets	3	3	3	2
Amortization on long-term prepaid expenses	2,011	2,105	1,982	2,076
Interest income from investment and investment gains	(36,544)	(36,134)	(36,476)	(36,079)
Net gains or losses on disposal of fixed assets, intangible assets and other long-term assets	(15)	14	(15)	14
Unrealized exchange loss/(gain) and loss/(gain) on changes in fair value	(73)	2,005	(73)	2,005
Deferred income tax	826	(1,469)	1,122	(1,384)
Interest income from credit-impaired financial assets identified	(831)	(702)	(828)	(700)
Interest expense on bonds issued	4,567	4,820	4,392	4,801
Increase of operating receivables	(254,247)	(216,806)	(230,327)	(197,052)
Increase of operating payables	309,771	102,024	290,250	85,896
Net cash flows from operating activities	79,082	(100,935)	81,059	(98,477)
Net change of cash and cash equivalents:				
Closing balance of cash and cash equivalents	92,667	66,204	92,167	65,514
Less: Opening balance of cash and cash equivalents	(66,204)	(110,191)	(65,514)	(108,719)
Net change of cash and cash equivalents	26,463	(43,987)	26,653	(43,205)

X. SEGMENT REPORT

The Group determines the operating segments according to the organizational framework, management requirement and internal reporting system, and on this basis, determines the reporting segments.

An operating segment refers to the component within the Group meeting the following conditions at the same time: (1) such component can generate income and incur expenses in the daily activities; (2) the management of the enterprise can regularly assess the operating results of the component to determine the resources allocated to it and assess its performance; (3) the enterprise can obtain the accounting information relating to the component's financial position, operating results and cash flows.

The Group's reporting segments include the Beijing-Tianjin-Hebei Region, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area, Central and Eastern China, Western China, Northern China and subsidiaries. Particularly speaking:

(1) Beijing-Tianjin-Hebei Region: Head Office, Credit Card Center, Beijing, Tianjin, Shijiazhuang and Tianjin FTZ;

(2) Yangtze River Delta: Nanjing, Hangzhou, Shanghai, Wenzhou, Ningbo, Shaoxing, Changzhou, Suzhou, Wuxi, Hefei and Shanghai FTZ;

(3) Guangdong-Hong Kong-Macao Greater Bay Area: Shenzhen, Guangzhou and Hong Kong[Note];

(4) Central and Eastern China: Jinan, Wuhan, Qingdao, Taiyuan, Fuzhou, Changsha, Xiamen, Zhengzhou, Nanchang and Haikou;

(5) Western China: Kunming, Chongqing, Chengdu, Xi'an, Urumqi, Hohhot, Nanning, Yinchuan, Guiyang, Xining and Lanzhou;

(6) Northeastern China: Shenyang, Dalian, Changchun and Harbin;

(7) Subsidiaries: Beijing Daxing Hua Xia Rural Bank Co., Ltd., Kunming Chenggong Hua Xia Rural Bank Co., Ltd., Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd. and Huaxia Financial Leasing Co., Ltd.

When presenting information by operating segment, operating income is divided on the basis of location of branches generating income. Segment assets and capital expenditure are divided by the location of the related assets.

2019	Beijing-Tianjin-Hebei Region	Yangtze River Delta	Guangdong-Hong Kong-Macao Greater Bay Area	Central and Eastern China	Western China	Northeastern China	Subsidiaries	Offset among segments	Total
Operating income	32,510	18,347	5,663	12,197	10,847	1,837	3,333	–	84,734
Net interest income	15,220	17,684	5,316	11,548	10,364	1,734	2,695	–	64,561
Of which:									
Net external interest income	19,989	16,162	2,963	11,925	9,326	1,501	2,695	–	64,561
Segmental net interest income	(4,769)	1,522	2,353	(377)	1,038	233	–	–	–
Net fee and commission income	15,779	497	186	558	308	89	599	–	18,016
Other net operating income	1,511	166	161	91	175	14	39	–	2,157
Operating expenses	(24,296)	(8,039)	(2,329)	(13,224)	(5,062)	(2,502)	(1,785)	–	(57,237)
Operating profit	8,214	10,308	3,334	(1,027)	5,785	(665)	1,548	–	27,497
Net non-operating income	37	(4)	14	5	(2)	(2)	18	–	66
Total profit	8,251	10,304	3,348	(1,022)	5,783	(667)	1,566	–	27,563
Supplementary information									
1. Depreciation and amortization expenses	1,096	633	114	575	471	186	33	–	3,108
2. Capital expenditures	1,333	543	41	535	378	157	15	–	3,002
3. Impairment losses on credit	13,341	2,666	319	9,117	1,922	1,477	1,409	–	30,251
31 December 2019									
Segment assets	2,120,826	704,944	276,618	501,061	424,447	104,165	102,300	(1,222,146)	3,012,215
Undistributed assets									8,574
Total assets									3,020,789
Segment liabilities	1,882,072	695,340	273,535	503,127	418,996	107,122	93,406	(1,222,146)	2,751,452
Undistributed liabilities									–
Total liabilities									2,751,452

Note: Hong Kong Branch obtained a banking license from Hong Kong Monetary Authority in September 2019 and officially opened for business in January 2020.

2018	Beijing-Tianjin-Hebei Region	Yangtze River Delta	Guangdong-Hong Kong-Macao Greater Bay Area	Central and Eastern China	Western China	Northeastern China	Subsidiaries	Offset among segments	Total
Operating income	31,476	14,093	4,140	11,245	7,966	1,560	1,750	(3)	72,227
Net interest income	13,945	13,075	3,972	10,516	7,520	1,400	1,110	–	51,538
Of which:									
Net external interest income	12,098	13,739	844	12,491	8,611	2,645	1,110	–	51,538
Segmental net interest income	1,847	(664)	3,128	(1,975)	(1,091)	(1,245)	–	–	–
Net fee and commission income	14,936	882	138	667	405	140	590	–	17,758
Other net operating income	2,595	136	30	62	41	20	50	(3)	2,931
Operating expenses	(17,239)	(8,708)	(2,279)	(9,429)	(5,177)	(1,894)	(813)	–	(45,539)
Operating profit	14,237	5,385	1,861	1,816	2,789	(334)	937	(3)	26,688
Net non-operating income	14	19	11	25	–	–	26	–	95
Total profit	14,251	5,404	1,872	1,841	2,789	(334)	963	(3)	26,783
Supplementary information									
1. Depreciation and amortization expenses	1,143	646	122	594	482	190	33	–	3,210
2. Capital expenditures	922	550	130	579	934	735	29	–	3,879
3. Impairment losses on assets	7,909	3,819	496	5,141	2,326	889	537	–	21,117
31 December 2018									
Segment assets	1,768,608	636,847	197,466	515,088	404,869	96,193	78,213	(1,024,114)	2,673,170
Undistributed assets									7,410
Total assets									2,680,580
Segment liabilities	1,575,120	632,132	195,854	513,776	402,485	96,675	69,937	(1,024,114)	2,461,865
Undistributed liabilities									–
Total liabilities									2,461,865

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Related parties

There is no related party that controls or jointly controls the Bank. Other related parties are as follows:

(1) Shareholders holding no less than 5% shares in the Bank and exerting significant influence on the Bank by the end of 2019

On 28 December 2018, with approval of CSRC, the Bank issued 2,564,537,330 RMB-denominated ordinary shares (A shares) in a non-public offering to three designated investors, namely Shougang Group, State Grid Yingda International Holdings Group Ltd., and Beijing Infrastructure Investment Co., Ltd. The equity transaction completed registration on 8 January 2019.

Based on the description of related parties in the *Administrative Measures for the Disclosure of Information of Listed Companies*, the legal person holding no less than 5% of the listed company or the persons acting in concert in the previous 12 months or in the future 12 months as per relevant agreement are the related legal persons of the listed company. Therefore, Beijing Infrastructure Investment Co., Ltd. was a related party of the Bank in 2018.

Name of related shareholder	Register place	Legal representative/ CEO	Business nature	Registered capital	Shareholding percentage (%)	Voting rights percentage (%)
Shougang Group	Beijing	Zhang Gongyan	Industries, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, scientific research and comprehensive technological services, domestic commerce, public catering, material supply and sales, warehouse, etc.	RMB28.755 billion	20.28	20.28
State Grid Yingda International Holdings Group Ltd.	Beijing	Li Ronghua	Investment and assets operation and management; assets custody, rendering services for enterprise restructuring, M&A, strategic placement and venture capital investment; investment consultation; and investment advisory	RMB19.9 billion	19.99	19.99
PICC Property and Casualty Company Limited	Beijing	Miao Jianmin	RMB and foreign currency insurance and related reinsurance; services and consultancy of insurance and reinsurance; handling relevant business on behalf of insurance institutions; investment and fund application, etc.	RMB22.243 billion	16.66	16.66
Beijing Infrastructure Investment Co., Ltd.	Beijing	Zhang Yanyou	Manufacturing of metro vehicles and equipment; investment and investment management; planning, construction and operation management of metro lines; proprietary and agent import & export business of various commodities and technologies; design and repair of metro vehicles; design and installation of metro equipment; project supervision; property management; real estate development; and design and production of metro ads	RMB145.291 billion	8.5	8.5

(2) Subsidiaries of the Bank

Please refer to Note VIII Business Combination and Consolidated Financial Statements.

(3) Other related parties

Other related parties include:

(i) key management personnel (directors, supervisors and senior executives), and their close family members;

(ii) enterprises controlled or jointly controlled by key management personnel and their close family members;

(iii) companies, their subsidiaries and related companies which directors, supervisors and senior executives of the Bank control or can exert significant influence on;

(iv) State Grid Corporation of China (parent company of State Grid Yingda International Holdings Group Ltd., the related shareholder of the Bank) and its subsidiaries; The People's Insurance Company (Group) of China (parent company of PICC Property and Casualty Company Limited, the related shareholder of the Bank) and its subsidiaries.

2. Related party transactions

Related party transactions between the Bank and its related parties, whose pricing will be based on general transaction price according to normal commercial terms, shall be subject to the approval of corresponding decision-making institution by transaction type.

(1) Related party transactions with shareholders holding no less than 5% shares in the Bank and exerting significant influence on the Bank and their subsidiaries

	31 December 2019		31 December 2018	
	Transaction balance	Percentage (%)[i]	Transaction balance	Percentage (%)[i]
Assets				
Loans and advances to customers	12,390	0.66	9,672	0.60
Placements with banks and other financial institutions	–	–	400	0.98
Held-for-trading financial assets	2,695	3.00	N/A	N/A
Interest receivable	N/A	N/A	133	0.77
Liabilities				
Deposits taken	10,479	0.63	8,164	0.55
Due to banks and other financial institutions	593	0.20	316	0.11
Interest payable	N/A	N/A	181	0.95
Off-balance-sheet items				
L/Gs and other payment commitments issued	597	2.03	215	0.91
L/Cs issued	306	0.22	888	0.91
Bank acceptance drafts	771	0.23	619	0.22
Non-principal-guaranteed wealth management products issued by the Bank	786	0.12	5,200	1.11

	2019		2018	
	Transaction balance	Percentage (%)[i]	Transaction balance	Percentage (%)[i]
Interest income	564	0.44	593	0.51
Interest expense	398	0.62	506	0.78
Fee and commission income	66	0.31	13	0.06
Investment loss/(gain)	36	2.92	–	–
General and administrative expenses	2	0.01	2	0.01

(i) Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.

(2) Related party transactions with other related parties

	31 December 2019		31 December 2018	
	Transaction balance	Percentage (%)(i)	Transaction balance	Percentage (%)(i)
Assets				
Loans and advances to customers	359	0.02	992	0.06
Held-for-trading financial assets	507	0.56	N/A	N/A
Debt investments	719	0.11	N/A	N/A
Other debt investments	1,028	0.79	N/A	N/A
Held-to-maturity investments	N/A	N/A	500	0.12
Available-for-sale financial assets	N/A	N/A	950	0.76
Investments classified as receivables	N/A	N/A	100	0.04
Interest receivable	N/A	N/A	123	0.71
Liabilities				
Deposits taken	3,158	0.19	10,581	0.71
Due to banks and other financial institutions	63	0.02	15	0.01
Interest payable	N/A	N/A	172	0.90
Off-balance-sheet items				
L/Gs and other payment commitments issued	1	–	1	–
Bank acceptance drafts	80	0.02	316	0.11
Non-principal-guaranteed wealth management products issued by the Bank	–	–	3,055	0.65

	2019		2018	
	Trading amount	Percentage (%)(i)	Trading amount	Percentage (%)(i)
Interest income	109	0.08	263	0.23
Interest expense	46	0.07	397	0.62
Fee and commission income	22	0.10	11	0.05
Investment loss/(gain)	7	0.57	–	–
General and administrative expenses	241	0.93	232	0.99

(i) Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.

