



泸州银行股份有限公司

LUZHOU BANK CO., LTD.

泸州银行股份有限公司*

Luzhou Bank Co., Ltd.*

(前稱泸州市商业银行股份有限公司 Luzhou City Commercial Bank Co., Ltd.)

(Formerly known as Luzhou City Commercial Bank Co., Ltd.)

(於中華人民共和國註冊成立的股份有限公司)

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

股份代號：1983 Stock Code: 1983

年度報告 ANNUAL REPORT 2019

- * 泸州银行股份有限公司並非香港法例第155章《銀行業條例》所指認可機構，不受香港金融管理局的監督，亦不獲授權在香港經營銀行／接受存款業務。
- * Luzhou Bank Co., Ltd. is not an authorised institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorised to carry on banking/deposit-taking business in Hong Kong.

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Corporate Overview

I. CORPORATE PROFILE

- (i) Legal Names
 - 1. Legal Chinese name: 泸州银行股份有限公司
(Abbreviation in Chinese: 泸州银行)
 - 2. Legal English name: LUZHOU BANK CO., LTD.
(Abbreviation in English: LUZHOU BANK)
- (ii) Registered Capital: RMB2,264,793,385
- (iii) Legal Representative: Mr. YOU Jiang
- (iv) Authorized Representatives: Mr. LIU Shirong, Ms. SO Shuk Yi Betty
- (v) Joint Company Secretaries: Mr. LIU Shirong, Ms. SO Shuk Yi Betty
- (vi) Listing place of H shares: The Stock Exchange of Hong Kong Limited
- (vii) Abbreviated Stock Name and Stock Code: LUZHOU BANK (1983.HK)
- (viii) Registered Address: Building 1, No. 18, Section 3, Jiucheng Avenue, Jiangyang District, Luzhou, Sichuan Province, the PRC
- (ix) Principal Place of Business in Hong Kong: 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
- (x) Contact Address:
Building 1, No. 18, Section 3, Jiucheng Avenue Jiangyang District, Luzhou, Sichuan Province, the PRC
Post Code: 646000
Website: www.lzccb.cn
- (xi) Address for Inspection of this Annual Report: Office of the Board of Directors of the Bank
- (xii) Auditor:
International: *PricewaterhouseCoopers*
Address: 22/F, Prince's Building, Central, Hong Kong

Domestic: *PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership)*
Address: 11/F, PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai, PRC
- (xiii) PRC Legal Advisor: JunHe LLP, Shanghai Office
- (xiv) Hong Kong Legal Advisor: King & Wood Mallesons
- (xv) Compliance Advisor: TC Capital International Limited
- (xvi) H Share Registrar and Transfer Office: Computershare Hong Kong Investor Services Limited
- (xvii) Registration Date: September 15, 1997
- (xviii) Registration Authority: Luzhou City Administration for Industry & Commerce in Sichuan Province, the PRC
- (xix) Unified Social Credit Code: 91510500708926271U

Corporate Overview

- (xx) Financial License Institution Number: B0210H251050001
- (xxi) Customer Service and Complaints Hotline: 0830-96830
- (xxii) Tel: 0830-2362606
- (xxiii) Fax: 0830-3100625
- (xxiv) E-mail: ir@lzccb.cn

II. CORPORATE INFORMATION

Headquartered in Luzhou, the PRC, Luzhou Bank was established on September 15, 1997 as approved by the PBoC. The Bank has one branch in Chengdu, the PRC as well as seven primary sub-branches and 28 secondary sub-branches in Luzhou, the PRC. As at the end of the Reporting Period, our total assets amounted to RMB91,681 million; our total loans and advances to customers amounted to RMB44,759 million, and our total deposits from customers amounted to RMB61,437 million.

Our H shares have been listed on the main board of Hong Kong Stock Exchange on December 17, 2018 (stock code: 1983).

III. MAJOR HONORS ACHIEVED IN 2019

Study and Practice Concerning Monitoring Model for Operational Risks of Small and Medium Commercial Banks 《中小商業銀行操作風險監測模型研究與實踐》 was rated by the General Office of CBIRC as National Class 4 Achievement in January 2019.

“Advanced Industrial Targeted Poverty Alleviation Collective (產業精準扶貧先進集體)” granted by The People’s Bank of China Chengdu Branch and Sichuan Labour Union in February 2019.

One of the First 28 Commercial Banks in China to Pilot Mobile Number Payment determined by Clearing Center of PBoC in February 2019.

The “Rong e Dai” Innovation Case won the “Top Ten Consumer Financial Innovation Award (十佳消費金融創新獎)” of the 2019 China Financial Innovation Award in May 2019.

“Best Financial Inclusion Award of the Year (年度最佳普惠金融獎)” granted by Sichuan Banking Association in July 2019.

“2018 Advanced Unit of Financial Poverty Alleviation (2018年度金融扶貧工作先進單位)” granted by the CBIRC Sichuan Office in August 2019.

We won Third Prize in the Attack and Defense Competition for Sichuan Banking Institutions in September 2019.

2nd ranking in “2018 Most Competitive City Commercial Bank with Total Assets less than RMB100 billion (2018年度資產規模1,000億元以下城市商業銀行競爭力排名第二)” and “Best Strategic Management City Commercial Bank (最佳戰略管理城市商業銀行)” granted in the awards for Chinese most competitive commercial banks in 2019 sponsored by the Banker (銀行家) magazine in November 2019.

“Best Mobile Banking Innovation Award” granted by China Financial Certification Center (CFCA) in December 2019.

“2019 regional service leader bank” granted by Hexun financial bank summit in December 2019.

Accounting Data and Financial Indicators Summary

Unit: RMB'000

Item	2019	2018	Year-on-year change	2017	2016	2015
Operating results			change (%)			
Net interest income	2,718,125	1,772,398	53.36	1,574,335	1,155,636	885,201
Net fee and commission income	5,085	1,868	172.22	(1,890)	495	2,505
Operating income	2,806,631	1,934,088	45.11	1,679,956	1,306,982	942,180
Operating expenses	(1,036,331)	(686,928)	50.86	(543,168)	(437,427)	(273,227)
Expected credit losses/Impairment losses on assets	(944,739)	(396,810)	138.08	(324,846)	(155,669)	(89,136)
Profit before tax	829,648	853,990	(2.85)	814,486	716,800	587,646
Net profit	633,912	658,307	(3.71)	618,703	542,084	451,475
Net profit attributable to our shareholders	633,912	658,307	(3.71)	618,703	542,084	451,475
Per share (RMB)			change			
Net assets per share attributable to our shareholders ⁽¹⁾	3.04	2.92	0.12	2.65	2.77	2.53
Basic earnings per share ⁽²⁾	0.28	0.40	(0.12)	0.38	0.35	0.52
Diluted earnings per share	0.28	0.40	(0.12)	0.38	0.35	0.52
Scale indicators (RMB'000)			change (%)			
Total assets	91,680,621	82,549,815	11.06	70,879,436	53,280,661	31,763,629
Of which: loans and advances to customers, net ⁽³⁾	43,298,734	30,486,354	42.03	18,833,833	14,159,076	9,703,381
Total liabilities	84,791,112	76,183,029	11.30	66,543,721	49,273,247	28,479,524
Of which: deposits from customers	61,436,960	52,385,604	17.28	42,145,297	31,018,756	20,383,361
Share capital	2,264,793	2,182,933	3.75	1,637,193	1,448,844	1,297,619
Equity attributable to our shareholders	6,889,509	6,366,786	8.21	4,335,715	4,007,414	3,284,105
Total equity	6,889,509	6,366,786	8.21	4,335,715	4,007,414	3,284,105
Profitability indicators (%)			change			
Return on average total assets ⁽⁴⁾	0.73	0.86	(0.13)	1.00	1.27	1.65
Return on average equity ⁽⁵⁾	9.47	14.66	(5.19)	14.83	14.87	19.68
Net interest spread ⁽⁶⁾	2.85	2.43	0.42	2.55	3.19	3.57
Net interest margin ⁽⁷⁾	3.08	2.53	0.55	2.65	3.24	3.76
Net fee and commission income to operating income ⁽⁸⁾	0.18	0.10	0.08	(0.11)	0.04	0.27
Cost-to-income ratio ⁽⁹⁾	35.95	34.54	1.41	31.89	31.46	24.27
Asset quality indicators (%)			change			
NPL ratio	0.94	0.80	0.14	0.99	0.53	0.30
Allowance coverage ratio	349.78	319.36	30.42	294.49	486.63	920.63
Allowance to gross loan ratio	3.28	2.54	0.74	2.93	2.58	2.75

Accounting Data and Financial Indicators Summary

Item	2019	2018	Year-on-year change	2017	2016	2015
Capital adequacy indicators (%)			change			
Core tier-one capital adequacy ratio ⁽¹⁰⁾	9.31	10.69	(1.38)	10.40	12.68	17.53
Tier-one capital adequacy ratio ⁽¹⁰⁾	9.31	10.69	(1.38)	10.40	12.68	17.53
Capital adequacy ratio ⁽¹⁰⁾	12.09	13.29	(1.20)	13.69	13.62	18.58
Other indicators (%)			change			
Liquidity ratio	83.72	73.40	10.32	48.42	44.99	57.72

Notes:

- (1) Net assets per share attributable to our shareholders = (equity attributable to our shareholders – other equity instruments)/the number of ordinary shares at the end of the period.
- (2) Basic earnings per share are calculated by dividing the net profit for the year/period attributable to shareholders of the Bank by the weighted average number of ordinary shares during the period.
- (3) Net loans and advances to customers = total loan and advances to customers – impairment allowance on loans and advances to customers.
- (4) Return on average total assets = net profit/the average balance of total assets at the beginning and the end of the period.
- (5) Return on average equity = net profit attributable to our shareholders of ordinary shares/the weighted average balance of equity attributable to our shareholders of ordinary shares at the beginning and the end of the period.
- (6) Net interest spread = the average yield on interest-earning assets – the average cost of interest-bearing liabilities.
- (7) Net interest margin = net interest income/the average balance of interest-earning assets.
- (8) Net fee and commission income to operating income = net fee and commission income/operating income.
- (9) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.
- (10) The capital adequacy ratio related indicators in the above table were calculated in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) 《商業銀行資本管理辦法(試行)》 and other relevant regulatory requirements.

Chairman's Statement

In 2019, with the slowing growth of global economy and increased uncertainties, China's economy faced increasing downward pressure. In the face of the complex economic conditions at home and abroad, the Bank rose to each challenge, forged ahead with determination, initiated a number of reforms and made steady progress across the board.

During the year, various indicators of the Bank continued to grow. We continued to stay ahead of most city commercial banks in Sichuan Province in respect of the gains in many indicators including assets, loans and deposits. We ranked second in Chinese City Commercial Banks with Total Assets Under RMB100 Billion for 2018, and was crowned

the "Best City Commercial Bank in Strategic Management" in the "2019 Competitiveness of Commercial Banks of China Awards" by the Chinese Banker magazine.

During the year, we continuously improved our development capabilities. We were successfully renamed as "Luzhou Bank", accomplishing our three strategies of cross-region operation, listing and renaming in three years. Our second non-local branch, the Meishan Branch, together with Qingyang sub-branch and Jintang sub-branch in Chengdu, received approval for establishment, realizing a steady cross-region development. The qualifications of international business, business cards, credit asset securitization and other important businesses have been approved successively, realizing more diversified business types. The issuance of capital bonds without a fixed term of RMB1.7 billion was approved by China Banking and Insurance Regulatory Commission Sichuan Office and the PBoC, making us the first bank that has obtained approval in Western China.

During the year, we remained committed to strengthen our foundation. The re-elections and new appointments of the Board of Directors, the Board of Supervisors and the executive management were successfully concluded with three new directors appointed, and our corporate governance more standardized. We started to explore Internet financial services gradually, worked with Huawei to build a "Future Bank" laboratory, and launched two Internet financial products. We vigorously rolled out the "Efficient Year" promotion campaign to further find and rectify the risk points and problems affecting the

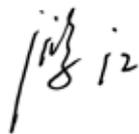


Chairman's Statement

efficiency across the Bank, and strived to improve the internal control compliance level and the risk management ability of the whole bank. We carried out a project to rejuvenate the ranks of cadres, and a group of selected young outperformers were promoted to management positions. Our personnel selecting guidance that put emphasis on low-level employees and practice remained a priority and the entrepreneurial vitality of the cadre team was further stimulated.

The above could not be achieved without the efforts of all staff and the support from our broad customers, investors and all walks of life in the society. I hereby extend our sincere thanks on behalf of the Board to our executive management, our staff and all of our friends from all walks of life who care and support the development of the Bank!

Affected by the outbreak of COVID-19, the downward risk of global economy is seriously intensified in 2020, and the banking industry will also be significantly affected. We will work together with all staff to make efforts to cope with the impact brought about the epidemic, ensuring the successful fulfillment of annual business objectives, and striving to deliver satisfactory results to our investors and the society.



YOU Jiang
Chairman

President's Statement

2019 marked the first year since the Bank's listing. Under the correct leadership of the Board, all staff made concerted and strenuous efforts to actively respond to the adverse effects brought by economic downturn on the operations of the Bank and promote completion of various targets and tasks.

Our business scale experienced rapid growth in 2019. As of the end of 2019, our total assets reached RMB91,681 million, representing a year-on-year increase of 11.06%; our total deposits from customers amounted to RMB61,437 million, representing a year-on-year increase of 17.28%; our total loans and advances to customers amounted to RMB44,759 million, representing a year-on-year increase of 43.09%. During the year, our Bank realized operating income of RMB2,807 million, representing a year-on-year increase of 45.11%, and realized net profit of RMB634 million. The non-performing loan ratio remained below 1%.

In 2019, the Bank became increasingly competitive in the market. The Bank made greater efforts to acquire high-quality customers, throughout the year, it developed 99,700 new individual customers and 6,643 new corporate customers, and established cooperative relations with more than 10 Global 500 enterprises. Chengdu Branch has maintained a sound momentum of development, with major indicators such as assets and deposits growing rapidly and healthily, and its recognition, influence and market competitiveness improved significantly.

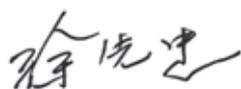
In 2019, the Bank stepped up product and service innovation. A total of 5 new deposit and loan products were launched, and the pure credit loan product "Rong e Dai" won the "Top Ten Consumer Finance Innovation Award (十佳消費金融創新獎)" by The Chinese Banker (銀行家). The "Huirongtong" Small Micro Loan Center has been functioning well, with the average processing time of a single loan reducing to less than two days. The center provided loans of RMB1.11 billion to more than 2,800 small and micro enterprises and individual business owners. International business, asset securitization and other businesses began to operate, and steady progress was made in the transformation of wealth management business.

In 2019, the Bank continued to increase construction on science and technology. The annual expenditure on science and technology exceeded RMB100 million. 21 professionals in science and technology were introduced, and 75 systems of various types were built and optimized. We built new data centers in accordance with the national A-level standards and relocated computer rooms successfully, witnessing a significant improvement in the support role of science and technology on business. We vigorously expanded the electronic channel business, with the number of electronic channel transactions reaching nearly 15 million throughout the year, representing an increase of nearly 60% as compared to the previous year. Our off-counter rate across our business reached 92%. We began to gradually explore the Internet financial business after the "Future Bank" laboratory established jointly with Huawei was successfully unveiled, which was selected by Huawei as a classic cooperation case featured at the 2019 China International Finance Exhibition alongside the ICBC, CBC and WeBank.

In 2019, the Bank continued to make efforts to serve for the development of real economy. Based on the original intention of serving the real economy, we seized the policy opportunities of Yangtze River Economic Zone and Sichuan Free Trade Zone and increased support for major projects and key enterprises in the region, recording an increase of RMB13.4 billion in loans over the year, with the loans of the Bank to Luzhou accounting for more than one fifth of the loans to the whole city. We donated RMB9.21 million to poor areas, and helped lift Sanhe Village in Gulin County by partner assistance out of poverty comprehensively.

President's Statement

In 2020, the world economic situation is more complex. With the impact of COVID-19, the world and domestic economic and financial situation is more severe, and the banking industry will face greater pressure and more challenges. Adhering to the overall strategy and objective determined by the Board, we will head forward, work hard practically and skillfully and seize the development opportunity of "Chengdu-Chongqing Economic Circle", trying to drive high-quality development of the Bank!



XU Xianzhong
President



Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

1 ENVIRONMENT AND PROSPECT

After joining the WTO, China has become one of the most promising economic powers in the world by carrying out well-planned large-scale construction, and people have attained a fairly comfortable standard of living as a whole. According to the statistics provided by National Bureau of Statistics, China's GDP maintained a middle-to-high pace of growth from RMB59.5 trillion in 2013 to RMB99.09 trillion in 2019, representing an increase of 6.1% as compared to the previous year. National economic movements maintained steady on the whole within a reasonable range, and the long-term positive trend of the Chinese economy is set to continue.

Located in Western China, Sichuan Province is an important junction of the southwest, northwest and central regions, and is an important intersection and transport corridor jointing southern and central China, connecting southwest and northwest regions, and linking Central Asia, South Asia and Southeast Asia. Owing to the advantageous geographic location, favourable regulatory environment and the policy support in infrastructure construction, trade and economic development, it has achieved a sustained and rapid economic growth in the last few years. In 2019, Sichuan Province reported a GDP of RMB4,661.582 billion, representing an increase of 7.5% as compared to the previous year, with a growth rate 1.4 percentage points higher than the national average level, ranking the sixth in China.

Located in the southeast of the Sichuan Province, Luzhou is at the junction of Sichuan, Chongqing, Yunnan and Guizhou and the convergence of the Yangtze River and Tuojiang River. Taking into account its unique geographic location and advanced river-based transportation system, Luzhou is well-positioned to take a natural advantage in its economic development. According to the Chengdu-Chongqing City Cluster Development Plan (成渝城市群發展規劃) issued by the National Development and Reform Commission, Luzhou became the only prefecture-level city in Western China to be included in the third batch of government-endorsed pilot Free Trade Zones, or FTZs. Capitalizing on favorable policies and its relevant geographic advantages, Luzhou has expedited the development of three key industrial zones within its city boundary, namely, the Luzhou Hi-Tech Industrial Development Zone (瀘州國家高新區), the Luzhou Yangtze River Economic Development Zone (瀘州長江經濟開發區) and the China Liquor Golden Triangle Liquor Industry Park (中國白酒金三角酒業園區), through which, it has further integrated into the development of Yangtze River Economic Belt promoted by the PRC Government.

2 DEVELOPMENT STRATEGIES

In 2020, under the basic operation guidance of building a bank with “first-class management, excellent result of operations, competitive compensation and superb brand recognition”, we will, driven by the strategic guidance, promote management optimisations, explore transformation and innovation opportunities, enhance risk control and compliance, and actively seize new opportunities with a new approach in the new era to advance new developments and achieve new breakthroughs one after another.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

3 ANALYSIS OF STATEMENTS OF PROFITS

3.1 Financial results highlights

Unit: RMB'000

Item	2019	2018
Net interest income	2,718,125	1,772,398
Net fee and commission income	5,085	1,868
Net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	83,421	159,822
Operating expenses	(1,036,331)	(686,928)
Expected credit losses/Impairment losses on assets	(944,739)	(396,810)
Share of profits of associates	4,087	3,640
Profit before tax	829,648	853,990
Income tax expenses	(195,736)	(195,683)
Net profit	633,912	658,307
Of which: net profit attributable to our shareholders	633,912	658,307

In 2019, the Bank's profit before tax amounted to RMB830 million, representing a decrease of RMB24 million or 2.85% as compared to the previous year, and the net profit amounted to RMB634 million, representing a decrease of RMB24 million or 3.71% as compared to the previous year. The following table sets forth the impacts of changes in the Bank's major profit or loss items on profit before tax for the year 2019.

Unit: RMB'000

Item	Amount
Profit before tax in 2018	853,990
Changes in 2019	
Changes in net interest income	945,727
Changes in net fee and commission income	3,217
Changes in net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	(76,401)
Changes in operating expenses	(349,403)
Changes in impairment losses on assets	(547,929)
Changes in share of profits of associates	447
Profit before tax in 2019	829,648

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

3.2 Operating income

In 2019, the Bank's operating income amounted to RMB2,807 million, representing an increase of RMB873 million or 45.11% as compared to the previous year, of which net interest income accounted for 96.85%, representing an increase of 5.21 percentage points as compared to the previous year. Net non-interest income amounted to RMB89 million, accounting for 3.15%. The following table sets forth the year-on-year comparison of the components of the Bank's operating income in the past five years.

Unit: %

Item	2019	2018	2017	2016	2015
Net interest income	96.85	91.64	93.71	88.42	93.95
Net fee and commission income	0.18	0.10	(0.11)	0.04	0.27
Net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	2.97	8.26	6.40	11.54	5.78
Total	100.00	100.00	100.00	100.00	100.00

3.3 Net interest income

In 2019, the Bank's net interest income amounted to RMB2,718 million, representing an increase of RMB946 million or 53.36% as compared to the previous year, mainly due to the increase of the business scale. The following table sets forth the average balance, interest income/expense and average yield/cost rate of the assets and liabilities of the Bank for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities are daily average balances.

Unit: RMB'000

Item	2019			2018		
	Average balance	Interest income/expense (audited)	Average yield/cost rate	Average balance	Interest income/expense (audited)	Average yield/cost rate
Interest-earning assets						
Loans and advances to customers	40,065,316	2,997,655	7.48%	24,837,537	1,731,365	6.97%
Investments ⁽¹⁾	33,908,836	2,152,470	6.35%	29,455,488	1,808,545	6.14%
Deposits and placements with banks and other financial institutions ⁽²⁾	6,355,532	153,622	2.42%	8,470,415	344,017	4.06%
Deposits with central bank	7,874,166	108,310	1.38%	7,276,825	114,787	1.58%
Total	88,203,850	5,412,057	6.14%	70,040,264	3,998,714	5.71%

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Item	Average balance	2019 Interest income/expense (audited)	Average yield/cost rate	Average balance	2018 Interest income/expense (audited)	Average yield/cost rate
Interest-bearing liabilities						
Deposits from customers	58,683,373	1,812,834	3.09%	47,097,756	1,280,020	2.72%
Deposits and placements from banks and other financial institutions ⁽³⁾	5,654,144	219,108	3.88%	8,511,335	355,477	4.18%
Debt securities issued	16,625,808	634,203	3.81%	11,880,896	580,600	4.89%
Others	921,898	27,787	3.01%	332,808	10,219	3.07%
Total	81,885,223	2,693,932	3.29%	67,822,795	2,226,316	3.28%
Net interest income	-	2,718,125	-	-	1,772,398	-
Net interest spread	-	-	2.85%	-	-	2.43%
Net interest margin	-	-	3.08%	-	-	2.53%

Notes:

- (1) Investments indicated in section 3.3.3 include credit related financial assets, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortized cost.
- (2) Deposits and placements with banks and other financial institutions indicated in section 3.3.3 include financial assets held under resale agreements.
- (3) Deposits and placements from banks and other financial institutions indicated in section 3.3.3 include financial assets sold under repurchase agreements.

In 2019, the average balance of interest-earning assets was RMB88,204 million, representing an increase of RMB18,164 million or 25.93% as compared to the previous year, mainly due to an increase in the volume of loans and advances to customers and investments. Net interest margin was 3.08%, representing an increase of 0.55 percentage points as compared to the previous year; and net interest spread was 2.85%, representing an increase of 0.42 percentage points as compared to the previous year, mainly because the increase of interest income from interest-earning assets of the Bank outpaced that of interest expense on interest-bearing liabilities.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

The following table sets forth the distribution of changes in the Bank's interest income and interest expense due to volume and interest rate changes for the periods indicated: the volume changes were measured by changes in average balance; interest rate changes were measured by changes in average interest rate, and changes in interest income and expense due to volume and interest rate changes were included in the changes in interest income and expense due to volume changes.

Unit: RMB'000

Item	2019 vs. 2018		Net increase (decrease)
	Due to volume	Due to interest rate	
Assets			
Loans and advances to customers	1,139,330	126,960	1,266,290
Investments	282,690	61,235	343,925
Deposits and placements with banks and other financial institutions	(51,120)	(139,275)	(190,395)
Deposits with central bank	8,216	(14,694)	(6,477)
Changes in interest income	1,379,117	34,226	1,413,343
Liabilities			
Deposits from customers	357,900	174,913	532,814
Deposits and placements from banks and other financial institutions	(110,721)	(25,648)	(136,369)
Debt securities issued	180,998	(127,395)	53,603
Others	17,756	(188)	17,568
Changes in interest expense	445,933	21,683	467,616
Changes in net interest income	933,185	12,543	945,727

3.4 Interest income

In 2019, the Bank's interest income amounted to RMB5,412 million, representing an increase of RMB1,413 million or 35.34% as compared to the previous year, mainly due to an increase in the volume of interest-earning assets. The interest income from loans and advances to customers and investments constituted the major part of the interest income of the Bank.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Interest income from loans and advances to customers

In 2019, the Bank's interest income from loans and advances to customers amounted to RMB2,998 million, representing an increase of RMB1,266 million or 73.14% as compared to the previous year. The following table sets forth the average balance, interest income and average yield of each component of the loans and advances to customers of the Bank for the periods indicated.

Unit: RMB'000

Item	2019			2018		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	34,222,453	2,639,422	7.71%	19,522,709	1,423,892	7.29%
Personal loans	5,842,863	358,233	6.13%	5,314,828	307,473	5.79%
Total loans to customers	40,065,316	2,997,655	7.48%	24,837,537	1,731,365	6.97%

Interest income from investments

In 2019, the Bank's interest income from investments amounted to RMB2,152 million, representing an increase of RMB344 million or 19.02% as compared to the previous year, mainly due to an increase in the average balance of investment assets and an increase in the average yield on investment assets to 6.35% from 6.14% in 2018. The increase in the average balance was primarily due to the increase in our investments in credit related financial assets and financial assets at fair value through other comprehensive income, etc. The increase in the average yield was primarily due to the increase in the percentage of financial assets with higher yields.

Interest income from financial assets held under resale agreements, due from other banks and financial institutions

In 2019, the Bank's interest income from financial assets held under resale agreements, due from other banks and financial institutions amounted to RMB154 million, representing a decrease of RMB190 million or 55.34% as compared to the previous year, mainly due to a decrease in the volume and average yield of deposits and placements with banks and other financial institutions.

Interest income from balances with central bank

In 2019, the Bank's interest income from balances with central bank amounted to RMB108 million, representing a decrease of RMB6 million or 5.64% as compared to the previous year, mainly due to the decrease in the average balance of statutory deposit reserves with higher yield as a result of lowered statutory deposit reserves ratio with the People's Bank of China ("PBoC").

3.5 Interest expense

In 2019, the Bank's interest expense amounted to RMB2,694 million, representing an increase of RMB468 million or 21.00% as compared to the previous year, mainly due to an increase in the volume of interest-bearing liabilities. Interest expenses on deposits from customers and debt securities issued constituted the major part of the interest expense of the Bank.

Interest expense on deposits from customers

In 2019, the Bank's interest expense on deposits from customers amounted to RMB1,813 million, representing an increase of RMB533 million or 41.63% as compared to the previous year. The following table sets forth the average balance, interest expense and average cost of each component of the Bank's deposits from customers for the periods indicated.

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Unit: RMB'000

Item	2019			2018		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
Corporate deposits						
Demand	24,487,246	474,368	1.94%	21,017,604	323,817	1.54%
Time	7,014,246	171,991	2.45%	6,607,079	150,112	2.27%
Subtotal	31,501,493	646,359	2.05%	27,624,683	473,929	1.72%
Personal deposits						
Demand	2,978,474	15,260	0.51%	2,589,326	12,800	0.49%
Time	24,203,406	1,151,215	4.76%	16,883,747	793,291	4.70%
Subtotal	27,181,880	1,166,475	4.29%	19,473,073	806,091	4.14%
Total deposits from customers	58,683,373	1,812,834	3.09%	47,097,756	1,280,020	2.72%

Interest expense on financial liabilities sold under repurchase agreements, due to other banks and financial institutions

In 2019, the Bank's interest expense on financial liabilities sold under repurchase agreements, due to other banks and financial institutions amounted to RMB219 million, representing a decrease of RMB136 million or 38.36% as compared to the previous year, mainly due to a decrease in the volume of deposits and placements from banks and other financial institutions and average cost.

Interest expense on debt securities issued

In 2019, the Bank's interest expense on debt securities issued amounted to RMB634 million, representing an increase of RMB54 million or 9.23% as compared to the previous year, mainly due to an increase in the volume of debt securities issued, but the interest expense was partially offset by a decrease in the average cost.

3.6 Net non-interest income

In 2019, the Bank's net non-interest income amounted to RMB89 million, representing a decrease of RMB73 million or 45.26% as compared to the previous year. The net fee and commission income as a percentage of operating income was 0.18%, representing an increase of 0.08 percentage points as compared to the previous year. The following table sets forth the major components of the Bank's net non-interest income for the periods indicated.

Unit: RMB'000

Item	2019	2018
Fee and commission income	10,557	9,245
Less: fee and commission expense	(5,472)	(7,377)
Net fee and commission income	5,085	1,868
Net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	83,421	159,822
Total net non-interest income	88,506	161,690

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3.7 Net fee and commission income

In 2019, the Bank's net fee and commission income amounted to RMB5.085 million, representing an increase of RMB3.217 million as compared to the previous year, mainly due to an increase in the fee income from settlement business and guarantee business.

Unit: RMB'000

Item	2019	2018
Fee and commission income		
Fee income from settlement business	2,229	1,703
Fee income from bank card business	2,277	2,270
Fee income from agency business	968	2,036
Fee income from guarantee business	4,223	2,513
Fee income from wealth management business	—	120
Fee income from investment banking business	693	514
Fee income from other businesses	167	89
Total	10,557	9,245
Fee and commission expense	(5,472)	(7,377)
Net fee and commission income	5,085	1,868

In 2019, the Bank's fee income from settlement business amounted to RMB2.229 million, representing an increase of RMB0.526 million or 30.89% as compared to the previous year, mainly due to a significant increase in capital settlement transactions by corporate customers. Fee income from bank card business amounted to RMB2.277 million, representing an increase of RMB0.007 million or 0.31% as compared to the previous year. Fee income from agency business amounted to RMB0.968 million, representing a decrease of RMB1.068 million or 52.46% as compared to the previous year, mainly due to a significant decrease in the entrusted loan business. Fee income from guarantee business amounted to RMB4.223 million, representing an increase of RMB1.71 million or 68.05% as compared to the previous year, mainly due to the fee income from the letters of guarantee business. Fee income from wealth management business amounted to RMB0 million, representing a decrease of RMB0.12 million or 100.00% as compared to the previous year, mainly because the fee income from non-principal protected wealth management products issued has not been recognized for this period. Fee income from investment banking business amounted to RMB0.693 million, representing an increase of RMB0.179 million or 34.82% as compared to the previous year, most of which was the income from advisory and consulting business. Fee income from other businesses amounted to RMB0.167 million, representing an increase of RMB0.078 million or 87.64% as compared to the previous year.

3.8 Net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations

In 2019, the Bank's net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations amounted to a total gain of RMB83 million, representing a decrease of RMB76 million or 47.80% as compared to the previous year. Among which, net (losses)/gains on trading activities decreased by RMB0.01 million as compared to the previous year. Net gains arising from investments decreased by RMB78 million as compared to the previous year, mainly due to a significant decrease in the volume of held-for-trading financial assets. The following table sets forth the major components of the Bank's net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations for the periods indicated.

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Unit: RMB'000

Item	2019	2018
Net (losses)/gains on trading activities	24,101	24,111
Net gains arising from investments	56,904	134,775
Net gains/(losses) from other operations	2,416	936
Total	83,421	159,822

3.9 Operating expenses

In 2019, the Bank's operating expenses amounted to RMB1,036 million, representing an increase of RMB349 million or 50.86% as compared to the previous year, and the cost-to-income ratio was 35.95%, representing an increase of 1.41 percentage points as compared to the previous year. Among which, staff costs (including the remuneration of Directors and Supervisors (allowance inclusive)) increased by RMB196 million or 49.07% as compared to the previous year, mainly due to an increase in provision for performance-based remuneration. General and administrative expenses increased by RMB67 million or 41.31% as compared to the previous year; tax and surcharges increased by RMB9 million or 45.07% as compared to the previous year. The following table sets forth the major components of the Bank's operating expenses for the periods indicated.

Unit: RMB'000

Item	2019	2018
Staff costs (including the remuneration of Directors and Supervisors (allowance inclusive))	595,549	399,518
General and administrative expenses	229,146	162,158
Depreciation and amortization	123,489	58,274
Operating lease payments	870	21,080
Professional service expenses	32,224	12,522
Tax and surcharges	27,487	18,947
Auditors' remuneration	2,800	2,700
Non-profit donation expenses	7,889	3,862
Other non-operating expenses	1,861	1,448
Other business expenses	15,016	6,419
Total	1,036,331	686,928

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3.10 Impairment losses on assets

In 2019, the Bank's impairment losses on assets amounted to RMB945 million, representing an increase of RMB548 million or 138.08% as compared to the previous year. The following table sets forth the major components of the Bank's impairment losses on assets for the periods indicated.

Unit: RMB'000

Item	2019	2018
Expected credit losses on loans and advances at amortized cost	796,889	331,721
Expected credit losses on loans and advances at fair value through other comprehensive income	13,454	(31,549)
Expected credit losses on credit related financial assets	(27,206)	(38,740)
Expected credit losses on other financial investments	91,588	101,387
Expected credit losses on guarantee commitment	(3,418)	12,200
Impairment losses on other assets	73,432	21,791
Total	944,739	396,810

Expected credit losses on loans and advances at amortized cost constituted the largest part of impairment losses on assets. In 2019, the impairment losses on loans (including discounted bills) amounted to RMB810 million, representing an increase of RMB510 million or 170.00% as compared to the previous year.

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4 ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF FINANCIAL POSITION

4.1 Assets

As of the end of 2019, the Bank's total assets amounted to RMB91,681 million, representing an increase of RMB9,131 million or 11.06% as compared to the end of the previous year, mainly due to the increase of the Bank's loans and advances to customers. The following table sets forth the components of the Bank's total assets as of the dates indicated.

Unit: RMB'000

Item	December 31, 2019		December 31, 2018	
	Amount	% of total	Amount	% of total
Total customer loans	44,758,718	48.82	31,279,187	37.89
Credit impairment loss allowance on loans at amortized cost	(1,459,984)	(1.59)	(792,833)	(0.96)
Customer loans, net	43,298,734	47.23	30,486,354	36.93
Cash and balances with central bank	9,401,511	10.25	8,373,038	10.14
Financial assets held under resale agreements, due from other banks and financial institutions	3,284,840	3.58	7,633,381	9.25
Financial investments – credit related financial assets	4,186,800	4.57	5,821,602	7.05
Financial investments – financial assets at fair value through profit or loss	1,860,243	2.03	1,841,322	2.23
Financial investments – financial assets at fair value through other comprehensive income	5,755,246	6.28	5,867,342	7.11
Financial investments – amortized cost	22,499,936	24.54	21,395,762	25.92
Investments in associates	40,738	0.04	36,651	0.04
Fixed assets	744,552	0.81	675,358	0.82
Deferred income tax assets	386,436	0.43	186,871	0.23
Other assets	221,585	0.24	232,134	0.28
Total assets	91,680,621	100.00	82,549,815	100.00

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Loans and advances to customers

As of the end of 2019, the Bank's total loans and advances to customers amounted to RMB44,759 million, representing an increase of RMB13,480 million or 43.09% as compared to the end of the previous year; net loans and advances to customers amounted to RMB43,299 million, representing an increase of RMB12,812 million or 42.03% as compared to the end of the previous year. The following table sets forth the loans and advances to customers of the Bank by product type as of the dates indicated.

Unit: RMB'000

Item	December 31, 2019		December 31, 2018	
	Amount	% of total	Amount	% of total
Corporate loans	36,902,397	82.45	24,784,475	79.24
Discounted bills	1,499,648	3.35	644,908	2.06
Personal loans	6,175,779	13.80	5,736,144	18.34
Interest receivable	180,894	0.40	113,660	0.36
Total customer loans	44,758,718	100.00	31,279,187	100.00
Less: credit impairment loss allowance				
on loans at amortized cost	(1,459,984)	/	(792,833)	/
Customer loans, net	43,298,734	/	30,486,354	/

Corporate loans

As of the end of 2019, the Bank's total corporate loans amounted to RMB36,902 million, representing an increase of RMB12,118 million or 48.89% as compared to the end of the previous year, accounting for 82.45% of the total loans and advances to customers, representing an increase of 3.21 percentage points as compared to the end of the previous year. In 2019, the Bank continuously optimized the regional allocation of credit resources, served the real economy and increased credit support for small and micro enterprises, agriculture-related economy, people's livelihood projects and urban infrastructure construction by serving the economy of Luzhou and actively expanding its cross-regional business, achieving a relatively fast growth in its corporate loans.

Discounted bills

As of the end of 2019, the Bank's total discounted bills amounted to RMB1,500 million, representing an increase of RMB855 million or 132.54% as compared to the end of the previous year, accounting for 3.35% of the total loans and advances to customers, representing an increase of 1.29 percentage points as compared to the end of the previous year. The increase in the Bank's total discounted bills was primarily due to the Bank's increased holding of discounted bills to balance its credit asset structure, taking into account market competition and its loan balance.