(3) Remuneration of 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 Bank, directly or indirectly, including directors, supervisors and senior management members. Directors of the Bank are of the view that related party transactions between key management personnel stated above and the Bank are carried out under normal commercial terms as the same with those with non-related parties.

Remunerations of directors, supervisors and key senior management members received from the Bank are set out below:

	2019	2018
Remunerations	15	13

The final total compensation before tax for Chairman, President, Chairman of the Board of Supervisors, employee supervisors and other senior management members of the Bank is in the process of determination, and the remaining part will be disclosed separately after determination. Nevertheless, the Management of the Group expects that the difference between the above amount and the final compensation amount will not pose material influence on the consolidated financial statements of 2019.

(4) Transactions with related natural persons

As at 31 December 2019, the Bank's balance of loans to related natural persons totaled RMB58.18 million.

(5) Enterprise annuity

Except the normal fund contribution to enterprise annuity created by the Group and general banking businesses, the Group has no related party transactions in 2019 and 2018.

XII. CONTINGENCIES AND COMMITMENTS

1. Pending legal proceedings

As at 31 December 2019, the claimed amount of pending legal proceedings where the Bank or any of its subsidiaries is the defendant or the third party totaled RMB3,877 million (RMB1,957 million as at 31 December 2018). Based on court order or suggestions of legal consultants, the Group has set aside provisions for losses arising from legal proceedings against it. The Management of the Group believes that the final court decision on these legal proceedings will not impose material impact on the Group's financial position or operation.

2. Capital expenditure commitments

	The Group and the Bank	
	31 December 2019	31 December 2018
Capital commitments signed but not confirmed in the financial statements		
Commitment to purchase long-term assets	107	40

3. Credit commitments

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Bank acceptance drafts	333,918	275,971	333,830	275,886
L/Cs issued	136,609	97,495	136,609	97,495
L/Gs and other payment commitments issued	29,368	23,648	29,355	23,644
Irrevocable loan commitments	6,203	14,892	3,428	12,833
Unused credit card limit	187,003	176,098	187,003	176,098
Total	693,101	588,104	690,225	585,956

4. Financial lease commitments

On the balance sheet date, the minimum lease payment maturity under the irrevocable financial lease contracts signed by the Group as the leaser is as follows:

	The Group	
	31 December 2019	31 December 2018
Within 1 year	2,775	2,059

5. Operating lease commitments

On the balance sheet date, the minimum lease payment maturity under the irrevocable operating lease contracts signed by the Group and the Bank as the leasee is as follows:

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Within 1 year	1,786	1,802	1,763	1,778
1 – 2 years	1,530	1,466	1,523	1,447
2 – 3 years	1,252	1,210	1,247	1,202
3 – 5 years	1,610	1,635	1,602	1,626
Over 5 years	1,053	1,211	1,041	1,194
Total	7,231	7,324	7,176	7,247

6. Collateral

(1) Collateral assets

On the balance sheet date, the book value of assets used as collateral for transactions under repurchase agreements is as follows:

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Bonds	90,778	11,250	90,396	10,990
Bills	7,311	3,266	7,311	3,266
Total	**98,089**	**14,516**	**97,707**	**14,256**

On 31 December 2019, the book value of financial assets sold under agreements to repurchase of the Group was RMB93,774 million, and the book value of financial assets sold under agreements to repurchase of the Bank was RMB93,423 million (31 December 2018: RMB14,378 million for the Group and RMB14,126 million for the Bank).

In addition, partial bond investment of the Group is used as collateral for third-party lending, time deposits of commercial banks under cash management of the central treasury and mid-term credit facility of PBOC or as collateral according to regulatory requirements. On 31 December 2019, the book value of the above collaterals was RMB202,963 million (31 December 2018: RMB226,828 million).

(2) Collateral received

The Group accepts such pledge as securities in relevant business of purchase under agreements to resell. Some of the securities accepted can be sold or re-used as collateral. On 31 December 2019 and 31 December 2018, the Group and the Bank held neither the pledged assets available for sale in the absence of counterparty's default nor the assets available for re-pledge in other transactions.

7. Government bonds underwriting and redemption

As a member of the underwriter group of savings government bonds of the Ministry of Finance, the Group underwrites and sells savings government bonds as an agent. Holders of savings government bonds may request redemption in advance and the Group is obliged to perform the duty of redemption. The Group is obliged to redeem the principal of the savings government bonds and the interest payable determined according to the early redemption agreement.

On 31 December 2019, the Group was obliged to redeem the savings government bond principal of RMB8,654 million (31 December 2018: RMB9,014 million). The original term of the above savings government bonds ranges from 1 to 5 years. The Management expects that the amount of redemption of these savings government bonds through the Group prior to maturity will not be material.

MOF will not provide fund for the early redemption of these savings government bonds in a timely manner but is obliged to repay the principal and the interest upon maturity or according to documents issued.

8. Entrusted transaction

(1) Entrusted deposits and loans

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Entrusted loans	221,261	296,567	219,898	295,395
Entrusted loan funds	221,261	296,567	219,898	295,395

(2) Entrusted investments

	The Group and the Bank	
	31 December 2019	31 December 2018
Entrusted investments	652,208	469,317

Entrusted investment means that the Group manages customer assets as entrusted by the non-principal-guaranteed wealth management customer and the investment risk of entrusted assets is taken by the customer.

XIII. TRANSFER OF FINANCIAL ASSETS

Asset-backed securities

The Group conducts asset-backed securities transactions during the normal operation. The Group sells part of financial assets to the Special Purpose Trust (SPT), which then issues asset-backed securities to investors. The Group decides whether to combine the special-purpose trusts by taking into the following into full account: whether exercising power over such trusts, whether being entitled to variable returns by participating in the activities relating to such trusts; and whether being able to influence its returns by wielding its power over such trusts.

The Group transferred the related financial assets and nearly all risks (mainly including credit risk, prepayment risk and interest rate risk of the target financial assets) thereof and returns arising from the ownership of such assets to other investors, so the Group derecognized such financial assets. As at the transfer date, the book value of the above securitized/structured financial assets of the Group for 2019 totaled RMB5,921 million (2018: RMB3,445 million). At the same time, the Group subscribed a certain ratio of asset-backed securities. As at 31 December 2019, the above securities held by the Group amounted to RMB28 million (31 December 2018: RMB168 million).

Once the SPT established, such part of financial assets shall be discriminated from other assets without SPT when the above financial assets are being transferred. According to relevant transaction documents, in case of dissolution, liquidation, bankruptcy of the Group according to law, assets under the SPT shall not be subject to the liquidation. As the issuance consideration equaled to the book value of the transferred financial assets, the Group did not recognize any gains or losses from the transfer of such assets. The Group will charge certain fees as financial assets service provider subsequently. Please see Note XIV – 1. Interests and rights enjoyed in structured entities sponsored excluded from the consolidated financial statements.

Repurchase agreements

A repurchase agreement means a deal in which the Group sells a financial asset while agreeing with the counterparty to buy back the asset (or substantially the same financial asset) at fixed price on a specified date in the future. The Group still takes nearly all the risk and return related to the sold asset and thus the asset is not derecognized in financial statements. The Group recognizes a financial liability for the received consideration at the same time.

On 31 December 2019, the book value of bond assets and bill assets sold by the Group under repurchase agreements totaled RMB98,089 million, and the book value of bond assets and bill assets sold by the Bank under repurchase agreements totaled RMB97,707 million (31 December 2018: RMB14,516 million for the Group and RMB14,256 million for the Bank). At the same time, it undertook that it would repurchase such bonds or bills at the agreed-upon price on a preset future date. The sales income of the above bonds and bills was presented as financial assets sold under agreements to repurchase, which was RMB93,774 million for the Group and RMB93,423 million for the Bank (31 December 2018: RMB14,378 million for the Group and RMB14,126 million for the Bank).

Credit assets transfer

In 2019, the Group disposed of loans with a book value of RMB11,493 million via transfer to third parties (2018: RMB9,927 million). The Group has transferred almost all the risk and return relating to the ownership of the above loans, and therefore they have been derecognized.

XIV. STRUCTURED ENTITIES:

1. Interests and rights enjoyed in structured entities sponsored excluded from the consolidated financial statements

1.1 Interests and rights enjoyed in structured entities sponsored by the Group but excluded in the consolidated financial statements

Structured entities sponsored by the Group but excluded in the consolidated financial statements mainly include asset-backed securities and non-principal-guaranteed wealth management products issued by the Bank. The nature and purpose of these structured entities are to manage investors' assets and charge management fees. They raise funds by issuing investment products to investors.

As at the date of the balance sheet, the amount of unconsolidated structured entities sponsored by the Group and rights and interests therefrom are listed as follows:

The Group

	31 December 2019				
	Sponsor amount	Book value	Maximum loss exposure	Income from structured entities in the year	Major income type
Asset-backed securities	5,921	28	28	167	Fee income and interest income
Non-principal-guaranteed wealth management products	652,208	N/A	N/A	2,043	Fee income
Total	**658,129**	**28**	**28**	**2,210**	

	31 December 2019				
	Sponsor amount	Book value	Maximum loss exposure	Income from structured entities in the year	Major income type
Asset-backed securities	3,445	168	168	93	Fee income and interest income
Non-principal-guaranteed wealth management products	469,317	N/A	N/A	3,178	Fee income
Total	**472,762**	**168**	**168**	**3,271**	

As at 31 December 2019 and 31 December 2018, the Group provided no financial or other supports to structured entities excluded in the consolidated financial statements. It also has no plan to do so.

1.2 Rights and interests enjoyed in structured entities sponsored by third-party institutions

The Group enjoys rights and interests in structured entities sponsored by third-party institutions by directly holding investments. These structured entities mainly include asset-backed securities, wealth management products, financial institutions' asset management plans, fund investments and beneficiary rights of assets, whose nature and purpose are to manage investors' assets and charge management fees. They raise funds by issuing investment products to investors.

The book value and maximum loss exposure of rights and interests enjoyed by the Group in structured entities sponsored by third-party institutions by directly holding investments are presented as follows:

	31 December 2019			
The Group	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Asset-backed securities	–	3,666	22,372	26,038
Asset management plan of financial institutions	19,752	122,286	–	142,038
Fund investment	49,470	–	–	49,470
Beneficiary rights of assets	2,004	1,664	–	3,668
Total	71,226	127,616	22,372	221,214

	31 December 2018				
The Group	Financial assets measured at fair value through profit or loss	Held-to-maturity investments	Available-for-sale financial assets	Investments classified as receivables	Total
Asset-backed securities	–	4,134	20,196	–	24,330
Wealth management products	–	–	–	7,200	7,200
Asset management plan of financial institutions	–	–	–	175,807	175,807
Fund investment	8,537	–	–	–	8,537
Beneficiary rights of assets	–	–	–	3,459	3,459
Total	8,537	4,134	20,196	186,466	219,333

Note: On 31 December 2019, asset-backed securities were included in financial institution bonds under Note IX – 10. Equity investments and 11. Other debt investments. On 31 December 2018, asset-backed securities were included in financial institution bonds under Note IX – 13. Available-for-sale financial assets and 14. Held-to-maturity investments.

2. Consolidated structured entities

Consolidated structured entities of the Group were principal-guaranteed wealth management products issued by the Group.

XV. RISK MANAGEMENT

1. Overview

The Group mainly faces credit risk, market risk and liquidity risk. Market risk includes exchange rate risk, interest rate risk and other price risks.

2. Risks management framework

The Management of the Group is responsible for determining the overall risk appetite, and reviewing and approving the risk management objectives and strategies of the Group.

The risk management framework: Senior Management of the Group is responsible for the overall and specific risk management, including implementing risk management strategies, measures and credit policies, approving the internal rules, measures and procedures concerning risk management and establishing a risk management department and other relevant departments to manage financial risks.

3. Credit risk

3.1 Credit risk management

Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to a commercial bank, when the bank operates credit, inter-bank lending and investment businesses. The credit risk of the Group mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans and advances to customers, placements with banks and other financial institutions, interbank lending, bond investments, bill acceptance, letters of credit, and letters of guarantee. The credit risk management process of the Group confirms and manages the above risks by mainly focusing on pre-loan due diligence, credit rating, loan approval procedure, loan-granting management, post-lending monitoring and loan collection management procedure.

Before granting credit to a single customer, the Group will conduct credit appraisal first and regularly inspect the credit limit granted. The means for credit risk management include acquisition of collaterals and warranty. As for the off-balance-sheet credit commitment, the Group will charge security deposit to reduce the credit risk in general.