Personal loans

As of the end of 2019, the Bank's personal loans amounted to RMB6,176 million, representing an increase of RMB440 million or 7.66% as compared to the end of the previous year, accounting for 13.80% of the total loans and advances to customers, representing a decrease of 4.54 percentage points as compared to the end of the previous year. The continual increase in the Bank's personal loans was primarily due to the Bank's successful development and marketing of its personal loan business, in particular personal business loans. However, due to a greater percentage of growth in the corporate loan business, the percentage of personal loans experienced a decrease.

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Investments

As of the end of 2019, the carrying value of the Bank's investments amounted to RMB34,302 million, representing a decrease of RMB624 million or 1.79% as compared to the end of the previous year. The following table sets forth the components of the Bank's investment portfolio as of the dates indicated.

Unit: RMB'000

Item	December 31, 2019		December 31, 2018	
	Amount	% of total	Amount	% of total
Financial investments – credit related financial assets	4,186,800	12.21	5,821,602	16.67
Financial investments – financial assets at fair value through profit or loss	1,860,243	5.42	1,841,322	5.27
Financial investments – financial assets at fair value through other comprehensive income	5,755,246	16.78	5,867,342	16.80
Financial investments – amortized cost	22,499,936	65.59	21,395,762	61.26
Total	34,302,225	100.00	34,926,028	100.00

Financial investments – credit related financial assets

The Bank's credit related financial assets are corporate loans extended through consolidated structured entities (trust plans and asset management plans). The following table sets forth the components of the Bank's credit related financial assets as of the dates indicated.

Unit: RMB'000

Item	December 31, 2019	December 31, 2018
Financial investments – credit related financial assets		
– Trust plans	3,712,600	3,620,100
– Asset management plans	525,000	2,275,900
ECL allowance	(61,204)	(88,410)
Accrued interest	10,404	14,012
Total	4,186,800	5,821,602

Financial investments – financial assets at fair value through profit or loss

The following table sets forth the components of the Bank's financial assets at fair value through profit or loss as of the dates indicated.

Unit: RMB'000

Item	December 31, 2019	December 31, 2018
Financial investments – financial assets at fair value through profit or loss		
– Equity securities	15,625	15,352
– Funds and others	640,707	1,723,111
– Debt securities	1,203,911	102,859
Total	1,860,243	1,841,322

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Financial investments – financial assets at fair value through other comprehensive income

The following table sets forth the components of the Bank's financial assets at fair value through other comprehensive income as of the dates indicated.

Unit: RMB'000

Item	December 31, 2019	December 31, 2018
Financial investments – FVOCI		
– Debt securities	5,638,462	5,747,169
Interest receivable	116,784	120,173
Total	5,755,246	5,867,342

Financial investments – amortized cost

The following table sets forth the components of the Bank's financial assets measured at amortized cost as of the dates indicated.

Unit: RMB'000

Item	December 31, 2019	December 31, 2018
Financial investments – amortized cost		
– Industry funds (senior tranche)	5,756,330	5,716,330
– Unlisted corporate bonds	8,712,650	5,430,750
– Trust plans	600,000	2,086,000
– Debt securities	7,371,035	7,970,752
Subtotal	22,440,015	21,203,832
ECL allowance	(298,407)	(213,163)
Interest receivable	358,328	405,093
Total	22,499,936	21,395,762

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4.2 Liabilities

As of the end of 2019, the Bank's total liabilities amounted to RMB84,791 million, representing an increase of RMB8,608 million or 11.30% as compared to the end of the previous year, mainly due to the stable increase in deposits from customers. The following table sets forth the components of the Bank's total liabilities as of the dates indicated.

Unit: RMB'000

Item	December 31, 2019		December 31, 2018	
	Amount	% of total	Amount	% of total
Deposits from customers	61,436,960	72.45	52,385,604	68.76
Financial assets sold under repurchase agreements, due to other banks and financial institutions	3,949,580	4.66	8,675,639	11.39
Borrowings from central bank	540,760	0.64	865,000	1.14
Tax payable	191,408	0.23	135,457	0.18
Debt securities issued	18,225,596	21.49	13,800,494	18.11
Other liabilities	446,808	0.53	320,835	0.42
Total liabilities	84,791,112	100.00	76,183,029	100.00

Deposits from customers

As of the end of 2019, the Bank's total deposits from customers amounted to RMB61,437 million, representing an increase of RMB9,051 million or 17.28% as compared to the end of the previous year, accounting for 72.45% of the Bank's total liabilities, being the Bank's primary source of funding. The following table sets forth the components of the Bank's deposits from customers by product type and customer type as of the dates indicated.

Unit: RMB'000

Item	December 31, 2019		December 31, 2018	
	Amount	% of total	Amount	% of total
Corporate deposits	29,811,957	48.52	29,679,305	56.66
Demand deposits	23,266,641	37.87	20,024,338	38.22
Time deposits	6,545,316	10.65	9,654,967	18.44
Personal deposits	30,812,483	50.15	22,229,489	42.43
Demand deposits	3,286,002	5.35	2,789,615	5.33
Time deposits	27,526,481	44.80	19,439,874	37.10
Accrued interest	812,520	1.33	476,810	0.91
Total deposits from customers	61,436,960	100.00	52,385,604	100.00

As of the end of 2019, the Bank's corporate demand deposits accounted for 37.87% of total deposits from customers, representing a decrease of 0.35 percentage points as compared to the end of the previous year. Among those deposits, corporate demand deposits accounted for 78.04% of corporate deposits, representing an increase of 10.57 percentage points as compared to the end of the previous year; and personal demand deposits accounted for 10.66% of personal deposits, representing a decrease of 1.89 percentage points as compared to the end of the previous year.

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Financial assets sold under repurchase agreements and deposits from banks and other financial institutions

As of the end of 2019, the Bank's financial assets sold under repurchase agreements and deposits from banks and other financial institutions amounted to RMB3,950 million, representing a decrease of RMB4,726 million or 54.48% as compared to the end of the previous year, mainly due to the Bank's adjustment of the business direction of interbank liabilities, reduction in the scale of repurchase business and increase in the volume of marketized interbank certificates of deposit issued.

Debt securities issued

As of the end of 2019, the Bank's bonds payable amounted to RMB18,226 million, representing an increase of RMB4,425 million or 32.06% as compared to the end of the previous year.

4.3 Equity attributable to shareholders

As of the end of 2019, the Bank's equity attributable to shareholders amounted to RMB6,890 million, representing an increase of RMB523 million or 8.21% as compared to the end of the previous year.

Unit: RMB'000

Item	December 31, 2019	December 31, 2018
Share capital	2,264,793	2,182,933
Capital reserve	2,239,314	2,094,444
Surplus reserve	399,731	336,340
General risk reserve	977,442	847,549
Other comprehensive income	64,468	62,669
Retained earnings	943,761	842,851
Total equity attributable to shareholders of the Bank	6,889,509	6,366,786
Total equity attributable to shareholders	6,889,509	6,366,786

5 OTHER FINANCIAL INFORMATION

5.1 Analysis of off-balance sheet items

The Bank's off-balance sheet items include credit commitments, operating lease commitments and capital commitments. Credit commitments are the most principal components and as of the end of the Reporting Period, the balance of credit commitments amounted to RMB1,845 million.

5.2 Overdue and outstanding debts

As of the end of the Reporting Period, the Bank had no overdue or outstanding debts.

5.3 Assets pledged

As of the end of the Reporting Period, some of the Bank's assets were pledged as collaterals under repurchase agreements with other banks and financial institutions, please refer to note 36 to the financial statements for details.

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6 ANALYSIS OF LOAN QUALITY

During the Reporting Period, the Bank continued to strengthen its dynamic monitoring on changes in credit asset quality, further implemented various regulatory policies and continuously improved risk mitigation capacities. As a result, the scale of credit assets has maintained a relatively rapid growth. Due to the complex and changing economic environment, certain companies have been badly managed and failed to repay the principal and interest on schedule. As a result, the NPL ratio has increased, and the allowance coverage ratio was meeting the regulatory requirements. As at the end of the Reporting Period, the Bank's total loans amounted to RMB44,578 million, representing an increase of 43.04% as compared to the end of the previous year, total NPLs amounted to RMB417 million, representing an increase of RMB169 million as compared to the end of the previous year, and the NPL ratio was 0.94%, representing an increase of 0.14 percentage points as compared to the end of the previous year.

Distribution of Loans by Five-Category Classification

Unit: RMB'000

Item	December 31, 2019		December 31, 2018	
	Amount	% of total	Amount	% of total
Normal loans	42,528,501	95.40	30,391,970	97.52
Special mention loans	1,631,919	3.66	525,294	1.68
Substandard loans	217,320	0.49	245,630	0.79
Doubtful loans	200,084	0.45	2,630	0.01
Loss loans	–	–	–	–
Total customer loans	44,577,824	100.00	31,165,527	100.00
Total NPLs	417,404	0.94	248,260	0.80

Pursuant to the regulatory requirements on risk-based classification of loans, the Bank has adopted five-category classification to manage the quality of loans. NPLs include loans classified as substandard, doubtful and loss. As at the end of the Reporting Period, the percentage of substandard loans decreased by 0.30 percentage points to 0.49% as compared to the previous year, the percentage of doubtful loans increased by 0.44 percentage points to 0.45% as compared to the previous year, and no loss loans were recorded.

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Distribution of Loans and NPLs by Industry

Unit: RMB'000

Item	December 31, 2019				December 31, 2018			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Corporate loans	36,902,397	82.79	373,746	1.01	24,784,475	79.53	174,690	0.70
Leasing and business services	14,023,090	31.46	-	-	6,962,009	22.34	-	-
Construction	7,544,089	16.92	6,400	0.08	4,435,333	14.23	4,500	0.10
Wholesale and retail	2,940,201	6.60	21,647	0.74	3,380,618	10.85	65,270	1.93
Manufacturing	2,795,517	6.27	255,630	9.14	3,338,540	10.71	14,950	0.45
Real estate	6,003,260	13.47	-	-	2,836,858	9.10	-	-
Accommodation and catering	517,428	1.16	-	-	1,030,228	3.31	27,300	2.65
Education	946,100	2.12	-	-	887,400	2.85	-	-
Water, environment and public utilities	858,719	1.93	-	-	878,110	2.82	-	-
Transportation, warehousing and express services	250,339	0.56	25,669	10.25	351,819	1.13	50,170	14.26
Others	1,023,654	2.30	64,400	6.29	683,560	2.19	12,500	1.83
Discounted bills	1,499,648	3.36	-	-	644,908	2.06	-	-
Retail loans	6,175,779	13.85	43,658	0.71	5,736,144	18.41	73,570	1.28
Total customer loans	44,577,824	100.00	417,404	0.94	31,165,527	100.00	248,260	0.80

In 2019, the Bank actively adjusted its credit structure, regarded serving the real economy as its own responsibility, focused on supporting private enterprises, SMEs, agriculture-related economy, people's livelihood projects and other areas, proactively optimized the allocation of risk-bearing assets, and reduced its assets in areas with prudent and prohibited entry requirements, which resulted in improving risk resistance abilities of newly added credit assets. Both the amount and ratio of our non-performing corporate loans increased due to certain companies' failure to repay the principal and interest on schedule, arising from poor management under a complex and changing economic environment. By industry, the Bank's non-performing corporate loans mainly involved manufacturing, transportation, warehousing and express services, as well as wholesale and retail, which accounted for 81.06% of the total non-performing corporate loans.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Distribution of Loans and NPLs by Product Type

Unit: RMB'000

Item	December 31, 2019				December 31, 2018			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Corporate loans	36,902,397	82.79	373,746	1.01	24,784,475	79.53	174,690	0.70
Working capital loans	16,190,046	36.33	285,616	1.76	10,118,053	32.47	127,390	1.26
Fixed asset loans	20,712,351	46.46	88,130	0.43	14,666,422	47.06	47,300	0.32
Others	-	-	-	-	-	-	-	-
Discounted bills	1,499,648	3.36	-	-	644,908	2.06	-	-
Retail loans	6,175,779	13.85	43,658	0.71	5,736,144	18.41	73,570	1.28
Individual housing loans	1,968,716	4.42	19,257	0.98	2,100,874	6.74	20,140	0.96
Personal business loans	3,441,444	7.72	22,257	0.65	2,876,067	9.23	47,520	1.65
Personal consumption loans	765,619	1.72	2,144	0.29	759,203	2.44	5,910	0.78
Others	-	-	-	-	-	-	-	-
Total customer loans	44,577,824	100.00	417,404	0.94	31,165,527	100.00	248,260	0.80

In face of the background of the constantly advancing supply-side reform and strengthening support for the real economy, the Bank actively addressed the changes of demand for effective credits and maintained a relatively rapid growth in the scale of corporate loans while adhering to the principle of prudent extension. As at the end of the Reporting Period, the proportion of the Bank's corporate loans increased by 3.26 percentage points to 82.79% as compared to the end of the previous year. The NPL ratio of corporate loans increased by 0.31 percentage points to 1.01% as compared to that at the end of the previous year because certain companies' failure to repay the principal and interest on schedule, resulting from poor management under a complex and changing economic environment.

The Bank steadily developed its retail loan business by actively innovating retail business products and expanding retail business channels. The balance of retail loans increased by RMB440 million as compared to that at the beginning of the year, but the proportion of retail loans still decreased by 4.56 percentage points to 13.85% due to the greater percentage of growth in corporate loans. The NPL ratio of retail loans decreased by 0.57 percentage points to 0.71% as compared to the end of the previous year as a result of our continuous efforts in enhancing credit risk prevention and disposing NPLs.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Distribution of Loans and NPLs by Geographical Region

Unit: RMB'000

Region	December 31, 2019				December 31, 2018			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Luzhou	39,967,975	89.66	415,703	1.04	28,684,378	92.04	248,260	0.87
Outside Luzhou	4,609,849	10.34	1,701	0.04	2,481,149	7.96	-	-
Total customer loans	44,577,824	100.00	417,404	0.94	31,165,527	100.00	248,260	0.80

The Bank focused on serving the real economy and supported the development of local economy while actively expanding its cross-regional business, scientifically and rationally allocating our credit resources, enhancing risk management and control in key industries and continuously optimizing the credit structure. Due to disparities in regional economies and other factors, the newly increased NPLs was mainly attributable to Luzhou.

Distribution of Loans and NPLs by Collateral

Unit: RMB'000

Item	December 31, 2019				December 31, 2018			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Unsecured loan	3,572,538	8.01	4,127	0.12	2,631,531	8.44	2,590	0.10
Guaranteed loans	18,298,585	41.05	343,482	1.88	10,493,307	33.67	53,980	0.51
Collateralized loans	15,610,001	35.02	66,505	0.43	12,869,755	41.30	190,570	1.48
Pledged loans	7,096,700	15.92	3,290	0.05	5,170,934	16.59	1,120	0.02
Total customer loans	44,577,824	100.00	417,404	0.94	31,165,527	100.00	248,260	0.80

The Bank strengthened risk prevention and control through risk mitigation measures such as increasing the number of guarantors, and the guaranteed loans accounted for 41.05% of the total loans. The non-performing ratio of collateralized loans dropped by 1.05 percentage points to 0.43%.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Loans to Our Ten Largest Single Borrowers

Unit: RMB'000

Name of borrowers	Industry	Amount of loans as at the end of the Reporting Period	% of net capital base	% of total loans
A	Leasing and business services	750,000	8.44	1.68
B	Real estate	700,000	7.87	1.57
C	Construction	660,000	7.42	1.48
D	Real estate	590,000	6.64	1.32
E	Manufacturing	563,073	6.34	1.26
F	Leasing and business services	514,000	5.78	1.15
G	Real estate	500,000	5.62	1.12
H	Leasing and business services	500,000	5.62	1.12
I	Leasing and business services	500,000	5.62	1.12
J	Real estate	500,000	5.62	1.12
Total		5,777,073	64.97	12.94

As at the end of the Reporting Period, the total loans of the ten largest single borrowers of the Bank amounted to RMB5,777 million, accounting for 64.97% of the Bank's net capital base and 12.96% of the Bank's total loans. The loan balance of the largest single borrower was RMB750 million, accounting for 8.44% of the Bank's net capital base.

Distribution of Loans by Period Overdue

Unit: RMB'000

Period overdue	December 31, 2019		December 31, 2018	
	Amount	% of total loans	Amount	% of total loans
Overdue for up to 3 months (inclusive)	358,512	0.80	80,280	0.26
Overdue for over 3 months up to 1 year (inclusive)	271,078	0.61	115,840	0.37
Overdue for over 1 year up to 3 years (inclusive)	30,376	0.07	57,480	0.18
Overdue for over 3 years	343	0.00	23,780	0.08
Total overdue loans	660,309	1.48	277,380	0.89
Total customer loans	44,577,824	100.00	31,165,527	100.00

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As at the end of the Reporting Period, the Bank's overdue loans amounted to RMB660 million, representing an increase of RMB383 million as compared to the end of the previous year. The percentage of overdue loans in the Bank's total loans was 1.48%, representing an increase of 0.59 percentage points as compared to the end of the previous year. Among them, loans overdue for up to 3 months (inclusive) amounted to RMB359 million, accounting for 54.29% of overdue loans. The Bank has adopted a stricter classification criteria, under which loans whose principal or interest has been overdue for over 1 day (inclusive) would be deemed as overdue loans.

Foreclosed Assets and Provision for Impairment Allowance

As at the end of the Reporting Period, the Bank's total foreclosed assets amounted to RMB50,490 thousand with provision for impairment allowance of RMB19,461 thousand, and the net foreclosed assets amounted to RMB31,029 thousand.

Changes in Provision for Impairment Allowance/Expected Credit Losses of Loans

Starting from January 1, 2018, under the requirements of IFRS 9, we classify our customer loans using a "three-stage" model: (1) Stage 1 (Normal Credit Quality) refers to customer loans that have not had a significant increase in credit risk and expected credit losses in the next 12 months will be recognized; (2) Stage 2 (Significant Increase in Credit Risk) refers to customer loans that have had a significant increase in credit risk and for which the expected credit losses lifetime will be recognized; (3) Stage 3 (Credit-impaired) refers to customer loans that have objective evidence of impairment and for which the expected credit losses lifetime will be recognized. We have developed a new expected credit loss impairment model in accordance with IFRS 9 to measure the expected credit losses, taking into account various factors such as macroscopic index, macroeconomic indicators and macro-financial scenario analysis.

An impairment loss is recognized through profits or losses when there is objective evidence that loans are impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loans' original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized/pledged financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral or pledges. We made full provision for impairment allowance for loans classified as "loss". For loans classified as "substandard" and "doubtful", we generally do not make full provision for impairment allowance and measure impairment allowance as the difference between the carrying amounts and the estimated recoverable amounts of the loans. The estimated recoverable amounts are the present value of the estimated future recoverable cash flows of the loans, including the recoverable value of the collateral or pledges.

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(The financial data of the Bank expressed in RMB unless otherwise stated)

The following table sets forth the changes in the Bank's expected credit impairment for loans in the year indicated: (Unit: RMB'000)

Item	2019	2018
Balance at the beginning of the year	792,833	467,081
Provision/reversal for the year	796,889	331,721
Written-off for the year	(151,610)	(13,144)
Recoveries of loans written-off in the previous year	16,470	1,861
Unwind of discount	5,402	5,314
Balance at the end of the year	1,459,984	792,833

As at the end of the Reporting Period, the Bank's balance of impairment allowance for loans amounted to RMB1,460 million, representing an increase of RMB667 million or 84.15% as compared to the end of the previous year; the allowance coverage ratio of NPLs amounted to 349.78%, representing an increase of 30.42 percentage points as compared to the end of the previous year; the allowance to total loan ratio amounted to 3.28%, representing an increase of 0.74 percentage points as compared to the end of the previous year.

Corresponding measures taken against Non-performing Assets

During the Reporting Period, the Bank adopted the following key measures to manage non-performing assets to enhance management and control of the asset quality, ensuring its stability:

- (1) Strengthen NPL disposal. The Bank enhanced non-litigation collection efforts to collect loans that could be settled through non-litigation process in advance, enhanced the coordination with judicial departments of various levels to accelerate the progress of litigation collection, strengthened the communication and collaboration with industry associations and other banks and made full use of the coordination mechanism of the Banking Creditors' Committee to actively take part in the integration and settlement and disposal of non-performing assets and credit risks, so as to adequately protect and safeguard the Bank's legal rights. The Bank also explored possibilities of resolving and disposing non-performing assets through multiple channels based on the traditional collection means and wrote off loans which could be written-off, if appropriate, to optimize the credit asset structure.
- (2) Reinforce resolving of newly-added risky loans. The Bank conducted real-time monitoring on overdue loans and risky loans to prevent and mitigate risks in a timely manner.

Credit extension to group customers and risk management

The Bank adhered to the principles of "implementing centralised control, appropriate credit extension and conducting early warning management" in extending credit to group customers. Firstly, all on-balance-sheet and off-balance-sheet businesses provided to single customers or group customers were included in the scope of unified credit management for centralized risk control. Secondly, we have reasonably controlled the overall credit of customers based on the magnitude of risks and risk appetites of customers to prevent excessive concentration of risks. Thirdly, we have established a mechanism for monitoring, identification, early warning, and reporting of credit risks to have a full grasp on the credit profiles, and effectively prevent and mitigate credit risks.

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Discount loans representing 20% (inclusive) or more of the total loans as at the end of the Reporting Period

As at the end of the Reporting Period, the Bank had no discount loans representing 20% (inclusive) or more of the total loans.

7 ANALYSIS OF CAPITAL ADEQUACY RATIOS

The capital management of the Bank, while satisfying regulatory requirements, is targeted to constantly enhance the ability to resist risk of capital and boost return on capital, and on this basis, it reasonably sets the Bank's capital adequacy ratio target and guides business development by means of performance appraisal and capital allocation to achieve the coordinated development of its overall strategy, business and capital management strategy.

We conduct regular internal capital evaluation to evaluate our capital adequacy and risk resistance ability by reference to stress testing. According to our internal capital evaluation and risk profile, we adjust our capital plans in a timely manner, and guide branches and management departments to carry out more capital-saving businesses to meet the planned capital adequacy ratio target.

We calculate our capital adequacy ratio in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (CBIRC Order [2012] No. 1) 《商業銀行資本管理辦法(試行)》(中國銀行保險監督管理委員會令2012年第1號) issued by the CBIRC and other relevant regulatory provisions. The on-balance-sheet credit risk-weighted assets are calculated with different risk weights determined in accordance with each asset, the credit of the counterparty, market and other relevant risks and by considering the effects of qualified pledge and guarantee; the same approach is also applied to the calculation of off-balance-sheet credit risk exposure. Market risk-weighted assets are calculated using the standardized approach, and the operational risk-weighted assets are calculated using the basic indicator approach. During the Reporting Period, we complied with the capital requirements prescribed by regulatory authorities.

The following table sets forth the information of our capital adequacy ratio as at the dates indicated.

Unit: RMB'000

	December 31, 2019	December 31, 2018
Total capital before deductions	8,932,089	7,904,483
Of which: Core tier-one capital	6,889,509	6,366,786
Tier-two capital	2,042,580	1,537,697
Total net capital	8,891,351	7,867,832
Net core tier-one capital	6,848,771	6,330,135
Net tier-one capital	6,848,771	6,330,135
Total risk-weighted assets	73,539,932	59,214,150
Core tier-one capital adequacy ratio	9.31%	10.69%
Tier-one capital adequacy ratio	9.31%	10.69%
Capital adequacy ratio	12.09%	13.29%

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(The financial data of the Bank expressed in RMB unless otherwise stated)

At the end of the Reporting Period, the Bank had a capital adequacy ratio of 12.09%, representing a decrease of 1.20 percentage points as compared to the end of the previous year, which was 1.59 percentage points higher than the regulatory requirement; and a core tier-one capital adequacy ratio of 9.31%, representing a decrease of 1.38 percentage points as compared to the end of the previous year, which was 1.81 percentage points higher than the regulatory requirement. The change in our capital adequacy ratio during the Reporting Period was primarily due to an increase in our overall risk-weighted assets driven by our business development, but the overall risk remained controllable within a reasonable range. Thus, our capital adequacy ratio at each tier was higher than regulatory requirements.

8 RISK MANAGEMENT

Credit risk

Credit risk refers to the risk arising from the failure of an obligor or a party concerned to fulfill its obligations in accordance with agreed terms. We are exposed to credit risks primarily arising from our loan business, acceptance business, letters of guarantee business and financial market business.

Pursuant to regulatory requirements, we manage our on-and-off balance sheet credit assets by implementing five-category classification based on the obligor's repayment abilities and intention, taking into account various factors including the guarantor, pledges and collaterals and overdue period. The classification is successively subject to preliminary opinions of the processing institution, an initial review by the Credit Business Department at our head office, a re-examination by the Risk Management Department at our head office and consideration and confirmation by the Centralized Risk Management Committee.

The Credit Business Department at our head office takes a leading role in our credit risk management and regularly reports our risk management to the Credit Risk Management Committee, the Centralized Risk Management Committee and the Board. During the Reporting Period, we adhered to the risk control principle of "active compliance, strict risk control and internal control strengthening" and kept intensifying efforts for credit risk management through credit extension structure optimization, credit system improvement, credit staff cultivation and internal examination enhancement, non-performing loan reduction, etc. During the Reporting Period, we intensified credit risk management mainly in the following aspects:

1. Optimizing credit structure adjustment by adhering to the guidance of government policies. To actively respond to the national economic development strategy, focusing on the national direction of industrial structure adjustment, keeping up with the regional economic development strategy, further scientific digging of and reasonably allocating our credit resources and promoting a sustainable and healthy development of our credit business, the Bank has formulated the Guidelines for Credit Extension of Luzhou Bank Co., Ltd in 2020 (《泸州银行股份有限公司2020年信贷投向指引》) and is committed to the overall credit extension strategy of "credit extension optimization, services innovation, legal compliance, controllable risk and efficiency improvement".

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2. Strengthening risk screening and risk control in key areas. In accordance with the requirements of the regulatory authorities and the Bank's risk management and control, the Bank has actively carried out various types of risk screening, including special management and screening of case risk, special screening of unreasonable loan recovery and loan cessation, real estate valuation report screening, collateral value reassessment screening, and screening to rectify market disorders. We further strengthened risk management and control in key areas such as authorized credit extension management, group customer management, implementation of macro-control policies, risk asset classification and disposal. Regarding problems discovered during the screenings, we insisted on carrying out immediate rectifications while such screenings were still underway, which improved our risk management and control capabilities, reduced our credit risk and ensured the quality of our assets.
3. Preventing credit risks and deepening credit business examinations. In order to regulate the compliance of operations in all aspects of the credit business and have a full grasp of the customers risk profiles, we actively conducted regular and irregular examinations on credit business and credit-like business for major credit customers and customers with potential risks. Regarding problems discovered during the examinations, we demanded for rectifications by issuing risk reminders and rectification notices to further regulate credit business operations and improve our credit risk management and control capabilities.
4. Strengthening the monitoring of overdue loans and loans that were showing other early warning signs, and properly collecting and disposing non-performing loans. We have strengthened asset quality screening and management of loans associated with risk warnings, formulated risk prevention and control measures in a timely manner, and firmly prevented loans from turning into non-performing loans; we have worked out "one-customer, one-policy" risk mitigation plans in light of the specific situations of non-performing loans, and enhanced collection efforts and efficiency through non-litigation collection, litigation or arbitration collection, and enforcement of notarization; we have established good communication mechanisms with peer institutions and government departments to maintain an open channel to convey information, and jointly address potential problems arising from corporate operations by concerted efforts.
5. Strengthening credit review and approval, and strictly implementing hierarchical authorization management for credit business. We strengthened unified credit extension and unified management, and implemented hierarchical authorization for credit business according to our business development needs; enhanced credit risk review and strictly implemented the independent review and approval mechanism based on the principle of "objectivity and fairness, legal review, independent credit granting/approval, and responsibility for risks" and "substantial is more important than form", with a focus on the review of industrial policies, credit policies, use of loan, repayment ability and guarantee ability. We reinforced credit management of the Group and laid emphasis on prevention of customer risks associated with long position financing and excessive credit extension. We also effectively identified high-risk customers, focused on substantial risks and proposed risk prevention measures to strictly control risks.

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6. Strengthening the construction of credit team and promoting high-quality and effective development of the credit business. With the purpose of “reality in touch, demand satisfaction, rapid improvement and effectiveness”, we have enhanced training and guidance for credit line staff. We conducted follow-up training for our branch credit staff, invited internal business backbone personnel and external industry experts to launch themed training for our credit line staff, dispatched credit staff to take advanced study in batches supplemented with necessary tests or exams to inspect the training outcome, kept improving the business ability and risk compliance awareness of our credit line staff across the Bank and established an enterprise risk training culture that controls substantial risks to eliminate cases of risk at the source.

Operational risk

Operational risk refers to the risk of loss arising from inadequate or problematic internal procedures, employees and information technology systems, and external events.

We continuously strengthened the prevention and control measures of operational risk to prevent systematic operational risks and major operational risks. As at the end of the Reporting Period, there is no material operational risk event or case risk event.

As the top decision-making body of our operational risk management, our Board bears the ultimate responsibility for monitoring the effectiveness of operational risk management, works out operational risk management strategies and general policies that are consistent with our strategic objectives and applicable to the Bank, and regularly reviews the operational risk reports submitted by our senior management to fully understand our overall operational risk management and the effectiveness of major operational risk events handled by our senior management. Our Board of Supervisors is responsible for supervising the performance of duties by our Board and senior management on operational risk management and providing relevant supervision opinions. Our senior management is responsible for implementing the operational risk management strategies determined by our Board, formulating systematic systems, processes and methods, and adopting corresponding risk control measures to comprehensively prevent and control operational risks. Our subordinate Operational Risk Management Committee is responsible for specific operational risk prevention and control. We carried out the operational risk prevention work by continuously embracing “seven constructions” (organizational structure, functional structure, system structure, supervision and inspection mechanism, rectification and accountability mechanism, appraisal and incentive mechanism and subsequent evaluation mechanism), constantly improved the prevention and control system of operational risk, gradually accomplished the operational risk prevention and control work structure of the case prevention prospect, the stage-gate ante-displacement and methods of case prevention, and improved the long-term mechanism of prevention and control of case and operational risk. During the Reporting Period, we intensified operational risk management mainly in the following aspects:

1. We tamped internal control level, conducting analysis from multiple perspectives including systems, processes and regimes, and strengthened the special inspection and risk evaluation on key business field and key risk field, and combined the analysis and forewarning of key indicators of operational risks so as to cut off operational risks in an all-round manner.

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2. We promoted a culture of compliance awareness, adopted a variety of measures such as education, training, competition, positive and negative incentives and combined with onsite inspection, off-site supervision and other means to strengthen the implementation of the system, imbed the compliance consciousness. We focused on abnormal behaviors of employees and strengthened the management of key personnel and key positions to strictly prevent operational risks.
3. We effectively integrated “manual prevention” and “technical prevention” to enhance the backend system’s hard ability in preventing non-compliant operation by optimizing a model with frontend business handled according to centralized authorization from the backend, reducing the frequency of manual operation, upgrading the operational risk management system and raising the level of automation and hard control ability of our system.
4. We continuously improved the prevention level of project construction risk, paid attention to the business continuity construction, strengthened the management in key areas of operation and maintenance, strictly carried out routine operation and maintenance system inspection, regularly carried out exercises relating to disaster backup and emergencies to ensure the security and reliability of the information system and its stable operation. We strictly complied with the risk baseline of “security management responsibilities are not outsourced and security standards cannot be lowered” and strengthened the hierarchical management work of outsourcing.

Market risk

Market risk refers to the risk of any loss in our on-balance-sheet and off-balance-sheet activities caused by any adverse change in market prices (interest rates, exchange rates, stock prices and commodity prices). The market risks we face mainly include interest rate risk and exchange rate risk. Our market risk management aims at controlling market risks at an acceptable and reasonable range and maximizing Bank-wide comprehensive benefits after risk adjustment.

Our organizational system for market risk management is jointly constituted by the Board and its committees, the Board of Supervisors, senior management and its Centralized Risk Management Committee and Market Risk Management Committee, Risk Management Department, Internal Audit Department, Assets and Liabilities Management Department, International Business Department, Financial Markets Department, each business department and branches of head office. The senior management assumes implementation responsibility of market risk management and organizes bank-wide market risk management. With a sound and compliant internal control system for market risk management, during the Reporting Period, we carried out a special internal audit on market risk and formed an audit report which was submitted to the Board.

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We formulated the operation-suiting basic system of market risk appetite, market risk management and bank book interest rate risk management according to the Guidelines on Market Risk Management of Commercial Banks 《商業銀行市場風險管理指引》(CBIRC Order [2004] No.10), Guidelines for the Internal Control of Commercial Banks 《商業銀行內部控制指引》 and Guidelines of Bank Book Interest Rate Risk Management of Commercial Banks (商業銀行銀行賬簿利率風險管理指引), set up market risk limit indicators, and conducted classification management on transaction accounts and bank accounts. We optimized market risk management system and continued to improve risk management efficiency through such measures as authorization, credit extension, limit, inspection and report.

1. Interest rate risk analysis

Our interest rate risks arise primarily from the mismatch in the repricing periods of interest rates on assets and liabilities and the impact of changes in market interest rates on asset trading positions. We adopted corresponding measures such as identification, measure, inspection and control according to different nature and feature of bank accounts and transaction accounts.

With respect to the repricing risk in assets and liabilities businesses, we mainly measured the interest rate sensitivity gap periodically, analyzed the interest rate risk we could bear through the gap and further evaluated the impacts of changes in interest rates on net interest incomes and net values. We took measures in a timely manner to adjust the asset-liability product portfolio and ceiling and the pricing method of loan interest rate to ensure the risk level control is within the acceptable range and maximize the net interest income level of the Bank, in line with internal and external management needs.

Regarding the interest rate risk of asset trading positions, we paid close attention to the domestic and oversea macro economy conditions and market liquidity changes and conducted market risk control through such measures as position setting and limit control. We used system to conduct measurement, inspection and daily management on market risk, implemented valuation to transaction positions every day, continuously inspected transaction limits, stop-loss limits and other indicators, and regularly and effectively monitored, managed and reported the implementation of risk limits.

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2. Interest rate sensitivity analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. The following table sets forth, as at December 31, 2019 and 2018, the results of our interest rate sensitivity analysis based on our assets and liabilities at the same dates.

Unit: RMB'000

	Expected changes of net interest income	
	December 31, 2019	December 31, 2018
+ 100 basis point parallel move in all yield curves	11,699	(40,981)
- 100 basis point parallel move in all yield curves	(11,699)	40,981

The table below illustrates the potential impact of a 100 basis point move on the other comprehensive income of the Bank.

Unit: RMB'000

	Changes of other comprehensive income	
	December 31, 2019	December 31, 2018
+ 100 basis point parallel move in all yield curves	(126,702)	(229,598)
- 100 basis point parallel move in all yield curves	135,798	245,862

3. Exchange rate sensitivity analysis

The following table sets forth, as at December 31, 2019 and 2018, the results of our exchange rate sensitivity analysis based on our assets and liabilities at the same dates.

Unit: RMB'000

	Expected changes of profit/(loss) before tax	
	December 31, 2019	December 31, 2018
1% increase in foreign exchange rate against RMB	8,009	15,206
1% decrease in foreign exchange rate against RMB	(8,009)	(15,206)

Liquidity risk management and analysis

Liquidity risk refers to the risk that the commercial banks cannot timely obtain sufficient funds at reasonable costs for repaying mature debts, performing other payment obligations and satisfying other capital needs for normal business operation.

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Our liquidity risk management aims at fully identifying, measuring and monitoring the liquidity risk in our business lines and links by establishing and continuously improving the strategies, policies, procedures and systems for managing liquidity risk; ensuring sufficient funds to meet the needs for paying debts due and funding business operation in normal operation and stressful situations; and achieving the coordination and unity between safety, liquidity and profitability in business development to promote our sustainable and healthy operation.

To improve the effectiveness of liquidity risk management, we have established a governance structure for liquidity risk management according to the principle of separating the functions of formulating, implementing and supervising liquidity risk management policies, which provides the duties and reporting lines of the Board and its committees, the Board of Supervisors, senior management and its Centralized Risk Management Committee, Liquidity Risk Management Committee and our related departments, branches and sub-branches in respect of liquidity risk management. We have implemented a stable liquidity risk appetite better suiting our current development. Currently, our liquidity risk management policies and systems are in line with regulatory requirements and our management needs.

We carry out centralized management on liquidity risk. Through the establishment of a scientific and perfect system for liquidity risk management, we fully identify, accurately measure, continuously monitor, effectively control and timely report liquidity risk from two aspects: short-term provision and mid-and-long term structure with the information system for liquidity risk management, continuously monitor and analyze the future cash flow and various limits and indicators, and periodically conduct stress testing to judge whether we have the ability to meet the liquidity needs in extreme cases. In addition, we have formulated a liquidity risk contingency plan which we regularly test and evaluate.

We hold adequate high-quality liquid assets to ensure our liquidity needs, and have sufficient funds to meet unforeseeable potential payment needs in daily operation. Most of our funds are from deposits accepted, which constituted a stable fund resource due to their rapid growth, wide varieties and diversified terms during the Reporting Period.

With a sound and compliant internal control system for liquidity risk management, we carry out special internal audit on liquidity risk every year and form an audit report which will be submitted to the Board.

In 2019, while paying close attention to changes in macro finance and economy, we continuously enhanced fine management of liquidity risk. During the Reporting Period, we intensified liquidity risk management mainly in the following aspects:

1. We continuously optimized liquidity risk management and improved the system for liquidity risk management.
2. We enhanced marketing of deposits, particularly the marketing of personal savings and stable deposits from quality small and medium-sized customers, to promote the growth of various deposits and gradually improve the overall stability of our liabilities.
3. We paid close attention to financial and economic situations at home and abroad and changes of market liquidity, and made prudent and reasonable judgement to timely adjust our assets and liabilities management strategies; continuously and dynamically monitored various indicators and limits management of liquidity risk through the information system for liquidity risk management and made fund arrangements in advance to ensure sufficient provisions and controllable liquidity risks.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

4. We continuously optimized asset-liability structure by constantly intensifying the bidirectional management of assets and liabilities, improving the stability of liabilities through multiple channels, rationally arranging for asset issuance and avoiding centralized maturity of liabilities.
5. We designed several stress scenarios and conducted periodic liquidity risk-related stress testing in strict accordance with relevant provisions under the Administrative Measures on Liquidity Risk Management of Commercial Banks 《商業銀行流動性風險管理辦法》 issued by China Banking and Insurance Regulatory Commission, various macro and micro factors which could affect our liquidity and features, scale, nature, complexity and risk profile of our business.

As at the end of the Reporting Period, we witnessed a liquidity ratio of 83.72%, 58.72 percentage points higher than relevant regulatory requirements; a high-quality liquidity asset adequacy ratio of 156.34%, 56.34 percentage points higher than relevant regulatory requirements; and a liquidity matching ratio of 127.87%, 27.87 percentage points higher than relevant regulatory requirements, which reflected that our major liquidity indicators were higher than regulatory requirements.

Information technology risk management

Keeping up with the development of Internet and aiming at achieving our business development strategies, we adhere to customer focus, innovation-driven development, an open and shared corporate structure and system and risk control to ensure the safety of information. In adherence to overall technology innovation, we established “Future Bank” laboratory jointly with HUAWEI, which comprehensively promoted the transformation of IT dual-mode structure. We also made great efforts in the building of information system and introduction of sci-tech talents, which effectively supported the completion of various business goals during the Reporting Period, continuously helped the Bank improve the core competitiveness and substantially supported the information technology work.

We kept promoting integration and innovation of technology and business to improve our business support ability. In information technology construction, we achieved development from passive service for businesses to active leading of businesses. In 2019, through construction of several key projects including international business system, internet loan system, Xiaolu bank-enterprise link system and relocation of new data center, we continuously improved the financial service ecosystem featuring resource sharing and mutual benefits, enhanced customers’ experience in an all-round way and launched such systems and products as An Ju Dai, Le Ye Dai, certificates of large-sum deposit, Tian Tian Jian Mian and Yuan Bao Safe Box. While ensuring compliance operation and meeting regulatory requirements, we actively served people’s livelihood and micro and small enterprises to effectively expand our service channels and customer base.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

We kept improving the business continuity management and information security system to improve our ability to protect system safety. During the Reporting Period, we completed relocation of the new data center and switching and exercises of emergency and disaster preparedness. Meanwhile, we constantly improved our application structure system, constantly carried out business continuity construction, completed expansion and upgrading of several key systems and infrastructures and enhanced backup mechanism to ensure stable operation of systems. We attached great importance to information security management. During the Report Period, aiming at enhancing technology security, we kept improving our ability to prevent and control information technology risks, enhanced building of information technology governance system and internal control, conducted third-party safety assessment for Internet-based business systems, and strengthened Internet safety protection by improving norms and standards of information security, strengthening information technology outsourcing security management, enhancing terminal information security management, perfecting in-depth network defense system and establishing a professional team for cyber security to effectively prevent technology risks.

In 2019, we invested RMB109.84 million in information technology, enlarged payment scenarios and laid self-service vending machines to tourist attractions, schools and parking lots through receipt business platform, expanding scenario financial service. We developed electric channels mascot “Yuan Bao”, progressively integrating into the customers’ living scenarios and assisting the marketing of high net worth customers. We built internet lending platform of direct bank, established online business cooperation with Huayu Group and Tongwei Group, taking the first step of internet credit business. We collaborated with Beijing Institute of Big Data Research and Jiangsu Tongfudun Co., Ltd. (江蘇通付頓公司) on research of block chain application, built mobile innovation application of Xiaolu bank-enterprise link, which integrates various functions including public financial service, corporate office affairs and business travel service.

We explored application of financial technology in prevention and control of operational risk, conducted second phrase construction of operational risk, and built risk model which is based on Big Data and the technologies such as machine learning, to further research on the application of artificial intelligence and behavioral statistics in operational risk prevention and control. We carried out construction of Future Bank and began to build an internet business system and an open financial service platform based on distributed infrastructure platforms. Upon completion, a “dual mode” structure would be formed with the existing system, enabling us to quickly integrate internal and external resources, quickly customize products, and quickly respond to customers’ needs.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

9 SEGMENT REPORTING

The following segment operating results are presented by business segment. The Bank's main businesses include corporate banking, retail banking, financial market business, unallocated items and others. The following table sets forth a summary of the operating results of each business segment of the Bank for the periods indicated.

Unit: RMB'000

Item	2019		2018	
	Segment profit before tax	Ratio %	Segment profit before tax	Ratio %
Corporate banking	288,983	34.83	366,548	42.92
Retail banking	204,683	24.67	170,579	19.97
Financial market business	331,029	39.90	334,795	39.21
Others	4,953	0.60	(17,932)	(2.10)
Total	829,648	100.00	853,990	100.00

Unit: RMB'000

Item	2019		2018	
	Segment operating income	Ratio %	Segment operating income	Ratio %
Corporate banking	1,541,351	54.92	906,143	46.85
Retail banking	341,702	12.17	332,069	17.17
Financial market business	920,995	32.82	694,926	35.93
Others	2,583	0.09	950	0.05
Total	2,806,631	100.00	1,934,088	100.00

10 BUSINESS REVIEW

Corporate banking business

Adhering to the management tenet of “basing on local conditions, serving small and medium-sized enterprises, paying attention to the people’s livelihood and caring for the citizens”, taking “serving the real economy” as the focus of implementing the scientific concept of development and transforming the mode of economic growth, we actively participate in economic construction and social development, and provide our corporate customers with diversified financial products and services to support their business needs.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Corporate loans

As at the end of the Reporting Period, the balance of our corporate loans amounted to RMB36,902 million, accounting for 82.79% of our total loans and advances to customers as of the same date, and representing an increase of 48.89% as compared to the beginning of the year. In particular, our loans to medium to large enterprises amounted to RMB14,416 million, accounting for 39.07% of our total corporate loans as of the same date, our loans to small and micro enterprises amounted to RMB22,463 million, accounting for 60.87% of our total corporate loans as of the same date, our other corporate loans amounted to RMB23 million, accounting for 0.06% of our total corporate loans as of the same date. The majority of our corporate loan customers are enterprises incorporated or otherwise having their primary operations in Sichuan Province, in particular Luzhou. Corporate loans have been the largest component of our loan portfolio.

Bill discounting

Bill discounting refers to the bank acceptance bills and commercial acceptance bills due within six months purchased by the Bank from our corporate customers at prices lower than the par value. We only buy bank acceptance bills and commercial acceptance bills from corporate customers which meet our credit requirements, which is a form of providing short-term financing for such customers.

We also operate interbank bill discounting and rediscounting businesses in our financial markets business segment. Based on the said businesses, we can resell discounted bills to the PBoC or other commercial banks at a lower price, which will bring us extra current assets and additional revenue in interest spread.

As at the end of the Reporting Period, our discounted bills amounted to RMB1,500 million, accounting for 3.36% of our total loans and advances to customers as of the same date. During the Track Record Period, the majority of our discounted bills were bank acceptance bills.

Corporate deposits

As at the end of the Reporting Period, the balance of our corporate customer deposits amounted to RMB29,812 million, accounting for 48.52% of the total deposit balance. We offer our corporate customers RMB time and demand deposits. The RMB time deposits we offered to corporate customers have maturities ranging from three months to five years. We also offer negotiated deposit products that have customized interest rates and maturities and other terms. Besides, we provide call deposit products, which have higher interest rates than demand deposits and reserve certain flexibility of demand deposits (customers may send a notice in advance to draw the deposits). Our corporate deposit customers primarily include government agencies such as financial, transportation and social security institutions, public institutions, state-owned enterprises and large private corporations.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Corporate products

We innovated many customized products by giving full play to the agile decision-making advantage of the local legal-person institution, in order to meet customers' different financing needs.

We have rolled out "Tian Tian Dai" featuring one-time credit extension, recycling and a favorable treatment of interest-free repayment in the first seven days during each extension, with its customers can realize instant withdrawal and repayment within 24-hours through our short message services (SMS), so as to maximize the efficiency of capital use; "Zhi Rong Dai" customized for electronic and information industry, featuring recycling, instant withdrawal and repayment and accrued interest on daily basis; "Shui Jin Dai", an unsecured product which takes the average amount of the total tax paid during the latest two years as its main basis of credit extension; "Piao Bao Tong", which is designed for discounting the electronic commercial acceptance bills issued by the core enterprises to their upstream and downstream enterprises; "Tou Biao Dai", which is exclusively used for the bid bond paid by the construction related enterprises; "Chuang Ke Dai", an unsecured loan product with a low fixed interest rate introduced for young entrepreneurs who are in an early stage of their business without sufficient capital.

Moreover, considering that micro and small enterprises are generally lack of collateral, no guarantor available, existing irregular management and asymmetry information, we have launched pure online application, "Rong e Dai", a pure credit way, as well as "Piao e Dai", with the value-added tax invoicing amount as the main basis and other products, to solve the periodic operating capital turnover difficulties of micro and small enterprises, and improve micro and small enterprises' financial services response speed.

Corporate banking customer base

At the end of the Reporting Period, we had a total of 15,711 corporate banking customers, representing an increase of 6,643 or 73.26% year-on-year. The rapid growth of our corporate banking business is underpinned by our strong customer base. By studying the specific financial needs of corporate banking customers, we have launched a broad range of products and services with specific features targeting selected groups of customers, meanwhile, we have also established a special customer relationship management system, which allows us to closely track our customers' and their partners' business transactions with our Bank, enabling us to offer customized financial services for them.

Financial services of micro and small enterprises

Guided by the spirit of the 19th national congress of the communist party of China, the central economic work council and the national financial work council, we have earnestly implemented the requirements of the PBOC and CBIRC, and taken measures to enhance the quality and effectiveness of financial services for small and micro enterprises by innovating products, streamlining procedures, reducing fees and profits, and deepening the assessment. At the end of the Reporting Period, our loan balance to micro and small enterprises amounted to RMB26,610 million. The number of micro and small customers was 5,046, with a weighted average loan interest rate of 7.94%.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

In order to better meet the financing requirements of micro and small enterprises, we have also set up a special team, namely Huirongtong Small Micro Loan Center, adopted the combination of online application and offline survey, taken advantages of the credit plant process management, relied on the mobile terminal and internet, and shortened the loan processing time to 2-3 days, to provide convenient and efficient financing services for small and micro enterprise customers. Meanwhile, we fully leveraged the PBOC's policies such as relending to support development of micro and small enterprises and targeted cuts to required reserve ratios to enhance support for financing of micro and small enterprises.

Retail banking business

We provide our retail customers with a wide range of financial products and services, including deposits, loans, card services, wealth management as well as collection and remit tax and other intermediary businesses. We have a broad retail customer base.

As of December 31, 2019, we had 774,400 retail banking customers, representing an increase of 99,700 or 14.78% as compared to the end of 2018, and with total deposits of RMB30,812 million and total loans of RMB6,176 million.

We classify our retail customers into basic customers (with deposits balance of less than RMB500,000), value customers (with deposits balance of RMB500,000 (inclusive) to RMB1,000,000), high-end customers (with deposits balance of RMB1,000,000 (inclusive) to RMB3,000,000), and high-net-worth customers (with deposits balance exceeding RMB3,000,000). As of December 31, 2019, we had 3,036 high-end customers, representing an increase of 1,078 or 55.06% as compared to 2018, and 411 high-net-worth customers, representing an increase of 65 or 18.79% as compared to 2018.

Retail deposits

The balance of retail deposits was RMB30,812 million, representing an increase of RMB8,583 million or 38.61% as compared to 2018. Of which, there's large certificates of deposit business in 2019, resulting in additional deposit of RMB281 million.

Retail loans

We provide our retail customers with personal business loans, personal consumption loans as well as personal residential and commercial mortgage loans. As of December 31, 2019, the total retail loans were RMB6,176 million, representing a net increase of RMB440 million or 7.66% as compared to the previous year.

Bank cards

As of December 31, 2019, the number of historical accumulated cards issued to retail banking customers was 971,800 and the stock of cards was 808,800, representing an increase of 118,900 or 13.94% as compared to 2018.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Wealth management

We provide our individual investors with Jin Gui Hua S type open-end wealth management products based on their risk and return appetites. The funds raised from such wealth management products were mainly invested in products such as debt securities and money market instruments. The yields on wealth management products range from 4.20% to 5.02%.

As of December 31, 2019, we had 7,401 investors for our wealth management products, representing an increase of 3,155 or 74.31% as compared to the previous year. The cumulative sales of the full year reached RMB1,777 million with a balance of RMB1,929 million, representing an increase of RMB919 million or 90.99% as compared to the previous year.

Precious metal services

We provide our retail customers with precious metal products and services. We commenced sales agency service for precious metal from October 2018. As of December 31, 2019, our agency sales of precious metal amounted to RMB731,500, representing an increase of RMB405,000 or 124.04% as compared to the end of 2018.

Financial market business

In 2019, in the face of complex changes in the macro environment, market and regulatory environment, we fully analyzed the macroeconomic and financial regulatory situation, implemented a series of regulatory requirements to prevent and control financial risks and develop steadily.

Our financial market business mainly consists of money market transactions business, investment business and asset management business.

Money market transactions business

Our money market transactions include: interbank deposits, interbank lending, bond repurchase, bill rediscount, and issuance of interbank certificates of deposit. During the Reporting Period, we focused on the management and maintenance of interbank clients, maintained credit sustainability with them, and strived to increase their competitiveness while maintaining the diversification and dispersion of our counterparties.

1. *Interbank Deposits*

At the end of the Reporting Period, the balance of deposits from banks and other financial institutions was RMB1,450 million, representing a year-on-year decrease of RMB3,724 million or 71.98%, of which the balance of time deposits from banks was RMB1,365 million, representing a year-on-year decrease of 72.75%, and the balances of demand deposits from banks and settlement accounts were RMB85 million, representing a year-on-year decrease of 48.17%. The balance of deposits with other banks was RMB912 million, representing a year-on-year decrease of RMB1,224 million or 57.30%, of which the balance of time deposits with other banks was RMB799 million, representing a year-on-year decrease of 60.45%, mainly because part of the proceeds from our successful listing on the Hong Kong Stock Exchange were funnelled back to China, and the rest were deposited in other banks. The balances of demand deposits with other banks and settlement accounts were RMB113 million, representing a year-on-year decrease of 2.59%.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

2. *Interbank lending*

At the end of the Reporting Period, the balance of our interbank placement was RMB2,463 million, representing a year-on-year increase of RMB743 million or 43.20%; the balance of interbank lending was RMB113 million, representing a year-on-year decrease of RMB1,600 million or 93.40%. The main reasons were: first, in 2019, the liquidity was generally easy, and we received certain placements and lending from interbank, with an increased transaction amount as compared with the beginning of the year; second, we decreased interbank lending business transactions due to the effect of credit risk events in the market.

3. *Bond repurchase*

At the end of the Reporting Period, there was no balance of our positive buy-back, representing a year-on-year decrease of RMB1,681 million; the balance of counter buy-back was RMB2,272 million, representing a year-on-year decrease of RMB1,491 million or 39.62%, mainly because we made dynamic adjustment to our business structure based on the net assets during the Reporting Period.

4. *Bill rediscount*

At the end of the Reporting Period, we held RMB869 million of rediscounted bills, representing a year-on-year increase of RMB663 million or 321.84%, mainly due to the low points at the end of the year when rediscounting bills, while we increased certain rediscounted bills according to the business needs this year.

5. *Issuance of interbank certificates of deposit*

At the end of the Reporting Period, the balance of our interbank certificates of deposit was RMB17,177 million, representing a year-on-year increase of RMB4,425 million or 34.70%, mainly because the issuance of interbank certificates of deposit of our Bank increased significantly this year as compared with the previous year, and at the same time, we reduced the amount of positive buy-back transactions, and used interbank certificate of deposit as one of the main tools for adjusting daily liquidity.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Investment business

1. *Bond investment*

The global economy as a whole has weakened, and the growth of major economies in the world has slowed down. However, in the second half of the year, the central banks of European and American countries successively entered a new round of easing policy, led to a rebound in the stock market, the delayed boost impact of which on the economy had also gradually shown up at the end of the year. With the influence of factors such as the repeated trade disputes between China and the United States and the weak domestic and foreign demand, China is facing considerable downward pressure. The situation of bond investment is complex and difficult to predict. Externally, the process of Sino-US trade negotiations has been going back and forth, and domestically, the long-term strategic goals such as deleveraging, supply-side reform and the three tough battles are continuously advancing, and various short-term stimulus and support policies to prevent economic stall and decline are formulated. Under the background of infrastructure investment and trade war, the investment in traditional export industries shows sluggish growth while the investment in science and technology to strengthen weak links increases substantially. The sudden outbreak of African swine fever led to CPI inflation while PPI is quite low. The complex and volatile investment situation makes bonds face huge uncertainties and drastic fluctuations. By making accurate judgment of the domestic and foreign economic policy situation, we adjusted position and duration for many times in accordance with the situation changes to obtain band yield. However, the market fluctuated sharply throughout the year and the year-end yield basically returned to the beginning of the year. Due to difficult operation, our bond investment only slightly outperformed the market level.

As at the end of the Reporting Period, we adjusted the total amount and structure of bond investment according to the bond market conditions and our needs of asset allocation. At the end of the Reporting Period, our bond investment amounted to RMB14,475 million, representing a year-on-year increase of RMB375 million or 2.66%, among which, the balance of treasury bonds was RMB1,359 million, representing a year-on-year decrease of RMB151 million or 10.00%; the balance of policy financial bonds was RMB4,051 million, representing a year-on-year decrease of RMB2,716 million or 40.14%; and the balance of debt securities issued by local governments was RMB1,122 million, representing a year-on-year increase of RMB67 million or 6.35%; the balance of credit bonds was RMB7,444 million, representing a year-on-year increase of RMB2,922 million or 64.62%; the balance of debt securities issued by commercial banks was RMB499 million, representing a year-on-year increase of RMB253 million or 102.85%.

Management Discussion and Analysis

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2. *SPV investment*

During the Reporting Period, we actively promoted business diversification, deepened cooperation with interbank organizations, revitalized existing assets, and made a good use of incremental investment. At the end of the Reporting Period, our SPV investment was RMB19,497 million, including RMB641 million for public offering monetary funds and others, RMB12,059 million for trust plans and RMB6,797 million for asset management plans. Our SPV investment decreased by RMB1,355 million or 6.50% year on year, showing a slight decrease amid stability, mainly due to our reduced investments in public offering monetary funds, new investment in public offering bond funds with stable returns and controllable risks, and moderately recovered asset management plans on a stock basis, without significant changes to trust plans in this year.

Asset management business

During the Reporting Period, we issued open-end wealth management products to meet customers' financial needs for liquidity and security, contributing to the steady growth in the scale of wealth management business. At the end of the Reporting Period, the balance of our wealth management products was RMB1,929 million, representing a year-on-year increase of RMB919 million or 90.99%. During the Reporting Period, the amount of wealth management products issued was RMB1,777 million, representing a year-on-year increase of RMB488 million or 37.86%. All wealth management products were non-principal protected with floating interests and achieved expected returns. At the end of the Reporting Period, we had 7,401 customers of wealth management products, all of whom were retail banking customers.

Protection of the rights of financial consumers

During the Reporting Period, we closely followed the new developments in regulation in our work on consumer rights protection. Starting with the basic work, we gave full play to the legal entity's institutional advantages, and optimized organizational structure, reinforced our awareness of responsibility, and strengthened supervision & inspection responsibilities by focusing on product and service design, and promotional and educational campaigns on financial knowledge, so the overall level of our work on consumer rights protection continued to improve.

1. Establishing full-time organizations and strengthening organizational leadership

We set up a consumer rights protection committee under the Board of Directors to make unified plans and overall arrangements for the bank-wide work on consumer rights protection; and set up a consumer rights protection division under the Internal Control and Compliance Department to take up the specific work concerning consumer rights protection throughout the Bank. We continuously improved our organizational structure and effectively enhanced our consumer rights protection work.

2. Optimizing institutional system and consolidating management foundation

By combing the consumer rights protection system, we established and improved a consumer protection system matching with our organizational structure and business development. During the Reporting Period, we organized and revised 26 systems related to consumer rights protection to provide system guarantee for the effective development of our work on consumer rights protection.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

3. Highlighting brand reputation and popularizing public education

Adhering to the concept of “customer-orientated” and “service-creating value”, we provide “standardized, rigorous, honest and reliable” financial services to customers to protect their rights. During the Reporting Period, firstly, we organized the “3.15 Financial Consumer Rights Day”, focused on publicity activities; secondly, we organized the “National Security Education Day for All” activities; thirdly, we carried out the “Popularization of Financial Knowledge” activities; fourthly, we carried the activities of “Spreading Financial Knowledge and Keeping the Purse Strings”; fifthly, we carried out the activity of “Financial Knowledge Popularization Month, Financial Knowledge into Thousands of Families, to be a Rational Investor and to be a Good Financial Netizen”; sixthly, we carried out the “Special Activities to Prevent Network Telecom Fraud”; seventhly, we carried out the “Prevention of Illegal Fund-raising Special Publicity” activities.

4. Enhancing the concept of consumer protection and improving the level of consumer protection

We strictly abide by national laws and regulations, actively adapt to adjustments in regulatory policies, and strictly implement relevant industry standards and operating guidelines. During the Reporting Period, we continuously intensified the relevant staff’s sense of responsibility, strengthened the concept of consumer protection, and made complaint handling flexible in product design, services, pricing management, agreement formulation, examination and approval, marketing and publicity, after-sales management, etc., to achieve whole-process, full-coverage and all-round management of consumer rights protection.

Changes in Share Capital and Information on Shareholders

I. CHANGES IN SHARE CAPITAL

The Bank's H Shares were listed on the Hong Kong Stock Exchange on December 17, 2018 (the "Listing Date") with an offer price fixed at HK\$3.18 per Offer Share (exclusive of brokerage of 1%, Hong Kong SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The Bank issued 545,740,000 H Shares in total under the Global Offering. Three Cornerstone Investors subscribed for 270,000,000 H Shares in total issued by the Bank. After deduction of the underwriting fees, commissions and expenses payable by us in relation to the Global Offering and excluding the impact of the exercise of Over-allotment Option, the net proceeds of the Global Offering accruing to us were approximately HK\$1,638.2 million.

On January 9, 2019, the Sole Representative (as defined in the Prospectus of H Shares Global Offering of the Bank) (on behalf of the International Underwriters) fully exercised the Over-allotment Option, which involved 81,860,000 H Shares in total, representing in aggregate 15% of the Offer Shares initially offered under the Global Offering before any exercise of the Over-allotment Option, to cover over-allocations in the International Offering. The over-allotment shares were issued and allotted at HK\$3.18 per H Share (exclusive of brokerage of 1%, Hong Kong SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The over-allotment shares were listed and traded on the Main Board of Hong Kong Stock Exchange on January 14, 2019. The additional net proceeds from the issuance of over-allotment shares of the Bank were approximately HK\$255.5 million (after deducting underwriting commissions, brokerage, transaction levy and transaction fee).

Our proceeds from the issuance of H Shares have been fully utilized for the intended use as disclosed in the Prospectus of our Bank. We have used the net proceeds from the Global Offering (after deduction of underwriting fees and commissions and expenses payable by us in relation to the Global Offering) to strengthen our capital base to support the ongoing growth of our business.

II. STATEMENT OF SHAREHOLDING STRUCTURE

Unit: Share, %

	December 31, 2018		Change during the reporting period	December 31, 2019	
	Quantity	Percentage		Quantity	Percentage
Total share capital	2,182,933,385	100.00%	–	2,264,793,385	100.00%
Domestic Shares held					
by legal person	1,593,116,644	72.98%	–	1,593,116,644	70.34%
Domestic Shares held					
by natural person	44,076,741	2.02%	–	44,076,741	1.95%
H Shares	545,740,000	25.00%	81,860,000	627,600,000	27.71%

Changes in Share Capital and Information on Shareholders

III. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE BANK

During the Reporting Period, the Bank issued 81,860,000 H Shares upon exercise of Over-allotment. Save as disclosed above, the Bank had not purchased, sold or redeemed any listed securities of the Bank during the Reporting Period.

IV. DETAILS OF SHAREHOLDERS

As at the end of the Reporting Period, the total number of Shares of the Bank was 2,264,793,385 Shares, consisting of 1,637,193,385 Domestic Shares and 627,600,000 H Shares.

(I) Shareholding of Top 10 Holders of Domestic Shares of the Bank

Shareholding of top 10 holders of Domestic Shares of the Bank is as follows:

Unit: Share

No.	Name of Shareholders	Class of shares	Number of Shares held at the end of the period	Shareholding percentage	Number of Shares pledged	Number of Shares frozen
1	Luzhou Laojiao Group Co., Ltd. (瀘州老窖集團有限責任公司)	Domestic Shares	325,440,000	14.37%	-	-
2	Sichuan Jiale Enterprise Group Co., Ltd.(四川省佳樂企業集團有限公司)	Domestic Shares	271,200,000	11.97%	-	-
3	Luzhou Xinfu Mining Industry Group Co., Ltd. (瀘州鑫福礦業集團有限公司)	Domestic Shares	271,200,000	11.97%	-	271,200,000
4	Luzhou Municipal Finance Bureau	Domestic Shares	161,544,800	7.13%	-	-
5	Luzhou State-owned Assets Operation Co., Ltd. (瀘州國有資產經營有限公司)	Domestic Shares	144,640,000	6.39%	-	-
6	Luzhou Xinglu Jutai Real Estate Co., Ltd.(瀘州興瀘居泰房地產有限公司)	Domestic Shares	91,715,862	4.05%	-	-
7	Chengdu Modern Agricultural Development Investment Co., Ltd. (成都市現代農業發展投資有限公司)	Domestic Shares	81,043,600	3.58%	-	-
8	Luzhou Industrial Investment Group Co., Ltd. (瀘州市工業投資集團有限公司)	Domestic Shares	73,462,268	3.24%	-	-
9	Luzhou Xinglu Investment Group Co., Ltd. (瀘州市興瀘投資集團有限公司)	Domestic Shares	40,549,462	1.79%	-	-
10	Luzhou Laojiao Co., Ltd. (瀘州老窖股份有限公司)	Domestic Shares	36,160,000	1.60%	-	-

Changes in Share Capital and Information on Shareholders

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

To the knowledge of the Directors or chief executive of the Bank, as at December 31, 2019, interests and short positions of the following persons (other than the Directors, Supervisors and chief executives of the Bank) had or were deemed to have in the Shares and underlying Shares of the Bank which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Nature of interest	Class of Shares	Long position/ short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of interest in the Bank	Approximate % of the relevant class of Shares in the Bank
Luzhou Laojiao Group Co., Ltd. ⁽¹⁾	Beneficial owner	Domestic Shares	Long Position	325,440,000	-		
	Interest in controlled corporation	Domestic Shares	Long Position	36,160,000	-		
				361,600,000		15.97%	22.09%
Sichuan Jiale Enterprise Group Co., Ltd. ⁽²⁾	Beneficial owner	Domestic Shares	Long Position	271,200,000	-		
	Interest in controlled corporation	Domestic Shares	Long Position	7,232,000	-		
				278,432,000		12.29%	17.01%
JIANG Xiaoying (姜曉英) ⁽²⁾	Interest in spouse	Domestic Shares	Long Position	278,432,000	-	12.29%	17.01%
Luzhou Xinfu Mining Industry Group Co., Ltd.	Beneficial owner	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
	Interest in controlled corporation	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
Sichuan Xinfu Industrial Group Co., Ltd. (四川鑫福產業集團有限公司) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
LAI Dafu (賴大福) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
GE Xiuqiong (葛修瓊) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
Luzhou Industrial Investment Group Co., Ltd. ⁽⁴⁾	Beneficial owner	Domestic Shares	Long Position	73,462,268	-		
	Interest in controlled corporation	Domestic Shares	Long Position	144,640,000	-		
				218,102,268		9.63%	13.32%
Luzhou Xinglu Investment Group Co., Ltd. (瀘州市 興瀘投資集團有限公司) ⁽⁵⁾	Beneficial owner	Domestic Shares	Long Position	40,549,462	-		
	Interest in controlled corporation	Domestic Shares	Long Position	154,128,384	-		
				194,677,846		8.60%	11.89%
Luzhou Municipal Finance Bureau	Beneficial owner	Domestic Shares	Long Position	161,544,800	-	7.13%	9.87%
Luzhou State-owned Assets Operation Co., Ltd.	Beneficial owner	Domestic Shares	Long Position	144,640,000	-	6.39%	8.83%
JNR SPC	Beneficial owner	H Shares	Long Position	111,291,000	-	4.91%	17.73%

Changes in Share Capital and Information on Shareholders

Name of Shareholder	Nature of interest	Class of Shares	Long position/ short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of interest in the Bank	Approximate % of the relevant class of Shares in the Bank
JNR Capital ⁽⁶⁾	Beneficial owner	H Shares	Long Position	111,291,000	-	4.91%	17.73%
ZHENG Zhicheng ⁽⁶⁾	Interest in controlled corporation	H Shares	Long Position	111,291,000	-	4.91%	17.73%
Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. (瀘州市基礎建設投資有限公司) ⁽⁷⁾	Beneficial owner Interest in controlled corporation	Domestic Shares Domestic Shares	Long Position Long Position	15,006,400 91,715,862	- -		
				106,722,262		4.71%	6.52%
Luzhou Xinglu Jutai Real Estate Co., Ltd.	Beneficial owner	Domestic Shares	Long Position	91,715,862	-	4.05%	5.60%
Luzhou Chengnan Construction Investment Co., Ltd. (瀘州市城南建設投資有限公司) ⁽⁷⁾	Interest in controlled corporation	Domestic Shares	Long Position	91,715,862	-	4.05%	5.60%
China Development Fund Co., Ltd. (國開發基金有限公司) ⁽⁷⁾	Interest in controlled corporation	Domestic Shares	Long Position	91,715,862	-	4.05%	5.60%
Wudaokou Capital Limited (五道口資本有限公司) ⁽⁸⁾	Beneficial owner	H Shares	Long Position	105,000,000	-	4.64%	16.73%
ZHOU Min (周敏) ⁽⁸⁾	Interest in controlled corporation	H Shares	Long Position	105,000,000	-	4.64%	16.73%
Luzhou High-tech Investment Group Co., Ltd. (瀘州市高新投資集團有限公司)	Beneficial owner	H Shares	Long Position	100,000,000	-	4.42%	15.93%
OTX ADVISORY HOLDINGS, INC. ⁽⁹⁾	Beneficial owner	H Shares	Long Position	72,246,000	-	3.19%	11.51%
LUO Zhipeng (羅志鵬) ⁽⁹⁾	Interest in controlled corporation	H Shares	Long Position	72,246,000	-	3.19%	11.51%
Luzhou Liquor Golden Triangle Wine Industry Development Co., Ltd. (瀘州白酒金三角酒業發展有限公司)	Beneficial owner	H Shares	Long Position	70,000,000	-	3.09%	11.15%
Activation Fund	Beneficial owner	H Shares	Long Position	47,955,000	-	2.12%	7.64%

Notes:

- (1) Luzhou Laojiao Group Co., Ltd. is wholly-owned by Luzhou State-owned Assets Supervision and Administration Commission (瀘州市國有資產監督管理委員會). Luzhou Laojiao Group Co., Ltd. directly held 325,440,000 Domestic Shares and indirectly held 36,160,000 Domestic Shares through its controlled company Luzhou Laojiao Co., Ltd. (瀘州老窖股份有限公司). By virtue of the SFO, Luzhou Laojiao Group Co. Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Laojiao Co., Ltd.

Changes in Share Capital and Information on Shareholders

- (2) Mr. XIONG Guoming (熊國銘) and Ms. JIANG Xiaoying held 80% and 20% equity interest in Sichuan Jiale Enterprise Group Co., Ltd., respectively. Sichuan Jiale Enterprise Group Co., Ltd. directly held 271,200,000 Domestic Shares and indirectly held 7,232,000 Domestic Shares through its indirectly owned subsidiary, Jiale Real Estate Co., Ltd. (四川省瀘州市佳樂房地產有限責任公司). Luzhou Yijia Real Estate Development Co., Ltd. (瀘州益佳房地產開發有限公司) had approximately 92.68% equity interest in Jiale Real Estate Co., Ltd., and Sichuan Jiale Enterprise Group Co., Ltd. had approximately 70.44% equity interest in Luzhou Yijia Real Estate Development Co., Ltd. By virtue of the SFO, Sichuan Jiale Enterprise Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Jiale Real Estate Co., Ltd. Mr. XIONG Guoming is deemed to be interested in the Domestic Shares held by Sichuan Jiale Enterprise Group Co., Ltd. and Jiale Real Estate Co., Ltd. for the purpose of the SFO. Ms. JIANG Xiaoying is the spouse of Mr. XIONG Guoming and is deemed to be interested in the Domestic Shares held by Mr. XIONG Guoming under the SFO.
- (3) Mr. LAI Dafu and Ms. GE Xiuqiong held 60% and 40% equity interest in Sichuan Xinfu Industrial Group Co., Ltd., respectively. Sichuan Xinfu Industrial Group Co., Ltd. held 92% equity interest in Luzhou Xinfu Mining Industry Group Co., Ltd. By virtue of the SFO, each of Mr. LAI Dafu, Ms. GE Xiuqiong and Sichuan Xinfu Industrial Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Xinfu Mining Industry Group Co., Ltd.
- (4) Luzhou Industrial Investment Group Co., Ltd. directly held 73,462,268 Domestic Shares and indirectly held 144,640,000 Domestic Shares through its wholly-owned subsidiary, Luzhou State-owned Assets Operation Co., Ltd. By virtue of the SFO, Luzhou Industrial Investment Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou State-owned Assets Operation Co., Ltd.
- (5) Luzhou Xinglu Investment Group Co., Ltd. directly held 40,549,462 Domestic Shares and (i) indirectly held 91,715,862 Domestic Shares through its controlled corporation Luzhou Xinglu Jutai Real Estate Co., Ltd., in which Luzhou Chengnan Construction Investment Co., Ltd. and Luzhou Xinglu Investment Group Co., Ltd. had 47% and 53% equity interest, respectively. Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. had approximately 50.82% equity interest in Luzhou Chengnan Construction Investment Co., Ltd., and Luzhou Xinglu Investment Group Co., Ltd. had approximately 55.11% equity interest in Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.; (ii) indirectly held 36,160,000 Domestic Shares through its controlled corporation Luzhou Laojiao Co., Ltd., in which Luzhou Xinglu Investment Group Co., Ltd. had approximately 24.99% equity interest. Luzhou Laojiao Group Co., Ltd. and Luzhou Xinglu Investment Group Co., Ltd. entered into an agreement on action in concert valid from December 31, 2015 to June 1, 2021 in respect of their respective equity in Luzhou Laojiao Co., Ltd.; (iii) indirectly held 11,246,122 Domestic Shares through its controlled corporation Luzhou Xinglu Financing Guarantee Group Co., Ltd. (瀘州市興瀘融資擔保集團有限公司), in which Luzhou Xinglu Investment Group Co., Ltd. had approximately 37.26% equity interest; and (iv) indirectly held 15,006,400 Domestic Shares through its controlled corporation Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. By virtue of the SFO, Luzhou Xinglu Investment Group Co., Ltd. is deemed to be interested in Domestic Shares held by Luzhou Xinglu Jutai Real Estate Co., Ltd., Luzhou Laojiao Co., Ltd., Luzhou Xinglu Financing Guarantee Group Co., Ltd. and Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.
- (6) JNR SPC is wholly-owned by JNR Capital, which is owned as to approximately 66.67% by ZHENG Zhicheng. By virtue of the SFO, both JNR Capital and ZHENG Zhicheng are deemed to be interested in the H Shares held by JNR SPC.
- (7) Luzhou Xinglu Jutai Real Estate Co., Ltd. is held as to 53% equity interest by Luzhou Xinglu Investment Group Co., Ltd. and as to 47% equity interest by Luzhou Chengnan Construction Investment Co., Ltd., in which Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. and China Development Fund Co., Ltd. held 50.82% and 41.18% equity interest, respectively. By virtue of the SFO, each of Luzhou Xinglu Investment Group Co., Ltd., Luzhou Fundamental Infrastructure Construction Investment Co., Ltd., China Development Fund Co., Ltd. and Luzhou Chengnan Construction Investment Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Xinglu Jutai Real Estate Co., Ltd.
- (8) Wudaokou Capital Limited is wholly-owned by ZHOU Min. By virtue of the SFO, ZHOU Min is deemed to be interested in the H Shares held by Wudaokou Capital Limited.
- (9) OTX ADVISORY HOLDINGS, INC. is wholly-owned by LUO Zhipeng. By virtue of the SFO, LUO Zhipeng is deemed to be interested in the H Shares held by OTX ADVISORY HOLDINGS, INC.