The Group classifies loans and advances to customers into five categories, namely pass, special- mention, substandard, doubtful and loss. The last three categories are deemed as non-performing loans (NPLs). Loan impairment is mainly determined by the possibility of repayment and recovery of principal and interest. Major assessment factors include repayment ability, credit record, repayment willingness, profitability of loan project, guarantee or mortgage measures and legal liability for loan repayment of the borrower. The Group measures and sets aside allowance for impairment losses using the ECL model method.

According to the guidelines of CBIRC on loan risk classification, the definitions of the Group's five-tier classifications of loans and advances to customers are listed as below:

- Pass: The borrower is able to perform the loan clauses and there is no reason for doubting the timely and full-amount repayment of loan principal and interest;
- Special-mention: Though the borrower is capable of repaying the loans at present, there are factors that are likely to adversely influence the repayment;
- Substandard: The repayment ability of the borrower is obviously doubtful and its normal operating income can't be fully relied on to repay the principal and interest. Even if guarantee or mortgage measures are taken, there still might be certain loss;
- Doubtful: The borrower can't repay the principal and interest in full amount. Even if guarantee or mortgage measures are taken, there must be material loss;
- Loss: The principal or interest can't be recovered or only a small portion can be recovered after the Group takes all possible measures and resorts to all necessary legal proceedings.

Measurement of expected credit loss

As from 1 January 2019, the Group measures the credit losses on debt instruments-related financial assets measured at amortized cost and those measured at fair value through other comprehensive income using the "ECL Model" in accordance with the New Financial Instrument Standards.

For financial assets subject to ECL measurement, the Group assesses whether the credit risk of relevant financial assets has increased significantly since initial recognition and uses the "three-stage" impairment model to measure their allowance for impairment losses respectively and recognize the ECL and its changes:

Stage 1: For financial instruments that have not had a significant increase in credit risk since initial recognition, their ECL amount over the next 12 months should be recognized;

Stage 2: For financial instruments that have had a significant increase in credit risk since initial recognition, their ECL amount over the remaining life should be recognized;

Stage 3: For financial assets that have objective evidence of impairment on the balance sheet date, their ECL amount over the remaining life should be recognized.

Significant increase in credit risk

The Group monitors all financial assets that meet impairment requirements to assess whether their credit risk has increased significantly or not since initial recognition. If the credit risk has increased significantly, the Group will measure allowance for impairment losses according to lifetime ECL rather than 12-month ECL.

If a financial instrument triggers one or more of the following criteria, the Group deems that the financial instrument has had a significant increase in credit risk:

i. The principal or interest becomes overdue;

ii. The credit transaction is risk-classified as special mention;

iii. The debtor has undergone a deterioration in key financial indicators, with a marked rise in impairment loss and probability of default;

iv. The credit risk has increased significantly in other circumstances.

Default and credit impairment

Where a financial instrument meets one or more of the following conditions, the Group will define the financial asset as credit-impaired:

i. The principal or interest is overdue for more than 90 days;

ii. The debtor goes bankrupt or suffers serious financial difficulties, expected to incur a major loss;

iii. The financial asset is classified by risk category as Substandard, Doubtful or Loss; or

iv. Other objective evidences indicating impairment of the financial assets.

The financial instrument can move between stages. The financial instrument in Stage 1 that has experienced significant deterioration in credit risk should be moved to Stage 2. The financial instrument in Stage 2 can move back to Stage 1 if it has improved to the extent of no longer showing significant deterioration in credit risk.

Parameters of ECL measurement

According to whether credit risk has increased significantly and whether the asset has been credit-impaired or not, the Group measures allowance for impairment losses for different assets at an amount equal to 12-month or lifetime ECL. Relevant terms are defined as follows:

i. Probability of default means the likelihood that the borrower will be unable to meet its debt obligations in the coming 12 months or remaining lifetime;

ii. Loss given default means the Group's projected level of loss on exposure at the time of default. LGD varies with the type of counterparty, the way and priority of recourse and availability of collateral and other credit enhancements. LGD is the loss expressed as a percentage of total exposure at the time of default, which is measured based on the coming 12 months or lifetime;

iii. Exposure at default means the total amount of projected exposure of on-balance-sheet and off-balance-sheet items at the time of default. It reflects the total amount of possible losses. EAD generally includes used balance of credit, outstanding interest receivable and expected drawdown of unused credit limit and related possible expenses.

The Group has grouped exposures with similar risk characteristics into different categories to estimate the PD, LGD and EAD separately. The Group has acquired sufficient information to ensure their statistical reliability. The Group regularly monitors and back-tests the model rating outcomes according to actual defaults and losses of customers.

Forward-looking information

The Group uses forward-looking information that is available without undue cost or effort to assess the significant increase in credit risk and measurement of ECL. The Group uses external and internal information to generate various scenarios of the future direction of relevant economic variables. The external information used includes macro economic data and the forecasts published by the government or authorities, such as gross domestic product (GDP), consumer price index (CPI) and producer price index (PPI) and other macro indicators. The impact on ECL is measured according to the weights of forward-looking scenarios. ECL measurement depends in part on such forecasts analyzed according to statistical data.

3.2 Maximum credit risk exposure

Without regard to the available collaterals or other credit enhancement measures, the amounts of the maximum credit exposure on the balance sheet date are presented as follows:

	The Group	
	31 December 2019	31 December 2018
Balances with central banks	190,931	207,981
Due from banks	15,938	21,871
Placements with banks and other financial institutions	23,461	40,663
Derivative financial assets	926	1,130
Financial assets purchased under agreements to resell	24,050	1,723
Loans and advances to customers	1,829,171	1,566,241
Held-for-trading financial assets	18,557	N/A
Debt investments	675,286	N/A
Other debt investments	129,400	N/A
Financial assets measured at fair value through profit or loss	N/A	3,933
Available-for-sale financial assets	N/A	113,730
Held-to-maturity investments	N/A	415,524
Investments classified as receivables	N/A	233,762
Other financial assets	9,313	25,229
Sub-total	2,917,033	2,631,787
Off-balance-sheet credit risk exposure	693,101	588,104
Total	**3,610,134**	**3,219,891**

	The Bank	
	31 December 2019	31 December 2018
Balances with central banks	190,457	207,318
Due from banks	15,896	21,919
Placements with banks and other financial institutions	23,961	40,663
Derivative financial assets	926	1,130
Financial assets purchased under agreements to resell	24,050	1,583
Loans and advances to customers	1,732,552	1,492,239
Held-for-trading financial assets	18,557	N/A
Debt investments	673,615	N/A
Other debt investments	129,400	N/A
Financial assets measured at fair value through profit or loss	N/A	3,933
Available-for-sale financial assets	N/A	113,730
Held-to-maturity investments	N/A	415,250
Investments classified as receivables	N/A	232,875
Other financial assets	7,333	23,606
Sub-total	2,816,747	2,554,246
Off-balance-sheet credit risk exposure	690,225	585,956
Total	3,506,972	3,140,202

The Group will adopt a series of policies and credit enhancement measures to reduce the credit risk exposure to an acceptable level. Common methods include asking the borrower to pay security deposit or providing collaterals or warranty. The amount and type of collaterals required by the Group depend on the assessment of the credit risk of the counterparty. As for the type and assessment parameters of collaterals, the Group has formulated relevant guidelines and it takes the acceptable type and its value as the specific implementation standard.

The types of collaterals accepted by the Group are as follows:

(1) Reverse repurchase transactions: bills, bonds, etc.;

(2) Corporate loans: house property, machinery equipment, land use rights, certificate of deposits and equity, etc.; and

(3) Personal loan: house property and certificate of deposits, etc.

The Management regularly inspects the value of collaterals and requires the counterparty to increase the collaterals if necessary.

3.3 Derivative financial instruments

The credit risk of derivative financial instruments of the Group lies in whether the counterparty is able to make payments timely in line with the contract. As for the evaluation and control standard for credit risk of derivative financial instruments, the Group applied the same risk control standard with the other transactions.

3.4 Off-balance-sheet business risk

The Group includes the off-balance-sheet business into unified credit management. As for the off-balance-sheet businesses such as bank acceptance drafts, L/Cs and L/Gs, the Bank requires authentic trading background, charges security deposit in corresponding proportion based on the credit status of customers and business risk level, and requires effective guarantee for the remaining parts. The Group strictly controls financing L/Gs and other high-risk off-balance-sheet businesses.

3.5 Credit quality of various assets with credit risk

Financial instruments subject to impairment assessment

	31 December 2019 (the Group)				
	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Book value
Financial assets measured at amortized cost:					
Balances with central banks	190,931	–	–	–	190,931
Due from banks	15,958	–	5	(25)	15,938
Placements with banks and other financial institutions	23,461	–	85	(85)	23,461
Financial assets purchased under agreements to resell	24,050	–	306	(306)	24,050
Measured at amortized cost loans and advances to customers	1,641,374	67,626	34,362	(47,922)	1,695,440
Debt investments	668,849	7,630	1,364	(2,557)	675,286
Other financial assets	7,734	372	3,564	(2,357)	9,313
Sub-total	2,572,357	75,628	39,686	(53,252)	2,634,419
Financial assets measured at fair value through other comprehensive income:					
Loans and advances to customers measured at fair value through other comprehensive income	133,731	–	–	(668)	133,731
Other debt investments	129,400	–	–	(40)	129,400
Sub-total	263,131	–	–	(708)	263,131
Total	**2,835,488**	**75,628**	**39,686**	**(53,960)**	**2,897,550**

	31 December 2019 (the Bank)				
	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Book value
Financial assets measured at amortized cost:					
Balances with central banks	190,457	–	–	–	190,457
Due from banks	15,916	–	5	(25)	15,896
Placements with banks and other financial institutions	23,961	–	85	(85)	23,961
Financial assets purchased under agreements to resell	24,050	–	306	(306)	24,050
Loans and advances to customers measured at amortized cost	1,544,198	65,149	34,083	(44,609)	1,598,821
Debt investments	666,998	7,630	1,364	(2,377)	673,615
Other financial assets	5,761	372	3,508	(2,308)	7,333
Sub-total	2,471,341	73,151	39,351	(49,710)	2,534,133
Financial assets measured at fair value through other comprehensive income:					
Loans and advances to customers measured at fair value through other comprehensive income	133,731	–	–	(668)	133,731
Other debt investments	129,400	–	–	(40)	129,400
Sub-total	263,131	–	–	(708)	263,131
Total	2,734,472	73,151	39,351	(50,418)	2,797,264

Impairment allowances for financial assets measured at fair value through other comprehensive income are not included in book value.

	31 December 2018 (the Group)				
	Neither overdue nor impaired financial assets	Overdue but not impaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	207,981	–	–	–	207,981
Due from and placements with banks and other financial institutions	62,561	–	121	(148)	62,534
Financial assets purchased under agreements to resell	1,723	–	306	(306)	1,723
Loans and advances to customers	1,556,970	26,737	29,809	(47,275)	1,566,241
Available-for-sale financial assets	113,736	–	–	(6)	113,730
Held-to-maturity investments	415,529	–	–	(5)	415,524
Investments classified as receivables	234,458	26	1,355	(2,077)	233,762
Other financial assets	23,615	–	2,820	(1,206)	25,229
Total	2,616,573	26,763	34,411	(51,023)	2,626,724

	31 December 2018 (the Bank)				
	Neither overdue nor impaired financial assets	Overdue but not impaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	207,318	–	–	–	207,318
Due from and placements with banks and other financial institutions	62,609	–	121	(148)	62,582
Financial assets purchased under agreements to resell	1,583	–	306	(306)	1,583
Loans and advances to customers	1,481,278	26,651	29,637	(45,327)	1,492,239
Available-for-sale financial assets	113,736	–	–	(6)	113,730
Held-to-maturity investments	415,255	–	–	(5)	415,250
Investments classified as receivables	233,558	26	1,355	(2,064)	232,875
Other financial assets	21,972	–	2,818	(1,184)	23,606
Total	2,537,309	26,677	34,237	(49,040)	2,549,183

Overdue financial assets refer to the financial assets with principal or interest overdue for 1 day or above.