Changes in Share Capital and Information on Shareholders

Save as disclosed above, to the knowledge of the Directors, the Bank is not aware of any other person (other than a Director, Supervisor and chief executive of the Bank) having any interests or short positions in the Shares or underlying Shares of the Bank as at December 31, 2019 which are required to be recorded in the register pursuant to section 336 of the SFO.

(III) Holders of 5% or More Shares

Please refer to IV. Details of Shareholders above for information on Shareholders holding 5% or more shares of the Bank.

V. DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE BANK

As of December 31, 2019, based on the information available to the Bank and as far as our Directors are aware, the interests and short positions of our Directors, Supervisors and chief executives in the Shares, underlying Shares and debentures of our Bank or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register of interests kept by the Bank pursuant to section 352 of the SFO, or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were set out as follows:

Interests in the Bank held by our Directors, Supervisors and chief executives							
Name	Position	Nature of interests	Class of Shares	Long position/ short position	Number of Shares directly or indirectly held (shares)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
XIONG Guoming (熊國銘)	Non-executive Director	Interest in controlled corporations	Domestic Shares	Long position	278,432,000	12.29%	17.01%
LIU Shirong (劉仕榮)	Executive Director	Beneficial owner	Domestic Shares	Long position	10,848	0.0005%	0.0007%
CHEN Yong (陳勇) ⁽¹⁾	Supervisor	Interest of spouse	Domestic Shares	Long position	16,272	0.0007%	0.001%

Note:

- (1) The Domestic Shares are held by Ms. LAN Ying (蘭英), the spouse of Mr. CHEN Yong. Mr. CHEN Yong is deemed to be interested in the Domestic Shares held by Ms. LAN Ying under the SFO.

Save as disclosed above, as at December 31, 2019, none of our Directors, Supervisors and chief executive had any interests or short positions in the Shares, underlying Shares or debentures of our Bank or any associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register kept by the Bank pursuant to section 352 of the SFO or which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

Directors, Supervisors, Senior Management and Employees

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Directors

Name	Gender	Age	Time of joining our Bank	Position	Time of taking the position as Director
YOU Jiang (游江)	Male	46	July 2014	Executive Director and chairman of the Board of Directors	August 28, 2014
XU Xianzhong (徐先忠)	Male	50	August 2010	Executive Director and president	April 29, 2011
LIU Shirong (劉仕榮)	Male	53	October 1997	Executive Director, vice president (responsible for executive work of the Bank) and secretary of the Board	February 22, 2010
PAN Lina (潘麗娜)	Female	36	May 2019	Non-executive Director	December 31, 2019
XIONG Guoming (熊國銘)	Male	57	February 2010	Non-executive Director	February 22, 2010
LIU Qi (劉奇)	Male	35	November 2017	Non-executive Director	November 29, 2017
DAI Zhiwei(代志偉)	Male	51	December 2015	Non-executive Director	December 10, 2015
LIU Anyuan (劉安媛)	Female	38	May 2019	Non-executive Director	December 31, 2019
JIANG Bo (江波)	Male	39	May 2019	Non-executive Director	December 31, 2019
GU Mingan (辜明安)	Male	54	March 2016	Independent non-executive Director	March 18, 2016
HUANG Yongqing (黃永慶)	Male	58	November 2017	Independent non-executive Director	November 7, 2017
YE Changqing (葉長青)	Male	49	May 2018	Independent non-executive Director	May 30, 2018
TANG Baoqi (唐保祺)	Male	60	May 2018	Independent non-executive Director	May 30, 2018

Note: Ms. PAN Lina, Ms. LIU Anyuan and Mr. JIANG Bo were elected as non-executive Directors of our Bank at the Shareholders' general meeting on May 28, 2019. The appointments of Ms. PAN Lina, Ms. LIU Anyuan and Mr. JIANG Bo as non-executive Directors took effect on December 31, 2019.

Directors, Supervisors, Senior Management and Employees

(II) Supervisors

Name	Gender	Age	Time of joining our Bank	Position	Time of taking the position as Supervisor
YUAN Shihong	Female	49	November 2015	Chairwoman of the Board of Supervisors	January 26, 2016
DUAN Xuebin	Male	54	January 2016	External Supervisor and chairman of the nomination committee under the Board of Supervisors	January 26, 2016
GUO Bing	Male	50	May 2019	External Supervisor and the chairman of the audit and supervision committee under the Board of Supervisors	May 28, 2019
LIU Yongli	Female	49	July 2002	Employee representative Supervisor, the general manager of the risk management department	January 26, 2016
CHEN Yong	Male	47	July 2002	Employee representative Supervisor, the general manager of the administration department	January 26, 2016

Directors, Supervisors, Senior Management and Employees

(III) Senior Management

Name	Gender	Age	Time of joining our Bank	Position	Time of taking the position
XU Xianzhong	Male	50	August 2010	Executive Director and president	August 4, 2011
LIU Shirong	Male	53	October 1997	Executive Director, vice president (responsible for executive work of the Bank) and secretary of the Board	May 27, 2016 (vice president, and responsible for executive work of the Bank since September 2, 2019); December 31, 2012 (secretary of the Board)
XIA Yilun	Female	52	November 2008	Vice president	December 31, 2008
XUE Xiaoqin (薛晓芹), whose former name is XUE Defang (薛德芳)	Female	51	October 1997	Vice president	May 27, 2016
CHENG Anhua	Male	49	September 1998	Vice president and chief information officer	July 27, 2017 (vice president); December 24, 2015 (chief information officer)
YANG Bing (楊冰), whose former name is YANG Bin (楊斌)	Male	44	April 2016	Vice president	April 8, 2016
TONG Qiang	Male	45	October 2015	Vice president	May 28, 2019
AI Yong	Male	47	September 1997	Assistant to president	December 28, 2012
HU Jia	Male	40	November 2015	Assistant to president and president of the key customers business department	August 23, 2018 (assistant to president); January 18, 2020 (president of the key customers business department)

Directors, Supervisors, Senior Management and Employees

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in Directors

On May 28, 2019, the Bank carried out the re-election of the Board at the Shareholders' general meeting, of which Ms. XU Yan and Mr. LIU Xiaoyu ceased to serve as directors of the Bank; Ms. PAN Lina, Ms. LIU Anyuan and Mr. JIANG Bo were elected as non-executive Directors of the Bank at the general meeting on May 28, 2019, with the appointments of Ms. PAN Lina, Ms. LIU Anyuan and Mr. JIANG Bo as non-executive Directors taking effect on December 31, 2019.

2. Changes in Supervisors

On May 28, 2019, the Bank carried out the re-election of the Board of Supervisors at the Shareholders' general meeting, during which Ms. HUANG Ping retired as an external Supervisor on May 28, 2019; Mr. GUO Bing was elected by the Shareholders' General Meeting as an external Supervisor of the Bank on May 28, 2019, and his appointment took effect on May 28, 2019.

3. Changes in Senior Management

Mr. TONG Qiang was appointed as vice president of the Bank since May 28, 2019, and his term of office will be same as the seventh session of the Board.

On December 20, 2019, the Bank appointed Mr. WU Ji as the vice president of the Bank. The qualification of Mr. WU shall become formally effective after obtaining approval from China Banking and Insurance Regulatory Commission Sichuan Office.

Directors, Supervisors, Senior Management and Employees

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Directors

Executive Director YOU Jiang (游江)

Mr. YOU Jiang (游江), aged 46, has been a Director since August 2014 and the chairman of the Board of Directors since December 2014. Mr. You is also a member of each of the development and strategy committee, the nomination and remuneration committee and the risk management committee of our Bank.

Prior to joining our Bank, Mr. You served as the division director (處長) of the First Division of Supervision and Regulation of Small and Medium Rural Financial Institutions of CBRC Sichuan Office (四川銀監局農村中小金融機構監管一處) from September 2013 to June 2014. He worked as the director-general (局長) of CBRC Nanchong Branch (中國銀監會南充監管分局) from May 2011 to September 2013. Mr. You worked as a deputy director-general (副局長) of CBRC Ziyang Branch (中國銀監會資陽監管分局) from December 2007 to April 2009 and then its director-general (局長) from April 2009 to May 2011. Mr. You served as a deputy division director (副處長) of the Division of Supervision and Regulation of Cooperative Financial Institutions of CBRC Sichuan Office (四川銀監局合作金融機構監管處) from January 2007 to December 2007, during which period he also worked on secondment as a vice general manager of the risk management department of the Sichuan Provincial Branch of Industrial and Commercial Bank of China Limited ("ICBC") (中國工商銀行股份有限公司四川省分行) and a vice president of the Chunxi sub-branch of ICBC (中國工商銀行股份有限公司春熙支行) from May 2007 to December 2007. Mr. You worked at CBRC Sichuan Office as a vice office director (辦公室副主任) from January 2005 to January 2007. He worked as a member of the planning group of CBRC Ya'an Branch (中國銀監會雅安監管分局) from November 2003 to February 2004 and then a deputy director-general (副局長) of the CBRC Ya'an Branch (中國銀監會雅安監管分局) from February 2004 to January 2005. Mr. You worked at PBoC Ziyang Central sub-branch (中國人民銀行資陽市中心支行) as the assistant to president from July 2002 to November 2003. Prior to that, Mr. You worked at the secretarial division of the CPC committee office of PBoC Chengdu Branch (中國人民銀行成都分行) as a staff member from December 1998 to January 2000 and then the section chief (科長) from January 2000 to July 2002. He worked at PBoC Sichuan Branch (中國人民銀行四川省分行) as a cadre of the business department from July 1995 to July 1996 and a staff member of the secretarial division of the general office from July 1996 to December 1998.

Mr. You obtained a bachelor's degree in economics, a master's degree in economics and a doctoral degree in economics from Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in July 1995, December 2002 and July 2010, respectively.

Directors, Supervisors, Senior Management and Employees

Executive Director XU Xianzhong (徐先忠)

Mr. XU Xianzhong (徐先忠), aged 50, has been a Director since April 2011 and the president of our Bank since August 2011. Mr. Xu is a member of the consumer rights protection committee of our Bank.

Mr. Xu joined our Bank in August 2010 as a candidate for vice president and was a candidate for president from December 2010 to August 2011. Mr. Xu worked at ICBC for around 19 years before joining our Bank. From March 2009 to August 2010, Mr. Xu served as a vice president of ICBC Neijiang Branch (中國工商銀行股份有限公司內江分行). He worked as a vice president of ICBC Guangyuan Branch (中國工商銀行股份有限公司廣元分行) from February 2006 to March 2009. Mr. Xu worked as the president of ICBC Xuyong Sub-branch (中國工商銀行股份有限公司敘永縣支行) from August 2005 to February 2006. He worked at ICBC Gulin Sub-branch (中國工商銀行股份有限公司古藺縣支行) as a vice president from May 2003 to September 2004 and then the president from September 2004 to August 2005. Prior to that, he worked as a staff at Jiangyang office of ICBC Luzhou Branch (中國工商銀行股份有限公司瀘州市分行江陽分理處) from August 1991 to December 1991, at the ICBC Luzhou Branch Jiangyang sub-branch (中國工商銀行股份有限公司瀘州市分行江陽支行) from January 1992 to August 1998 and then worked successively as a staff of accounting auditing center (會計核算中心) and deputy director (副主任) of auditing center (核算中心) at ICBC Luzhou Branch (中國工商銀行股份有限公司瀘州市分行) from August 1998 to May 2003.

Mr. Xu obtained a bachelor of science degree from Xiamen University (廈門大學) in Fujian Province, the PRC, in July 1991. Mr. Xu graduated from the part-time postgraduate course in economic and modern management and obtained a master of laws degree in June 2002 from Southwest China Normal University (西南師範大學) (currently known as Southwest University (西南大學)) in Chongqing, the PRC. Mr. Xu was appraised as a senior economist by the Appraisal and Approval Committee for Professional & Technical Competence of ICBC (中國工商銀行專業技術職務任職資格評審委員會) in August 2005.

Directors, Supervisors, Senior Management and Employees

Executive director LIU Shirong (劉仕榮)

Mr. LIU Shirong (劉仕榮), aged 53, has been a Director since February 2010, the secretary to the Board of Directors since December 2012 and the vice president of our Bank since May 2016 (responsible for executive work of the Bank since September 2019). Mr. Liu is also a member of each of the related party (connected) transactions control committee and the risk management committee of our Bank.

Mr. Liu joined our Bank in October 1997. Mr. Liu served as the head of the office of the Board of Directors from March 2012 to October 2014. Prior to that, he acted as the responsible person of the accounting and finance department of our Bank from November 2011 to March 2012. Mr. Liu worked as the head of the administration office (行政辦公室主任) of our Bank from February 2008 to November 2011. He served as the office head (辦公室主任) of our Bank from September 2005 to February 2008. Mr. Liu worked as the head of the credit management department of our Bank from January 2005 to September 2005. He worked as the president of Binjiang sub-branch (濱江支行) of our Bank from November 2002 to January 2004 and the president of Jiangyangzhonglu sub-branch (江陽中路支行) of our Bank from January 2004 to January 2005. Mr. Liu served as an acting vice president of Tongda sub-branch (通達支行) of our Bank from October 1997 to February 1998 and then its vice president from February 1998 to November 2002. Prior to joining our Bank, Mr. Liu worked at Haikou City Bo'ai Urban Credit Cooperative (海口市博愛城市信用社) and served as a deputy office head (辦公室副主任) and the manager of the credit department from February 1993 to June 1993 and also as a vice head (副主任), the manager of its treasury department and the manager of the credit department from June 1993 to October 1997.

Mr. Liu graduated from Luzhou Finance and Trade School (瀘州財貿學校) in the PRC in July 1985, majoring in finance and accounting. He passed the self-taught higher education exams of accounting at junior college level (會計專業專科自學考試) and was approved for graduation by Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in June 1989. Mr. Liu graduated from the Correspondence Institute of the Central Communist Party School of the CPC (中共中央黨校函授學院) in the PRC in December 2001, majoring in economic management (through correspondence study).

Mr. Liu obtained the intermediate level certificate in financial economics conferred by Ministry of Personnel of the PRC (中華人民共和國人事部) (currently known as Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)) in November 2000. He was certified as a senior international finance manager jointly by China Association of Chief Financial Officers (中國總會計師協會), International Financial Management Association (國際財務管理協會), Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) and Research Center of State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會研究中心) in February 2013.

Directors, Supervisors, Senior Management and Employees

Non-executive Director PAN Lina (潘麗娜)

Ms. PAN Lina (潘麗娜), aged 36, appointed as non-executive Director on May 28, 2019. Her appointment took effect on December 31, 2019. She is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank. Ms. Pan is also the chairperson of the development and strategy committee and a member of the audit committee of our Bank.

Ms. Pan has been working at Luzhou Laojiao Group Co., Ltd. since November 2015, during which she served as assistant to president, director of the group office, general manager of the planning and publicity center, and member of the party committee. In addition, Ms. Pan worked at Luzhou Laojiao Industrial Investment Co., Ltd. (瀘州老窖實業投資有限公司) from January 2016 to May 2017. She used to serve as general manager, party branch secretary, and deputy secretary of the Hejiang County Party Committee. Prior to this, Ms. Pan worked at Luzhou Liquor Concentrated Development Zone Co., Ltd. (瀘州酒業集中發展區有限公司) from September 2010 to January 2016. Her last position was general manager and party branch secretary. Ms. Pan served as the deputy director of the party committee office and company office of Luzhou Laojiao Co., Ltd. from August 2009 to September 2010, and served as the secretary of the president of Guangzhou Textile Industry and Trade Enterprise Group, the secretary of the League branch and the officer of the Youth League Committee from July 2006 to August 2009.

Ms. Pan received a Bachelor's degree of Arts from the Department of Chinese Language and Literature of Peking University in July 2006, a Bachelor's degree of Economics from the China Economic Research Center (National Institute of Economic Development) of Peking University in July 2006, And in June 2017, she obtained a master's degree in business administration from the School of Economics and Management of the University of Electronic Science and Technology of China. Ms. Pan Certified as Economist (Business Administration) by the Ministry of Human Resources and Social Security of Sichuan Province in November 2016.

Directors, Supervisors, Senior Management and Employees

Non-executive Director XIONG Guoming (熊國銘)

Mr. XIONG Guoming (熊國銘), aged 57, has been a Director since February 2010. He is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank. Mr. Xiong is also the chairperson of the risk management committee and a member of each of the development and strategy committee and the nomination and remuneration committee of our Bank.

Mr. Xiong has been the chairman of the board of directors of Sichuan Jiale Enterprise Group Limited (四川省佳樂企業集團有限公司) and held positions at several subsidiaries of Sichuan Jiale Enterprise Group Limited (四川省佳樂企業集團有限公司) since September 1998, including chairman of the board of directors of Sichuan Jiale Yijia Industry Co., Ltd. (四川佳樂益佳實業有限公司) since August 2018, a director of Luzhou Jiayi Industrial Co., Ltd. (瀘州佳希實業有限公司) since October 2017, the chairman of the board of directors of Luzhou Jiale Assets Management Co., Ltd. (瀘州市佳樂資產管理股份有限公司) since September 2017, the chairman of the board of directors of Hainan Wanjia Culture and Tourism Development Co., Ltd. (海南萬佳文旅發展有限公司) since May 2017, a director of Luzhou Jiarun Industrial Development Co., Ltd. (瀘州佳潤實業發展有限公司) (formerly known as Luzhou Jiarun Real Estate Development Co., Ltd. (瀘州佳潤房地產開發有限公司)) since March 2014, the chairman of the board of directors of Luzhou Yijia Investment Co., Ltd. (瀘州益佳投資有限公司) since July 2012, the chairman of the board of directors and general manager of Luzhou Yijia Real Estate Development Co., Ltd. (瀘州益佳房地產開發有限公司) since January 2011, a director of Chongqing Centennial Jiale Properties Co., Ltd. (重慶百年佳樂置業有限公司) since November 2004, a director of Luzhou Nanyuan Taxi Co., Ltd. (瀘州南苑出租汽車有限公司) since January 2003 and a director of Luzhou Nanyuan Hotel Co., Ltd. (瀘州南苑賓館有限公司) since December 2002. In addition, Mr. Xiong also served as a director of Luzhou Rural Commercial Bank Co., Ltd. (瀘州農村商業銀行股份有限公司) since July 2017. Before that, Mr. Xiong served as a director of Luzhou Longmatan Rural Commercial Bank Co., Ltd. (瀘州龍馬潭農村商業銀行股份有限公司) (one of the predecessors of Luzhou Rural Commercial Bank Co., Ltd.) from October 2013 to July 2017. Mr. Xiong served as the general manager of Jiale Real Estate from September 1994 to September 1998.

Mr. Xiong obtained an executive master's degree in business administration from Tsinghua University (清華大學) in Beijing, the PRC, in July 2010 and another executive master degree in business administration from Tsinghua University in Beijing, the PRC, in January 2015. Mr. Xiong was approved as a senior engineer by Sichuan Title Reform Leading Group (四川省職改領導小組) in June 1999.

Directors, Supervisors, Senior Management and Employees

Non-executive Director LIU Qi (劉奇)

Mr. LIU Qi (劉奇), aged 35, has been a Director since November 2017. He is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank. Mr. Liu is also a member of each of the development and strategy committee and the consumer rights protection committee.

Mr. Liu has been an executive director and the general manager of Luzhou Industrial Investment Leasing Co., Ltd. (瀘州工投租賃有限公司) since November 2017, a vice general manager of Luzhou Industrial Investment Group and a director and the general manager of Luzhou Industrial Investment Financing Guarantee Co., Ltd. (瀘州工投融資擔保有限公司) since June 2017, a director of Southwest Hospital Investment Co., Ltd. (西南醫療健康產業投資有限公司) since April 2017, and a director of Luzhou Culture and Tourism Investment Group Co., Ltd. (瀘州市文化旅遊發展投資集團有限公司) since September 2016. Mr. Liu served as a director of Luzhou Hejiang Industrial Investment Co., Ltd. (瀘州合江工業投資有限公司) from April 2016 to May 2017. Mr. Liu also held a number of other positions in Luzhou Industrial Investment Group, including the head of the office of the board of directors from June 2015 to November 2017 and the assistant to general manager from May 2016 to November 2017. Mr. Liu served as the principal of Luzhou Section Reforming Leading Group of Sichuan Chemical Engineering Holding Group Co., Ltd. (四川化工控股集團瀘州板塊改革工作領導小組辦公室) from May 2014 to April 2015. Prior to that, he worked at the People's Government of Lu County (瀘縣人民政府) as a staff member of the office secretary section (辦公室秘書科) from August 2011 to December 2011, a deputy section chief (副科長) of the office secretary section from December 2011 to August 2012, the head (主任) of the supervision and inspection office (督察室) from August 2012 to April 2015 and a deputy office director (辦公室副主任) from July 2013 to April 2015. Mr. Liu served as a staff member, a deputy head (副主任) and organization personnel cadre (組織人事幹事) of Luxian Niutan Town CPC and People's Government Office (瀘縣牛灘鎮黨政辦公室) from July 2008 to August 2011.

Mr. Liu obtained a bachelor's degree in economics from Xihua University (西華大學) in Sichuan Province, the PRC, in June 2008.

Directors, Supervisors, Senior Management and Employees

Non-executive Director DAI Zhiwei (代志偉)

Mr. DAI Zhiwei (代志偉), aged 51, has been a Director since December 2015. He is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank. Mr. Dai is also a member of the development and strategy committee of our Bank.

Mr. Dai has been a director of Sichuan Xuda Railway Co., Ltd. (四川敘大鐵路有限責任公司) from September 2016 to October 2019, a director of Sichuan South Express Highway Co., Ltd. (四川南方高速公路股份有限公司) from July 2016 to September 2019, a director of Sichuan Yusheng Wine Industry Investment Management Co., Ltd. (四川宇晟酒業投資管理有限公司) since August 2015, a director and the general manager of Luzhou Chengnan Construction Investment Co., Ltd. (瀘州市城南建設投資有限責任公司) and the general manager of Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. (瀘州市基礎建設投資有限公司) since June 2015, a director of Xinglu Investment Group since March 2015 and the general manager of Xinglu Investment Group since April 2015. Mr. Dai served as a member of the standing committee of the CPC and a deputy district chief (副區長) of Naxi district of Luzhou from May 2012 to February 2014 and a deputy secretary (副書記) of CPC committee of Naxi district of Luzhou from February 2014 to March 2015. Mr. Dai worked as a deputy county chief (副縣長) of Hejiang county from November 2007 to May 2012 and a member of the standing committee of the CPC of Hejiang county from October 2011 to May 2012. He worked as the head (主任) of Luzhou Agriculture Development Office (瀘州市農業發展辦公室) from July 2007 to November 2007. Mr. Dai worked at the Agriculture Section of Luzhou Municipal Finance Bureau (瀘州市財政局農業科) as a senior staff member (副主任科員) and then a principal staff member (主任科員) from August 1998 to June 2002, a deputy section chief (副科長) from June 2002 to May 2004 and then the section chief (科長) from May 2004 to July 2007. Mr. Dai worked as a senior staff member (副主任科員) of Luzhou State-owned Assets Bureau (瀘州市國資局) from August 1994 to July 1998. He worked as a staff and then a staff of the Three Investigation Office (三查辦) of Luzhou Municipal Finance Bureau from August 1990 to August 1994.

Mr. Dai obtained a bachelor's degree in economics from Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in July 1990.

Directors, Supervisors, Senior Management and Employees

Non-executive Director LIU Anyuan (劉安媛)

Ms. LIU Anyuan, aged 38, was appointed as a non-executive Director on May 28, 2019. Her appointment has come into effect on December 31, 2019. She is mainly responsible for providing strategic advice on the corporate developments and making recommendations on major operational and managerial decisions of our Bank. Ms. Liu is also a member of each of the audit committee and consumer rights protection committee of the Bank.

Ms. Liu has been the managing director of Wudaokou Capital Limited (五道口資本有限公司) since July 2018. Prior to that, Ms. Liu served as a director of Yanpeng (Shanghai) Fund Investment Limited Partnership (燕鵬(上海)基金投資有限合夥企業) from November 2017 to June 2018, a general manager in investment of Guangzhou Youjia Investment Management Co., Ltd. (廣州優家投資管理有限責任公司) from November 2016 to November 2017, person in charge for operations (hotel) of China Resources Land Limited (華潤置地有限公司) (a company listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), stock code: 1109) from August 2013 to November 2016, a project manager of Shenzhen Vanke Hotel Management Co., Ltd. (深圳市萬科酒店管理有限公司) from October 2011 to August 2013, and a contract manager in Shenzhen Grand Skylight Hotels Management Co., Ltd. (深圳格蘭雲天酒店管理有限公司) (a subsidiary of AVIC) from February 2008 to October 2011.

Ms. Liu received her bachelor's degree in accounting from the College of Economics and Management of Northeast Agricultural University (東北農業大學) in July 2005, and her master's degree in management science and engineering from the College of Engineering of Northeast Agricultural University in July 2008.

Non-executive Director JIANG Bo (江波)

Mr. JIANG Bo (江波), aged 39, was appointed as a non-executive Director on May 28, 2019. His appointment has come into effect on December 31, 2019. He is mainly responsible for providing strategic advice on the corporate developments and making recommendations on major operational and managerial decisions of our Bank. Mr. Jiang is also a member of the risk management committee of the Bank.

Mr. Jiang has been working for Chengdu Modern Agriculture Development & Investment Co., Ltd. (成都市現代農業發展投資有限公司) since June 2013. He has been the head of the Capital Operation Department since June 2016 and has served concurrently as an employee supervisor since January 2017. He has been a director of Chengdu Chuanshangtou Pengjin Equity Investment Fund Management Co., Ltd. (成都川商投朋錦股權投資基金管理有限公司) since November 2017. Prior to that, Mr. Jiang was a project manager of Chengdu Modern Agriculture Finance Guarantee Co., Ltd. (成都市現代農業融資擔保有限公司) from November 2008 to June 2013, and was a project manager of Chengdu Rural Property Rights Transfer Finance Guarantee Co., Ltd. (成都市農村產權流轉融資擔保股份有限公司) from May 2008 to November 2008. He was a selected graduate and civil servant in Guangxi Zhuang Autonomous Region from July 2003 to April 2004.

Mr. Jiang obtained a master's degree in agricultural economic management from the College of Economics and Management of Sichuan Agricultural University (四川農業大學) in June 2008, and obtained intermediate economic professional technical qualification upon approval of the Ministry of Human Resources and Social Security of the PRC (中國人力資源和社會保障部) in November 2017.

Directors, Supervisors, Senior Management and Employees

Independent Non-executive Director GU Mingan (辜明安)

Mr. GU Mingan (辜明安), aged 54, has been an independent non-executive Director since March 2016. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Gu is also the chairperson of the related party (connected) transactions control committee of our Bank and a member of each of the nomination and remuneration committee and the audit committee of our Bank.

Mr. Gu has been a lecturer in Southwestern University of Finance and Economics (西南財經大學) since 1999 and was promoted to an associate professor in 2002 and then a professor in 2008. Mr. Gu has been an independent director of Sichuan Guoxin Liancheng Assets Management Co., Ltd. (四川省國新聯程資產管理有限公司) (formerly known as Chengdu Guoxin Liancheng Asset Management Co., Ltd. (成都市國新聯程資產管理有限公司)) since September 2017, an independent non-executive director of Luzhou Xinglu Water (Group) Co., Ltd. (a company listed on the Stock Exchange, stock code: 2281) since March 2017, an independent director of Sichuan Longchang Rural Commercial Bank Co., Ltd. (四川隆昌農村商業銀行股份有限公司) from March 2016 to May 2019, an independent director of Sichuan Troy Information Technology Co., Ltd. (四川創意信息技術股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 300366) since January 2016 and an independent director of Chengdu Hi-Tech Development Co., Ltd. (成都高新發展股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000628) since September 2015. Mr. Gu served as an independent director of Zhejiang Renzhi Co., Ltd. (浙江仁智股份有限公司), a company listed on the Shenzhen Stock Exchange from September 2014 to September 2017. Prior to joining Southwestern University of Finance and Economics (西南財經大學), Mr. Gu worked at Sichuan Light Chemical Industry College (四川輕化工學院) (currently known as Sichuan Light Chemical Industry University (四川輕化工大學)) from July 1993 to July 1999 and worked at Chenguang Chemical Research Institute of Chemical Industry Ministry (化工部晨光化工研究院) (currently known as Zhonghao Chenguang Chemical Research Institute Co., Ltd. (中昊晨光化工研究院有限公司)) from July 1989 to July 1993.

Mr. Gu obtained a bachelor of laws degree from Southwest China Normal University (西南師範大學) (currently known as Southwest University (西南大學)) in Chongqing, the PRC, in July 1989, a master of laws degree from Southwest University of Political Science & Law (西南政法大學) in Chongqing, the PRC, in July 1999 and the doctoral degree in law from Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in July 2008.

Directors, Supervisors, Senior Management and Employees

Independent Non-executive Director HUANG Yongqing (黃永慶)

Mr. HUANG Yongqing (黃永慶), aged 58, has been an independent non-executive Director since November 2017. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Huang is also the chairperson of the consumer rights protection committee and a member of the related party (connected) transactions control committee of our Bank.

Mr. Huang has been the head of Beijing Long'an (Chengdu) Law Firm (北京隆安(成都)律師事務所) since July 2016 and a senior partner of Beijing Long'an Law Firm (北京隆安律師事務所) since September 1999. Mr. Huang has been a member of the legal advisory board for the overseas Chinese (為僑服務法律顧問團) of the Overseas Chinese Affairs Office of the State Council (國務院僑務辦公室) since December 2017, a vice president of China Trademark Association (中華商標協會) since October 2016, an external lecturer of Tianjin Prosecutors College (天津市檢察官學院) since October 2015, an executive council member of the investment association of the CCTV-Securities News Channel (CCTV證券資訊頻道) of Central Xinying Digital Media Co., Ltd. (中央新影數字傳媒有限公司) since June 2014, a council member of the Sichuan Enterprise Confederation (四川省企業聯合會) and the Sichuan Enterprise Directors Association (四川省企業家協會) since January 2014, a council member of the council of Jurist magazine of Law School of Renmin University of China (中國人民大學法學院《法學家》雜誌) since May 2009, and the director (所長) of the Futures Law Research Institute of China University of Political Science and Law (中國政法大學期貨法律研究所) since December 1995.

Mr. Huang obtained a bachelor of laws degree from Renmin University of China (中國人民大學) in Beijing, the PRC, in July 1983 and a master of laws degree from China University of Political Science and Law (中國政法大學) in Beijing, the PRC, in July 1986. Mr. Huang obtained the lawyer's qualification certificate of the PRC in January 1999.

Independent Non-executive Director YE Changqing (葉長青)

Mr. YE Changqing (葉長青), aged 49, was appointed as our independent non-executive Director on May 30, 2018. His appointment has come into effect on December 17, 2018. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Ye is also the chairperson of the audit committee and a member of each of the related party (connected) transactions control committee and the risk management committee of our Bank.

Mr. Ye has been an independent director of Niu Technologies (a company listed on the NASDAQ Stock Exchange, stock code: NIU) since October 2018. Mr. Ye has been an independent director of Baozun Inc. (a company listed on the NASDAQ Stock Exchange, stock code: BZUN) since May 2016. Mr. Ye also served as a consultant for CITIC PE Advisors (Hong Kong) Limited (中信產業投資基金(香港)顧問有限公司) from January 2016 to December 2016. Mr. Ye worked at CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金管理有限公司) from February 2011 to December 2015 and was a managing director (董事總經理), the chief financial officer and a member of the investment committee when he left. Mr. Ye worked at PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) (普華永道中天會計師事務所(特殊普通合夥)) from April 1993 to January 2011 and was a partner (合夥人) of the Advisory Services, the leader (主管) of the Advisory Services of Shanghai office and the leader (主管) of the Transaction Services of Shanghai office when he left.

Mr. Ye obtained a bachelor of laws degree from Huazhong University of Technology (華中理工大學) (currently known as Huazhong University of Science and Technology (華中科技大學)), in Hubei Province, the PRC, in July 1992 and further obtained the degree of master of business administration from University of Warwick in the United Kingdom in November 1999. Mr. Ye was a practising member of Shanghai Institute of Certified Public Accountants from December 2000 to March 2011 and afterwards a non-practising member.

Directors, Supervisors, Senior Management and Employees

Independent Non-executive Director TANG Baoqi (唐保祺)

Mr. TANG Baoqi (唐保祺), aged 60, was appointed as our independent non-executive Director on May 30, 2018. His appointment has come into effect on December 17, 2018. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Tang is also the chairperson of the nomination and remuneration committee and a member of the audit committee of our Bank.

Mr. Tang once worked at China CINDA (HK) Holdings Company Limited as a senior manager, the general manager of risk management department and the chief risk officer since February 2000 and was a director when he left China CINDA (HK) Holdings Company Limited in March 2018. Mr. Tang was a non-executive director of China Fortune Financial Group Limited (中國富強金融集團有限公司) (a company listed on the Stock Exchange, stock code: 290) from March 2016 to April 2018, a non-executive director of China National Materials Company Limited (中國中材股份有限公司) from July 2011 to July 2016, and an executive director of Silver Grant International Industries Limited (銀建國際實業有限公司) (a company listed on the Stock Exchange, stock code: 00171) from March 2008 to July 2011. Mr. Tang worked at the creditors' rights department (債權部) of China CINDA Asset Management Co., Ltd. (中國信達資產管理股份有限公司) (a company listed on the Stock Exchange, stock code: 01359; preference share stock code: 04607) from June 1999 to February 2000.

Mr. Tang obtained a bachelor's degree in economics from Hubei Institute of Finance and Economics (湖北財經學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in Hubei Province, the PRC, in July 1983. Mr. Tang was certified as a senior economist by China People's Construction Bank (中國人民建設銀行) (currently known as China Construction Bank Corporation (中國建設銀行股份有限公司)) in December 1995.

2. Supervisors

Ms. YUAN Shihong (袁世泓), aged 49, has been a Supervisor and the chairwoman of the Board of Supervisors since January 2016. She is primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank, convening and presiding over the meetings of the Board of Supervisors, organizing the performance of duties of the Board of Supervisors, signing the report of the Board of Supervisors and other important documents, reporting to the Shareholders' general meeting on behalf of the Board of Supervisors and other duties prescribed by laws, regulations and the Articles of Association or authorized by the Board of Supervisors.

Ms. Yuan worked as a member of the standing committee of and the minister of the Organization Department of the Luxian CPC Committee (中國共產黨瀘縣縣委) from August 2015 to November 2015. From November 2004 to July 2015, Ms. Yuan worked at the Organization Department of the Luzhou CPC Committee (中國共產黨瀘州市委組織部) and served as a senior staff member (副主任科員) from March 2005 to June 2005, a senior staff member (副主任科員) of the second division of cadre (幹部二處) from June 2005 to February 2006, a deputy division director (副處長) of the second division of cadre (幹部二處) from February 2006 to May 2010, a principal staff member (主任科員) of the second division of cadre (幹部二處) from October 2007 to May 2010, a deputy division director (副處長), a principal staff member (主任科員), and then the division director (處長) of the third division of cadre (幹部三處) from May 2010 to June 2014, and a member of the ministry and commission (部務委員) and the section chief (科長) of the third chief of cadre (幹部三科) from June 2014 to July 2015. Prior to that, Ms. Yuan worked as the section chief (科長) of the organization division (組織科) and then a senior staff member (副主任科員) of the Organization Department of the Luzhou Naxi District CPC Committee (中國共產黨瀘州市納溪區委組織部) from July 2002 to November 2004, and a staff member (科員) and then the head of office (辦公室主任) of Sichuan Luzhou Naxi District Labor Bureau (四川省瀘州市納溪區勞動局) from September 1992 to July 2002.

Directors, Supervisors, Senior Management and Employees

Ms. Yuan graduated from Zhaowuda Mongolian Normal School (昭烏達蒙族師範專科學校) in the PRC, in July 1992, majoring in politics. She passed the national higher education exams of accounting at junior college level (國家高等教育會計專業專科考試) and was approved for graduation by Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in June 1996. Ms. Yuan graduated from the Correspondence Institute of the Party School of Sichuan Provincial Committee of the CPC (中國共產黨四川省委員會黨校函授學院) in December 2001, majoring in law (through correspondence study). Ms. Yuan passed the examination of banking risk and regulation in June 2018 and obtained the International Certificate in Banking Risk and Regulation issued by Global Association of Risk Professionals.