Financial instruments not subject to impairment assessment

	The Group and the Bank	
	31 December 2019	31 December 2018
Held-for-trading financial assets	18,557	N/A
Financial assets measured at fair value through profit or loss	N/A	3,933
Derivative financial assets	926	1,130
Total	19,483	5,063

3.6 Loans and advances to customers

(1) The Loans and advances to customers are distributed by industry as follows:

	The Group			
	31 December 2019		31 December 2018	
Industry	Amount	Percentage (%)	Amount	Percentage (%)
Leasing and commercial services	275,650	14.72	239,616	14.85
Manufacturing	190,969	10.20	209,176	12.96
Wholesale and retail	147,086	7.86	164,831	10.22
Real estate	141,000	7.53	119,204	7.39
Water conservancy, environment and public facilities management	117,432	6.27	98,011	6.07
Construction industry	102,469	5.47	96,175	5.96
Electric power, heat, gas and water production and supply industry	62,067	3.31	55,373	3.43
Transportation, warehousing and post industry	51,476	2.75	51,110	3.17
Mining industry	27,612	1.48	26,959	1.67
Other corporate industries	115,589	6.17	97,683	6.05
Discounted bills	138,249	7.38	23,518	1.46
Personal loan	503,003	26.86	431,860	26.77
Total loans and advances to customers	1,872,602	100.00	1,613,516	100.00

	The Bank			
	31 December 2019		31 December 2018	
Industry	Amount	Percentage (%)	Amount	Percentage (%)
Leasing and commercial services	269,821	15.22	237,161	15.42
Manufacturing	186,646	10.53	204,223	13.28
Wholesale and retail	146,667	8.27	164,416	10.69
Real estate	140,995	7.95	119,204	7.75
Water conservancy, environment and public facilities management	81,269	4.58	73,362	4.77
Construction industry	100,942	5.69	95,470	6.21
Electric power, heat, gas and water production and supply industry	30,900	1.74	31,387	2.04
Transportation, warehousing and post industry	36,775	2.08	37,606	2.45
Mining industry	26,517	1.50	25,164	1.64
Other corporate industries	111,766	6.30	95,044	6.19
Discounted bills	138,249	7.80	23,518	1.53
Personal loan	502,130	28.34	431,011	28.03
Total loans and advances to customers	1,772,677	100.00	1,537,566	100.00

(2) The loans and advances to customers are distributed by region as follows:

	The Group			
	31 December 2019		31 December 2018	
Regions	Amount	Percentage (%)	Amount	Percentage (%)
Beijing-Tianjin-Hebei Region	523,662	27.96	409,240	25.36
Yangtze River Delta	468,276	25.01	402,840	24.97
Central and Eastern China	320,096	17.09	323,970	20.08
Western China	254,278	13.58	225,911	14.00
Guangdong-Hong Kong-Macao Greater Bay Area	151,480	8.09	119,481	7.40
Northeastern China	54,885	2.93	56,124	3.48
Subsidiaries	99,925	5.34	75,950	4.71
Total loans and advances to customers	1,872,602	100.00	1,613,516	100.00

	The Bank			
	31 December 2019		31 December 2018	
Regions	Amount	Percentage (%)	Amount	Percentage (%)
Beijing-Tianjin-Hebei Region	523,662	29.53	409,240	26.62
Yangtze River Delta	468,276	26.42	402,840	26.20
Central and Eastern China	320,096	18.06	323,970	21.07
Western China	254,278	14.34	225,911	14.69
Guangdong-Hong Kong-Macao Greater Bay Area	151,480	8.55	119,481	7.77
Northeastern China	54,885	3.10	56,124	3.65
Total loans and advances to customers	1,772,677	100.00	1,537,566	100.00

(3) The loans and advances to customers are distributed by collateral as follows:

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Unsecured loans	379,151	343,055	360,446	324,553
Guaranteed loans	585,920	574,133	514,487	523,764
Collateral loans	907,531	696,328	897,744	689,249
Of which: Mortgage loans	609,017	529,378	604,001	525,478
Pledged loans	298,514	166,950	293,743	163,771
Total loans and advances to customers	1,872,602	1,613,516	1,772,677	1,537,566

(4) Overdue loans

	The Group				
	31 December 2019				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	2,695	5,012	867	159	8,733
Guaranteed loans	5,162	4,955	4,293	4,098	18,508
Mortgage loans	3,028	3,193	2,790	2,076	11,087
Pledged loans	732	572	785	750	2,839
Total	11,617	13,732	8,735	7,083	41,167

	The Group				
	31 December 2018				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	2,376	3,151	1,244	225	6,996
Guaranteed loans	5,636	5,836	12,682	5,019	29,173
Mortgage loans	2,801	2,442	5,380	3,281	13,904
Pledged loans	449	1,204	1,917	1,474	5,044
Total	11,262	12,633	21,223	9,999	55,117

	The Bank				
	31 December 2019				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	2,695	5,012	867	159	8,733
Guaranteed loans	4,669	4,789	4,245	4,077	17,780
Mortgage loans	3,021	3,177	2,762	2,076	11,036
Pledged loans	730	572	785	750	2,837
Total	11,115	13,550	8,659	7,062	40,386

	The Bank				
	31 December 2018				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	2,376	3,151	1,244	225	6,996
Guaranteed loans	5,571	5,824	12,566	5,019	28,980
Mortgage loans	2,781	2,432	5,370	3,281	13,864
Pledged loans	449	1,204	1,917	1,473	5,043
Total	11,177	12,611	21,097	9,998	54,883

Note: If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

(5) Credit quality of loans and advances to customers

	The Group				
	31 December 2019				
	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Amount at year end
Loans and advances to customers measured at amortized cost					
Corporate loans and advances to customers	1,145,777	63,649	26,442	(33,722)	1,202,146
Personal loans and advances to customers	491,274	3,809	7,920	(14,200)	488,803
Sub-total:	1,637,051	67,458	34,362	(47,922)	1,690,949
Loans and advances to customers measured at fair value through other comprehensive income					
Corporate loans and advances to customers	133,731	–	–	(668)	133,731
Total	1,770,782	67,458	34,362	(48,590)	1,824,680

	The Bank				
	31 December 2019				
	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Amount at year end
Loans and advances to customers measured at amortized cost					
Corporate loans and advances to customers	1,049,453	61,190	26,173	(30,434)	1,106,382
Personal loans and advances to customers	490,429	3,791	7,910	(14,175)	487,955
Sub-total:	1,539,882	64,981	34,083	(44,609)	1,594,337
Loans and advances to customers measured at fair value through other comprehensive income					
Corporate loans and advances to customers	133,731	–	–	(668)	133,731
Total	1,673,613	64,981	34,083	(45,277)	1,728,068

Impairment of loans and advances to customers measured at fair value through other comprehensive income does not affect their book value.

Credit-impaired loans and advances to customers

	The Group		
	31 December 2019		
	Corporate loans and advances to customers	Personal loans and advances to customers	Total
Original value of credit-impaired loans	26,442	7,920	34,362
Less: Allowance for impairment losses	(15,896)	(7,315)	(23,211)
Book value	10,546	605	11,151
Collateral value	19,238	8,424	27,662

	The Bank		
	31 December 2019		
	Corporate loans and advances to customers	Personal loans and advances to customers	Total
Original value of credit-impaired loans	26,173	7,910	34,083
Less: Allowance for impairment losses	(15,681)	(7,312)	(22,993)
Book value	10,492	598	11,090
Collateral value	19,074	8,413	27,487

		31 December 2018	
	Notes	The Group	The Bank
Neither overdue nor impaired	(i)	1,556,970	1,481,278
Overdue but not impaired	(ii)	26,737	26,651
Impaired	(iii)	29,809	29,637
Total loans and advances to customers		1,613,516	1,537,566

Notes: If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

(i) Loans and advances to customers neither overdue nor impaired

	The Group 31 December 2018		
	Total loans and advances to customers	Allowance for impairment losses on loans and advances to customers	Book value
Corporate loans and advances to customers	1,134,260	(20,338)	1,113,922
Personal loans and advances to customers	422,710	(5,346)	417,364
Total	**1,556,970**	**(25,684)**	**1,531,286**

	The Bank 31 December 2018		
	Total loans and advances to customers	Allowance for impairment losses on loans and advances to customers	Book value
Corporate loans and advances to customers	1,059,407	(18,556)	1,040,851
Personal loans and advances to customers	421,871	(5,326)	416,545
Total	**1,481,278**	**(23,882)**	**1,457,396**

(ii) Loans and advances to customers overdue but not impaired

Analysis on term of overdue but unimpaired loans and advances to customers is as follows:

	31 December 2018 (the Group)					
	Overdue for no more than 30 days (inclusive)	Overdue for 31 to 60 days (inclusive)	Overdue for 61 to 90 days (inclusive)	Overdue for more than 90 days	Total	Fair value of collaterals
Corporate loans and advances to customers	4,747	1,721	1,980	15,207	23,655	19,781
Personal loans and advances to customers	1,153	671	584	674	3,082	5,575
Total	5,900	2,392	2,564	15,881	26,737	25,356

31 December 2018 (the Group)						
	Overdue for no more than 30 days (inclusive)	Overdue for 31 to 60 days (inclusive)	Overdue for 61 to 90 days (inclusive)	Overdue for more than 90 days	Total	Fair value of collaterals
Corporate loans and advances to customers	4,698	1,717	1,957	15,207	23,579	19,766
Personal loans and advances to customers	1,151	668	579	674	3,072	5,564
Total	5,849	2,385	2,536	15,881	26,651	25,330

(iii) Impaired loans and advances to customers

	The Group 31 December 2018		
	Total loans and advances to customers	Allowance for impairment losses on loans and advances to customers	Book value
Individual assessment	23,741	(11,971)	11,770
Collective assessment	6,068	(4,928)	1,140
Total	29,809	(16,899)	12,910

	The Bank 31 December 2018		
	Total loans and advances to customers	Allowance for impairment losses on loans and advances to customers	Book value
Individual assessment	23,569	(11,827)	11,742
Collective assessment	6,068	(4,928)	1,140
Total	29,637	(16,755)	12,882

Of which:

	31 December 2018	
	The Group	The Bank
Impaired loans assessed individually	23,741	23,569
Percentage of individually assessed impaired loans to customers in total loans and advances to customers	1.47%	1.53%
Fair value of collaterals	19,960	19,928

3.7 Credit quality of debt instruments

	The Group 31 December 2019			
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Government bonds	182	274,564	16,278	291,024
Bonds of public entities and quasi-governments	2,449	67,351	36,408	106,208
Bonds of financial institutions	2,898	52,301	44,641	99,840
Corporate bonds	12,904	149,332	19,364	181,600
Certificates of deposit with banks and other financial institutions	–	–	10,917	10,917
Asset management plan of financial institutions	–	123,052	–	123,052
Beneficiary rights of assets	–	1,828	–	1,828
Sub-total	18,433	668,428	127,608	814,469
Accrued interest	124	9,415	1,792	11,331
Allowance for impairment losses	–	(2,557)	–	(2,557)
Total	18,557	675,286	129,400	823,243

	The Bank 31 December 2019			
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Government bonds	182	273,620	16,278	290,080
Bonds of public entities and quasi-governments	2,449	67,351	36,408	106,208
Bonds of financial institutions	2,898	52,301	44,641	99,840
Corporate bonds	12,904	148,432	19,364	180,700
Certificates of deposit with banks and other financial institutions	–	–	10,917	10,917
Asset management plan of financial institutions	–	123,052	–	123,052
Beneficiary rights of assets	–	1,828	–	1,828
Sub-total	18,433	666,584	127,608	812,625
Accrued interest	124	9,408	1,792	11,324
Allowance for impairment losses	–	(2,377)	–	(2,377)
Total	18,557	673,615	129,400	821,572

		31 December 2018	
	Notes	The Group	The Bank
Neither overdue nor impaired	(i)	767,656	766,482
Overdue but not impaired	(ii)	26	26
Impaired	(iii)	1,355	1,355
Total amount of debt instruments		769,037	767,863
Less: Allowance for impairment losses of debt instruments		(2,088)	(2,075)
Individual assessment		(626)	(626)
Collective assessment		(1,462)	(1,449)
Book value of debt instruments		**766,949**	**765,788**

(i) Neither overdue nor impaired debt instruments

	The Group 31 December 2018				
Type of debt instruments	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
Government bonds	–	16,666	261,820	214	278,700
Bonds of public entities and quasi-governments	202	40,618	59,700	–	100,520
Bonds of financial institutions	533	35,138	62,732	100	98,503
Corporate bonds	3,198	15,433	31,277	46,995	96,903
Certificates of deposit with banks and other financial institutions	–	5,881	–	–	5,881
Wealth management products	–	–	–	7,200	7,200
Asset management plan of financial institutions	–	–	–	176,640	176,640
Beneficiary rights of assets	–	–	–	3,309	3,309
Total	3,933	113,736	415,529	234,458	767,656

Type of debt instruments	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
	The Bank 31 December 2018				
Government bonds	–	16,666	261,528	214	278,408
Bonds of public entities and quasi-governments	202	40,618	59,700	–	100,520
Bonds of financial institutions	533	35,138	62,750	100	98,521
Corporate bonds	3,198	15,433	31,277	46,095	96,003
Certificates of deposit with banks and other financial institutions	–	5,881	–	–	5,881
Wealth management products	–	–	–	7,200	7,200
Asset management plan of financial institutions	–	–	–	176,640	176,640
Beneficiary rights of assets	–	–	–	3,309	3,309
Total	3,933	113,736	415,255	233,558	766,482

(ii) Debt instruments overdue but not impaired

Type of debt instruments	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
	The Group and the Bank 31 December 2018				
Beneficiary rights of assets	–	–	–	26	26
Total	–	–	–	26	26

(iii) Impaired debt instruments

	The Group and the Bank				
	31 December 2018				
Type of debt instruments	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
Beneficiary rights of assets	–	–	–	356	356
Asset management plan of financial institutions	–	–	–	999	999
Less: Allowance for impairment losses	–	–	–	(626)	(626)
Total	–	–	–	729	729

The debt instruments are classified based on credit ratings of credit rating agencies widely accepted in the market

	The Group					
	31 December 2019					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	243,562	47,462	–	–	–	291,024
Bonds of public entities and quasi-governments	97,823	8,385	–	–	–	106,208
Bonds of financial institutions	4,054	95,043	743	–	–	99,840
Corporate bonds	130,506	27,866	23,228	–	–	181,600
Certificates of deposit with banks and other financial institutions	10,917	–	–	–	–	10,917
Asset management plan of financial institutions	123,052	–	–	–	–	123,052
Beneficiary rights of assets	1,828	–	–	–	–	1,828
Total	611,742	178,756	23,971	–	–	814,469

	The Group					
	31 December 2018					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	233,009	45,691	–	–	–	278,700
Bonds of public entities and quasi-governments	95,524	4,996	–	–	–	100,520
Bonds of financial institutions	3,222	94,172	1,109	–	–	98,503
Corporate bonds	61,709	19,685	15,509	–	–	96,903
Certificates of deposit with banks and other financial institutions	5,881	–	–	–	–	5,881
Wealth management products	7,200	–	–	–	–	7,200
Asset management plan of financial institutions	177,639	–	–	–	–	177,639
Beneficiary rights of assets	3,691	–	–	–	–	3,691
Total	587,875	164,544	16,618	–	–	769,037

	The Bank					
	31 December 2019					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	242,618	47,462	–	–	–	290,080
Bonds of public entities and quasi-governments	97,823	8,385	–	–	–	106,208
Bonds of financial institutions	4,054	95,043	743	–	–	99,840
Corporate bonds	129,606	27,866	23,228	–	–	180,700
Certificates of deposit with banks and other financial institutions	10,917	–	–	–	–	10,917
Asset management plan of financial institutions	123,052	–	–	–	–	123,052
Beneficiary rights of assets	1,828	–	–	–	–	1,828
Total	609,898	178,756	23,971	–	–	812,625

	The Bank					
	31 December 2018					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	232,717	45,691	–	–	–	278,408
Bonds of public entities and quasi-governments	95,524	4,996	–	–	–	100,520
Bonds of financial institutions	3,223	94,189	1,109	–	–	98,521
Corporate bonds	60,809	19,685	15,509	–	–	96,003
Certificates of deposit with banks and other financial institutions	5,881	–	–	–	–	5,881
Wealth management products	7,200	–	–	–	–	7,200
Asset management plan of financial institutions	177,639	–	–	–	–	177,639
Beneficiary rights of assets	3,691	–	–	–	–	3,691
Total	**586,684**	**164,561**	**16,618**	**–**	**–**	**767,863**

3.8 Renegotiated financial assets

The carrying amount of the financial assets which were identified as overdue or impaired and have been subject to the Group's concession arrangement with borrowers or changed guarantee conditions is as follows:

	31 December 2019	31 December 2018
Loans and advances to customers	686	273

4. Liquidity risk

Liquidity risk is the risk that funds will not be available to make repayments when liabilities fall due. Liquidity risk may be resulted from mismatch of cash flows or terms between assets and liabilities.

The Bank has established the Asset & Liabilities Management Committee which is responsible for formulation, organization and implementation of the administrative policies on liquidity risk, established multi-channel financing mechanism, and designed a series of daily liquidity monitoring indicator systems complying with the actuality of the Bank based on the applicability principle, in accordance with the indicator system on liquidity risk monitoring of regulatory authorities. Meanwhile, taking into account both the economic efficiency and liquidity, the Bank held some government bonds and central bank bills in the assets portfolio, which could not only achieve stable investment income, but also be sold off or repurchased in the secondary market at any time to fulfill the liquidity requirements.

4.1 Liquidity analysis

(1) Maturity analysis

The table below analyzes the carrying amount of financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of contract:

	The Group							
	31 December 2019							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	154,079	37,997	–	–	835	–	–	192,911
Due from banks	–	11,149	310	2,972	1,507	–	–	15,938
Placements with banks and other financial institutions	–	–	21,557	824	1,080	–	–	23,461
Derivative financial assets	–	7	283	141	476	19	–	926
Financial assets purchased under agreements to resell	–	–	19,471	4,579	–	–	–	24,050
Loans and advances to customers	16,488	–	188,197	145,376	627,216	531,903	319,991	1,829,171
Held-for-trading financial assets	–	71,224	425	3,431	7,176	7,205	322	89,783
Debt investments	514	–	6,213	13,202	97,106	433,118	125,133	675,286
Other debt investments	–	–	5,183	7,967	26,055	68,051	22,144	129,400
Other equity instrument investments	4,961	–	–	–	–	–	–	4,961
Other financial assets	676	8,637	–	–	–	–	–	9,313
Total financial assets	176,718	129,014	241,639	178,492	761,451	1,040,296	467,590	2,995,200
Financial liabilities								
Due to central banks	–	–	6,798	41	136,778	–	–	143,617
Due to banks and other financial institutions	–	37,782	69,290	157,358	37,907	–	–	302,337
Placements from banks and other financial institutions	–	–	21,399	19,926	58,490	4,249	–	104,064
Derivative financial liabilities	–	8	296	239	846	413	–	1,802
Financial assets sold under agreements to repurchase	–	–	88,262	3,029	2,483	–	–	93,774
Deposits taken	–	886,555	102,394	139,050	346,696	196,581	–	1,671,276
Debt obligations payable	–	–	34,896	76,031	214,657	48,000	30,000	403,584
Other financial liabilities	–	9,707	17	91	245	2,780	1,795	14,635
Total financial liabilities	–	934,052	323,352	395,765	798,102	252,023	31,795	2,735,089
Net position	176,718	(805,038)	(81,713)	(217,273)	(36,651)	788,273	435,795	260,111

	The Group							
	31 December 2018							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	176,745	33,051	–	–	408	–	–	210,204
Due from banks	–	10,512	2,326	4,762	4,271	–	–	21,871
Placements with banks and other financial institutions	–	–	20,063	1,650	18,950	–	–	40,663
Financial assets measured at fair value through profit or loss	–	8,537	1,471	31	1,552	762	117	12,470
Derivative financial assets	–	–	178	131	590	231	–	1,130
Financial assets purchased under agreements to resell	–	–	726	997	–	–	–	1,723
Loans and advances to customers	33,904	–	170,536	110,120	482,248	510,168	259,265	1,566,241
Available-for-sale financial assets	1,123	10,412	2,559	6,860	18,549	61,347	24,415	125,265
Held-to-maturity investments	–	–	4,523	5,725	39,680	253,497	112,099	415,524
Investments classified as receivables	755	18,829	5,628	1,366	41,199	118,774	47,211	233,762
Other financial assets	2,405	7,774	5,612	2,653	6,506	250	29	25,229
Total financial assets	214,932	89,115	213,622	134,295	613,953	945,029	443,136	2,654,082
Financial liabilities								
Due to central banks	–	–	10,000	29,041	132,023	–	–	171,064
Due to banks and other financial institutions	–	44,484	118,136	92,127	108,928	6,508	–	370,183
Derivative financial liabilities	–	–	155	105	598	196	–	1,054
Financial assets sold under agreements to repurchase	–	–	11,546	1,212	1,620	–	–	14,378
Deposits taken	–	833,853	89,860	127,620	313,746	127,413	–	1,492,492
Debt obligations payable	–	–	14,729	93,545	154,695	97,500	–	360,469
Other financial liabilities	–	14,221	2,752	3,242	7,975	9,316	1,753	39,259
Total financial liabilities	–	892,558	247,178	346,892	719,585	240,933	1,753	2,448,899
Net position	214,932	(803,443)	(33,556)	(212,597)	(105,632)	704,096	441,383	205,183

	The Bank							
	31 December 2019							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	153,932	37,661	–	–	835	–	–	192,428
Due from banks	–	10,985	312	2,972	1,627	–	–	15,896
Placements with banks and other financial institutions	–	–	22,057	824	1,080	–	–	23,961
Derivative financial assets	–	7	283	141	476	19	–	926
Financial assets purchased under agreements to resell	–	–	19,471	4,579	–	–	–	24,050
Loans and advances to customers	16,046	–	188,069	144,810	623,581	474,479	285,567	1,732,552
Held-for-trading financial assets	–	71,224	425	3,431	7,176	7,205	322	89,783
Debt investments	514	–	6,210	13,200	97,103	433,118	123,470	673,615
Other debt investments	–	–	5,183	7,967	26,055	68,051	22,144	129,400
Other equity instrument investments	4,946	–	–	–	–	–	–	4,946
Other financial assets	676	6,657	–	–	–	–	–	7,333
Total financial assets	176,114	126,534	242,010	177,924	757,933	982,872	431,503	2,894,890
Financial liabilities								
Due to central banks	–	–	6,798	–	136,768	–	–	143,566
Due to banks and other financial institutions	–	39,006	69,290	157,358	37,907	–	–	303,561
Placements from banks and other financial institutions	–	–	13,959	4,329	8,121	–	–	26,409
Derivative financial liabilities	–	8	296	239	846	413	–	1,802
Financial assets sold under agreements to repurchase	–	–	87,911	3,029	2,483	–	–	93,423
Deposits taken	–	885,416	102,350	138,919	346,189	196,188	–	1,669,062
Debt obligations payable	–	–	34,896	75,960	214,639	43,000	30,000	398,495
Other financial liabilities	–	9,283	–	–	–	–	–	9,283
Total financial liabilities	–	933,713	315,500	379,834	746,953	239,601	30,000	2,645,601
Net position	176,114	(807,179)	(73,490)	(201,910)	10,980	743,271	401,503	249,289

	The Bank							
	31 December 2018							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	176,548	32,572	–	–	408	–	–	209,528
Due from banks	–	10,500	2,386	4,762	4,271	–	–	21,919
Placements with banks and other financial institutions	–	–	20,063	1,650	18,950	–	–	40,663
Financial assets measured at fair value through profit or loss	–	8,537	1,471	31	1,552	762	117	12,470
Derivative financial assets	–	–	178	131	590	231	–	1,130
Financial assets purchased under agreements to resell	–	–	586	997	–	–	–	1,583
Loans and advances to customers	33,834	–	168,652	106,910	467,597	465,651	249,595	1,492,239
Available-for-sale financial assets	1,123	10,412	2,559	6,860	18,548	61,348	24,415	125,265
Held-to-maturity investments	–	–	4,539	5,725	39,680	253,497	111,809	415,250
Investments classified as receivables	755	18,829	5,628	1,366	41,199	118,773	46,325	232,875
Other financial assets	2,405	6,188	5,576	2,653	6,505	250	29	23,606
Total financial assets	214,665	87,038	211,638	131,085	599,300	900,512	432,290	2,576,528
Financial liabilities								
Due to central banks	–	–	10,000	29,000	132,000	–	–	171,000
Due to banks and other financial institutions	–	44,901	113,386	81,482	73,592	–	–	313,361
Derivative financial liabilities	–	–	155	105	598	196	–	1,054
Financial assets sold under agreements to repurchase	–	–	11,546	960	1,620	–	–	14,126
Deposits taken	–	832,664	89,473	127,449	313,321	127,185	–	1,490,092
Debt obligations payable	–	–	14,729	93,545	154,695	95,000	–	357,969
Other financial liabilities	–	13,586	2,531	3,062	6,995	5,874	110	32,158
Total financial liabilities	–	891,151	241,820	335,603	682,821	228,255	110	2,379,760
Net position	214,665	(804,113)	(30,182)	(204,518)	(83,521)	672,257	432,180	196,768

(2) Undiscounted contract cash flows classified by expiry date of contract

The table below presents the undiscounted cash flows of non-derivative financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of the contract:

	The Group							
	31 December 2019							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	154,079	37,997	–	631	2,742	–	–	195,449
Due from banks	–	11,150	320	3,009	1,553	–	–	16,032
Placements with banks and other financial institutions	–	–	21,578	845	1,115	–	–	23,538
Financial assets purchased under agreements to resell	–	–	20,165	4,621	–	–	–	24,786
Loans and advances to customers	16,571	–	196,270	158,529	678,123	639,919	441,923	2,131,335
Held-for-trading financial assets	–	71,224	429	3,440	7,331	7,821	355	90,600
Debt investments	549	–	6,773	15,471	115,976	494,701	159,431	792,901
Other debt investments	–	–	5,290	8,216	28,519	78,142	25,069	145,236
Other equity instrument investments	4,961	–	–	–	–	–	–	4,961
Other financial assets	676	8,637	–	–	–	–	–	9,313
Total financial assets	176,836	129,008	250,825	194,762	835,359	1,220,583	626,778	3,434,151
Financial liabilities								
Due to central banks	–	–	6,811	42	139,408	–	–	146,261
Due to banks and other financial institutions	–	37,807	69,690	159,021	38,802	–	–	305,320
Placements from banks and other financial institutions	–	–	21,667	20,442	60,118	4,477	–	106,704
Financial assets sold under agreements to repurchase	–	–	92,146	3,053	2,506	–	–	97,705
Deposits taken	–	886,555	103,605	140,887	354,213	218,113	–	1,703,373
Debt obligations payable	–	–	35,007	77,639	224,935	55,626	34,320	427,527
Other financial liabilities	–	9,707	17	91	245	2,781	1,795	14,636
Total financial liabilities	–	934,069	328,943	401,175	820,227	280,997	36,115	2,801,526
Net position	176,836	(805,061)	(78,118)	(206,413)	15,132	939,586	590,663	632,625

	The Group							
	31 December 2018							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	176,745	33,051	–	724	2,595	–	–	213,115
Due from banks	–	10,513	2,421	4,888	4,426	–	–	22,248
Placements with banks and other financial institutions	–	–	20,189	1,867	19,323	–	–	41,379
Financial assets measured at fair value through profit or loss	–	8,537	1,506	41	1,653	827	124	12,688
Financial assets purchased under agreements to resell	–	–	727	1,003	–	–	–	1,730
Loans and advances to customers	36,357	–	177,691	121,419	526,494	609,242	354,345	1,825,548
Available-for-sale financial assets	1,123	10,412	3,114	7,475	21,734	71,900	27,285	143,043
Held-to-maturity investments	–	–	5,226	7,782	52,913	293,018	146,614	505,553
Investments classified as receivables	759	18,829	6,402	3,341	50,207	144,071	52,931	276,540
Other financial assets	107	7,773	–	–	–	–	–	7,880
Total financial assets	215,091	89,115	217,276	148,540	679,345	1,119,058	581,299	3,049,724
Financial liabilities								
Due to central banks	–	–	10,330	29,959	136,432	–	–	176,721
Due to banks and other financial institutions	–	44,576	119,337	93,510	112,189	6,947	–	376,559
Financial assets sold under agreements to repurchase	–	–	11,561	1,222	1,635	–	–	14,418
Deposits taken	–	834,249	92,488	131,204	323,835	144,909	–	1,526,685
Debt obligations payable	–	–	14,771	95,733	165,114	106,147	–	381,765
Other financial liabilities	–	13,733	167	111	993	3,351	1,753	20,108
Total financial liabilities	–	892,558	248,654	351,739	740,198	261,354	1,753	2,496,256
Net position	215,091	(803,443)	(31,378)	(203,199)	(60,853)	857,704	579,546	553,468

	The Bank							
	31 December 2019							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	153,932	37,661	–	630	2,740	–	–	194,963
Due from banks	–	10,985	323	3,009	1,675	–	–	15,992
Placements with banks and other financial institutions	–	–	22,078	845	1,115	–	–	24,038
Financial assets purchased under agreements to resell	–	–	20,165	4,621	–	–	–	24,786
Loans and advances to customers	16,130	–	195,280	156,216	669,088	580,707	416,050	2,033,471
Held-for-trading financial assets	–	71,224	429	3,440	7,331	7,821	355	90,600
Debt investments	549	–	6,770	15,469	115,904	494,392	157,097	790,181
Other debt investments	–	–	5,290	8,216	28,519	78,142	25,069	145,236
Other equity instrument investments	4,946	–	–	–	–	–	–	4,946
Other financial assets	676	6,657	–	–	–	–	–	7,333
Total financial assets	176,233	126,527	250,335	192,446	826,372	1,161,062	598,571	3,331,546
Financial liabilities								
Due to central banks	–	–	6,811	–	139,398	–	–	146,209
Due to banks and other financial institutions	–	39,031	69,690	159,021	38,802	–	–	306,544
Placements from banks and other financial institutions	–	–	14,023	4,370	8,330	–	–	26,723
Financial assets sold under agreements to repurchase	–	–	92,145	3,053	2,506	–	–	97,704
Deposits taken	–	885,416	103,561	140,756	353,700	217,669	–	1,701,102
Debt obligations payable	–	–	35,007	77,480	224,813	50,347	34,320	421,967
Other financial liabilities	–	9,283	–	–	–	–	–	9,283
Total financial liabilities	–	933,730	321,237	384,680	767,549	268,016	34,320	2,709,532
Net position	176,233	(807,203)	(70,902)	(192,234)	58,823	893,046	564,251	622,014

The Bank								
	31 December 2018							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	176,548	32,572	–	723	2,593	–	–	212,436
Due from banks	–	10,500	2,482	4,888	4,426	–	–	22,296
Placements with banks and other financial institutions	–	–	20,189	1,867	19,323	–	–	41,379
Financial assets measured at fair value through profit or loss	–	8,537	1,506	41	1,653	827	124	12,688
Financial assets purchased under agreements to resell	–	–	586	1,003	–	–	–	1,589
Loans and advances to customers	36,287	–	175,459	117,553	508,835	557,401	343,553	1,739,088
Available-for-sale financial assets	1,123	10,412	3,114	7,475	21,734	71,900	27,285	143,043
Held-to-maturity investments	–	–	5,243	7,782	52,903	292,977	146,614	505,519
Investments classified as receivables	759	18,829	6,402	3,341	50,153	143,855	51,612	274,951
Other financial assets	107	6,188	–	–	–	–	–	6,295
Total financial assets	214,824	87,038	214,981	144,673	661,620	1,066,960	569,188	2,959,284
Financial liabilities								
Due to central banks	–	–	10,330	29,958	136,430	–	–	176,718
Due to banks and other financial institutions	–	44,995	114,430	82,425	75,591	–	–	317,441
Financial assets sold under agreements to repurchase	–	–	11,561	968	1,635	–	–	14,164
Deposits taken	–	833,061	92,081	131,029	323,392	144,553	–	1,524,116
Debt obligations payable	–	–	14,771	95,733	165,010	103,439	–	378,953
Other financial liabilities	–	13,099	15	30	139	28	110	13,421
Total financial liabilities	–	891,155	243,188	340,143	702,197	248,020	110	2,424,813
Net position	214,824	(804,117)	(28,207)	(195,470)	(40,577)	818,940	569,078	534,471

4.2 Off-balance-sheet items

Off-balance-sheet items of the Group mainly include bank acceptance drafts, letter of credit issued, letter of guarantee issued, irrevocable loan commitments and unused credit card limit. Amounts of off-balance-sheet items are presented in the table below by residual maturity of contract:

	The Group			
	31 December 2019			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	333,083	835	–	333,918
L/Cs issued	136,137	472	–	136,609
L/Gs and other payment commitments issued	17,650	10,115	1,603	29,368
Irrevocable loan commitments	5,032	726	445	6,203
Unused credit card limit	187,003	–	–	187,003
Total	678,905	12,148	2,048	693,101

	The Group			
	31 December 2018			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	275,971	–	–	275,971
L/Cs issued	96,850	645	–	97,495
L/Gs and other payment commitments issued	15,015	8,462	171	23,648
Irrevocable loan commitments	10,533	3,541	818	14,892
Unused credit card limit	176,098	–	–	176,098
Total	574,467	12,648	989	588,104

	The Bank			
	31 December 2019			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	332,995	835	–	333,830
L/Cs issued	136,137	472	–	136,609
L/Gs and other payment commitments issued	17,637	10,115	1,603	29,355
Irrevocable loan commitments	2,265	718	445	3,428
Unused credit card limit	187,003	–	–	187,003
Total	676,037	12,140	2,048	690,225

	The Bank			
	31 December 2018			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	275,886	–	–	275,886
L/Cs issued	96,850	645	–	97,495
L/Gs and other payment commitments issued	15,012	8,461	171	23,644
Irrevocable loan commitments	8,474	3,541	818	12,833
Unused credit card limit	176,098	–	–	176,098
Total	572,320	12,647	989	585,956

5. Market risk

Market risk means the possibility of loss to the Group's on- and off-balance-sheet businesses that results from changes in the market prices (including exchange rate, interest rate, commodity price and stock price). Market risk of the Group mainly consists of exchange rate risk and interest rate risk. Exchange rate risk of the Group mainly refers to risk of loss caused by exchange rate fluctuation in exposure of assets and liabilities denominated in foreign currency. Interest rate risk mainly refers to risk of loss caused by interest rate fluctuation arising from mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities.

5.1 Exchange rate risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and other currencies. Transactions in foreign currencies mainly include the Group's treasury operation exposure and foreign exchange business.

As for the business varieties involving exchange rate risk, the Group strictly manages various links of development, launching and operation, and formulates necessary risk control system in terms of business authorization, exposure limits and process monitoring. The Bank divides its foreign exchange trading businesses between banking book and trading book and the foreign exchange exposure of the whole bank is managed by the Head Office in a unified manner.

At the end of the reporting period, exchange rate risk of financial assets and financial liabilities is as follows:

	The Group				
	31 December 2019				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	170,899	21,901	42	69	192,911
Due from banks	6,656	8,214	70	998	15,938
Placements with banks and other financial institutions	22,416	1,045	–	–	23,461
Derivative financial assets	5	906	4	11	926
Financial assets purchased under agreements to resell	24,050	–	–	–	24,050
Loans and advances to customers	1,804,007	20,508	659	3,997	1,829,171
Held-for-trading financial assets	89,783	–	–	–	89,783
Debt investments	645,219	29,950	–	117	675,286
Other debt investments	126,303	3,097	–	–	129,400
Other equity instrument investments	4,948	8	5	–	4,961
Other financial assets	9,055	99	159	–	9,313
Total financial assets	2,903,341	85,728	939	5,192	2,995,200
Due to central banks	143,617	–	–	–	143,617
Due to banks and other financial institutions	301,291	1,046	–	–	302,337
Placements from banks and other financial institutions	86,760	14,305	672	2,327	104,064
Derivative financial assets	6	1,785	4	7	1,802
Financial assets sold under agreements to repurchase	93,774	–	–	–	93,774
Deposits taken	1,630,533	38,834	291	1,618	1,671,276
Debt obligations payable	403,081	503	–	–	403,584
Other financial liabilities	11,561	971	–	2,103	14,635
Total financial liabilities	2,670,623	57,444	967	6,055	2,735,089
Net exposure	232,718	28,284	(28)	(863)	260,111

	The Group				
	31 December 2018				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	189,098	21,035	32	39	210,204
Due from banks	9,618	10,444	196	1,613	21,871
Placements with banks and other financial institutions	37,912	2,751	–	–	40,663
Financial assets measured at fair value through profit or loss	12,470	–	–	–	12,470
Derivative financial assets	16	1,086	6	22	1,130
Financial assets purchased under agreements to resell	1,723	–	–	–	1,723
Loans and advances to customers	1,542,759	21,802	41	1,639	1,566,241
Available-for-sale financial assets	123,613	1,652	–	–	125,265
Held-to-maturity investments	399,348	16,020	–	156	415,524
Investments classified as receivables	233,762	–	–	–	233,762
Other financial assets	24,560	588	78	3	25,229
Total financial assets	2,574,879	75,378	353	3,472	2,654,082
Due to central banks	171,064	–	–	–	171,064
Due to banks and other financial institutions	351,290	17,791	43	1,059	370,183
Derivative financial assets	10	1,009	6	29	1,054
Financial assets sold under agreements to repurchase	14,378	–	–	–	14,378
Deposits taken	1,450,805	39,519	329	1,839	1,492,492
Debt obligations payable	360,469	–	–	–	360,469
Other financial liabilities	36,426	1,345	3	1,485	39,259
Total financial liabilities	2,384,442	59,664	381	4,412	2,448,899
Net exposure	190,437	15,714	(28)	(940)	205,183