Mr. DUAN Xuebin (段學彬), aged 54, has been an external Supervisor and the chairman of the nomination committee under the Board of Supervisors since January 2016. He is primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank, convening and presiding over the meetings of the nomination committee of the Board of Supervisors, and organizing the performance of duties of the nomination committee of the Board of Supervisors.

Mr. Duan worked at Luzhou Jiangyang Jinxin Small Loan Co., Ltd. (瀘州市江陽區金鑫小額貸款有限公司) as the general manager from March 2015 to April 2016. Mr. Duan worked at Lu County School Enterprise Architecture Engineering Company (瀘縣校辦企業建築工程公司) as a vice general manager from October 2013 to February 2015, re-joined the company afterwards and has been its vice general manager since May 2016. Mr. Duan worked at the Luzhou Branch of Agricultural Bank of China Limited (中國農業銀行股份有限公司瀘州市分行) and served as an intermediate independent credit approver (信貸中級獨立審批人) from January 2011 to April 2013 and then the institutional business customers manager of the business department from April 2013 to September 2013. Mr. Duan worked at the Luzhou Branch of the Agricultural Bank of China Limited (中國農業銀行股份有限公司瀘州市分行) but was seconded as a junior independent approver (初級獨立審批人) at the customers department of Hejiang sub-branch of Agricultural Bank of China Limited (中國農業銀行股份有限公司合江縣支行) from April 2009 to December 2010. From January 1991 to March 2009, Mr. Duan worked at the Hejiang sub-branch of Agricultural Bank of China Limited (中國農業銀行股份有限公司合江縣支行) and served as a credit clerk (信貸員) of Daqiao Business Office (大橋營業所) from January 1991 to February 1993, the deputy director (副主任) and then the director (主任) of Baisha Business Office (白沙營業所) from March 1993 to March 2000, the director (主任) of Daqiao Business Office (大橋營業所) from April 2000 to April 2004, and the director (主任) of the customers department from May 2004 to March 2009.

Mr. Duan completed the studies at junior college level (專科) through correspondence study and graduated from Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in July 1998, majoring in finance. He further completed the undergraduate studies through correspondence study and graduated from Southwest University of Political Science & Law (西南政法大學) in Chongqing, the PRC, in July 2003, majoring in law.

Mr. GUO Bing (郭兵), aged 50, has been an external Supervisor and the chairman of the audit and supervision committee under the Board of Supervisors since May 2019. He is primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank, convening and presiding over the meetings of the audit and supervision committee of the Board of Supervisors, organizing the performance of duties of the audit and supervision committee of the Board of Supervisors and organizing audit work within the work scope of the Board of Supervisors.

Directors, Supervisors, Senior Management and Employees

Mr. Guo is a head of Sichuan Liguang Law Firm (四川理光律師事務所) and joined the firm in August 1996. Mr. Guo worked at the Sichuan Petroleum Administration Logging Company (四川石油管理局測井公司) as an engineer from July 1991 to May 2000. Mr. Guo worked at Luzhou Foreign-related Law Firm (瀘州涉外律師事務所) as a part-time job from August 1996 to May 2000 and served as a full-time lawyer from May 2000 to May 2005; Mr. Guo worked at Sichuan Liguang Law Firm (四川理光律師事務所) as a deputy head from May 2005 to January 2009 and as a head since January 2009.

Mr. Guo obtained his undergraduate degree in field geophysics specialization from Southwest Petroleum University (西南石油學院) in June 1991, the lawyer's qualification certificate in the PRC in August 1996, and a lawyer's license in the PRC in 1997.

Ms. LIU Yongli (劉永麗), aged 49, has been an employee representative Supervisor since January 2016, and the general manager of the risk management department of our Bank since June 2018. She is primarily responsible for supervising the performance of duties by the Directors and senior management of our Bank.

Ms. Liu has been a supervisor of Luzhou Industrial Investment Group since March 2015. Ms. Liu joined our Bank in July 2002 and served as the principal accountant (主辦會計) of Zhongshan sub-branch (忠山支行) of our Bank from July 2002 to December 2003, the head (科長) of the financial accounting and technology department (財會科技部) from January 2004 to December 2004, the head (科長) of the operation management department (運行管理部) from January 2005 to February 2008, a vice president of Xiaoshi sub-branch (小市支行) from February 2008 to November 2010, the head of the risk management department from November 2010 to November 2011, the general manager of the internal control and compliance department and the head of the internal audit department from November 2011 to June 2012, the general manager of the risk management department from June 2012 to February 2013, the general manager of the credit business department from February 2013 to October 2015 and the general manager of the internal control and compliance department (security department) of our Bank from October 2015 to June 2018. Prior to joining our Bank, Ms. Liu held several positions in human resources, labor relation, planning, credit, statistics and accounting at Hejiang sub-branch of China Construction Bank Corporation (中國建設銀行股份有限公司合江支行) from August 1991 to July 2002. She held positions in savings and post-savings supervision at Gulin sub-branch of China Construction Bank Corporation (中國建設銀行股份有限公司古蔺支行) from September 1988 to July 1991.

Ms. Liu passed the self-taught higher education exams of accounting at undergraduate level (會計專業本科高等教育自學考試) and was approved for graduation by Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC in June 2007. Ms. Liu was certified as a senior international finance manager jointly by China Association of Chief Financial Officers (中國總會計師協會), International Financial Management Association (國際財務管理協會), Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) and Research Center of State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會研究中心) in August 2013. Mr. Liu also obtained the certificate in banking fundamentals (公共基礎證書) granted by the China Banking Association (中國銀行業協會) in October 2007, and the certificate of intermediate level of accounting granted by MOF in May 2002.

Mr. CHEN Yong (陳勇), aged 47, has been an employee representative Supervisor since January 2016, and the general manager of the administration department (綜合管理部) of our Bank since December 2019. He is primarily responsible for supervising the performance of duties by the Directors and senior management of our Bank.

Directors, Supervisors, Senior Management and Employees

Mr. Chen joined our Bank in July 2002 and successively served as a bank teller from July 2002 to December 2005, the president of Jiale sub-branch (佳樂支行) from January 2006 to December 2007, a business manager at the operation management department (運行管理部) from January 2008 to September 2010, the president of Lianhuachi sub-branch (蓮花池支行) from September 2010 to February 2012, the president of Jiangbei sub-branch (江北支行) from March 2012 to February 2014, an assistant to president of Xiaoshi sub-branch (小市支行) from February 2014 to May 2015, the vice general manager of the administration department from November 2015 to December 2018, and the vice head of the office of the Board of Directors from May 2015 to December 2018, and the vice general manager (presiding over work) of the administration department from December 2018 to December 2019.

Mr. Chen graduated from Chongqing University Internet Education College (重慶大學網絡教育學院) in the PRC, in January 2010, majoring in economics and business administration through long distance learning.

3. Members of Senior Management

For biographical details of Mr. XU Xianzhong (徐先忠) and Mr. LIU Shirong (劉仕榮), please refer to the section “1. Directors – Executive Directors” above.

Ms. XIA Yilun (夏義倫), aged 52, obtained her undergraduate degree in finance from Sichuan Radio and TV University (四川廣播電視大學). She is a senior international finance manager and interbank currency market trader.

Ms. Xia has been a vice president of our Bank since December 2008. Prior to joining our Bank, Ms. Xia worked at ICBC from September 1983 to October 2008 and held various positions. Ms. Xia served as a vice president and then the president of Luzhou Zhonggulou sub-branch of ICBC (中國工商銀行股份有限公司瀘州市鐘鼓樓支行) from June 2004 to October 2008. She worked as the head of the accounting business office of the business department and then a vice division director (副處長) of the capital management division of Luzhou Branch of ICBC (中國工商銀行股份有限公司瀘州市分行) from February 2001 to June 2004. From October 2000 to February 2001, Ms. Xia served as the director (主任) of Yinghui Road Savings Bank of ICBC Luzhou Branch (中國工商銀行股份有限公司瀘州市分行迎暉路儲蓄所). Ms. Xia served as the head of the accounting and cashier division of Luxian sub-branch of ICBC (中國工商銀行股份有限公司瀘縣支行) from August 1998 to October 2000 and a vice head (副主任) of Jiangbei office of Luxian sub-branch of ICBC (中國工商銀行股份有限公司瀘縣支行江北分理處) from June 1996 to August 1998. From September 1983 to June 1996, Ms. Xia worked at different departments of Luxian sub-branch of ICBC (中國工商銀行股份有限公司瀘縣支行), including the accounting and cashier section, the accounting unit and the credit unit.

Ms. XUE Xiaoqin (薛曉芹), aged 51, obtained a master's degree of business administration from The Open University of Hong Kong, is a senior international financial manager, and an intermediate economist.

Directors, Supervisors, Senior Management and Employees

Ms. Xue has been a vice president of our Bank since May 2016. Ms. Xue is currently a supervisor of each of Lutianhua (Group) Co., Ltd. (瀘天化(集團)有限責任公司) and Luzhou Laojiao Group. Ms. Xue joined our Bank in October 1997. Ms. Xue was appointed as a candidate for vice president of our Bank from November 2015 to May 2016. Ms. Xue served as the assistant to president of our Bank from December 2012 to November 2015, during which period she also worked as the general manager of the direct customers department from January 2013 to February 2014 and the general manager of the direct (institutional) customers department of our Bank from February 2014 to January 2015. From November 2011 to January 2013, Ms. Xue served as the general manager of the customer marketing department of our Bank. From October 2010 to November 2011, Ms. Xue worked as the responsible person of the customer marketing department of our Bank. She worked as a vice director, the responsible person and then the head of the business department of our Bank from January 2007 to October 2010. She served as an acting vice president (代理副行長) of Anfu sub-branch of our Bank from October 1997 to February 1998, the vice president of Anfu sub-branch of our Bank from February 1998 to May 2000 and then the president of Anfu sub-branch of our Bank from November 2002 to December 2006. From May 2000 to November 2002, she worked as the vice president of Naxi sub-branch of our Bank. Ms. Xue worked at Anfu Urban Credit Cooperative (安富城市信用社) from September 1988 to June 1992 and at Anfu Business Office of Municipal Central Urban Credit Cooperative (市中區城市信用社) from June 1992 to August 1997.

Mr. CHENG Anhua (成安華), aged 49, obtained a master's degree in engineering from Sichuan University (四川大學), and is a certified internal auditor, certified information systems auditor, and senior information system project manager.

Mr. Cheng has been a vice president of our Bank since July 2017 and the chief information officer of our Bank since December 2015. Mr. Cheng joined our Bank in September 1998 and successively acted as the application system administrator of the technology division (科技處) from September 1998 to December 2003, a vice general manager and then a vice head (副部長) of the financial accounting and technology department (財會科技部) from January 2004 to December 2006, a vice head (副部長) and then the head (部長) of the technology department (科技部) (a former department of our Bank) from January 2007 to November 2011, the general manager of the IT department (信息科技部) from November 2011 to January 2014, the general manager of the internal control and compliance department from February 2014 to July 2015, the general manager of the security department from January 2015 to July 2015, and the candidate for the chief information officer from August 2015 to December 2015. Prior to joining our Bank, Mr. Cheng served as a sales person, sales system management and development maintainer and sales planner at Changjiang Hydraulic Parts Factory (currently known as Sichuan Changjiang Hydraulic Parts Co., Ltd. (四川長江液壓件有限責任公司)) from July 1992 to September 1998.

Mr. YANG Bing (楊冰), aged 44, obtained a bachelor's degree in economics from Southwestern University of Finance and Economics (西南財經大學), and is an interbank lending market trader.

Mr. Yang has been a vice president of our Bank since April 2016. He joined our Bank in April 2016. Prior to joining our Bank, Mr. Yang operated his own business. Mr. Yang worked at Nanchong City Commercial Bank Co., Ltd. (南充市商業銀行股份有限公司) (currently known as Sichuan Tianfu Bank Co., Ltd. (四川天府銀行股份有限公司)) as the general manager of the marketing department from December 2001 to June 2009 and the assistant to president from July 2009 to April 2013. Mr. Yang worked at Yilong County sub-branch of PBoC (中國人民銀行儀隴縣支行) from August 1999 to November 2001.

Directors, Supervisors, Senior Management and Employees

Mr. TONG Qiang(童強), aged 45, obtained a master's degree in business administration from Southwestern University of Finance and Economics (西南財經大學), and is an intermediate economist.

Mr. Tong has been a vice president of our Bank since May 2019. He joined the Bank in October 2015, served as the general manager of our research and development center from October 2015 to September 2016, the head of the planning department of Chengdu Branch of the Bank from September 2016 to February 2017, and the president of Chengdu Branch of the Bank from March 2017 to May 2019. Before joining the Bank, Mr. Tong worked in Lushan Road Office (廬山路分理處) under Deyang Branch of China Construction Bank, and served as the manager from February 2015 to October 2015. Mr. Tong served as the deputy manager (presiding over work) and manager of small-business operation center under Deyang Branch of China Construction Bank from July 2009 to July 2011 and from July 2011 to February 2015, respectively. Mr. Tong worked in the corporate business division of Deyang Branch of China Construction Bank from March 2006 to July 2009, serving as the account manager from March 2006 to December 2007, the business head from December 2007 to June 2008, the account manager with professional technology at level 6 from June 2008 to January 2009, and then as the deputy manager from January 2009 to July 2009. Mr. Tong served as the account manager of credit management division of Deyang Branch of China Construction Bank from October 2004 to March 2006. Mr. Tong served as the account manager of the corporate business division of Deyang Branch of China Construction Bank from May 2003 to October 2004. Prior to that, Mr. Tong served as the account manager of the asset preservation division of Deyang Branch of China Construction Bank from May 2001 to May 2003, the approver of the credit management committee office of Deyang Branch of China Construction Bank from March 2001 to May 2001, the account manager of the credit business division of Deyang Branch of China Construction Bank from August 2000 to March 2001, and served as the employee of Deyang Branch Chengnan Office (城南分理處) of China Construction Bank from July 1999 to August 2000.

Mr. Ai Yong (艾勇), aged 47, graduated from the Correspondence Institute of the Party School of Sichuan Provincial Committee of the CPC (中國共產黨四川省委員會黨校函授學院), majoring in law. He is an accountant and senior international finance manager.

Mr. Ai has been the assistant to president of our Bank since December 2012. Mr. Ai joined our Bank in September 1997 and successively acted as a deputy director (副主任) (presiding over work) of the business department from September 1997 to March 1999, the deputy division chief of the supervision and audit division (稽核監察處) from April 1999 to July 1999, a deputy director (副主任) of the clearing center from July 1999 to December 1999, a deputy division chief of the finance and accounting division (財務會計處) from December 1999 to December 2001, the division chief of the assets preservation division (資產保全處) from January 2002 to December 2003, the president of Zhongshan sub-branch (忠山支行) from January 2004 to December 2004, the president of Jiangyang sub-branch (江陽支行) from January 2005 to October 2010, the head of the business department from October 2010 to October 2011, and the general manager of the products management department (currently known as the credit business department) from November 2011 to November 2012. Mr. Ai also worked as the general manager of the small and micro customers department of our Bank from February 2014 to January 2015. Prior to that, Mr. Ai served as a deputy head of the business department of Luzhou Zhongshan Urban Credit Cooperative (瀘州市忠山城市信用社) (one of the predecessors of our Bank) from January 1996 to September 1997. Mr. Ai served as an accounting staff at No. 3 engineering division of China No. 5 Metallurgy Construction No. 3 Engineering Company (中國第五冶金建設第三工程公司) from August 1993 to March 1996.

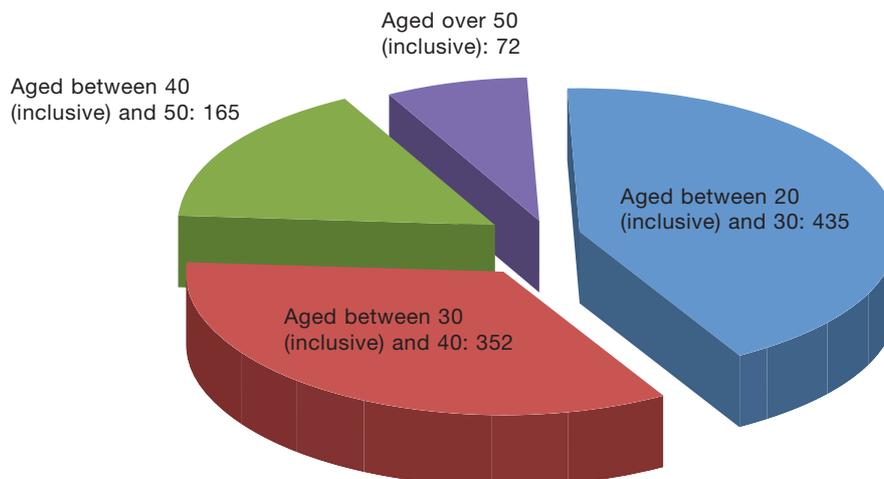
Directors, Supervisors, Senior Management and Employees

Mr. HU Jia (胡嘉), aged 40, obtained a master's degree in business administration from Southwestern University of Finance and Economics (西南財經大學).

Mr. Hu has been the assistant to the president of our Bank since August 2018. He has been the president of the key customers business department (重要客戶事業部) since January 2020. Mr. Hu joined our Bank in November 2015 and served as a deputy general manager of the research and development center of our Bank from November 2015 to September 2016. He served as a deputy head (副主任) of the planning department (籌建部) of the Chengdu Branch (成都分行) of our Bank from September 2016 to February 2017. He also served as a vice president of the Chengdu Branch (成都分行) of our Bank from March 2017 to August 2018. Prior to joining our Bank, he worked at the Chengdu Guancheng Square Sub-branch (成都冠城廣場支行) of China Construction Bank Corporation as a client manager from March 2008 to September 2009, as a vice president from September 2009 to September 2012 and then as the president from September 2012 to December 2015. He worked as a client manager at the Chengdu Shawan Office (成都沙灣分理處) of China Construction Bank Corporation from April 2007 to August 2007. He served as a client manager of the corporate business department III (公司業務三部) at the Chengdu Tiedao Sub-branch (成都鐵道支行) of China Construction Bank Corporation from February 2007 to April 2007 and then from August 2007 to March 2008 respectively. Prior to that, he served as a client manager of the corporate business department III at the Mianyang Branch (綿陽分行) of China Construction Bank Corporation from March 2005 to January 2007. He served as a savings officer at the Mianyang Branch Linyuan Office (綿陽市分行臨園分理處) of China Construction Bank Corporation from September 2001 to October 2001 and worked at the Mianyang technology department (綿陽市科技處) of China Construction Bank Corporation from October 2001 to February 2005.

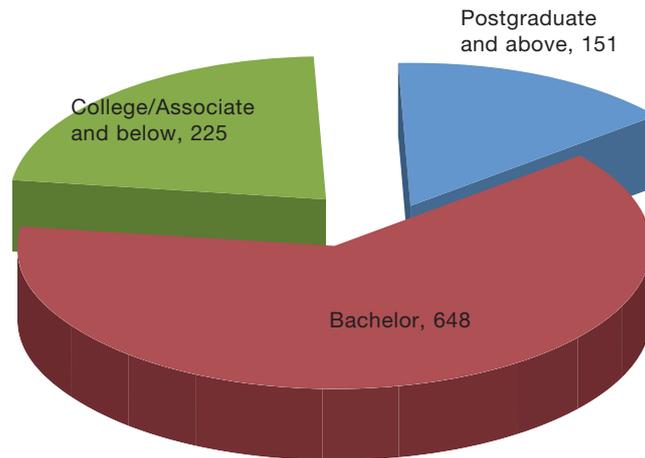
IV. DETAILS OF EMPLOYEES

As at the end of the Reporting Period, the Bank had 1,024 employees (including dispatched workers) in total, with an average age of 33.24. Of them, 435 employees aged between 20 (inclusive) and 30, accounting for 42.48%; 352 employees aged between 30 (inclusive) and 40, accounting for 34.38%; 165 employees aged between 40 (inclusive) and 50, accounting for 16.11%; and 72 employees aged over 50 (inclusive), accounting for 7.03%.



Directors, Supervisors, Senior Management and Employees

By educational background, the Bank had 151 employees with postgraduate degrees and above (including 2 doctoral candidates), accounting for 14.75%; 648 employees with bachelor's degrees, accounting for 63.28%; 225 employees with college/associate degrees and below, accounting for 21.97%.



Proportion of sci-tech talents:

The statistics of sci-tech talents cover the range of the personnel of the four departments (77 people) of the electronic banking department, the IT department, the IT innovation center, and the system development department, together with staffs from four divisions including the system division and the central computer room division of the operation management department, IT audit division of risk management department, and the audit division III of the internal audit department (18 people), a total of 95 people, accounting for 9.28% of the Bank.

V. TRAINING FOR EMPLOYEES

Centering on the business development, the Bank actively explores and innovates training forms and continues to expand training channels and perfect its training system to enhance the training efficiency. At the same time, multi-channel optimization and exploration of new models of talent training has been implemented. During the Reporting Period, the Bank organized its employees to participate in international and domestic authoritative tests for financial certificates and conducted special trainings for mid-class management members and business backbones to strengthen their leadership as well as trainings for new employees. The total number of various internal and external training activities of the Bank reached approximately over 150 and the number of participants reached approximately 7,400.

Corporate Governance Report

I. ORGANIZATIONAL STRUCTURE FOR CORPORATE GOVERNANCE



Corporate Governance Report

Corporate Governance Structure

Our Bank has established a corporate governance structure which comprises the shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management.

Shareholders' general meeting

Shareholders' general meeting is the organ of authority of our Bank. Its principal responsibilities include:

- determining the operation strategies and investment plans of the Bank;
- electing and replacing non-employee representative Directors and Supervisors and determining the remuneration of Directors and Supervisors;
- reviewing and approving the reports of the Board of Directors and the Board of Supervisors;
- reviewing and approving the annual financial budget plans and final accounting plans;
- reviewing and approving the profit distribution plans and loss recovery plans;
- determining the increase or decrease in the registered capital of the Bank;
- determining the issuance of bonds or other securities and the listing of the Bank;
- determining the merger, spin-offs, dissolution and liquidation or change of corporate form of the Bank;
- amending the Articles of Association;
- reviewing and approving the Board of Supervisors' evaluation on Directors, the mutual evaluation reports of independent non-executive Directors, the evaluation on Supervisors by the Board of Supervisors and the mutual evaluation reports of external Supervisors;
- listening to the report of the Board of Directors on the investigation opinions of the financial regulatory authorities on the Bank and reviewing the implementation of rectification measures;
- reviewing and approving the share incentive plans;
- reviewing and approving the proposals by Shareholders individually or in aggregate holding 3% or more of the Shares;
- reviewing and approving the terms of reference of each of the Shareholders' general meeting, the Board of Directors and the Board of Supervisors;

Corporate Governance Report

- reviewing and approving matters, such as the equity investment of the Bank, the Bank's guarantee business, such as external guarantee and letter of guarantee, the Bank's investment in fixed assets, the disposal and write-off of non-performing assets, and the pledge of assets;
- reviewing and approving the persons who should be recommended by our Bank and other matters (excluding equity investment) of controlled companies and associates of the Bank;
- reviewing and approving the change of raised capital;
- resolving on the appointment, dismissal or non-reappointment of accounting firms of the Bank;
- reviewing and approving other matters which should be submitted to the Shareholders' general meeting for consideration in accordance with relevant laws, administrative regulations, rules, the Listing Rules, the requirements of securities regulatory authorities where the securities of our Bank are listed, the Articles of Association and other internal requirements.

Board of directors

The Board of Directors is accountable to the Shareholders' general meeting. Its principal responsibilities include:

- convening the Shareholders' general meeting and reporting to the Shareholders' general meeting;
- implementing the resolutions of the Shareholders' general meeting;
- determining our Bank's operation plans, investment program and the business development strategies;
- formulating the annual financial budget plans, final accounting plans, risk capital allocation plans, profit distribution plans and loss recovery plans;
- formulating the plans for increase or decrease in registered capital, issuance of bonds or other securities and listing of the Bank;
- formulating the plans for major acquisition, acquisition of our Bank's shares or merger, spin-offs, dissolution and change of corporate form of our Bank;
- determining matters in respect of the business operation, external investment, acquisition or sale of assets, external guarantee, pledge of assets, entrusting others to manage the Bank's assets, financial leasing, related party transactions and disposal of non-performing assets within the authorization of the Shareholders' general meeting;

Corporate Governance Report

- appointing or dismissing the president, vice presidents, secretary to the Board of Directors and other senior management in accordance with the nomination of the chairman of the Board of Directors and determining the senior managers' remuneration, reward and punishment;
- formulating basic management system and determining our Bank's detailed rules in relation to business procedures proposed by the senior management;
- formulating the proposed amendments to the Articles of Association;
- being responsible for the information disclosure of our Bank and the completeness and accuracy of the Bank's accounting and financial statements;
- formulating the Directors' remuneration and allowances standards program;
- listening to the report of the president of our Bank and supervising the president's work;
- determining the risk management and internal control policies of our Bank;
- supervising the work performance of the Bank's senior management and deliberate senior management's evaluation on the Bank's president, vice president, chief financial officer and other senior managers and the reports of evaluation by the Bank's senior managers on each other; and organizing the evaluation on Directors and evaluation by independent non-executive Directors on each other and reporting relevant evaluation results to the Board of Supervisors;
- periodically evaluating and consummating the corporate governance of the Bank;
- nominating the Directors' candidates for next session;
- applying to the courts for bankruptcy on behalf of our Bank within the authorization of the Shareholders' general meeting.

The Board of Directors shall also be responsible for performing the duties of corporate governance function as set out below:

- developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

Corporate Governance Report

- developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- reviewing the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The Board of Directors has established six special committees, including audit committee, development and strategy committee, nomination and remuneration committee, related party (connected) transactions control committee, risk management committee and consumer rights protection committee.

Board of supervisors

The Board of Supervisors is accountable to the Shareholders' general meeting and supervises the Board of Directors, the senior management and its members of the Bank as well as the financial activities, internal control and risk management of the Bank. The Board of Supervisors conducts special surveys on specific areas and attends important meetings in order to understand the operation and management of the Bank and issue reminder letters, and also supervise the implementation of such advice from time to time. The Board of Supervisors has established nomination committee and audit and supervision committee.

Senior Management

The senior management is responsible for the daily operation of the Bank. The president is accountable to the Board of Directors and could organize and conduct the business management of the Bank within the authorization of the Board of Directors and in accordance with laws, administrative regulations and other rules and the Articles of Association. Our Bank has appointed six vice presidents and other senior management to work with the president of the Bank and perform their respective management responsibilities.

II. OVERVIEW OF CORPORATE GOVERNANCE

During the Reporting Period, our Bank continued to improve the transparency of its corporate governance to protect the shareholders' interests and enhance the corporate value.

The Bank has established a modern corporate governance structure according to the Articles of Association, PRC laws and regulations and Hong Kong Listing Rules. Accountable to all the Shareholders and responsible for (among others) deciding on the Bank's business development strategies, business plans and investment plans, appointment or dismissal of senior management, establishment of internal management organizations and other matters, the Board has established various committees to perform certain functions, including audit committee, development and strategy committee, nomination and remuneration committee, related party (connected) transactions control committee, risk management committee and consumer rights protection committee. The Board of Supervisors, accountable to all the Shareholders, has the responsibility and authority to supervise the Directors and senior management and inspect the Bank's financial activities, risk management and internal control.

Corporate Governance Report

Our Bank has established a relatively sound corporate governance structure in accordance with the Listing Rules. The composition of the Board and the special committees of the Board are in compliance with the Listing Rules. The Bank clearly splits the responsibilities of the Shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management. Shareholders' general meeting is the highest authority of our Bank. The Board of Directors is accountable to the Shareholders' general meeting. Our Board has established six special committees which operate under the leadership of the Board and make recommendations on the Board's decisions. Our Board of Supervisors supervises the stable and sound operation of our Bank and the performance of duties by our Board of Directors and senior management. Under the leadership of the Board, our senior management is responsible for implementation of board resolutions and the daily operation and management of the Bank, and reports to the Board of Directors and the Board of Supervisors on a regular basis. The President of our Bank shall be appointed by the Board and is responsible for the daily overall operation of our Bank.

We have adopted the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules, and have reached the requirements of the administrative measures and corporate governance for domestic commercial banks, and have established a good corporate governance system.

According to the Code, each of the Directors (including Directors with designated terms) shall retire by rotation at least once every three years. The three-year terms of office of the sixth session of our Board of Directors expired on December 23, 2018. In view of the fact that the Bank has just completed its H Shares Listing, to ensure the stability of the work of the Board, the relevant regulatory authority has agreed the Bank to postpone the general re-election of the Board of Directors. The Board has re-elected its Directors at the 2018 AGM, and has obtained the approval of director qualification from CBIRC Sichuan Office on December 31, 2019. After the appointment of Directors came into effect, the Board was comprised of 13 Directors. Since Mr. ZHOU Kai, a proposed independent non-executive Director for the seventh session of the Board passed away, the appointment did not come into effect and the Bank has 4 independent non-executive Directors. Therefore, the Bank failed to fully comply with the requirements of Rule 3.10A, Rule 3.25 and Code Provision A.5.1 of the Corporate Governance Code of Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, namely the requirement that the independent non-executive Directors shall represent at least one-third of the Board and the requirement regarding the composition of the nomination and remuneration committee, for details please see the announcement of the Bank dated December 31, 2019. The Bank also issued an announcement dated March 26, 2020, in which the Board suggested to appoint Mr. ZHONG Jin ("Mr. ZHONG") as an independent non-executive Director and as a member of the Nomination and Remuneration Committee, relevant appointment will be put forward at the 2019 Annual General Meeting for consideration and approval by the Shareholders of the Bank, and is subject to the approval of CBIRC Sichuan Office, and the Bank will make further announcement(s) as and when appropriate. Save as disclosed above, we have strictly complied with the principles and code provisions as well as some of the recommended best practices set out in the Code during the Reporting Period. We are committed to maintaining a high standard of corporate governance.

Our Bank will continue to enhance its corporate governance to ensure compliance with the Code and meeting expectations of shareholders and potential investors.

Corporate Governance Report

III. GENERAL MEETING

During the Reporting Period and as of the date of this annual report, the Bank convened three general meetings in total, with relevant details set out as follows:

(1) 2018 Annual General Meeting

On May 28, 2019, the Bank held the 2018 annual general meeting, at which the Shareholders considered and approved the following resolutions: 2018 Annual Report of Luzhou City Commercial Bank Co., Ltd.; 2018 Work Report of the Board of Directors of Luzhou City Commercial Bank Co., Ltd.; 2018 Work Report of the Board of Supervisors of Luzhou City Commercial Bank Co., Ltd.; 2018 Evaluation Report on the Performance of Duties by the Directors, Supervisors, Senior Management of Luzhou City Commercial Bank Co., Ltd.; 2018 Final Financial Accounts of Luzhou City Commercial Bank Co., Ltd.; 2018 Profit Distribution Plan of Luzhou City Commercial Bank Co., Ltd.; 2018 Report on Related Party Transactions of Luzhou City Commercial Bank Co., Ltd.; 2019 Financial Budget Plan of Luzhou City Commercial Bank Co., Ltd.; 2019 Fixed Assets Investment Plan of Luzhou City Commercial Bank Co., Ltd.; Proposal on Amendments to the Rules of Reference of the Board of Supervisors of Luzhou City Commercial Bank Co., Ltd.; Proposal on Engagement of PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers as Domestic and Foreign Auditors of Luzhou City Commercial Bank Co., Ltd. for 2019 and Authorization to the Board to Determine Their Remuneration; Proposal on the Change of Address of Luzhou City Commercial Bank Co., Ltd.; the Re-election of Mr. YOU Jiang as an Executive Director for the Seventh Session of the Board of Directors of the Bank; the Re-election of Mr. XU Xianzhong as an Executive Director for the Seventh Session of the Board of Directors of the Bank; the Re-election of Mr. XIONG Guoming as a Non-executive Director for the Seventh Session of the Board of Directors of the Bank; the Re-election of Mr. LIU Qi as a Non-executive Director for the Seventh Session of the Board of Directors of the Bank; the Re-election of Mr. DAI Zhiwei as a Non-executive Director for the Seventh Session of the Board of Directors of the Bank; the Election of Ms. PAN Lina as a Non-executive Director for the Seventh Session of the Board of Directors of the Bank; the Election of Mr. JIANG Bo as a Non-executive Director for the Seventh Session of the Board of Directors of the Bank; the Election of Ms. LIU Anyuan as a Non-executive Director for the Seventh Session of the Board of Directors of the Bank; the re-election of Mr. GU Mingan as an Independent Non-executive Director for the Seventh Session of the Board of Directors of the Bank; the Re-election of Mr. HUANG Yongqing as an Independent Non-executive Director for the Seventh Session of the Board of Directors of the Bank; the Re-election of Mr. YE Changqing as an Independent Non-executive Director for the Seventh Session of the Board of Directors of the Bank; the Re-election of Mr. TANG Baoqi as an Independent Non-executive Director for the Seventh Session of the Board of Directors of the Bank; the Election of Mr. ZHOU Kai as an Independent Non-executive Director for the Seventh Session of the Board of Directors of the Bank; the Remuneration of the Directors; the Re-election of Ms. YUAN Shihong as the Shareholder Supervisor for the Seventh Session of the Board of Supervisors of the Bank; the Re-election of Mr. DUAN Xuebin as an External Supervisor for the Seventh Session of the Board of Supervisors of the Bank; the Election of Mr. GUO Bing as an External Supervisor for the Seventh Session of the Board of Supervisors of the Bank; the Remuneration of the Supervisors; Proposal on the Change of Registered Capital of Luzhou City Commercial Bank Co., Ltd.; Proposal on the amendments to the Articles of Association of Luzhou City Commercial Bank Co., Ltd. (applicable after listing of H shares); Proposal on the New Issuance of Tier 2 Capital Bonds Not Exceeding RMB2 Billion of Luzhou City Commercial Bank Co., Ltd., etc.

Corporate Governance Report

The Election of Mr. XU Hong as a non-executive Director for the Seventh Session of the Board of Directors of the Bank was not approved.

(2) 2019 First Extraordinary General Meeting

On August 27, 2019, the Bank held the 2019 first extraordinary general meeting, at which the Shareholders considered and approved the following two resolutions: to Consider and Approve the Disposal of Certain Collaterals by the Bank; to Consider and Approve the Issue of Special Financial Bonds for Loans to Small and Micro Enterprises, and to Authorize the Board (and Allow the Board to Further Delegate) to Issue the SME Bonds.

(3) 2019 Second Extraordinary General Meeting

On December 27, 2019, the Bank held the 2019 second extraordinary general meeting, at which the Shareholders considered and approved the following three resolutions: to Consider and Approve the Write-off of a Non-performing Loan with a Principal Amount of RMB20,000,000 by the Bank for a Separate Loan; to Consider and Approve the Write-off of a Non-performing Loan with a Principal Amount of RMB27,300,000 by the Bank for a Separate Loan; and to Consider and Approve the Write-off of a Non-performing Loan with a Principal Amount of RMB55,270,000 by the Bank for a Separate Loan.

IV. BOARD

(I) Implementation of Resolutions Passed at the General Meeting by the Board

In 2019, the Board strictly implemented the resolutions passed at the general meeting of the Bank and earnestly executed various proposals deliberated at the general meeting.

(II) Board Composition

As at the end of the Reporting Period, our Board of Directors consists of 13 Directors, including three executive Directors, namely, Mr. YOU Jiang, the Chairman of the Board of Directors, Mr. XU Xianzhong, the president, and Mr. LIU Shirong, the vice president (responsible for executive work of the Bank) and secretary to the Board of Directors; six non-executive Directors, namely, Ms. PAN Lina, Mr. XIONG Guoming, Mr. LIU Qi, Mr. DAI Zhiwei, Ms. LIU Anyuan and Mr. JIANG Bo; and four independent non-executive Directors, namely, Mr. GU Mingan, Mr. HUANG Yongqing, Mr. YE Changqing and Mr. TANG Baoqi.

Our Directors (including non-executive Directors) shall serve a term of three years, and may seek re-election upon expiry of the said term. Our independent non-executive Directors shall serve a term of three years, and may seek re-election upon expiry of the said term, but the cumulative term shall not exceed six years.

Corporate Governance Report

(III) Board Diversity Policy

We believe that diversity of board of directors will contribute a lot to improving our performance. We regard the increasing diversity of board of directors as a key to achieve sustainable development and support us to meet our strategic objectives and maintain good corporate governance.

In designing the Board composition, we consider diversity from various aspects, including but not limited to gender, region and industry experience, skills, knowledge and educational background. All Board appointments are based on meritocracy, and candidates are considered with due regard for the benefits of Board diversity under objective conditions.

Selection of candidates of the Board is based on a series of diversified categories, including but not limited to gender, region, industry experience, skills, knowledge and educational background.

The Nomination Committee will review the policy in due time to ensure its effectiveness, and will discuss any or necessary amendments and propose the amendments to the Board for approval.

(IV) Change of Board Members

For details on change of Directors, please refer to the section headed Directors, Supervisors, Senior Management and Employees in this annual report.

(V) Chairman and President

The roles, duties and responsibilities of our chairman and president are held by different individuals in accordance with the Hong Kong Listing Rules. Mr. YOU Jiang is our chairman, responsible for presiding over general meetings, convening and presiding over Board meetings, supervising and examining the implementation of resolutions of the Board. Mr. XU Xianzhong is our president, responsible for managing the business operations of the Bank and reporting to the Board.