	The Bank				
	31 December 2019				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	170,416	21,901	42	69	192,428
Due from banks	6,614	8,214	70	998	15,896
Placements with banks and other financial institutions	22,916	1,045	–	–	23,961
Derivative financial assets	5	906	4	11	926
Financial assets purchased under agreements to resell	24,050	–	–	–	24,050
Loans and advances to customers	1,707,388	20,508	659	3,997	1,732,552
Held-for-trading financial assets	89,783	–	–	–	89,783
Debt investments	643,548	29,950	–	117	673,615
Other debt investments	126,303	3,097	–	–	129,400
Other equity instrument investments	4,933	8	5	–	4,946
Other financial assets	7,075	99	159	–	7,333
Total financial assets	2,803,031	85,728	939	5,192	2,894,890
Due to central banks	143,566	–	–	–	143,566
Due to banks and other financial institutions	302,515	1,046	–	–	303,561
Placements from banks and other financial institutions	9,105	14,305	672	2,327	26,409
Derivative financial assets	6	1,785	4	7	1,802
Financial assets sold under agreements to repurchase	93,423	–	–	–	93,423
Deposits taken	1,628,319	38,834	291	1,618	1,669,062
Debt obligations payable	397,992	503	–	–	398,495
Other financial liabilities	6,209	971	–	2,103	9,283
Total financial liabilities	2,581,135	57,444	967	6,055	2,645,601
Net exposure	221,896	28,284	(28)	(863)	249,289

	The Bank				
	31 December 2018				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	188,422	21,035	32	39	209,528
Due from banks	9,666	10,444	196	1,613	21,919
Placements with banks and other financial institutions	37,912	2,751	–	–	40,663
Financial assets measured at fair value through profit or loss	12,470	–	–	–	12,470
Derivative financial assets	16	1,086	6	22	1,130
Financial assets purchased under agreements to resell	1,583	–	–	–	1,583
Loans and advances to customers	1,468,757	21,802	41	1,639	1,492,239
Available-for-sale financial assets	123,613	1,652	–	–	125,265
Held-to-maturity investments	399,074	16,020	–	156	415,250
Investments classified as receivables	232,875	–	–	–	232,875
Other financial assets	22,937	588	78	3	23,606
Total financial assets	2,497,325	75,378	353	3,472	2,576,528
Due to central banks	171,000	–	–	–	171,000
Due to banks and other financial institutions	294,468	17,791	43	1,059	313,361
Derivative financial assets	10	1,009	6	29	1,054
Financial assets sold under agreements to repurchase	14,126	–	–	–	14,126
Deposits taken	1,448,405	39,519	329	1,839	1,490,092
Debt obligations payable	357,969	–	–	–	357,969
Other financial liabilities	29,325	1,345	3	1,485	32,158
Total financial liabilities	2,315,303	59,664	381	4,412	2,379,760
Net exposure	182,022	15,714	(28)	(940)	196,768

The potential impact on pre-tax profit and shareholders' equity is presented below, in the case that the spot and forward exchange rates of RMB against all foreign currencies appreciate or depreciate by 5% at the same time.

	The Group and the Bank			
	31 December 2019		31 December 2018	
	Pre-tax profit	Interests	Pre-tax profit	Interests
Appreciation by 5%	(418)	(418)	172	172
Depreciation by 5%	418	418	(172)	(172)

Impact on pre-tax profit arises from impact of RMB exchange rate fluctuation on net exposure of monetary assets and liabilities and monetary derivative instruments denominated in foreign currency.

The impact on pre-tax profit is determined based on the assumption that the Group's exchange rate sensitive position and net position of monetary derivative instruments remain unchanged on balance sheet dates. The Group actively adjusts foreign currency exposure and applies proper derivative instruments to reduce the foreign exchange risk, based on the Management's judgment on the exchange rate fluctuation trend. Therefore, the sensitivity analysis above may deviate from the actualities to some extent.

5.2 Interest rate risk

The Group's interest rate risk mainly arises from the impact of mismatches between the interest rate repricing periods for assets and liabilities in the banking book on income. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The Group measures risks through sensitivity analysis of net interest income, sensitivity analysis of economic value, repricing gap and stress testing.

The Group intensified the cost control over interest-bearing liabilities management, established term and interest rate structure matching with the interest-bearing liabilities over the interest-generating assets management, optimized assets and liabilities portfolio management, and proactively developed fee-based business and non-interest rate sensitive financial products, so as to reduce the impact of interest rate risk on the Group's operation.

At the end of reporting periods, the expiry date of contract or repricing date (whichever is earlier) of financial assets and financial liabilities is as follows:

	The Group						
	31 December 2019						
	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	187,834	–	–	–	–	5,077	192,911
Due from banks	11,332	2,949	1,500	–	–	157	15,938
Placements with banks and other financial institutions	21,546	820	1,080	–	–	15	23,461
Derivative financial assets	–	–	–	–	–	926	926
Financial assets purchased under agreements to resell	19,457	4,553	–	–	–	40	24,050
Loans and advances to customers	912,701	250,335	483,459	141,350	14,697	26,629	1,829,171
Held-for-trading financial assets	65,909	3,406	7,090	7,193	322	5,863	89,783
Debt investments	31,218	79,615	81,207	369,255	104,098	9,893	675,286
Other debt investments	28,119	9,187	22,923	54,811	12,568	1,792	129,400
Other equity instrument investments	–	–	–	–	–	4,961	4,961
Other financial assets	719	–	–	–	–	8,594	9,313
Total financial assets	1,278,835	350,865	597,259	572,609	131,685	63,947	2,995,200
Due to central banks	6,600	41	134,910	–	–	2,066	143,617
Due to banks and other financial institutions	106,834	156,587	37,711	–	–	1,205	302,337
Placements from banks and other financial institutions	20,871	21,314	58,623	2,036	–	1,220	104,064
Derivative financial assets	–	–	–	–	–	1,802	1,802
Financial assets sold under agreements to repurchase	88,196	3,016	2,478	–	–	84	93,774
Deposits taken	986,665	137,179	342,722	189,709	–	15,001	1,671,276
Debt obligations payable	34,880	75,296	212,933	48,000	30,000	2,475	403,584
Other financial liabilities	2,790	–	–	–	–	11,845	14,635
Total financial liabilities	1,246,836	393,433	789,377	239,745	30,000	35,698	2,735,089
Net position	31,999	(42,568)	(192,118)	332,864	101,685	28,249	260,111

	The Group						
	31 December 2018						
	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	204,444	–	–	–	–	5,760	210,204
Due from banks	12,824	4,762	4,265	–	–	20	21,871
Placements with banks and other financial institutions	20,063	1,650	18,950	–	–	–	40,663
Financial assets measured at fair value through profit or loss	1,471	31	1,552	762	117	8,537	12,470
Derivative financial assets	–	–	–	–	–	1,130	1,130
Financial assets purchased under agreements to resell	726	997	–	–	–	–	1,723
Loans and advances to customers	963,978	244,944	186,670	117,238	19,504	33,907	1,566,241
Available-for-sale financial assets	22,613	9,380	17,019	50,097	14,621	11,535	125,265
Held-to-maturity investments	8,527	6,241	39,605	252,834	108,317	–	415,524
Investments classified as receivables	51,364	59,451	36,156	73,494	12,542	755	233,762
Other financial assets	856	–	–	–	–	24,373	25,229
Total financial assets	1,286,866	327,456	304,217	494,425	155,101	86,017	2,654,082
Due to central banks	10,000	29,041	132,023	–	–	–	171,064
Due to banks and other financial institutions	162,873	96,399	109,211	1,700	–	–	370,183
Derivative financial assets	–	–	–	–	–	1,054	1,054
Financial assets sold under agreements to repurchase	11,546	1,212	1,620	–	–	–	14,378
Deposits taken	922,803	127,619	313,747	127,413	–	910	1,492,492
Debt obligations payable	14,729	93,545	154,695	97,500	–	–	360,469
Other financial liabilities	2,131	–	–	–	–	37,128	39,259
Total financial liabilities	1,124,082	347,816	711,296	226,613	–	39,092	2,448,899
Net position	162,784	(20,360)	(407,079)	267,812	155,101	46,925	205,183

	The Bank						
	31 December 2019						
	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	187,361	–	–	–	–	5,067	192,428
Due from banks	11,168	2,949	1,620	–	–	159	15,896
Placements with banks and other financial institutions	22,046	820	1,080	–	–	15	23,961
Derivative financial assets	–	–	–	–	–	926	926
Financial assets purchased under agreements to resell	19,457	4,553	–	–	–	40	24,050
Loans and advances to customers	892,351	209,536	449,916	140,783	13,787	26,179	1,732,552
Held-for-trading financial assets	65,909	3,406	7,090	7,193	322	5,863	89,783
Debt investments	31,218	79,615	80,487	369,255	103,154	9,886	673,615
Other debt investments	28,119	9,187	22,923	54,811	12,568	1,792	129,400
Other equity instrument investments	–	–	–	–	–	4,946	4,946
Other financial assets	664	–	–	–	–	6,669	7,333
Total financial assets	1,258,293	310,066	563,116	572,042	129,831	61,542	2,894,890
Due to central banks	6,600	–	134,900	–	–	2,066	143,566
Due to banks and other financial institutions	108,058	156,587	37,711	–	–	1,205	303,561
Placements from banks and other financial institutions	13,495	4,305	8,052	–	–	557	26,409
Derivative financial assets	–	–	–	–	–	1,802	1,802
Financial assets sold under agreements to repurchase	87,846	3,016	2,478	–	–	83	93,423
Deposits taken	985,512	137,048	342,220	189,311	–	14,971	1,669,062
Debt obligations payable	34,880	75,296	212,933	43,000	30,000	2,386	398,495
Other financial liabilities	2,790	–	–	–	–	6,493	9,283
Total financial liabilities	1,239,181	376,252	738,294	232,311	30,000	29,563	2,645,601
Net position	19,112	(66,186)	(175,178)	339,731	99,831	31,979	249,289

	The Bank						
	31 December 2018						
	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	203,780	–	–	–	–	5,748	209,528
Due from banks	12,872	4,762	4,265	–	–	20	21,919
Placements with banks and other financial institutions	20,063	1,650	18,950	–	–	–	40,663
Financial assets measured at fair value through profit or loss	1,471	31	1,552	762	117	8,537	12,470
Derivative financial assets	–	–	–	–	–	1,130	1,130
Financial assets purchased under agreements to resell	586	997	–	–	–	–	1,583
Loans and advances to customers	948,793	217,848	167,356	105,037	19,368	33,837	1,492,239
Available-for-sale financial assets	22,613	9,380	17,019	50,097	14,621	11,535	125,265
Held-to-maturity investments	8,543	6,241	39,605	252,834	108,027	–	415,250
Investments classified as receivables	51,364	59,451	35,269	73,494	12,542	755	232,875
Other financial assets	856	–	–	–	–	22,750	23,606
Total financial assets	1,270,941	300,360	284,016	482,224	154,675	84,312	2,576,528
Due to central banks	10,000	29,000	132,000	–	–	–	171,000
Due to and placement with banks and other financial institutions	158,287	82,482	72,592	–	–	–	313,361
Derivative financial assets	–	–	–	–	–	1,054	1,054
Financial assets sold under agreements to repurchase	11,546	960	1,620	–	–	–	14,126
Deposits taken	921,228	127,448	313,321	127,185	–	910	1,490,092
Debt obligations payable	14,729	93,545	154,695	95,000	–	–	357,969
Other financial liabilities	2,135	–	–	–	–	30,023	32,158
Total financial liabilities	1,117,925	333,435	674,228	222,185	–	31,987	2,379,760
Net position	153,016	(33,075)	(390,212)	260,039	154,675	52,325	196,768

The Group measures the possible effects of interest rate changes on the Group's net interest income and equity through sensitivity analysis. The table below presents the results of interest rate sensitivity analysis based on assets and liabilities on 31 December 2019 and 31 December 2018.

	The Group			
	31 December 2019		31 December 2018	
Change in interest rate (basis points)	Net interest income	Equity	Net interest income	Equity
Up 100 basis points	(769)	(3,104)	(136)	(3,137)
Down 100 bps	769	3,241	136	3,322

	The Bank			
	31 December 2019		31 December 2018	
Change in interest rate (basis points)	Net interest income	Equity	Net interest income	Equity
Up 100 basis points	(1,025)	(3,104)	(273)	(3,137)
Down 100 bps	1,025	3,241	273	3,322

The above sensitivity analysis is conditional upon the static interest rate risk structure of assets and liabilities.

The relevant analysis only measures interest rate changes in one year, reflecting the impact of the Group's non-derivative asset and liability repricing within one year on annualized interest income of the Group upon the following assumptions: (i) the 100 bps change in interest rate represents the interest rate change over the next full year commencing on the balance sheet date; (ii) the yield curve moves in parallel with interest rate changes; (iii) no other changes occur to the asset and liability portfolios.

Sensitivity analysis on equity is conducted based on the impact of interest rate change on changes in fair value of fixed-rate financial assets measured at fair value through other comprehensive income held on balance sheet dates after revaluation.

This analysis will not take into account the impact of risk management methods the Management may take. Given the above assumptions, the actual changes in the Group's net interest income resulting from interest rate changes may be different from the sensitivity analysis results.

6. Capital management

Since 2013, the Group has managed capital in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)* issued by the former CBRC. In particular, credit risk is measured by the weighting approach, market risk the standard approach and operational risk the basic indicator approach.

Capital composition of the Group is as follows:

Core tier-1 capital: share capital, capital reserve, other comprehensive income, surplus reserve, general risk reserve, retained profit and recognizable part of capital contribution from minority shareholders;

Other tier-1 capital: recognizable part of capital contribution from other equity instruments and minority shareholders;

Tier-2 capital: tier-2 capital instruments and premium thereof, excessive allowance for impairment losses on loans and recognizable part of capital contribution from minority shareholders.

Net capital is calculated by deducting corresponding capital deductions from capital at all levels in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional).*

The Management of the Group monitors the adequacy of capital and application of regulatory capital in a real-time manner based on relevant guidelines of the Basel Committee and regulatory requirements of CBIRC.

To ensure the capital adequacy ratio meeting the regulatory requirement and support balanced and sound development of various businesses on this basis, the Group proactively expands the capital supplementary channel to promote the capital strength, reasonably controls the growth rate of risk assets, vigorously optimizes the structure of risk assets and strived to enhance the utilization efficiency of risk assets.

The Group calculates the net capital at all levels and the capital adequacy ratio in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)* issued by the former CBRC. Particulars are as follows:

	31 December 2019	31 December 2018
Net core tier-1 capital	209,148	198,197
Net tier-1 capital	269,302	218,313
Net capital	314,020	276,056
Core tier-1 capital adequacy ratio	9.25%	9.47%
Tier-1 capital adequacy ratio	11.91%	10.43%
Capital adequacy ratio	13.89%	13.19%

7. Fair value of financial assets and financial liabilities

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements. The Group measures and discloses the fair value of financial instruments on the following levels:

Level 1: Fair value measurement refers to the unadjusted quotation of the same assets or liabilities obtainable in the active market on the measurement date;

Level 2: Fair value measurement refers to the directly or indirectly observable input value of related assets or liabilities other than the input value in Level 1. Most bond investments classified on Level 2 are RMB bonds. The fair value of these bonds is determined on the valuation results provided by CCDC. Also on the level are most OTC derivatives. Valuation techniques include forward pricing, swap modeling and option pricing & modeling. The entered parameters come from the observable open markets such as Bloomberg, Wind and Reuters trading systems.

Level 3: Fair value measurement refers to the unobservable input value of related assets or liabilities.

Fair value measurement of financial assets and financial liabilities of the Group did not shift between Level 1 or Level 2 and Level 3.

7.1 Fair value of financial assets and financial liabilities continuously measured at fair value

The following table shows the financial instruments measured at fair value evaluated at three levels:

	The Group			
	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	926	–	926
Loans and advances to customers measured at fair value through other comprehensive income	–	133,731	–	133,731
Held-for-trading financial assets	49,470	38,060	2,253	89,783
Other debt investments	–	129,400	–	129,400
Other equity instrument investments	229	–	4,732	4,961
Financial liabilities				
Derivative financial liabilities	–	1,802	–	1,802

	The Group			
	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss	8,537	3,933	–	12,470
Derivative financial assets	–	1,130	–	1,130
Available-for-sale financial assets	10,412	113,730	791	124,933
Others	–	42	–	42
Financial liabilities				
Derivative financial liabilities	–	1,054	–	1,054

	The Bank			
	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	926	–	926
Loans and advances to customers measured at fair value through other comprehensive income	–	133,731	–	133,731
Held-for-trading financial assets	49,470	38,060	2,253	89,783
Other debt investments	–	129,400	–	129,400
Other equity instrument investments	214	–	4,732	4,946
Financial liabilities				
Derivative financial liabilities	–	1,802	–	1,802

	The Bank			
	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss	8,537	3,933	–	12,470
Derivative financial assets	–	1,130	–	1,130
Available-for-sale financial assets	10,412	113,730	791	124,933
Others	–	42	–	42
Financial liabilities				
Derivative financial liabilities	–	1,054	–	1,054

Fair value measurement of financial assets and financial liabilities of the Group neither shifted between Level 1 and Level 2 nor between Level 2 and Level 3 in the year and the previous year. For financial assets and liabilities stipulated by standard articles and traded on the active market, their fair value shall be determined separately with reference to the buy-in and sell-out prices available on the market. When the quotation is not available in the active market, the Group determines the fair value of financial assets and financial liabilities continuously measured at fair value by valuation techniques.

Valuation techniques used by the Group include cash flow discounting model for some derivative financial instruments whose quotation is not available in the active market (including FX forward, FX swap, interest rate swap, etc.) and the Black-Scholes option pricing model for valuation of option derivative instruments and the market comparison method for other equity instrument investments. Parameters used by the cash flow discounting model mainly include recent transaction prices and related yield curve while those used by the Black-Scholes option pricing model are related yield curve, exchange rate and volatility of underlying assets, etc. The main parameters used by the market comparison method include industry price-to-book ratio, price-to-earnings ratio and other industry ratios and liquidity discount.

The fair value of other financial instruments (including interbank market securities) is determined according to the general pricing model which is based on the future cash flow discounting method.

Except the financial assets and financial liabilities continuously measured at fair value, the Group held no financial instruments not continuously measured at fair value.

The table below presents the changes between opening balance and ending balance of fair value measured at Level 3 of fair value.

	31 December 2019			
The Group and the Bank	Held-for-trading financial assets	Other equity instrument investments	Available-for-sale financial assets	Total
31 December 2018	N/A	N/A	791	791
Changes in accounting policies	–	3,535	(791)	2,744
1 January 2019	–	3,535	N/A	3,535
Additions	2,253	1,838	N/A	4,091
Disposal	–	–	N/A	–
Losses recorded into other comprehensive income	–	(641)	N/A	(641)
31 December 2019	2,253	4,732	N/A	6,985

The table below presents the changes between opening balance and ending balance of fair value measured at Level 3 of fair value.

	The Group and the Bank 31 December 2018
31 December 2017	–
Additions	791
31 December 2018	791

As at 31 December 2019, the financial assets held by the Group that were presented at Level 3 of fair value had no impact on profit or loss for the year. The resulting financial assets are mainly unlisted equity assets whose fair value can be determined based on the P/B or P/E ratios of comparable industries/companies. If the value of comparable industries/companies rises or falls by 5%, the fair value of relevant financial assets will rise or fall by RMB349 million.

7.2 Financial assets and financial liabilities not measured at fair value

The table below shows the book value and fair value of financial assets and financial liabilities that are not presented by fair value. Financial assets and financial liabilities with similar book value and fair value are not included in the table below, including balances with central banks, due from banks, placements with banks and other financial institutions, financial assets purchased under agreements to resell, loans and advances to customers measured at amortized costs, due to central banks, due to banks and other financial institutions, placements from banks and other financial institutions, and financial assets sold under agreements to repurchase, deposits taken etc.

	The Group			
	31 December 2019		31 December 2018	
Financial assets	Book value	Fair value	Book value	Fair value
Debt investments	675,286	676,498	N/A	N/A
Held-to-maturity investments	N/A	N/A	415,524	421,699
Investments classified as receivables	N/A	N/A	233,762	233,797
	675,286	676,498	649,286	655,496

	The Group			
	31 December 2019		31 December 2018	
Financial liabilities	Book value	Fair value	Book value	Fair value
Debt obligations payable	403,584	405,071	360,469	361,352

	The Bank			
	31 December 2019		31 December 2018	
Financial assets	Book value	Fair value	Book value	Fair value
Debt investments	673,615	675,543	N/A	N/A
Held-to-maturity investments	N/A	N/A	415,250	421,419
Investments classified as receivables	N/A	N/A	232,875	232,910
	673,615	675,543	648,125	654,329

	The Bank			
	31 December 2019		31 December 2018	
Financial liabilities	Book value	Fair value	Book value	Fair value
Debt obligations payable	398,495	399,963	357,969	358,840

The table below lists the levels of fair value of financial assets and financial liabilities that are not presented at fair value on the balance sheet date:

	The Group 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	–	455,834	220,664	676,498
Financial liabilities				
Debt obligations payable	–	405,071	–	405,071

	The Group 31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Held-to-maturity investments	–	421,699	–	421,699
Investments classified as receivables	–	289	233,508	233,797
Financial liabilities				
Debt obligations payable	–	361,352	–	361,352

	The Bank 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	–	454,879	220,664	675,543
Financial liabilities				
Debt obligations payable	–	399,963	–	399,963

	The Bank			
	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Held-to-maturity investments	–	421,419	–	421,419
Investments classified as receivables	–	289	232,621	232,910
Financial liabilities				
Debt obligations payable	–	358,840	–	358,840

As for the wealth management products, financial institutions' asset management plans and beneficiary rights of assets classified as debt investments (receivables on 31 December 2018), its fair value will be determined based on the cash flow discounting model and the unobservable discounting rate which reflects credit risk of counterparties and is adjusted based on the liquidity profile. These financial instruments are classified into Level 3.

The fair value of other financial instruments is determined according to the general pricing model which is based on the future cash flow discounting method. These financial instruments are classified into Level 2.

XVI. POST BALANCE SHEET DATE EVENTS

Profit distribution plan

The Bank held a meeting of the Board of Directors on 29 October 2019, approving to distribute cash dividend of RMB4.20 (pre-tax) per share to preference shareholders. The dividends above totaled RMB840 million, and were distributed on 30 March 2020.

The Bank held a meeting of the Board of Directors on 15 April 2020, approving to distribute dividend of RMB2.49 (pre-tax) per 10 shares after setting aside statutory surplus reserve and general risk reserve. Calculated based on the shares issued by the Bank as at 31 December 2019, the dividends distributed totaled RMB3,831 million. The above profit distribution plan is subject to approval by the Shareholders' General Meeting. Before that, accounting treatment is not made to the proposed surplus reserve, general risk reserve and dividend distribution.

Assessment of COVID-19 impact

The COVID-19 outbreak in early January 2020 has evolved into a global pandemic. The ongoing containment measures across the country have an adverse impact on business and economic activities and may affect the quality or yield of the Group's credit assets and investment assets. The level of impact depends on the containment, duration and response policy implementation. The Group estimates the ECL on 31 December 2019 based on economic forecasts on that date. The Group will keep a close eye on COVID-19 developments in 2020 and assess and actively deal with the COVID-19 impact on the financial position and operating results of the Group.

XVII. COMPARATIVE DATA

Certain comparative data have been reclassified to be consistent with this year's presentation of financial statements.

XVIII. APPROVAL OF THE FINANCIAL STATEMENTS

The Financial Statements were approved by the Board of Directors of the Bank on 15 April 2020.

UNAUDITED SUPPLEMENTARY INFORMATION

1 January to 31 December 2019 (In RMB millions, unless otherwise stated)

1. Detail list of extraordinary profit and loss

The table below is prepared in accordance with the *Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public- Extraordinary Profit and Loss (2008)* issued by CSRC.

	2019	2018
Profit/loss from the disposal of assets	15	(14)
Other net operating income and expenses	66	95
Income tax influence of extraordinary profit and loss	(30)	(30)
Less: Extraordinary profit and loss attributable to minority shareholders	(2)	(4)
Total extraordinary profit and loss attributable to ordinary shareholders of the parent company	49	47

Extraordinary profit and loss refers to the profit or loss resulting from transactions and events that have no direct relation with normal operation of the Group or that although have direct relation with normal operation of the Group, they may affect the financial statements users' normal judgment on the Group's operating results and profitability due to their special and accidental nature.

2. Return on equity and earnings per share

The table below is prepared in accordance with the *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings Per Share (2010 Revision*) issued by CSRC. During relevant periods, basic earnings per share will be calculated by dividing the current net profit with the weighted average ordinary shares issued.

	2019	2018
Net profit attributable to ordinary shareholders of the parent company	21,065	20,014
Weighted average return on equity (%)	10.61	12.67
Basic earnings per share (RMB yuan/share)	1.37	1.56
Net profit attributable to ordinary shareholders of the parent company after deduction of extraordinary profit and loss	21,016	19,967
Weighted average return on equity (%)	10.59	12.64
Basic earnings per share (RMB yuan/share)	1.37	1.56

The Group has no potential diluted ordinary share.