(VI) Operation of the Board

The Board shall hold at least four regular meetings annually, and arrange extraordinary meetings if necessary. Board meetings shall be held onsite or by means of teleconference. The agenda of regular meeting of the Board shall be determined after consultation with the Directors, and the notice on meeting proposals and related materials shall be generally served to all Directors and Supervisors at least five days prior to the Board meeting. All Directors maintain communication with the secretary of the Board to ensure compliance with Board procedures and all applicable rules and regulations.

Minutes of Board meetings shall be recorded in detail and be provided to all attending Directors after the meetings, who shall propose relevant amendments after receipt of the minutes. The finalized meeting minutes shall be sent to all Directors as soon as possible. Minutes of Board meetings shall be kept as per our file management regulations and are open for inspection by Directors at any time.

A good communication and reporting mechanism has been established among the Board, Directors and senior management. Our president reports to the Board on a regular basis and accepts supervision. Relevant senior executives are invited to attend the Board meetings from time to time to make explanations or reply to inquiries.

At the Board meetings, Directors may freely express their opinions, but important decisions shall be subject to detailed discussion. If any Director has a material interest in the matter to be considered by the Board, the relevant director shall abstain from discussion and voting on the relevant proposal, and shall not be counted in the quorum voting on the proposal.

Corporate Governance Report

The Board sets an office as its administrative body, responsible for the preparations for and information disclosure of general meetings, Board meetings and meetings of special committees under the Board and other daily affairs.

(VII) Duties of the Board

According to the Articles of Association, the Board shall exercise the following functions and powers:

- (I) to convene a general meeting and report its work to the general meeting;
- (II) to implement resolutions of the general meeting;
- (III) to decide on the Bank's business plans, investment plans and business development strategies;
- (IV) to formulate the Bank's annual financial budget plans, final accounting plans, risk capital allocation plans, profit distribution plans and loss recovery plans;
- (V) to formulate proposals for increases or decreases in registered capital, issuance of bonds or other securities and listing plans of the Bank;
- (VI) to formulate plans for material acquisitions, purchase of shares of the Bank, or merger, division, dissolution and transformation of the Bank;
- (VII) to decide on major events of the Bank within the authorization of the general meeting, such as daily operations, external investments, acquisition, sales and swap of assets, external guarantees, pledge of assets, entrusted wealth management, financial lease, related party transactions and disposal of non-performing assets;
- (VIII) to appoint or dismiss any senior executives including the president, vice president and secretary of the Board of the Bank as nominated by the chairman, and decide on their remunerations, rewards and punishments;
- (IX) to formulate the basic management system of the Bank, and decide on the rights of senior management on the formulation of business procedures and other specific rules;
- (X) to formulate proposals for any amendment to our Articles;
- (XI) to be responsible for the Bank's information disclosure, and undertake the ultimate responsibility for the completeness and accuracy of the Bank's accounting and financial reports;
- (XII) to formulate a standard scheme for the remuneration and allowances of the Directors of the Bank;
- (XIII) to listen to work reports of the Bank's president and examine his/her work;
- (XIV) to decide on the Bank's risk management and internal control policies;

Corporate Governance Report

- (XV) to supervise the work performance of the Bank's senior management and deliberate senior management's evaluation on the Bank's president, vice president, chief financial officer and other senior managers and the reports of evaluation by the Bank's senior managers on each other; and to organize the evaluation on Directors and evaluation by independent non-executive Directors on each other and report relevant evaluation results to the Board of Supervisors;
- (XVI) to regularly evaluate and improve the Bank's governance;
- (XVII) to nominate the candidates of the next session of the Board;
- (XVIII) to apply for bankruptcy to the People's Court on behalf of the Bank according to the authorization of the general meeting;
- (XIX) to decide on the plans for establishment of internal management structure of the Bank and establishment and withdrawal of branches of the Bank;
- (XX) to establish an identification, investigation and management mechanism for the conflict of interest between the Bank and substantial Shareholders;
- (XXI) to undertake the ultimate responsibility for information technology risks and examination and approval of mid-and-long term information technology strategies, and regularly review the Bank's reports on information technology construction and risk management;
- (XXII) to have the right to determine the pricing and the business investment between the Bank and other financial institutions, including bond investment, entrusted wealth management, purchase of wealth management products, purchase of designated (specialized) asset management plans, trust plans, beneficiary certificates issued by securities companies, right to yields on claims of margin trading and short selling, securities investment funds and other business investment and pricing;
- (XXIII) to determine green credit development strategies, examine and approve the green credit objectives determined and the green credit reports submitted by senior management, and supervise and appraise the Bank's implementation of green credit development strategies;
- (XXIV) to assume the ultimate responsibility for the protection of consumer rights of the Bank, regularly listen to the reports on the progress of the protection of consumer rights; assume the ultimate responsibility for anti-money laundering (AML) management, and ensure that the Bank establishes and implements a complete and effective AML internal control system; and
- (XXV) to exercise other functions and powers that shall be exercised by the Board according to the laws, regulations, Hong Kong Listing Rules and our Articles.

(VIII) Board Meetings

During the Reporting Period, we convened 13 Board meetings in total (including meetings by means of communications), including seven onsite meetings and six meetings by means of communications, during which we primarily considered and approved 75 proposals including operation plans, fixed asset investment plans, financial budget plans, capital management plans, profit distribution plans and rules and measures of the issuance of TIRE 2 capital bond and risk management.

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The list of Directors of the Bank during the Reporting Period and as of the date of this annual report and the attendance of Directors during their respective tenure in office during the Reporting Period are as follows (Directors abstaining from the meetings for their involvement in connected transactions shall be deemed as having attended the meetings):

Attendance in person/Attendance by proxy/Number of meetings held during the tenure in office

Directors	Board	Audit committee	Development and strategy committee	Nomination and remuneration committee	Related party (connected) transactions control committee	Risk management committee	Consumer rights protection committee	General meeting
YOU Jiang	13/0/13	-	1/0/1	6/0/6	-	2/0/2	2/0/2	3/0/3
XU Xianzhong	13/0/13	-	-	-	-	-	2/0/2	3/0/3
LIU Shirong	13/0/13	-	-	-	14/0/14	2/0/2	-	3/0/3
PAN Lina ¹	0/0/0	0/0/0	0/0/0	-	-	-	-	-
XIONG Guoming	12/1/13	-	1/0/1	6/0/6	-	2/0/2	-	3/0/3
LIU Qi	13/0/13	-	1/0/1	-	-	-	2/0/2	3/0/3
DAI Zhiwei	12/1/13	-	1/0/1	-	-	-	-	3/0/3
LIU Anyuan ¹	0/0/0	0/0/0	-	-	-	-	0/0/0	-
JIANG Bo ¹	0/0/0	-	-	-	-	0/0/0	-	-
GU Mingan	13/0/13	3/0/3	-	6/0/6	14/0/14	-	-	3/0/3
HUANG Yongqing	13/0/13	-	-	-	14/0/14	-	2/0/2	3/0/3
YE Changqing	12/1/13	3/0/3	-	4/0/4	8/0/8	2/0/2	-	3/0/3
TANG Baoqi	13/0/13	3/0/3	-	6/0/6	6/0/6	-	-	3/0/3
XU Yan ²	5/0/5	2/0/2	1/0/1	-	-	-	-	1/0/1
LIU Xiaoyu ²	5/0/5	2/0/2	-	-	6/0/6	1/0/1	2/0/2	1/0/1

Notes:

- Ms. PAN Lina, Ms. LIU Anyuan and Mr. JIANG Bo have been elected as non-executive Directors of the Bank at the Shareholders' General Meeting on May 28, 2019. The appointment of Ms. PAN Lina, Ms. LIU Anyuan and Mr. JIANG Bo as non-executive Directors took effective on December 31, 2019.
- Ms. XU Yan and Mr. LIU Xiaoyu have retired after the conclusion of the Shareholders' general meeting on May 28, 2019.

Committee under the Board	The sixth session	The seventh session
Development and strategy committee	XU Yan (chairperson), YOU Jiang, XIONG Guoming, LIU Qi, DAI Zhiwei	PAN Lina (chairperson), YOU Jiang, XIONG Guoming, LIU Qi, DAI Zhiwei
Risk management committee	XIONG Guoming (chairperson), YOU Jiang, LIU Xiaoyu, YE Changqing, LIU Shirong	XIONG Guoming (chairperson), YOU Jiang, LIU Shirong, YE Changqing, JIANG Bo
Audit committee	LIU Xiaoyu (chairperson), XU Yan, GU Mingan, TANG Baoqi, YE Changqing	YE Changqing (chairperson), PAN Lina, GU Mingan, TANG Baoqi, LIU Anyuan
Nomination and remuneration committee	GU Mingan (chairperson), YOU Jiang, XIONG Guoming, TANG Baoqi, YE Changqing	TANG Baoqi (chairperson), YOU Jiang, XIONG Guoming, GU Mingan
Related party (connected) transactions control committee	LIU Xiaoyu (chairperson), GU Mingan, HUANG Yongqing, TANG Baoqi, LIU Shirong	GU Mingan (chairperson), HUANG Yongqing, YE Changqing, LIU Shirong
Consumer rights protection committee	HUANG Yongqing (chairperson), YOU Jiang, XU Xianzhong, LIU Xiaoyu, LIU Qi	HUANG Yongqing (chairperson), XU Xianzhong, LIU Qi, LIU Anyuan

Corporate Governance Report

(IX) Continuous Professional Development Plan of Directors

We also attach importance to the on-going trainings for Directors to ensure that they have adequate knowledge of our operation and businesses and their responsibilities and duties as stipulated by relevant laws, regulatory requirements and the Articles of Association.

During the Reporting Period, all of our Directors participated in the training for director's liabilities (including general and specific legal liabilities, connected transactions liabilities, information disclosure liabilities, corporate governance liabilities and green credit liabilities), studied policy knowledge such as the Listed Issuer Regulation Newsletter issued by the Hong Kong Stock Exchange and the Statement on the Disclosure of Actual Controllers or Beneficial Owners of Counterparties to a Transaction issued by the SFC actively, grasped the information required for performance comprehensively and perform related liabilities actively. Mr. LIU Shirong participated in Bulletin on Financial Positions for Sichuan Province and the Working Conference on Prevention and Mitigation of Financial Risks organized and held by the Sichuan Provincial Government, and Training on LPR Policy for Sichuan Province held by the Office of Self-Regulatory Pricing Mechanism for Market Interest Rates of Sichuan Province, on which Mr. LIU Shirong has learned contents such as present finance positions, financial risks and LPR policy emphatically and systematically.

(X) Performance of Duties by Independent Non-executive Directors

During the Reporting Period, we have four independent non-executive Directors (the Bank carried on the re-election of the Board on May 28, 2019, electing 5 independent non-executive Directors at the General Meeting, and on December 6, 2019, Mr. ZHOU Kai, a proposed independent non-executive Director, passed away due to illness, whose appointment as a Director was not effective), the number and proportion of our independent non-executive Directors as well as the composition of the nomination and remuneration committee do not meet relevant regulations of the Listing Rules of the Hong Kong Stock Exchange. Independent non-executive Directors serve as chairpersons of our audit committee, nomination and remuneration committee, related party (connected) transactions control committee and consumer rights protection committee. During the Reporting Period, independent non-executive Directors took an active part in the meetings of the Board and its special committees where they played their due roles by making proposals, and kept effective communication with the Bank by multiple ways such as participating in field studies, special surveys and trainings.

All of the independent non-executive Directors have expressed written independent opinions on the proposals considered by the Board. In particular, they have expressed independent opinions on profit distribution plans, appointment of senior management, engagement of auditors and other resolutions, and expressed written independent opinions on material related party transactions and other significant matters. In addition, the independent non-executive Directors of the Bank gave full play to their respective professional advantages in the special committees under the Board and provided professional and independent opinions on the Bank's corporate governance and operation management, thereby providing a strong guarantee for the Board's scientific decision-making.

(XI) Directors' Duties for Preparing Financial Statements

Directors of the Bank acknowledged their responsibilities for preparation of the financial statements of the Bank for the year ended December 31, 2019.

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Directors are responsible for examining and approving the financial statements of each accounting period, to make the financial statements truthfully and fairly reflect the Bank's financial condition, operating results and cash flows.

In preparation of the financial statements for the year ended December 31, 2019, Directors have adopted and implemented applicable accounting policies and have made prudent and reasonable judgements.

(XII) Special Committees under the Board of Directors

Pursuant to relevant laws and regulations, Articles of Association of the Bank and the Listing Rules, our Board has set up six special committees, namely, the audit committee, the development and strategy committee, the nomination and remuneration committee, the related party (connected) transactions control committee, the risk management committee and the consumer rights protection committee.

During the Reporting Period, the special committees under our Board independently, normatively and effectively performed their duties and effectively improved the corporate governance level of the Board and work efficiency, thereby ensuring steady and healthy development of various businesses of the Bank.

1. Audit committee

As at the end of the Reporting Period, the audit committee of the Bank consisted of five Directors, namely chairperson Mr. YE Changqing and members Ms. PAN Lina, Mr. GU Mingan, Mr. TANG Baoqi and Ms. LIU Anyuan.

The primary duties of the audit committee during the Reporting Period include:

- conducting inspections on our accounting policies, financial condition and financial report procedures;
- being responsible for our annual audit work;
- issuing report regarding the truthfulness, accuracy and completeness of the audited financial reports and submitting them to our Board for review;
- making recommendations on appointment, re-appointment or removal of external auditors;
- conducting inspections on our internal control systems and conducting audit on material related party transactions and connected transactions;
- performing other responsibilities as authorized by the Board; and
- performing other responsibilities in accordance with applicable laws and regulations.

Corporate Governance Report

In 2019, the audit committee held three meetings in total, during which it reviewed and approved eleven proposals mainly involving such issues as fixed asset investment plans, financial budget plans, financial accounting report, audit report for 2018, annual results announcement for 2018, analysis report of risk profile for 2018, audit work plans for 2019 and interim results announcement for 2019.

During the Reporting Period, the Audit Committee had several meetings and communications with the external auditors in the absence of executive Directors and senior management. On March 25, 2019 and August 26, 2019, the Audit Committee reviewed the audited financial statements for the year ended December 31, 2018 and the unaudited interim financial statements for the six months ended June 30, 2019 prepared in accordance with the accounting principles and policies of the Bank. It also reviewed the internal control system and the effectiveness of the Bank's internal audit function by periodically hearing the internal audit work report of our internal audit department.

2. Development and strategy committee

As at the end of the Reporting Period, the development and strategy committee of the Bank consisted of five Directors, namely chairperson Ms. PAN Lina and members Mr. YOU Jiang, Mr. XIONG Guoming, Mr. LIU Qi and Mr. DAI Zhiwei.

The primary duties of the development and strategy committee during the Reporting Period include:

- reviewing our business objectives, investment plans and medium and long term development strategies;
- supervising and inspecting the implementation of our operation plans, investment plans and medium and long term development strategies;
- conducting research and making recommendations on merger, spin-offs, capital increase and decrease and other matters that are material to our development; and
- performing other responsibilities as authorized by the Board.

In 2019, the development and strategy committee held 1 meeting in total, during which it reviewed and approved 1 proposal mainly involving such issues as annual operation plans.

3. Nomination and remuneration committee

As at the end of the Reporting Period, the nomination and remuneration committee of the Bank consisted of four Directors, namely chairperson Mr. TANG Baoqi and members Mr. YOU Jiang, Mr. XIONG Guoming and Mr. GU Mingan.

Corporate Governance Report

The primary duties of the nomination and remuneration committee during the Reporting Period include:

Nomination duties

- making recommendations on the size and composition of the Board in accordance with the business activities, asset size and equity structure of the Bank;
- conducting study on the criteria and procedures for selecting Directors and senior managers and making recommendations to the Board;
- identifying qualified individuals as Directors and selecting or making recommendations to the Board on selection of individuals nominated for directorships;
- assessing the independence of independent non-executive Directors;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the president of the Bank; and
- conducting preliminary examination of qualifications of candidates for directorships and senior management positions, and making recommendations to the Board.

Remuneration and appraisal duties

- contemplating the criteria for appraising Directors, conducting assessment and evaluation and making recommendations to the Board according to our actual conditions;
- making recommendations to the Board on the policy and structure for all Directors' and senior management' remuneration and on the establishment of formal and transparent procedures for developing remuneration policy;
- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- making recommendations to the Board on the remuneration packages of our non-executive Directors;
- reviewing and approving compensation payable to executive Directors and the senior management for any loss or termination of office to ensure that it is consistent with contractual terms and is otherwise fair and reasonable and not excessive; and
- reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate.

Corporate Governance Report

In 2019, the nomination and remuneration committee held six meetings in total, during which it considered and approved eight proposals mainly involving such issues as Work Plan for the Election of the Seventh Session of the Board of Directors, 2018 Performance Evaluation Report of Directors, 2019 Remuneration Management Measures and Performance Evaluation Management Measures, nomination policy, etc.

The nomination and remuneration committee of the Bank shall recommend candidates for Directors (including independent non-executive Directors) to the Board in accordance with the following selecting criteria and nomination procedures:

- identifying qualified individuals as Directors and selecting or making recommendations to our Board of Directors on selection of individuals nominated for directorships after due consideration of the requirements of the Company Law of the People's Republic of China 《中華人民共和國公司法》, the Commercial Banking Law of the PRC, the Securities Law of the People's Republic of China, the Guidelines on Corporate Governance of Commercial Banks 《商業銀行公司治理指引》 of the CBIRC, the Management Measures on Qualifications of Directors (Council Members) and Senior Management of Banking Institutions 《銀行業金融機構董事(理事)和高級管理人員任職資格管理辦法》, the Listing Rules, the Basic Procedures for Re-election of City Commercial Banks in Sichuan 《四川法人城市商業銀行換屆工作基本流程》 and the Articles of Association (Applicable after listing of H Shares), the Rules of Procedure for Shareholders' General Meetings (Applicable after listing of H Shares), the Rules of Procedure for Board Meetings (Applicable after listing of H Shares) of the Bank and other laws and regulations, normative documents and documents in relation to internal governance with combination of the actual situation of the Bank's work and the contributions that such candidates may make to the Board with respect to its qualification, skills, experience, independence, gender diversity and other aspects; and
- assessing the independence of independent non-executive Directors with reference to the factors as set out in Rule 3.13 of the Listing Rules and any other factors the nomination and remuneration committee or the Board deems appropriate to determine their qualifications; assessing the sufficiency of time commitment of an independent non-executive Director to affairs of the Board in the event that the proposed independent non-executive Director shall hold his/her position as a director in seven (or more) listed companies.

When nominating members of the seventh session of the Board, the nomination and remuneration committee of the Bank has considered each of the independent non-executive Directors' rich experience and biographies in their respective areas of expertise and other experience, and satisfied that such independent non-executive Directors possess requisite quality, integrity and experience to perform their duties as independent non-executive Directors in a continuous and effective manner. Contributions of such independent non-executive Directors to the diversity of the Board of the Bank are set forth in their respective biographies. In addition, such independent non-executive Directors have confirmed to the Bank their compliance with the requirements regarding independence under Rule 3.13 of the Listing Rules in their election, therefore, the Board considered that such independent non-executive Directors are independent.

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4. Related party (connected) transactions control committee

As at the end of the Reporting Period, the related party (connected) transactions control committee of the Bank consisted of four Directors, namely chairperson Mr. GU Mingan and members Mr. HUANG Yongqing, Mr. YE Changqing and Mr. LIU Shirong.

The primary duties of the related party (connected) transactions control committee during the Reporting Period include:

- reviewing and approving related party transactions and connected transactions within the authorization of the Board;
- reviewing the related party transactions and connected transactions to be submitted to the Board and general meeting for consideration and approval and reporting to the Board;
- collecting and organizing list and information of our related parties and connected persons and identifying our related parties and connected persons;
- examining and supervising control of our related party transactions and connected transactions and implementation of systems in relation to related party transactions and connected transactions by our Directors, Supervisors, the senior management, related parties and connected persons and reporting to the Board;
- performing other responsibilities as authorized by the Board; and
- performing other responsibilities in accordance with applicable laws and regulations.

In 2019, the related party (connected) transactions control committee held 14 meetings in total, during which it considered and approved 15 proposals, in particular, updated the list of related parties, amended the administrative measures for related party transactions and reviewed the annual related party transactions report and material related party transactions, etc.

5. Risk management committee

As at the end of the Reporting Period, the risk management committee of the Bank consisted of five Directors, namely chairperson Mr. XIONG Guoming and members Mr. YOU Jiang, Mr. YE Changqing, Mr. LIU Shirong and Mr. JIANG Bo.

The primary duties of the risk management committee during the Reporting Period include:

- reviewing risk management policies, measures and preference in relation to our credit risk, liquidity risk, market risk, operation risk, compliance risk and reputation risk;
- supervising our control over credit risk, liquidity risk, market risk, operation risk, compliance risk and reputation risk by our senior management;

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- conducting periodic assessment upon our risk policies, management status and risk tolerance ability, evaluating the working procedures and working proficiency of our internal supervision department and advising on improvement of our risk management and internal control;
- performing other responsibilities as authorized by the Board; and
- performing other responsibilities in accordance with applicable laws and regulations.

In 2019, the risk management committee held two meetings in total, during which it reviewed and approved six proposals mainly involving such issues as newly established and revised comprehensive risk management basic system, risk appetite management system and risk appetite table, liquidity risk management measures, market risk management measures, and bank books interest rate risk management measures.

6. Consumer rights protection committee

As at the end of the Reporting Period, the consumer rights protection committee of the Bank consisted of four Directors, namely chairperson Mr. HUANG Yongqing and members Mr. XU Xianzhong, Mr. LIU Qi and Ms. LIU Anyuan.

The primary duties of the consumer rights protection committee during the Reporting Period include:

- formulating strategies, policies and objectives of our consumer rights protection work, incorporating contents relating to consumer rights protection into our corporate governance and business development strategies and providing guidance on a general planning level to our senior management to strengthen the construction of our corporate culture of consumer rights protection;
- supervising our senior management to effectively implement consumer rights protection work, periodically listening to our senior management's special reports on consumer rights protection work, reviewing and approving the special reports and submitting the same to the Board and making relevant work as important part of information disclosure;
- supervising and evaluating the comprehensiveness, promptness and effectiveness of our consumer rights protection work and the performance of our senior management in this respect;
- reviewing and providing comments on proposals in relation to consumer rights protection to be submitted to the Board in accordance with our overall strategies; and
- performing other responsibilities as required by consumer rights protection related regulations in the banking industry or as required by the Articles of Association.

In 2019, the consumer rights protection committee held two meetings, during which it reviewed and approved two proposals mainly involving such issues as report on our consumer rights protection work and Consumer rights protection program.

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V. BOARD OF SUPERVISORS

(I) Composition of the Board of Supervisors

As at the end of the Reporting Period, our Board of Supervisors consists of five Supervisors, including one shareholder Supervisor, namely, Ms. YUAN Shihong, two employee representative Supervisors, namely, Ms. LIU Yongli and Mr. CHEN Yong, and two external Supervisors, namely, Mr. DUAN Xuebin and Mr. GUO Bing.

Our Supervisors are elected for a term of three years and may seek re-election upon expiry of the said term. The cumulative term of an external Supervisor shall not exceed six years.

(II) Duties of the Board of Supervisors

The duties of the Board of Supervisors mainly include:

1. to examine the regular reports and bonus scheme of the Bank prepared by the Board and produce written opinions thereon;
2. to examine and supervise financial activities of the Bank;
3. to conduct off-office auditing for Directors, president, and other senior management personnel and to guide the work of the internal audit department of the Bank;
4. to inquire Directors, president and other senior management personnel;
5. to supervise the fulfilment of duties of the Board of Directors, senior management, Directors, chairman and senior management personnel and to propose dismissal of Directors and senior management personnel who have violated laws, administrative regulations, our Articles or resolutions of the Shareholders' general meetings;
6. when the acts of a Director, president or senior management personnel of the Bank are detrimental to its interests, to require the aforementioned persons to correct these acts;
7. to propose the convening of extraordinary general meetings and, in case the Board does not perform the obligations to convene and preside over the Shareholders' general meetings in accordance with the Company Law, to convene and preside over the Shareholders' general meetings;
8. to submit proposals to the Shareholders' general meeting;
9. to initiate legal proceedings against the Directors and senior management personnel in accordance with Article 152 of the Company Law;
10. to conduct investigations if there are any doubts or irregularities in relation to the operation of the Bank, and to engage professionals from accountant firms or law firms, professional auditors etc. if necessary to assist its duties at the expenses of the Bank;

Corporate Governance Report

11. to formulate a standard scheme for the remuneration and allowances of the members of the Board of Supervisors of the Bank for review and determination at the Shareholders' general meeting;
12. to audit the business decisions, risk management and internal controls of the Bank, and to supervise the information technology risks of the Bank;
13. to attend board meetings and obtain meeting materials;
14. to supervise the directors recruiting procedures;
15. to organize the evaluation of Supervisors and the mutual evaluation of external Supervisors, and to report the evaluation results to the Shareholders' general meeting for deliberation; and
16. to exercise other functions and powers stipulated by laws, administrative regulations and other regulations, or our Articles, or granted by the Shareholders' general meetings.

(III) Primary Ways for Performance of Duties by the Board of Supervisors

The Board of Supervisors convenes meetings of the Board of Supervisors and its special committees to review resolutions and listen to reports, convenes joint meetings of the Chairperson of the Board of Supervisors on a regular basis and conducts special inspections as well as investigations and researches to make recommendations, attends the Shareholders' general meeting and important meetings of the Board and the Bank, through which the Board of Supervisors supervises and evaluates the performance of duties by the Board and senior management and its members, oversees the financial activities, risk management and internal control of the Bank, makes recommendations on supervision and continuously supervises the implementation of all recommendations by the Bank.

During the Reporting Period, the Board of Supervisors organized and conducted evaluation on the performance of duties by our Board of Directors, Directors, senior management and its members and our Supervisors in 2018 and reported to regulatory authorities.

(IV) Meetings of the Board of Supervisors

During the Reporting Period, the Board of Supervisors convened 11 meetings in total, including 7 onsite meetings and 4 meetings by means of communications, during which it considered and approved 46 resolutions, and listened to 12 reports. The contents for consideration include our operation plans, financial budget and final accounts, fixed assets investment plans, profit distribution and evaluation on the performance of duties by Directors, Supervisors and senior management, evaluation of strategic development planning, election plan of the Board of Supervisors. During the Reporting Period, our Board of Supervisors had no objection to all supervisory issues.

Corporate Governance Report

(V) Special Committees under the Board of Supervisors

Our Board of Supervisors has established nomination committee and audit and supervision committee.

1. Nomination committee

As at the end of the Reporting Period, the nomination committee of the Bank consisted of three Supervisors with Mr. DUAN Xuebin being the chairperson and Ms. YUAN Shihong and Mr. CHEN Yong being the members.

The primary duties of the Nomination Committee during the Reporting Period include the following:

- providing recommendations on the size and composition of our Board of Supervisors;
- being responsible for formulating the criteria and procedures for selecting supervisors and making recommendations to our Board of Supervisors;
- identifying qualified supervisors candidates;
- supervising the selection procedure of directors; comprehensively evaluating the performance of directors, supervisors and senior management personnel and reporting to the board of supervisors;
- supervising the scientificity and rationality of the entire bank's remuneration management system and policies, and the remuneration package of senior management personnel;
- conducting preliminary examination of qualifications and credentials of supervisors candidates nominated by Shareholders, and making recommendations to our Board of Supervisors accordingly; and
- performing other responsibilities as authorized by the Board of Supervisors.

In 2019, the nomination committee under the Board of Supervisors convened 2 meetings, during which it considered and approved 5 proposals.

2. Audit and supervision committee

As at the end of the Reporting Period, the audit and supervision committee consisted of three Supervisors with Mr. GUO Bing being the chairperson, Ms. YUAN Shihong and Ms. LIU Yongli being the members.

Corporate Governance Report

The primary duties of the audit and supervision committee during the Reporting Period include the following:

- formulating proposals for inspecting and supervising our financial activities;
- formulating proposals for off-office auditing on Directors and senior management;
- formulating proposals for auditing our operational decision, risk management and internal control;
- supervising the board of directors to establish a steady business philosophy, value standards and formulating development strategies consistent with the Bank's actual situations; and
- performing other responsibilities as authorized by our Board of Supervisors.

In 2019, the audit and supervision committee under the Board of Supervisors convened 6 meetings, during which it considered and approved 7 proposals.

VI. SENIOR MANAGEMENT

The Bank shall have one president, who shall be elected via public employment, internal competition or external transfer, which shall be decided by the Board of Directors. The chairman of the Board shall communicate with the local party committee and government, substantial shareholders and banking regulatory authorities under the State Council, so as to reach a consensus on the president candidates. The president shall be nominated by the chairman of the Board, and appointed or dismissed by the Board of Directors. The Bank may set a number of positions of vice president and senior manager to meet the needs for business development. The vice presidents and senior managers shall be appointed or dismissed by the Board of Directors. All the senior managers meet the qualification conditions required by laws and regulations and banking regulatory authorities. The president shall be accountable to the Board, shall have the right to organize and carry out the Bank's operations and management in accordance with laws, administrative regulations and other rules, the Articles and the authorization of the Board, and shall perform the following functions and powers:

- (I) to take charge of the business operation and management of the Bank, to organize the implementation of the resolutions of the Board and to report the work to the chairman and the Board;
- (II) to draft annual business plans and investment proposals;
- (III) to draft the Bank's basic management system;
- (IV) to formulate the Bank's specific regulations;
- (V) to make suggestions on the plans for establishment of internal management structure of the Bank and establishment and withdrawal of branches of the Bank;
- (VI) to make suggestions on the Board's appointment or dismissal of vice president and other senior managers of the Bank;
- (VII) to make suggestions on the management personnel other than those to be engaged or dismissed by the Board;

Corporate Governance Report

- (VIII) to make suggestions on the plans authorizing senior managers and persons in charge of internal functional departments and branches to conduct operational activities;
- (IX) to make suggestions on the salaries, benefits and reward or punishment of the Bank's staff other than the senior managers decided by the Board; as well as the appointment and dismissal of the Bank's staff other than the senior managers decided by the Board;
- (X) to propose to convene a provisional Board meeting;
- (XI) to adopt emergency measures when any material emergency (such as a run on the Bank) arises and promptly report them to the competent administrative authorities of the State, the Board of Directors and the Board of Supervisors;
- (XII) to report the fulfilment of duties and evaluation of the senior management of the Bank to the Board of Directors and the Board of Supervisors, and to organize members of the senior management of the Bank to report their fulfilment of duties to the Board of Directors and the Board of Supervisors; and
- (XIII) other powers and rights conferred by the articles of association of the Bank or by the Board.

The president shall attend Board meetings. A non-Director president shall have no voting rights thereat.

Our senior management consists of nine members, namely, Mr. XU Xianzhong, Mr. LIU Shirong, Ms. XIA Yilun, Ms. XUE Xiaoqin, whose former name is XUE Defang, Mr. CHENG Anhua, Mr. YANG Bing, whose former name is YANG Bin, Mr. TONG Qiang, Mr. AI Yong and Mr. HU Jia.

VII. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

Our Bank has adopted the Model Code as its code for regulating securities transactions by Directors and Supervisors of the Bank. Having made specified enquiry with all Directors and Supervisors of the Bank, our Directors and Supervisors confirmed that they have been in compliance with the Model Code throughout the Reporting Period.

VIII. RELATIONSHIP BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no financial, business, kinship or other significant/relevant relationship between the Directors, Supervisors and the senior management of the Bank.

IX. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Articles of Association of the Bank, which took effect after the Listing, was adopted at the general meeting held on May 28, 2019. On December 31, 2019, the Bank received the Approval on Amendments to the Articles of Association of Luzhou Bank Co., Ltd. issued by the China Banking and Insurance Regulatory Commission Sichuan Office (Chuan Yin Bao Jian Fu [2019] No. 1159) 《中國銀保監會四川監管局關於同意瀘州銀行股份有限公司修改章程的批覆》(川銀保監覆[2019]1159號) from the China Banking and Insurance Regulatory Commission Sichuan Office (the “**CBIRC Sichuan Office**”), which approved the amended Articles of Association passed at the 2018 Annual General Meeting. For details of the amendments to the Articles of Association, please refer to the circular of the Bank dated April 12, 2019.

Corporate Governance Report

X. JOINT COMPANY SECRETARIES

Mr. LIU Shirong and Ms. SO Shuk Yi Betty are the joint company secretaries of the Bank. All Directors can discuss with the company secretaries to seek advice and obtain information. Mr. LIU Shirong is the main contact person of Ms. SO Shuk Yi Betty in the Bank. Mr. LIU Shirong and Ms. SO Shuk Yi Betty confirmed that each of them has received no less than 15 hours of relevant professional training during the Reporting Period.

XI. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The Bank engaged PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) as the auditor of the Bank's 2019 financial statements prepared in accordance with China Accounting Standards for Business Enterprises and PricewaterhouseCoopers as the auditor of the Bank's 2019 financial statements prepared in accordance with International Financial Reporting Standards. For the year ended December 31, 2019, the Bank had emoluments of RMB2.8 million payable to PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers for the annual audit services. During the Reporting Period, the Bank also had interim audit expense of RMB850,000 and other non-audit service expense of RMB640,000 paid/payable.

XII. RISK MANAGEMENT, INTERNAL CONTROL AND INSIDE INFORMATION MANAGEMENT

The Board has reviewed the risk management and internal control system for the year ended December 31, 2019 to ensure its effectiveness and sufficiency. Such review shall be conducted on an annual basis. The Board is of the view that the risk management and internal control system of the Bank for the year ended December 31, 2019 is effective and adequate.

(I) Procedures Used to Identify, Evaluate and Manage Significant Risks

Leveraging our risk appetite, risk limit, risk management information systems, and a range of risk management policies and measures, we closely monitor different types of risks to make timely response, particularly for key risks associated with our daily operations, including strategic risk, credit risk, market risk, liquidity risk, operational risk, information technology risk and reputational risk. The Bank focuses on developing the rules and policies in relation to key risks and implements the relevant measures, so as to enhance the efficiency and effectiveness of risk identification, analysis, evaluation and mitigation. We have established clear and specific reporting and communication procedures for coordination among departments, including the departments responsible for risk management at the level of branch, sub-branch, and headquarters and the Risk Management Department, to address various risks and risk incidents and ensure efficient and effective risk management work arrangement.

(II) Main Features of Our Risk Management and Internal Control

The overall target of our risk management is to maintain the balance between risks and business development so that we could effectively mitigate risks while developing our business in a sustainable way. To achieve the abovementioned objectives, we have implemented the guiding principles of "comprehensiveness, balance, centralization and compliance" in our risk management.

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The objectives of internal control of the Bank are to reasonably ensure the legal and regulatory compliance of operations and management and the security of corporate assets, and to ensure the truthfulness and completeness of financial reports and the relevant information; to enhance the efficiency and effectiveness of operations and facilitate the implementation of development strategies. The Bank's internal control is compatible with its operational scale, business scope, competitive landscape and risk level, and adjustments will be made in a timely manner to keep in pace with any changes of the circumstances.

(III) Responsibilities of the Board of Directors for the Risk Management and Internal Control

The Board of Directors of the Bank is responsible for deciding on the Bank's risk management and internal control policies. The Board of Directors' responsibilities include establishing an adequate and effective risk management system to ensure the Bank's prudent operation and compliance with relevant laws and financial policies; monitoring and assessing the sufficiency and effectiveness of our risk management system; and reviewing internal control evaluation reports.

The risk management and internal control system of the Bank is designed to manage rather than eliminate the risk of failure to meet business objectives. During the Reporting Period, the Bank has maintained a generally effective internal control system and a controllable risk profile. Due to its inherent limitations, the internal control can only provide reasonable rather than absolute assurance for achieving the above objectives. In addition, since changes may result in inappropriate internal control or lower compliance with the control policies and procedures, it is risky to predict, to a certain extent, the effectiveness of future internal control based on current evaluation results of internal control.

(IV) Procedures Used to Review the Effectiveness of the Risk Management and Internal Control and to Resolve Material Internal Control Defects

All departments of the Bank have established a series of systems which set out business-specific risk management policies and procedures to reasonably identify the risk control point for each business and management activity, take appropriate control measures and implement standardized and united business and management procedures to ensure a standard operation. No such business should be conducted if there are no relevant systems. The Bank includes the overall risk management into the internal audit, and the Internal Audit Department is responsible for reviewing and evaluating the sufficiency and effectiveness of the overall risk management on a regular basis. We have established an overall risk management system with comprehensive risk coverage and committed ourselves to its continuous upgrade and optimization.

The internal control is conducted across the daily operation and management activities by the Bank. Each business management department conducts routine monitoring, inspection and supervision on key risk points and key procedures at fixed intervals. The Internal Audit Department formulates the audit plans and conducts supervision and audits on key risk points and key procedures. Our Internal Control and Compliance Department takes the lead in organizing all departments to conduct an overall evaluation once a year based on the internal and external inspection and supervision and formulate an annual self-evaluation report of internal control. The Bank will continue to improve its internal control system, reinforce the implementation of the internal control system, optimize the evaluation methods of internal control and strengthen the supervision and inspection on internal control to facilitate the healthy and sustainable development of the Bank in line with its development strategies and changes in business procedures.

Corporate Governance Report

(V) Procedures and Internal Control Measures for Handling and Releasing Inside Information

The Bank handles and releases inside information in accordance with the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission in June 2012 to ensure the inside information remains confidential until the disclosure of such information is appropriately approved, and the release of such information is efficiently and consistently made. The Bank reminds its Directors and employees to properly comply with all policies in relation to inside information on a regular basis, distributes the Notice on Regulating the Disclosure of Inside Information of the Bank to all the employees, and imposes strict regulatory requirements on disclosure of inside information. Furthermore, the Bank will inform its Directors, senior management and employees of the latest regulatory developments, and prepare or update relevant policies and guidelines to ensure compliance with regulatory requirements.

The Bank is aware of its responsibilities under the SFO and the Listing Rules and the overriding principle that the information shall be published as soon as practicable if it is determined to be inside information, and that it shall handle such information with close regard to the applicable laws and regulations.

XIII. SHAREHOLDERS' RIGHTS

(I) Convening of Extraordinary General Meetings

According to the Articles of Association, the Shareholders have the following rights:

The Board of Directors shall convene Shareholders' general meetings as required by laws and regulations, the Articles of Association and the terms of reference of the Shareholders' general meeting. Where the Board of Directors is incapable of performing or is not performing its duties to convene the general meeting, the Board of Supervisors shall convene such meeting in a timely manner; if the Board of Supervisors fails to convene such meeting, Shareholders individually or in aggregate holding 10% or more of the Bank's Shares for 90 days or more consecutively may unilaterally convene and preside over such meeting.

Above half of the independent non-executive Directors are entitled to propose to the Board for convening of extraordinary general meetings. For the proposal of convening extraordinary general meetings by such independent non-executive Directors, the Board shall provide feedback in a written form of agreeing or disagreeing the convening of extraordinary general meetings within 10 days upon receipt of the proposal in accordance with laws, administrative regulations and the Articles of Association. If the Board agrees to convene extraordinary general meetings, a notice of convening a general meeting shall be given within 5 days upon resolution of the Board; if the Board disagrees with convening extraordinary general meetings, an explanation of the reasons shall be provided.

(II) Proposals to Shareholders' General Meetings

When the Bank is to convene a Shareholders' General Meeting, the Board and the Board of Supervisors and Shareholders who individually or jointly hold more than 3% of the Bank's Shares are entitled to submit proposals in writing to the Bank. The Bank should include matters in the proposals which fall within the terms of reference of Shareholders' General Meeting into the meeting agenda.

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Shareholders who individually or jointly hold more than 3% of the Bank's Shares may submit a temporary proposal in writing 10 days before the Shareholders' General Meeting to the convener. The convener should dispatch a supplementary notice of Shareholders' General Meeting announcing the contents of the temporary proposal within two days after receiving such temporary proposal. If listing rules of the stock exchange where the Bank's securities are listed provide otherwise, such provisions shall also be followed.

Besides circumstances provided by the preceding paragraph, the convener shall not amend the proposals listed in the aforesaid notice or add any new proposals subsequent to the dispatch of a notice of the General Meeting. The General Meeting shall not vote and adopt a resolution on any proposal that is not listed in the notice of the Shareholders' General Meeting or that is inconsistent with Article 80 of the Articles of Association.

(III) Enquires from Shareholders

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

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Tel.: +852-2862-8555

Fax: +852-2865-0990/2529-6087

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

The Bank's Office of the Board of Directors

Building 1, No. 18 Section 3 Jiucheng Avenue, Jiangyang District, Luzhou, Sichuan Province, the PRC

Tel.: +86-830-2362606

Fax: +86-830-3100625

Post code: 646000

(IV) Management of Investor Relations

Shareholders and investors may send enquiries to the Board to the Bank's office of the Board of Directors.

Address: Building 1, No. 18 Section 3 Jiucheng Avenue, Jiangyang District, Luzhou, Sichuan Province, the PRC

Tel.: +86-830-2362606

Fax: +86-830-3100625

E-mail: ir@lzccb.cn

Corporate Governance Report

(V) Information Disclosure

The Bank attaches great importance to communication with Shareholders and enhances understanding and communication among Shareholders through various channels such as general meetings, results announcements, roadshows, visitors' reception, and telephone consultation.

XIV. REMUNERATION MANAGEMENT

(I) Remuneration System

The Bank has implemented an incentive and restrictive performance-based remuneration appraisal mechanism based on the principle of "placing the efficiency as priority", in which the remuneration of employees is determined individually on merits on the basis of their salary of posts. The Bank has also established a market-based remuneration allocation system under which the income depends on the contribution by closely connecting the employees' remuneration with their work performance, so as to give a continual play to the incentive and guiding effects of remuneration, arouse employees' enthusiasm and thereby to improve the overall efficiency. The Bank paid "Five Social Insurances and One Housing Fund" ("五險一金") for employees, and purchased supplementary medical insurance, in accordance with the relevant laws to provide a comprehensive security system for its employees. The Bank strictly implements the relevant requirements for supervision of remuneration payment, and implements deferred payment for middle and senior executives as well as employees having great effect on risks.

(II) Information on Remuneration Paid to Directors, Supervisors and Senior Management

Please refer to note 11 to the financial statements of this annual report for the total amount of the remuneration of Directors and Supervisors during the Reporting Period. For the year ended December 31, 2019, no emolument was paid by the Bank to any of the Directors, Supervisors or the five highest paid individuals (including Directors, Supervisors and employees) as an inducement to join or upon joining the Bank or as compensation for loss of office.

Remuneration paid to the senior management⁽¹⁾ (excluding the Directors and Supervisors) by bands for the year ended December 31, 2019 is set out below⁽²⁾:

	Number of employees	% of total
0 to RMB1,000,000	4	44.44%
Over RMB1,000,000	5	55.56%

Notes:

- (1) As of December 31, 2019, two of the Bank's senior management members were concurrently the Directors, namely Mr. XU Xianzhong and Mr. LIU Shirong, respectively. For the details of the remuneration of Mr. XU Xianzhong and Mr. LIU Shirong, please refer to Note 11 of the financial statements of this annual report.
- (2) In accordance with regulations authorised by relevant authorities in the PRC, the compensation package for certain senior management personnel for 2019 has not been finalized, and the disclosed amount is just the amount paid in current period, including the remuneration of the previous year deferred to the current year.

Corporate Governance Report

XV. DIVIDEND POLICY

The Bank may distribute dividends in the following forms:

- (i) cash;
- (ii) shares.

The dividend from any Share paid prior to a capital call is entitled to interest, but the holder of the Shares is not entitled to the dividend declared after the call in respect of prepayments of Shares. The Bank may exercise the power to forfeit unclaimed dividends in accordance with relevant laws and regulations, departmental rules, normative documents and the relevant provisions stipulated by the securities regulatory authorities in the locality in which the securities of the Bank are listed, but such power should not be exercised until the relevant applicable period has expired.

The Bank shall have the right to cease delivering dividend notice to the Shareholders of H Shares by mail, but such right can only be exercised after the dividend notice has not been drawn twice consecutively. If a dividend notice fails to reach the expected recipient in the initial mail delivery and is returned, the Bank may exercise the right promptly. The Bank shall have the right to sell the shares of the Shareholders of H Shares through the methods the Board deems appropriate and subject to the following conditions:

- (i) the Bank has distributed dividends on such shares at least 3 times in a period of 12 years and the dividends are not claimed by anyone during that period;
- (ii) after the expiration of a period of 12 years, the Bank makes a public announcement in one or more newspaper at the place where the Bank's securities are listed, stating its intention to sell such shares and notifies the Hong Kong Stock Exchange of such intention.

Our Bank shall appoint for Shareholders of overseas listed shares a recipient agent. The recipient agent shall collect on behalf of the Shareholders concerned the dividends distributed and other funds payable by the Bank in respect of the overseas listed shares.

The recipient agent appointed by the Bank shall comply with the laws of the locality in which the Bank's shares are listed or the relevant requirements of the stock exchange where the Bank's shares are listed. The recipient agent appointed by the Bank for Shareholders of H Shares shall be a company which is registered as a trust company under the Trustee Ordinance of Hong Kong.

The profit distribution policy of the Bank shall be focused on generating reasonable investment returns to investors and be favorable for the Bank's long-term development. The profits of the Bank may be distributed in the form of bonus share and cash dividend, etc., and the cumulative distribution amount in any three consecutive years shall not be less than 20% of the annual average distributable profits realized in the said three years.

Directors' Report

The Board hereby presents the Directors' report and audited financial statements of the Bank for the year ended December 31, 2019.

I. BUSINESS REVIEW

(I) Business Review

We are the only city commercial bank headquartered in Luzhou. We offer various banking services and relevant financial services. Our principal business lines include corporate banking, retail banking and financial markets. The information on business review of the Bank for the year ended December 31, 2019 is set out in "Management Discussion and Analysis" of this annual report.

(II) Relationship with Customers and Employees

For further information of the employees and employment policies of the Bank, please refer to the sections headed "Directors, Supervisors, Senior Management and Employees" and "Corporate Governance Report" above as well as the 2019 Environmental, Social and Governance Report to be published by the Bank on the websites of the Hong Kong Stock Exchange and the Bank in due course.

(III) Environmental Policy and Performance

For further information of the environmental policies and performance of the Bank during the Reporting Period, please refer to the 2019 Environmental, Social and Governance Report to be published by the Bank on the websites of the Hong Kong Stock Exchange and the Bank in due course.

(IV) Permitted Indemnity Provisions

Pursuant to Article A.1.8 of the Code provisions, the Bank should purchase appropriate insurance covering potential legal proceedings against the Directors of the Bank. To comply with the Code provisions, the Bank had purchased appropriate liability insurance for the Directors to provide indemnity for the liabilities incurred in the corporate activities for the year ended December 31, 2019.

(V) Equity-linked Agreements

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

II. THE LISTING OF H SHARES ON THE HONG KONG STOCK EXCHANGE

The Bank's H Shares were listed on the Hong Kong Stock Exchange on December 17, 2018 with an offer price fixed at HK\$3.18 per Offer Share (exclusive of brokerage of 1%, Hong Kong SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The Bank issued 545,740,000 H Shares in total under the Global Offering. Three Cornerstone Investors subscribed for 270,000,000 H Shares in total issued by the Bank. After deduction of the underwriting fees, commissions and expenses payable by us in relation to the Global Offering and excluding the impact of the exercise of Over-allotment Option, the net proceeds of the Global Offering accruing to us would be approximately HK\$1,638.2 million.

Directors' Report

On January 9, 2019, the Sole Representative (as defined in the Prospectus of H Shares Global Offering of the Bank) (on behalf of the International Underwriters) fully exercised the Over-allotment Option, which involved 81,860,000 H Shares in total, representing in aggregate 15% of the Offer Shares initially offered under the Global Offering before any exercise of the Over-allotment Option, to cover over-allocations in the International Offering. The over-allotment shares were issued and allotted at HK\$3.18 per H Share (exclusive of brokerage of 1%, Hong Kong SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The over-allotment shares were listed and traded on the Main Board of Hong Kong Stock Exchange on January 14, 2019. The additional net proceeds from the issuance of over-allotment shares of the Bank were approximately HK\$255.5 million (after deducting underwriting commissions, brokerage, transaction levy and transaction fee), representing a net price of approximately HK\$3.12 per H Share.

Our proceeds from the issuance of H Shares have been fully utilized for the intended use as disclosed in the Prospectus of our Bank. We have used the net proceeds from the Global Offering (after deduction of underwriting fees and commissions and expenses payable by us in relation to the Global Offering) to strengthen our capital base to support the ongoing growth of our business.

III. PROFITS AND DIVIDENDS

(I) Dividends

Our revenue for the year ended December 31, 2019 and our financial position on the same date are set out in the “Statement of Comprehensive Income” and “Statement of Financial Position” in the report.

Our Board of Directors has proposed to distribute final cash dividends for the year ended December 31, 2019 at RMB0.13 (tax inclusive) per share to all shareholders in an aggregate amount of RMB294.42 million (tax inclusive). The dividend distribution plan will be proposed at the annual general meeting of 2019 for consideration.

If the proposal is approved at the annual general meeting of 2019 (“**2019 AGM**”), the dividends will be distributed to holders of domestic Shares and holders of H Shares whose names appear on the register of members of our Bank as at Monday, June 8, 2020. The proposed dividends are denominated in Renminbi and will be distributed to holders of domestic Shares and holders of H Shares in Renminbi and Hong Kong dollars, respectively. The applicable exchange rate for calculating dividends to be distributed in Hong Kong dollars shall be the average of the central parity rates of RMB to Hong Kong dollars used by the interbank foreign exchange market as published by the PBoC of the five working days (inclusive of the date of the annual general meeting) preceding the declaration of such dividends at the annual general meeting of 2019. The registration of transfers of domestic Shares and H Shares will be closed from Tuesday, June 2, 2020 to Monday, June 8, 2020 (both days inclusive). In order to be entitled to the final dividends for 2019, holders of H Shares of the Bank who have not registered the related transfer documents are required to lodge the transfer documents accompanied by the relevant share certificates with our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong on or before 4:30 p.m. on Monday, June 1, 2020.

Our Board of Directors has determined to distribute the final dividends for 2019 on or before Thursday, July 23, 2020. If there is any change to the expected distribution date, an announcement regarding such change will be published.

Directors' Report

The cash dividends of ordinary shares in the past three years are as follows:

Item	2016	2017	2018
Cash dividend (tax inclusive, in millions of RMB)	54.4	196.46	339.72
Proportion of annual profit (%)	10.03	31.75	51.60

(II) Tax on Dividends of Ordinary Shares

(1) For holders of domestic Shares

Our corporate holders of domestic Shares shall handle their income tax by themselves. Pursuant to the relevant provisions of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》), our Bank shall withhold and pay an individual income tax at a rate of 20% for individual shareholders whose names appear on the domestic share register of members as at June 8, 2020.

(2) For holders of H Shares

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and the relevant implementation regulations effective on January 1, 2008, our Bank shall withhold and pay an enterprise income tax at a rate of 10% for non-resident enterprise shareholders listed on the H Share register of members as at June 8, 2020. Pursuant to the Notice on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued by the SAT on June 28, 2011, overseas resident individual shareholders' receipt of dividends from the shares issued in Hong Kong by domestic non-foreign-invested enterprises is subject to withholding of individual income tax by the payer of the income according to laws; however, overseas resident individual shareholders holding shares issued in Hong Kong by domestic non-foreign-invested enterprises can enjoy relevant preferential tax treatments according to the tax treaties entered into by the countries they reside in with the PRC and the tax arrangements between mainland China and Hong Kong (Macau).

In accordance with the above tax regulations, we generally withhold individual income tax on dividends at a rate of 10% for the individual holders of H Shares, unless otherwise provided in the relevant tax regulations and tax treaties where the Bank shall go through the specific procedures under taxation and administration requirements of tax authorities.

Directors' Report

IV. 2019 AGM AND CLOSURE OF THE REGISTRATION OF TRANSFERS OF SHARES

The 2019 AGM is scheduled to be held on Tuesday, May 26, 2020. For the purpose of determining the list of shareholders who are entitled to attend and vote at the 2019 AGM, the registration of transfers of our H Shares will be closed from Saturday, April 25, 2020 to Tuesday, May 26, 2020 (both days inclusive). In order to attend and vote at the 2019 AGM, the holders of H Shares of the Bank shall lodge all the transfer documents accompanied by the relevant share certificates with our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Friday, April 24, 2020.

V. RESERVE

Details of changes in the Bank's reserves available for distribution to Shareholders for the year ended December 31, 2019 are set out in the Statement of Changes in Equity.

VI. SUMMARY OF FINANCIAL INFORMATION

A summary of the Bank's operating results, assets and liabilities for the entire year ended December 31, 2019 is set out in the Accounting Data and Financial Indicators Summary of this annual report.

VII. DONATION

The Bank's charitable and other donations totaled RMB9.21 million for the year ended December 31, 2019.

VIII. PROPERTY AND EQUIPMENT

Details of changes in the property and equipment of the Bank for the year ended December 31, 2019 are set out in note 24 to the financial statements of this annual report.

IX. RETIREMENT BENEFITS

Details of the retirement benefits provided to employees by the Bank are set out in note 29 to the financial statements of this annual report under Retirement Benefit Obligations.

X. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE BANK

On January 9, 2019, the Sole Representative (as defined in the Prospectus for H Share Global Offering of the Bank) (on behalf of the International Underwriters) fully exercised the Over-allotment Option, which involved 81,860,000 H Shares in total, representing in aggregate 15% of the Offer Shares initially offered under the Global Offering before any exercise of the Over-allotment Option, to cover over-allocations in the International Offering. The over-allocated shares were issued and allotted at HK\$3.18 per H Share (exclusive of brokerage of 1%, Hong Kong SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) and was listed and traded on the Main Board of Hong Kong Stock Exchange on January 14, 2019. The additional net proceeds from the issuance of over-allotment shares of the Bank (after deduction of underwriting commissions, brokerage, transaction levy and transaction fee) of approximately HK\$255.5 million have been fully utilized for the intended use as disclosed in the Prospectus of our Bank. We have used the net proceeds from the Global Offering (after deduction of underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering) to strengthen our capital base to support the ongoing growth of our business. Save as disclosed above, the Bank had not purchased, sold or redeemed any listed securities of the Bank during the Reporting Period.

Directors' Report

XI. PRE-EMPTIVE RIGHTS

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

XII. MAJOR CUSTOMERS

As at the end of the Reporting Period, the balance of the Bank's loans to any single borrower did not exceed 10% of the Bank's net capital. The five largest depositors and the five largest borrowers of the Bank accounted for less than 30% of total deposits and total loans and advances. None of the Directors of the Bank and their close associates or any Shareholder which to the knowledge of the Directors own more than 5% of the number of issued Shares had any interest in the said top five largest customers.

XIII. SHARE CAPITAL

Details of the movement in share capital of the Bank during the Reporting Period are set out in note 31 Share Capital to the financial statements of this annual report.

XIV. TOP TEN HOLDERS OF DOMESTIC SHARES AND SHAREHOLDINGS

The top ten holders of Domestic Shares of the Bank and their shareholdings as at the end of 2019 are set out in Changes in Share Capital and Information on Shareholders of this annual report.

XV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

XVI. CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THEIR INDEPENDENCE

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

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

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

Directors' Report

XVIII. ARRANGEMENTS TO PURCHASE SHARES OR DEBT SECURITIES

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

XIX. SIGNIFICANT INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

The Bank did not enter into any significant transaction, arrangement or contract where Directors and/or Supervisors (or connected entity of Directors and/or Supervisors) directly or indirectly held material interests for the year ended December 31, 2019.

XX. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

The Bank has entered into a service contract with each of its Directors and Supervisors in respect of, among other things, compliance with relevant laws and regulations, obedience of the Articles of Association and provisions on arbitration. During the Reporting Period, none of the Directors or Supervisors have entered into a service contract with the Bank that cannot be terminated by the Bank within one year without payment of compensation (other than statutory compensation).

XXI. MANAGEMENT CONTRACT

For the year ended December 31, 2019, there was no management and administrative contract in respect of all or any of the material activities being entered into by or existed in the Bank (other than service contracts entered into with Directors, Supervisors and Senior Management of the Bank).

XXII. DIRECTORS' AND SUPERVISORS' INTERESTS IN THE BUSINESS WHICH COMPETES WITH THE BANK

Mr. XIONG Guoming, a non-executive Director of our Bank, was also a non-executive director of Luzhou Rural Commercial Bank Co., Ltd. (瀘州農村商業銀行股份有限公司) ("Luzhou Rural Commercial Bank"). As a non-executive director of Luzhou Rural Commercial Bank, Mr. Xiong Guoming is primarily responsible for participating in making decisions and giving advice on the corporate governance, compliance and risk management of Luzhou Rural Commercial Bank and is not involved in its daily operation and management. Accordingly, the Directors consider that the directorship of Mr. Xiong in Luzhou Rural Commercial Bank does not and is unlikely to give rise to significant competition or conflict of interest between Mr. Xiong and our Bank.

Save as disclosed herein, none of our Directors are interested in any business, apart from our business, which competes or is likely to compete, either directly or indirectly, with our business which requires to be disclosed under Rule 8.10(2) of the Listing Rules.

Directors' Report

XXIII. CONNECTED TRANSACTIONS

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

The definition of connected persons under Chapter 14A of the Hong Kong Listing Rules is different from the definition of related parties under IAS 24, Related Party Disclosures, and its interpretations by the IASB. Certain related party transactions set out in note 39 to the financial statements constitute connected transactions or continuing connected transactions as defined in the Hong Kong Listing Rules, while none of them constitute connected transactions that are not fully exempt under the Hong Kong Listing Rules.

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

XXIV. REMUNERATION POLICIES

The Bank has implemented an incentive and restrictive performance-based remuneration appraisal mechanism based on the principle of "placing the efficiency as priority", in which the remuneration of employees is determined individually on merits on the basis of their salary of posts. The Bank has also established a market-based remuneration allocation system under which the income depends on the contribution by closely connecting the employees' remuneration with their work performance, so as to give a continual play to the incentive and guiding effects of remuneration, arouse employees' enthusiasm and thereby to improve the overall efficiency. The Bank has maintained various social insurances and supplementary medical insurance in accordance with the relevant laws to provide a comprehensive security system for its employees. In respect of payment of remuneration, the Bank has strictly complied with relevant regulatory requirements and deferred payment for middle and senior management and employees holding positions with material impact on risks.

Our Bank offers our executive Directors, Supervisors and senior management members, who are also our employees, compensation in the form of salaries, social security, housing provident fund, enterprise annuity and other benefits. Our independent non-executive Directors and external Supervisors receive fixed compensation.

XXV. PUBLIC FLOAT

As of December 31, 2019, the public float for H Shares of the Bank was 27.71%. Based on information that is publicly available to the Bank and to the knowledge of the Directors, as at the date of this report, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange.

Directors' Report

XXVI. AUDITORS

The Bank re-appointed PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) as the auditor of the Bank's 2019 financial statements prepared in accordance with China Accounting Standards for Business Enterprises and PricewaterhouseCoopers as the auditor of the Bank's 2019 financial statements prepared in accordance with International Financial Reporting Standards.

The Bank's financial report for the year 2019 prepared in accordance with International Financial Reporting Standards had been audited by PricewaterhouseCoopers, who had issued an audit report with unqualified opinions.

In 2017, for the preparation of issuance and listing of H Shares, the Bank engaged PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers, both of which have the qualification recognized by the Hong Kong Stock Exchange, to act as our annual auditors. Sichuan Huaxin (Group) CPA Firm ceased to be our auditor.

XXVII. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2019, the Bank complied with the “comply or explain” provisions set forth in the Environmental, Social and Governance Reporting Guide. For details, please refer to the 2019 Environmental, Social and Governance Report of the Bank to be published in accordance with the Hong Kong Listing Rules.

XXVIII. MAJOR RISKS AND UNCERTAINTIES

The major risks and uncertainties the Bank is exposed to include: major risks relating to our operations include credit risks, market risks, liquidity risks and operational risks. The Bank is also exposed to information technology risks, reputational risks and legal and compliance risks. We are unable to predict all the risks and uncertainties that we are exposed to as a result of the current economic, political, social and regulatory developments, and many of these risks are beyond our control. All these factors may adversely affect our business, financial condition and results of operations. Please see the sections headed “Management Discussion and Analysis – Risk Management” and “Corporate Governance Report – Risk Management, Internal Control and Inside Information Management” of this annual report.

XXIX. FUTURE DEVELOPMENT OF BUSINESS

Please refer to “Management Discussion and Analysis – Environment and Prospect” and “Management Discussion and Analysis – Development Strategies” of this annual report for further details.

Directors' Report

XXX. MATERIAL INVESTMENT OR ASSETS ACQUISITION PLAN

During the Reporting Period, the Bank had no plan for material investment or assets acquisition.

XXXI. KEY FINANCIAL PERFORMANCE INDICATORS

As of December 31, 2019, as indicated in the information prepared according to IFRS, the total assets of the Bank amounted to RMB91,681 million, representing a year-on-year increase of 11.06%; the total customer loans amounted to RMB44,759 million, representing a year-on-year increase of 43.09%; the NPL ratio was 0.94%; the total customer deposits amounted to RMB61,437 million, representing a year-on-year increase of 17.28%; the operating income of the Bank amounted to RMB2,807 million, representing a year-on-year increase of 45.11%; the net profit of the Bank amounted to RMB634 million, representing a year-on-year decrease of 3.71%. As of December 31, 2019, the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio of the Bank were 12.09%, 9.31% and 9.31%, respectively.

XXXII. COMPLIANCE WITH LAWS AND REGULATIONS

The Board pays close attention to the policies and regulations in relation to compliance with laws and regulatory requirements. As of December 31, 2019, to the best knowledge of the Board, the Bank has complied with applicable laws and regulations in all material respects which could materially affect the Bank.

XXXIII. SUBSEQUENT EVENTS

Proposed issuance of new H shares under specific mandate

As disclosed in the announcement of the Bank dated January 10, 2020, at the board meeting held on January 10, 2020, the Board approved the proposed issue of not more than 360,000,000 New H Shares, pursuant to a special mandate to be sought at the EGM and the Class Meeting, representing approximately 15.90% of the total existing issued share capital of the Bank before the New H Share Issue, and approximately 13.72% of the total enlarged issued share capital of the Bank after the New H Share Issue; and representing approximately 57.36% of the existing issued H Shares of the Bank before the New H Share Issue, and approximately 36.45% of the enlarged issued H Shares of the Bank after the New H Share Issue.

Directors' Report

On the same day, the Board approved the authorization which was proposed for approval at the EGM and the Class Meeting to make certain amendments to the Articles of Association, to reflect, among other things, the changes in registered capital, overseas-listed foreign shares (H Shares) which may be issued and the equity structure after the New H Share Issue.

The above-mentioned matters were approved by the Shareholders at the EGM/Class Meeting held on March 26, 2020.

Issuance of capital bonds without a fixed term (first tranche) completed

As disclosed in the announcement dated March 18, 2020 of the Bank, the Bank has successfully issued the “2020 Capital Bonds without a Fixed Term (First Tranche)” (the “**Bonds**”) in China’s national inter-bank bond market, and completed the registration and custody of the Bonds at China Central Depository & Clearing Co., Ltd. The Bonds were book-built on March 16, 2020 and the issuance was completed on March 18, 2020. The offering size of the Bonds was RMB1,000 million; the denomination of the Bonds was RMB100 each and the Bonds were issued at nominal value. The coupon rate is 5.8% during the first five years and will be adjusted every 5 years. The issuer shall have conditional redemption rights on every interest payment date since the fifth interest payment date (inclusive).

Subject to applicable laws and approval from the regulatory authorities, the proceeds raised from the issuance of the Bonds, after deduction of the expenses relating to the issuance, will be used to replenish the Bank’s additional tier 1 capital.

Evaluation of the impact of COVID-19

Since the outbreak of COVID-19 around the country in January 2020, the Bank has earnestly implemented the requirements of Notice on Further Strengthening Financial Support for the Prevention and Control of COVID-19 (Yin Fa [2020] No. 29, jointly issued by PBOC, Ministry of Finance, CBIRC, CSRC and State Administration of Foreign Exchange), and enhanced financial support for the epidemic prevention and control. COVID-19 may to some extent affect the quality or the yields of the credit assets and investment assets of the Bank. The Bank has paid close attention to the development of COVID-19, organized specialized risk investigations, and re-examined the prospective parameters and assumptions in the expected credit loss model. The impact on financial position and operating results will be timely reflected in the Bank’s financial statements for each period of the year 2020.

Save for the above, the Bank had no other significant event subsequent to the Reporting Period.

By order of the Board
YOU Jiang
Chairman

Luzhou, China
March 26, 2020

Report of the Board of Supervisors

I. BASIC INFORMATION OF THE BOARD OF SUPERVISORS

New session of the Board of Supervisors: Pursuant to applicable laws and regulations, the Bank shall formulate a plan to elect a new session of the Board of Supervisors, and the election procedure shall be performed as required. On May 28, 2019, the members of the seventh session of the Board of Supervisors were elected after the consideration and approval of the Shareholders' general meeting, and thus the election of a new session of the Board of Supervisors was successfully completed.

Changes in personnel: During the Reporting Period, Ms. Huang's term of office expired, and she retired as external Supervisor and chairwoman of the audit and supervision committee on May 28, 2019. Mr. GUO Bing's appointment as external Supervisor of the Bank and the chairman of the audit and supervision committee was approved by the Shareholders' general meeting on May 28, 2019.

There was no change in other personnel of the Board of Supervisors.

As of December 31, 2019, the Bank had 5 Supervisors in total, including 2 employee representative Supervisors, 1 shareholder representative Supervisor and 2 external Supervisors. Each of the Nomination Committee and Audit and Supervision Committee of the Board of Supervisors consists of 3 members, with Mr. DUAN Xuebin and Mr. GUO Bing being the chairperson, respectively.

Institutional development: The Rules of Procedure for Meetings of the Board of Supervisors (applicable after listing of H Shares), the Rules of Procedure for Meetings of the Nomination Committee under the Board of Supervisors and the Rules of Procedure of the Audit and Supervision Committee under the Board of Supervisors were amended.

Enhancement of self-construction: Four Supervisors participated in the nation-wide training on advanced study on the system construction as well as supervision and inspection practice of a board of supervisors, and thoroughly studied regulatory documents and policies to lay a good foundation for better supervision and performance of duties.

During the Reporting Period, all members of the Board of Supervisors were able to diligently perform their duties, actively participate in meetings, carefully consider the resolutions, conduct in-depth investigations and research, regularly participate in training, and continuously improve their ability to perform duties.

Report of the Board of Supervisors

II. MEETINGS OF THE BOARD OF SUPERVISORS

Meetings of the Board of Supervisors: During the Reporting Period, the Board of Supervisors has convened 11 meetings in total, considered and approved 46 resolutions including our operation plans, financial budget and final accounts, profit distribution, fixed assets investment plans, performance evaluation of Directors, Supervisors and senior management, strategic development planning evaluation, general election plan for the Board of Supervisors, etc.

Meetings of the committees: During the Reporting Period, the Nomination Committee of the Board of Supervisors convened 2 meetings in total and considered 5 resolutions primarily in relation to the work plan for the election of the seventh session of the Board of Directors, the work plan for the election of the seventh session of the Board of Supervisors, proposed list of candidates for the seventh session of the Board of Directors/measures for election of Directors and remuneration arrangements, proposed list of candidates for the seventh session of the Board of Supervisors/measures for election of Supervisors and remuneration arrangements, and the performance evaluation report for the Directors, Supervisors and senior management in 2018.

During the Reporting Period, the Audit and Supervision Committee of the Board of Supervisors convened 6 meetings in total and considered 7 resolutions primarily in relation to the 2019 audit work plan, 2019 work plan of the Board of Supervisors, special examination plan for repeated problems in operational risk line, special examination plan for repeated problems in credit risk line, special examination plan for repeated problems in information technology risk line, special inspection plan for repeated problems in liquidity risk line, and special examination work plan for efficiency construction.

The list of Supervisors of the Bank during the Reporting Period and as of the date of this annual report and the attendance of Supervisors during their respective tenure in office during the Reporting Period are as follows:

Attendance in person/Attendance by proxy/Number of meetings held during the tenure in office

Supervisors	Board of Supervisors	Nomination Committee	Audit and Supervision Committee
YUAN Shihong	11/0/11	2/0/2	6/0/6
HUANG Ping ¹	3/0/3	–	2/0/2
DUAN Xuebin	11/0/11	2/0/2	–
GUO Bing ²	8/0/8	–	4/0/4
LIU Yongli	10/1/11	–	5/1/6
CHEN Yong	11/0/11	2/0/2	–

Notes:

1. Ms. HUANG Ping has retired after the conclusion of the Shareholders' general meeting on May 28, 2019.
2. Mr. GUO Bing was elected as an external Supervisor of the Bank at the Shareholders' general meeting on May 28, 2019, and his appointment took effect on May 28, 2019.

Report of the Board of Supervisors

III. MAJOR WORK

During the Reporting Period, in accordance with the relevant laws, regulations and regulatory requirements of the PRC and the requirements of Articles of Association of the Bank, the Board of Supervisors continued to carry out in-depth supervision based on the strategic objectives and core missions of the Bank.

Performance supervision: The Board of Supervisors conducted departure audits on senior management as well as supervision and evaluation on the performance of duties of Directors, Supervisors and senior management. The Board of Supervisors also conducted investigations and research on the efficiency construction, learnt about the performance of duties of the Board of Directors and senior management through investigations and interviews, and made recommendations in respect of establishment of communication mechanism, construction of system process and optimization of mutual fund business in the form of communication letters.

Financial supervision: The Board of Supervisors reviewed the budget and final account report, profit distribution proposal and proposal on dividends distribution and other resolutions and gave its opinions; it also reviewed financial statements and listened to the operation report to supervise on financial management.

Risk management supervision: The Board of Supervisors carried out special inspection on the repeatedly incurring problems of operational risk, credit risk, liquidity risk and information technology risk and made recommendations in respect of enhancing the performance efficiency of functional departments, improving the ability to analyze and solve the root of problems, and exploring the prevention and control mechanism with equal emphasis on punishment and incentives in the form of reminder letters. The Board of Supervisors also delegated representatives to attend important meetings of senior management such as risk management meeting, and tender evaluation meeting, and made supervision recommendations on risk management.

Internal control supervision: The Board of Supervisors made suggestions and opinions on internal control management through special inspections; it also convened the joint meeting of the chairwoman of the Board of Supervisors to listen to the internal control and management work of relevant departments on a quarterly basis and made recommendations on continuously strengthening quality and efficiency of internal control and management.

Report of the Board of Supervisors

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

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

Preparation of annual report: The procedures of preparation and audit of this annual report are in compliance with laws, regulations and regulatory requirements, and this annual report gives a true, accurate and complete view of the financial positions and operating results of the Bank.

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

Implementation of resolutions passed at the Shareholders' general meeting(s): The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the Shareholders' general meeting(s) during the Reporting Period and conducted supervision on the implementation of resolutions passed at the Shareholders' general meeting(s), and concluded that the Board of Directors had duly implemented the relevant resolutions passed at the Shareholders' general meeting(s).

Internal control: During the Reporting Period, the Bank established a comprehensive risk management system in strict accordance with the regulatory requirements, continued to strengthen and improve the construction of internal control system, and was not aware of any material defects in respect of the completeness and rationality of the risk management and internal control mechanism and system of the Bank.

Important Events

IMPLEMENTATION OF DIVIDENDS DISTRIBUTION

Upon approval of the Shareholders of the Bank, the Bank distributed final dividends in cash for 2018 on July 26, 2019 of RMB0.15 per share (tax inclusive) and RMB339.72 million (tax inclusive) in aggregate to the shareholders whose names appeared on the register of members of the Bank as of June 6, 2019. The Bank did not declare any interim dividend for 2019.

MATERIAL LITIGATIONS AND ARBITRATIONS

During the Reporting Period, there were no litigations or arbitrations which had a material impact on the operation activities of the Bank.

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

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

MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the Reporting Period, the Bank had no material contracts or their performance.

MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

During the Reporting Period, the Bank had no material acquisition and disposal of assets or merger of enterprises.

MAJOR CAPITAL OPERATION

During the Reporting Period, the Bank had no major capital operation.

Independent Auditor's Report

To the Shareholders of Luzhou Bank Co., Ltd.

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

OPINION

What we have audit

The financial statements of Luzhou Bank Co., Ltd. (the "Bank") set out on pages 131 to 252, which comprise:

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

Our opinion

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

BASIS FOR OPINION

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

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

Independence

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

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were 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 matters.

Key audit matter identified in our audit is related to the measurement of expected credit losses for customer loans, credit related financial assets and financial investments measured at amortised cost.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Measurement of expected credit losses for customer loans, credit related financial assets and financial investments measured at amortised cost</i></p>	
<p>Refer to Note 3.1.6, Note 3.1.7, Note 17, Note 18 and Note 21.</p>	<p>We understood and tested the internal controls relating to the measurement of expected credit losses for customer loans, credit related financial assets and financial investments measured at amortised cost, primarily including:</p>
<p>As at 31 December 2019, the Bank's gross customer loans amounted to RMB44.76 billion, and a loss allowance of RMB1.46 billion was recognized in the Bank's statement of financial position; credit related financial assets amounted to RMB4.25 billion, for which a provision of RMB0.06 billion was recognized; financial investments measured at amortised cost amounted to RMB22.80 billion, for which a provision of RMB0.30 billion was recognized; The impairment losses on customer loans, credit related financial assets and financial investments measured at amortised cost recognized in the Bank's income statement for the year ended 31 December 2019 amounted to RMB0.87 billion.</p>	<p>(1) Management over ECL models, including the selection, approval and application of modelling methodology;</p> <p>(2) Internal controls relating to significant management judgments and assumptions, including the review and approval of portfolio segmentation, model selections, parameters estimation, significant increase in credit risk, or of defaults or credit-impaired, and review and approval of forward-looking adjustments;</p>
<p>The balances of loss allowances for customer loans and provision for credit related financial assets and financial investments measured at amortised cost represent the management's best estimates at the balance sheet date of expected credit losses under International Financial Reporting Standard 9: Financial Instruments expected credit losses models ("ECL Models").</p>	<p>(3) Internal controls over the accuracy and completeness of key inputs used by the models.</p>

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Measurement of expected credit losses for customer loans, credit related financial assets and financial investments measured at amortised cost</i> (continued)</p>	<p>In addition, we preformed other procedures, primarily including:</p> <ol style="list-style-type: none"> (1) We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, significant judgements and assumptions in relation to the operation for models. We examined the model measurement on selected samples, to test whether or not the measurement models reflect the modelling methodologies documented by the management. (2) We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the Bank's identification of significant increase in credit risk, defaults and credit-impaired loans. (3) For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators; economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings.
<p>The Bank assesses whether the credit risk of customer loans, credit related financial assets and financial investments measured at amortised cost have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For corporate loans classified into stages 1 and 2, all personal loans, credit related financial assets and financial investments measured at amortised cost, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans in stage 3, management assesses loss allowance by estimating the discounted cash flows from the loans.</p>	
<p>The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following:</p>	
<ol style="list-style-type: none"> (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters; (2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred; (3) Selection of economic indicators for forward-looking measurement, and the application of economic scenarios and weightings. 	

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Measurement of expected credit losses for customer loans, credit related financial assets and financial investments measured at amortised cost</i> (continued)</p>	<p>In addition, we preformed other procedures, primarily including: (continued)</p> <p>(4) We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness.</p> <p>(5) For corporate loans in stage 3, we examined, on a sample basis, forecasted future cash flows prepared by the Bank based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance.</p> <p>Based on our procedures performed, for the measurement of expected credit losses for customer loans, credit related financial assets and financial investments measured at amortised cost, the models, key parameters, significant judgements and assumptions adopted by management and the measurement results were considered acceptable.</p>

OTHER INFORMATION

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the annual report other than the 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 this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- 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 opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Leung Kwok Wai, Jimmy.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2020

Statement of Comprehensive Income

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

	Note	Year ended 31 December	
		2019	2018
Interest income		5,412,057	3,998,714
Interest expense		(2,693,932)	(2,226,316)
Net interest income	5	2,718,125	1,772,398
Fee and commission income		10,557	9,245
Fee and commission expense		(5,472)	(7,377)
Net fee and commission income	6	5,085	1,868
Net gains on trading activities	7	24,101	24,111
Net gains arising from financial investments	8	56,904	134,775
Other operating income	9	2,416	936
Operating income		2,806,631	1,934,088
Operating expenses	10	(1,036,331)	(686,928)
Expected credit losses	12	(944,739)	(396,810)
Operating profit		825,561	850,350
Share of profit of an associate	22	4,087	3,640
Profit before income tax		829,648	853,990
Income tax expense	13	(195,736)	(195,683)
Net profit attributable to shareholders of the Bank		633,912	658,307
Other comprehensive income/(losses)			
Items that may be reclassified subsequently to profit or loss:			
Fair value changes on financial assets at fair value through other comprehensive income		(17,348)	121,230
Expected credit losses of financial assets at fair value through other comprehensive income		19,747	13,647
Less: Related income tax impact		(600)	(33,718)
Subtotal	37	1,799	101,159
Total comprehensive income attributable to the shareholders of the Bank		635,711	759,466
Earnings per share for profit attributable to the shareholders of the Bank (expressed in RMB per share)			
– basic and diluted	14	0.28	0.40

Statement of Financial Position

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

	Note	As at 31 December	
		2019	2018
ASSETS			
Cash and balances with central bank	15	9,401,511	8,373,038
Financial assets held under resale agreements, due from other banks and financial institutions	16	3,284,840	7,633,381
Customer loans	17	43,298,734	30,486,354
Financial investments – credit related financial assets	18	4,186,800	5,821,602
Financial investments – fair value through profit or loss	19	1,860,243	1,841,322
Financial investments – fair value through other comprehensive income	20	5,755,246	5,867,342
Financial investments – amortized cost	21	22,499,936	21,395,762
Investment in an associate	22	40,738	36,651
Property, plant and equipment	23	744,552	675,358
Deferred income tax assets	28	386,436	186,871
Other assets	24	221,585	232,134
Total assets		91,680,621	82,549,815
LIABILITIES			
Borrowings from central bank		540,760	865,000
Financial liabilities sold under repurchase agreements, due to other banks and financial institutions	25	3,949,580	8,675,639
Customer deposits	26	61,436,960	52,385,604
Debt securities issued	27	18,225,596	13,800,494
Current tax liabilities		191,408	135,457
Other liabilities	30	446,808	320,835
Total liabilities		84,791,112	76,183,029
EQUITY			
Equity attributable to shareholders of the Bank			
Share capital	31	2,264,793	2,182,933
Share premium	31	2,239,314	2,094,444
Other reserves	32	1,441,641	1,246,558
Retained earnings		943,761	842,851
Total equity		6,889,509	6,366,786
Total liabilities and equity		91,680,621	82,549,815

The accompanying notes form a part of these financial statements.

You Jiang

Chairman and Executive Director

Xu Xianzhong

Executive Director and President

Statement of Changes In Equity

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

	Equity attributable to shareholders of the Bank							
	Share capital (Note 31)	Share premium (Note 31)	Other reserves			Subtotal	Retained earnings	Total
			Surplus reserve (Note 32)	General reserve (Note 32)	Revaluation reserve (Note 32)			
Balance at 1 January 2018	1,637,193	1,174,606	270,509	691,787	(223,607)	738,689	785,227	4,335,715
Effects of applying IFRS 9	-	-	-	-	185,117	185,117	39,816	224,933
Balance restated at 1 January 2018	1,637,193	1,174,606	270,509	691,787	(38,490)	923,806	825,043	4,560,648
Net profit for the year	-	-	-	-	-	-	658,307	658,307
Other comprehensive income	-	-	-	-	101,159	101,159	-	101,159
Total comprehensive income	-	-	-	-	101,159	101,159	658,307	759,466
Issue of shares	545,740	919,838	-	-	-	-	-	1,465,578
Transfer to surplus reserve	-	-	65,831	-	-	65,831	(65,831)	-
Transfer to general reserve	-	-	-	155,762	-	155,762	(155,762)	-
Cash dividends (Note 33)	-	-	-	-	-	-	(418,906)	(418,906)
Balance at 31 December 2018	2,182,933	2,094,444	336,340	847,549	62,669	1,246,558	842,851	6,366,786
Balance at 31 December 2018	2,182,933	2,094,444	336,340	847,549	62,669	1,246,558	842,851	6,366,786
Net profit for the year	-	-	-	-	-	-	633,912	633,912
Other comprehensive income	-	-	-	-	1,799	1,799	-	1,799
Total comprehensive income	-	-	-	-	1,799	1,799	633,912	635,711
Issue of shares	81,860	144,870	-	-	-	-	-	226,730
Transfer to surplus reserve	-	-	63,391	-	-	63,391	(63,391)	-
Transfer to general reserve	-	-	-	129,893	-	129,893	(129,893)	-
Cash dividends (Note 33)	-	-	-	-	-	-	(339,718)	(339,718)
Balance at 31 December 2019	2,264,793	2,239,314	399,731	977,442	64,468	1,441,641	943,761	6,889,509

Statement of Cash Flows

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

	Year ended 31 December	
	2019	2018
Cash flows from operating activities:		
Profit before income tax	829,648	853,990
Adjustments:		
Depreciation and amortisation	123,773	58,274
Expected credit losses on customer loans	796,889	312,370
Expected credit losses on other assets	147,850	84,440
Net losses/(gains) on disposal of long-term assets	10,347	(8,888)
Net gains arising from financial investments	(65,637)	(134,775)
Changes in fair value of financial assets – fair value through profit or loss	(7,652)	(43,400)
Interest income from financial instruments	(2,243,787)	(2,069,015)
Interest expense on debt securities	634,203	580,600
Net change in operating assets:		
Net decrease/(increase) in balances with central bank	1,149,835	(273,378)
Net decrease in financial assets held under resale agreements, due from banks and other financial institutions	2,491,150	7,542,717
Net increase in customer loans	(13,412,298)	(11,772,000)
Net (increase)/decrease in other operating assets	(639,271)	68,433
Net change in operating liabilities:		
Net (decrease)/increase in due to central bank	(325,000)	275,000
Net decrease in financial assets sold under repurchase agreements, due to banks and other financial institutions	(4,660,763)	(3,493,481)
Net increase in customer deposits	8,715,646	9,721,622
Net increase in other operating liabilities	2,072,306	145,554
Income tax paid	(400,433)	(209,419)
Net cash (used in)/generated from operating activities	(4,783,194)	1,638,644

Statement of Cash Flows

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

	Year ended 31 December	
	2019	2018
Cash flows from investing activities:		
Proceeds from disposal of property and equipment, and other long-term assets	–	5,732
Purchase of property and equipment, and other long-term assets	(238,758)	(195,554)
Interest income arising from financial investment securities	2,718,900	2,266,764
Purchase of investment securities	(24,091,000)	(24,682,230)
Proceeds from sale and redemption of investments	23,007,726	19,295,639
Net cash generated from/(used in) investing activities	1,396,868	(3,309,649)
Cash flows from financing activities:		
Proceeds from issuance of shares	230,998	1,540,006
Proceeds from issuance of debt securities	24,220,000	21,390,000
Repayment of debt securities upon maturity	(19,794,898)	(18,413,119)
Interest paid on debt securities	(634,203)	(580,600)
Dividends paid to shareholders	(298,237)	(415,918)
Others paid for financing activities	(4,268)	(74,429)
Net cash generated from financing activities	3,719,392	3,445,940
Impact of exchange rate fluctuation on cash and cash equivalents	17,666	(9,850)
Net increase in cash and cash equivalents	350,732	1,765,085
Cash and cash equivalents at the beginning of the year	4,924,745	3,159,660
Cash and cash equivalents at the end of the year (Note 38)	5,275,477	4,924,745

Notes to the Financial Statements

For the year ended December 31, 2019

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

1 GENERAL INFORMATION

With the approval of the People's Bank of China, the Bank was established on 15 September 1997 as a joint-stock commercial bank under the name of "Luzhou City United Bank (瀘州城市合作銀行)" in accordance with the Company Law of China. The Bank was jointly sponsored by Luzhou Finance Bureau, the shareholders of eight urban credit cooperatives, two rural credit cooperatives and other new corporate shareholders.

On 8 May 1998, the Sichuan Branch of the People's Bank of China approved the renaming of the Bank from "Luzhou City United Bank (瀘州城市合作銀行)" to "Luzhou City Commercial Bank Co., Ltd. (瀘州市商業銀行股份有限公司)". On 4 June 2019, in accordance with the approval of the Sichuan Supervisory Bureau of China Banking and Insurance Regulatory Commission ("CBIRC") and the approval of Luzhou City Market Supervision and Administration Bureau, the Bank was formally renamed to "Luzhou Bank Co., Ltd. (瀘州銀行股份有限公司)". The Bank issued 545,740,000 shares (H shares) to foreign investors on 17 December 2018, and listed on the main board of Stock Exchange of Hong Kong on 17 December 2018. On 31 December 2019, the total share capital of the Bank is RMB 2,264,793,385, with a par value of RMB 1 per share.

The main lines of business of the Bank include corporate banking, retail banking and financial markets operations.

The financial statements are approved by the board of directors of the Bank on 26 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board (the "IASB") and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income which are carried at fair value.

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

The Bank's structured entities (Note 34) are the Bank's only consolidated subsidiaries and are already measured according to accounting policies applicable to financial instruments. So there is no difference between the Bank's consolidated financial statements and its standalone financial statements.

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS

New and revised IFRSs effective by 1 January 2019 applied by the Bank

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

IFRS 16 Leases

IFRS 16 was officially issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019. The new standard improves the identification, breakdown and merger of leases and requires lessees to recognise leases in balance sheet. For lessees, substantially all the leases should be recognised in balance sheet as the classification of operating leases and financial leases has been removed. According to new standard, the entity is required to recognise the right-of-use assets and leasing liabilities, and exemptions are applicable to short-term and low-value leases only. Meanwhile, the new standard also improves the accounting treatments of the lessee on subsequent measurement and leasing changes. The new standard causes no undergone substantial changes to the accounting of lessors.

The Bank adopted the standard on 1 January 2019 and used the simple transition method stated in the standard without restating the comparative amount of the last year of the first adoption. At the date of initial application, the leasing liabilities were measured at the present value of the remaining lease payments, discounted at lessee's incremental borrowing rate, and the right-of-use assets of remaining leases were measured as using the new standard since the beginning of the lease period. For short-term and low-value leases, the Bank is subject to exemptions.

Disclosures relating to the impact of the adoption of IFRS 16 on the Bank are listed in 2.1(a) Further details of the specific IFRS 16 accounting policies applied in the current year are listed in 2.12.

Amendments to IFRS 9

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

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS (continued)

Amendments to IAS 28

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

Annual Improvements to IFRS Standards 2015 -2017 Cycle

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

Interpretation 23 Uncertainty over Income Tax Treatments

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

Amendments to IAS 19

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

Except the above-mentioned impacts of IFRS 16, the adoption of the new IFRSs and amendments to IFRSs above does not have a material impact on the Bank's operating results, financial position or other comprehensive income.

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS (continued)

Changes in significant accounting policies

The major impact of adopting IFRS 16 on the financial statements is as follows:

Consolidated statement of financial position:

1 January 2019	Before restatement	Restatement amount	Restated
Other assets	232,134	35,193	267,327
Other liabilities	320,835	35,193	356,028

The restatement amount of other assets was RMB35,193 thousand, including RMB41,234 thousand of right-of-use assets and RMB6,041 thousand of prepaid rental expenses.

As at 1 January 2019, the Bank applied a single discount rate for lease contracts with reasonably similar characteristics to measure lease liabilities and the weighted average interest rate of incremental borrowing was 5.11%.

As at 1 January 2019, the Bank recognised lease liabilities in relation to leases which had previously been classified as the future minimum lease payments under the principles of IAS 17 Leases. Reconciliation is as below:

Operating future minimum lease payments disclosed as at 31 December 2018	39,541
Less: the commitment of short-term leases	(864)
the commitment of low-value leases	(28)
The minimum operating lease payments to discount at the lease's incremental borrowing rate	38,649
The present value of the minimum operating lease payments discounted at the lease's incremental borrowing rate	35,193
Lease liability recognised as at 1 January 2019	35,193

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New and revised IFRSs issued but not yet effective

		Effective for annual period beginning on or after
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Amendments to IFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework for Financial Reporting	Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021(likely to be extended to 1 January 2022)

Amendments to IFRS 10 and IAS 28

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Bank anticipates that the adoption of the amendments will not have a significant impact on the Bank's consolidated financial statements.

Amendments to IAS 1 and IAS 8

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

In particular, the amendments clarify:

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

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New and revised IFRSs issued but not yet effective (continued)

Amendments to IFRS 3

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

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

Revised Conceptual Framework for Financial Reporting

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New and revised IFRSs issued but not yet effective (continued)

IFRS 17

IFRS 17 Insurance Contracts was issued in May 2017 as replacement for IFRS 4. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin (「CSM」) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 「variable fee approach」 for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The standard is currently mandatorily effective for annual periods beginning on or after 1 January 2021. However, an exposure draft of proposed amendments was published on 26 June 2019. According to this amendments, the International Accounting Standards Board (「IASB」) proposed to defer IFRS17 until the financial period beginning on or after 1 January 2022.

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

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Associates

Associates are all entities over which the Bank has a significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of the accounting and are initially recognised at cost. The carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Bank assesses at each financial reporting date whether there is objective evidence that investments in associates are impaired. Impairment losses are recognised for the amounts by which the investments in associates' carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates' fair value less costs to sell and value in use.

2.3. Financial assets

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date. The trade-date refers to the date when the Bank undertakes to buy or sell financial assets.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income ('FVOCI'), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (1) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (2) In all other cases, the difference is deferred and the timing of recognition of deferred profit or loss in day one is determined individually. It is either amortised over the life of the instrument, or deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Financial assets (continued)

Measurement methods

Amortization cost and effective interest rate

The amortization cost refers to the result of the following adjustment: first, the amount of the initial confirmation amount of a financial asset or financial liability is deducted from the principal repayment; the accumulated amortization of the balance between the initial confirmation amount and the maturity date plus or minus the actual interest rate method; and the loss preparation (except for financial assets) is deducted.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider ECL but includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of ECL in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate cashflow discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

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

- (a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- (b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL allowance).

Classification and subsequent measurement

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

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

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Financial assets (continued)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

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

(i) Business model

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model, and classified into fair value measures and their changes are recorded in profits and losses. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated, how risks are assessed and managed and how managers are compensated. Tradable securities are mainly held for sale in the near future or managed as part of a portfolio of financial instruments with short-term profitability. The business model of these securities is "other", which is measured at fair value and its changes are recorded in profits and losses.

(ii) Solely Payments of Principal and Interest (the 'SPPI' test)

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

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

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Financial assets (continued)

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

(i) Amortised cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and the interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

(ii) Fair value through other comprehensive income:

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains or losses on financial investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

(iii) Fair value through profit or loss:

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement, and reported it as "net transaction income" in the comprehensive income statement.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and do not occurred during the period.

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Financial assets (continued)

Equity instruments

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

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, the gains and losses from the change in fair value are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. ECL (and reversal of ECL) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss when the Bank's right to receive payments is established.

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

Impairment of financial assets

The Bank assesses the expected credit losses in terms of the amortized cost measurement, the debt instrument assets measured at fair value and their changes included in other comprehensive gains, as well as loan commitments and financial guarantee contracts, in combination with forward-looking information. The Bank confirms the relevant loss provisions on each reporting day. The measurement of expected credit losses reflects the following elements:

- The unbiased probability weighted amount determined by evaluating a range of possible outcomes;
- The time value of money
- Reasonable and valid information on past events, current conditions and future economic forecasts that can be obtained without unnecessary additional costs or efforts on the reporting date (Note 3.1.4).

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Financial assets (continued)

Modification of loan contracts

The Bank sometimes renegotiates or otherwise modifies the contracting of loans to customers resulting in the changes of cash flow. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;

Whether any substantial new terms are introduced, such as a profit sharing/equity-based return that substantially affects the risk profile of the loan;

If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;

Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;

- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in;
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification of gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Financial assets (continued)

Derecognition other than on a modification of contract

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

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

- 1) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- 2) Is prohibited from selling or pledging the assets; and
- 3) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. For some securitized transactions in which the Bank retains subordinate rights, for the same reason, they do not meet the requirement of termination of confirmation.

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

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial liabilities

(a) Classification and subsequent measurement

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

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

(b) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants for the borrower are also taken into consideration. If an exchange of contract or modification of terms is accounted for as an extinguishment and derecognition of relevant financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial liabilities (continued)

(b) Derecognition (continued)

Financial guarantee contracts

According to the contract, the issuer of a financial guarantee contract must compensate the holder of the relevant loss when a specific debtor is unable to pay the debt. Financial guarantee contracts include loans to banks, financial institutions and other units, overdraft of accounts or guarantees provided by other banking businesses.

The financial guarantee contract is initially measured at fair value, followed by the following two items:

- the amount of expected credit loss calculated according to Note 3.1.4
- the premiums received at the initial confirmation excluding the income recognized according to IFRS 15

The loan commitments provided by the Bank are measured in accordance with the amount of expected credit loss calculated as stated in Note 3.1.4. The Bank has not promised to make loans at any price below market interest rate, nor to pay cash or issue other financial instruments as a net settlement of loan commitments.

The Bank recorded the loss of loan commitments and financial guarantee contracts in provisions. However, if a tool contains both loans and unused commitments, and the Bank cannot separate the expected credit loss from the part of the loan and the uncommitted part of the commitment, the loss preparation is tied up in the loss preparation of the loan, unless the loss is more than the total amount of the loan, the loss preparation is reported in the projected liabilities.

2.5 Fee and commission income

For the performance obligation implemented at a certain point of time, the Bank recognises revenue when the customer obtains and consumes the economic benefits of the performance of the Bank. For the performance obligation implemented during a certain period, the Bank recognizes the income according to the progress of the performance during the period.

2.6 Dividend income

Dividends are recognised when the right to receive payment is established.

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Resale and repurchase agreements

Securities sold subject to a linked repurchase agreements ('Repos') with banks and other financial institutions are retained in the financial statements as financial assets held for trading or investment securities, as the Bank still retains substantially all risk and rewards of the ownership of the underlying securities. The related liability is recorded as 'financial assets sold under repurchase agreements', due to other banks and financial institutions.

Securities and bills purchased under agreements to re-sell ('Reverse repos') are not recognised. The receivables are recorded as 'Financial assets held under resale agreements, due from other banks and financial institutions'.

The difference between purchase and sale price is recognised as 'Interest income' or 'Interest expense' in the income statement over the life of the agreements using the effective interest method.

2.8 Property, plant and equipment

The Bank's fixed assets mainly comprise buildings, motor vehicles, electronic equipment, office equipment and construction in progress.

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

Property, plant and equipment are reviewed for impairment at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and present value of expected future cash flows.

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment (continued)

Buildings comprise primarily branch office premises and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, motor vehicles, electronic equipment and office equipment are as follows:

Type of assets	Estimated useful lives	Estimated residual value rates	Depreciation rate
Buildings	20 years	5.0%	4.75%
Motor vehicles	5 years	5.0%	19.00%
Electronic equipment	3 years	5.0%	31.67%
Office equipment	5 years	5.0%	19.00%

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property, plant and equipment when such assets are ready for their intended use and begin to account for depreciation.

When a fixed asset is disposed or cannot generate economic benefits, it should be derecognized. Gains or losses caused by derecognition (disposal income minus its book value) are accounted for in profit or loss of the current period.

2.9 Foreclosed assets

When the Bank's obligor use foreclosed asset to compensate the principal and interest of loan, foreclosed asset is initially recognised and measured at fair value. When there is evidence indicating that the recoverable amount of the foreclosed assets is lower than the book value, the Bank will reduce the book value to the recoverable amount.

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Investment properties

Real estate held by the Bank for rental income and not used by the Bank is listed as investment properties. Investment properties includes land, housing and buildings.

Investment properties are initially measured at cost, including costs that are directly attributable to the properties at the time of acquisition. The Bank adopts the cost model for subsequent measurement of investment properties. The type of assets, estimated useful lives, estimated net residual value, depreciation rate (amortisation rate) and estimated residual value rate of investment properties are as follows:

Type of assets	Estimated useful lives (years)	Estimated residual value rate	Depreciation rate
Buildings	20 Years	5.0%	4.75%

Investment properties are reviewed for impairment at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher between the fair value minus the disposal cost and the present value of the expected future cash flow of the asset.

When an investment property is sold, transferred, retired or damaged, the Bank recognizes the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

2.11 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Bank reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in profit or loss immediately. The recoverable amount is the higher between the fair value minus the disposal cost and the present value of the expected future cash flow of the asset. Asset impairment loss is calculated and recognized on the basis of a single asset. If it is difficult to estimate the recoverable amount of a single asset, the recoverable amount of the asset group is determined according to the asset group to which the asset belongs. Asset group is the smallest asset portfolio that can generate cash inflow independently.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in profit or loss immediately.

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Leases

Lease means a contract in which the lessor transfers the right to use the assets to the lessee for consideration within a certain period of time.

(a) The Bank as lessee

The Bank recognises the right-of-use asset on the start date of the lease term and recognises the lease liability at the present value of the remaining lease payments. The lease payments include fixed payments and payments to be made when it is reasonably determined to exercise purchase option or terminate lease option. Variable rent determined based on a certain proportion of sales is not included in the lease payments and is recognised in profit or loss when incurred.

The Bank's right-of-use assets include leased properties, venues, parking lots, advertising spaces, vehicles and equipment etc. The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments already paid on or before the lease start date, the initial direct costs etc., and deducts any lease incentives received. The leased asset is depreciated on a straight-line basis over its remaining useful life if the Bank could reasonably determine to obtain the ownership at the expiration of the lease term; if it is unsure whether the ownership of the leased asset can be obtained at the expiration of the lease term, the right-of-use asset is depreciated over the shorter of its remaining useful life and the lease term on a straight-line basis. When the recoverable value is lower than the book value of the right-of-use asset, the Bank reduces the book value to the recoverable value.

For short-term leases with a lease term shorter than 12 months and leases of asset with low value when it is new, the Bank recognises relevant rental expenses on a straight-line basis in profit or loss or in the related asset costs in each lease period rather than recognising the right-of-use assets or lease liabilities.

(b) The Bank as lessor

Finance lease is a lease that in substance transfers almost all risks and rewards related to the ownership of the leased asset. Other leases are operating leases.

Operating Lease

When the Bank leases out its own buildings and properties, equipment and transportation vehicles, the rental income arising from operating leases is recognised on a straight-line basis over the lease term. Variable rent determined based on a certain proportion of sales is recognised in rental income when incurred.

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including: cash, unrestricted balances with central bank and amounts due from banks and other financial institutions.

2.14 Foreign currency translation

Foreign currency transactions are translated into the recording currency using the exchange rates prevailing at the dates of the transactions or valuation.

Monetary assets and liabilities are translated into the recording currency using the exchange rates prevailing at the dates of the transactions or valuation. The exchange differences arising from the special borrowings borrowed for the acquisition and construction of assets eligible for the capitalization of borrowing costs shall be capitalized during the capitalization period; other exchange differences shall be directly recognised in profit and loss. Non-monetary assets and liabilities measured at historical cost shall be translated into the recording currency using the exchange rates prevailing at the dates of the transactions or valuation.. The impact of exchange rate changes shall be separately presented in the cash flow statement.

2.15 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the risks specific to the obligation, the uncertainties and the time value of money.

2.16 Current and deferred income taxes

The tax expense for the period comprises current and deferred income tax. Tax expense is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. As at the financial statements date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the related deferred income tax asset is realised or the deferred income tax liability is settled pursuant to tax laws.

The temporary differences primarily arise from expected credit loss allowance for customer loans, expected credit loss allowance for financial investments, and unrealized gain/loss of financial investments – fair value through profit or loss and financial investments – fair value through other comprehensive income.

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Current and deferred income taxes (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences and unused tax losses can be utilised. Deferred income tax liabilities are the amounts of income tax payable in respect of taxable temporary differences, which are measured at the amount expected to be paid to the tax authorities in the future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Share capital

Share capital comprises ordinary shares issued.

2.18 Dividend

Dividends on ordinary shares are recognized in the period in which they are declared and approved by the Bank's shareholders.

2.19 Government subsidies

Government subsidies are recognized when they are able to meet the conditions attached to government grants and can be received. In connection with assets related government subsidies, the Bank recognised its initial value as deferred income at fair value and allocated it equally to the relevant assets during its useful life. The government subsidy used to compensate the relevant expenses of the Bank shall be included in the current profits and losses during the period of confirming the relevant expenses.

2.20 Employee benefits

Employee benefits refer to the rewards that the Bank offers to its employees for the services they provided or the compensation that is given to dissolve their labour relations. During the accounting period of employees providing services, the Bank will recognize the salary as liabilities and increase the cost of capital or period cost.

a) Basic Pension Insurance

According to the relevant laws and regulations of China, the employees of the Bank have joined the basic social endowment insurance organized by the local labour and social security departments. The Bank has paid the endowment premium to the local social endowment insurance agencies according to the base and proportion in the local requirements for social basic endowment insurance. The social basic endowment insurance mentioned above is accrued to the profit and loss of the current period according to the principle of accrual basis. The labour and social security bureaus will pay the basic social pension benefits to those retired employees.

b) Enterprise Annuity

Since 2016, apart from the basic social pension insurance, the employees of the Bank have also voluntarily participated in the enterprise annuity plan established by the Bank in accordance with the relevant national policies in relation to the enterprise annuity system. The Bank contributes a certain portion of the employees' gross salaries of the previous year to the annuity plan. Expenses with respect to the contribution born by the Bank are recognized in current profit or loss. The contributions the Bank contributes to the enterprise annuity plan are recognized as expenses when incurred, and will not be deducted by forfeit contributions of employees who left the plan before the contributions are fully attributed.

Notes to the Financial Statements

For the year ended December 31, 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognized as a provision.

2.22 Trusteeship

Financial information does not include the assets generated when the Bank acts as trustee (e.g. agent, trustee, manager or agent), together with the commitment to return such assets to customers.

The Bank grants entrusted loans on behalf of third-party lenders. The Bank (acting as an agent) grants loans to borrowers at the direction of third-party lenders who provide funds for such loans. The Bank has contracted with such third-party lenders to manage such loans and receipts on their behalf. Third-party lenders determine the lending requirements of entrusted loans and all their terms, including their purpose, amount, interest rate and repayment period. The Bank collects commissions on entrusted loan business (prorated confirmation during service delivery). The risk of loan loss shall be borne by the third party lenders.

2.23 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Bank with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial statements for the component is available to the Bank. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment.

Intra-segment revenue and costs are eliminated. Income and expenses directly associated with each segment are included in determining segment performance.

The classification of reporting segments are based on the operating segments, and the assets and expenses shared by all the segments are allocated according to their scales.

The Bank has the following segments: Corporate Banking, Retail Banking, Financial Markets and Others.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT

Overview

The Bank's business activities expose to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Managing risks are core to the financial business, and operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is the highest authority for the Bank's overall risk management. It examines and approves strategy and measures of risk management and monitors risk management and internal control system. It assesses overall risk based on monitoring information and the risk report of senior management. The Risk Management Committee is responsible for approving risk management policies for the Bank. The senior management of the Bank is responsible for overall risk management and internal control, formulating and implementing risk management policies and procedures. In addition, the internal audit department is responsible for independent review of risk management and control environment.

The Bank is subject to a number of financial risks, primarily including credit risk, interest risk, operation risk and liquidity risk.

3.1 Credit risk

The Bank is exposed to credit risk, which is the risk that a customer or counterparty will be unable to or unwilling to meet its obligations under a contract. Changes in the economy or those in credit quality of a particular industry segment or concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk increases when the counterparties are in the similar geographical or industry segments. Credit exposures arise principally from customer loans, debt securities and due from banks and other financial institutions. There are also credit risk exposures in off-balance sheet financial arrangements such as loan commitments, guarantees, acceptances and letters of credit.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.1 Credit risk measurement

(a) *Credit business*

The Bank measures and manages the quality of its credit assets in accordance with the CBIRC's Guidelines of Risk Classification of Loans and Guidelines of Risk Classification of Micro Enterprises loans (Trial Implementation). The classification of loans is based on the borrowers' repayment ability, payment history, willing of repayment, guarantee of loans, legal responsibility and loan administration. The Guidelines of Risk Classification of Loans require financial institutions to classify their credit assets into five categories, namely pass, special mention, substandard, doubtful and loss, of which the last three categories are non-performing loans. The Bank monitors the overdue status of its loans to retail customers in managing credit risk.

The core definitions of credit asset classifications in 'Loan Risk Classifications Guiding Principles' are as follows:

Pass: The borrower can fulfil the contracts, and there is insufficient reason to suspect that the principal and interest of loans cannot be repaid in full on time.

Special mention: The borrower has the ability to make current payments, but there may be some potential issues that could have adverse impact on the future payments.

Substandard: The borrower's repayment ability has been impaired and their normal income cannot repay the loan principal plus interest in full. Even with execution of guarantee, there may be certain level of loss.

Doubtful: The borrower cannot repay the principal plus the interest in full. Even with the execution of guarantee, there will be a significant loss.

Loss: After taking consideration of all possible recovery actions or all necessary legal proceedings, the future outcome of recovery is likely to be little or no recovery.

Risk management department coordinates the classification of loans. The classification of loans is performed quarterly and adjusted timely. Risk management department summarises the reclassification information justified by related department quarterly and reports to risk management committee for approval. The classification of loans is monitored through credit management system.

(b) *Financial market business*

The Bank manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the external credit rating of the banks and financial institutions. The head office monitors and reviews the credit risk of loans to banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties. For debt securities and other financial market business, the Bank manages the credit risk exposures by setting limits to the external credit ratings of its investments.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies

(a) *Credit business*

The Bank takes the same credit risk management control procedure for on and off-balance sheet risk exposures. The risk control procedure of the Bank's credit risk includes the following: credit policy stipulating, pre-credit investigation, risk assessment, collateral assessment, examination and approval of credit loans, draw-down, post-loan management, management on non-performing loans, due-diligence on non-performing loans.

The Bank has established a mechanism of risk warning for credit business, mainly including single customer credit authorisation risk and systematic risk. Unified credit authorisation management is implemented for key customers. Once the maximum exposure of a single customer is determined, the customer's exposure limit should not exceed its credit limit in the Bank at any time before it achieved new credit limit.

The Bank takes action to strengthen controls over credit risk in relation to group customer and related party customer. The Bank places limits in relation to key group customers to control credit risk. The committee of related party transactions is set up under the Board to manage controls on related party transaction.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is taking collateral, which is common practice.

Except for few customers with excellent quality, the Bank requires the borrowers provide collateral for loans. The type of collateral mainly includes collateral, pledge and guarantee. The Bank employs property appraisal companies with certificates to evaluate the collateral. The detailed collateral type and amount is determined by credit risk of counterparty or customers.

The Bank employs a range of asset evaluation companies to value the collaterals. The Bank generally accepts assets whose value are clear as collaterals, such as deposit receipt and real estate.

(b) *Financial market business*

Financial Interbank Department centralises control over financial market business with hierarchical authorisation from department heads to the president for different business types such as sale, distribution, trade and repurchase of debt securities.

The Bank invests in debt securities with hierarchical authorisation under the guidelines of asset and liability committee. The Bank sets stop-loss point based on analysis of trend of macroeconomic situation and monetary policy. The Bank places limits for interbank borrowing and lending. The Bank manages the credit risk exposures of interbank borrowing and lending strictly within the limit of regulation and credit authorisation.

The debt securities traders regularly review and monitor the changes of market interest and report the market value of debt securities to Financial Interbank Department and Assets Liabilities Department. If there is any violation of interest rate in the market or any significant credit risk encountered to debtors, the business department responsible for security investment will ask for holding extraordinary asset and liability management meeting to conclude an emergency plan. The debt trader will react according to the plan.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Collateral and guarantee

The Bank has a range of policies and practices intended to mitigate credit risk. The most useful practice is to accept collaterals. The Bank implements guidelines on the acceptability of specific classes of collateral. The maximum loan-to-value ratio is determined by the credit business department. The follow-up management of the collateral is carried out by the related business management department. The principal types of collateral for corporate loans and personal loans are as follows:

Type of Collateral	Maximum loan-to-value ratio
Collaterals	
Residential and Commercial properties	60%
Land use rights for commercial, residential and comprehensive use	50%
Land use rights for industrial use	40%
Plants, workshops and factories or office and warehouse in non-urban area	40%
Forestry, trees and woodland usage rights	40%
Construction in progress	50%
Pledges	
Security deposits and certificates of deposit (including electronic certificates of deposits) issued by the Bank	100%
Certificates of deposit issued by other banks	90%
Treasury bonds, bank cheques and bank acceptance bills	90%
Commercial acceptance bills	80%
Debt securities issued by corporations with rating of AA or above	50%
Shares and equities	50%
Warehouse receipts and bills of lading	50%
Receivables	50%
Property right from intellectual properties rights including patents and copyrights	30%

Mortgage loans to retail customers are generally collateralised by residential properties. Other loans are collateralised according to the nature of the loan.

For loans guaranteed by a third party guarantor, the Bank will assess the guarantor's credit rating, financial condition, credit history and ability to meet obligations.

Collateral held as security for financial assets other than customer loans is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Details of collateral accepted and which the Bank is obligated to return are disclosed in Note 36.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses

In accordance with IFRS 9, the Bank classified the financial instruments into three stages. Stage 1 includes performing financial instruments that are “not credit-impaired on initial recognition”. 12-month expected credit losses (“ECL”) are recognized and calculated for those financial instruments in stage 1. Stage 2 includes financial instruments that have had significant increase in credit risk since initial recognition and stage 3 includes credit-impaired financial assets. ECL for the entire life cycle are recognized for those financial instruments in stage 2 and stage 3.

3 stage classification

According to IFRS 9, 3-stage classification criteria need to be clearly specified. For financial instruments, that are “not credit-impaired on initial recognition” will be classified in stage 1 and calculate the 12-month ECL. If “a significant increase in credit risk” is identified, the financial instrument will be moved to stage 2 and calculate the lifetime ECL. If the financial instrument is credit-impaired, the financial instrument will be moved to stage 3. The detailed classification criteria has been set up, and take into consideration of overdue days, etc.

The stages are transferable. For example, when the credit risk of financial instruments classified in stage 1 significantly increase, they will be transferred to 2 stage.

(1) Financial assets with significant increase in credit risk

When triggering one or more of the following quantitative or qualitative criteria, the Bank considers that the credit risk of financial instruments has increased significantly.

Quantitative criteria

The principal or interest of the contract is overdue for more than 30 days, but less than 90 days.

The debtor’s external credit rating (bond rating or issuer rating) is lower than BBB-

Qualitative criteria

The economic, technological or legal environment in which the debtor is situated will change at the present time or in the near future, thereby adversely affecting the debtor.

The debtor violated the terms of the contract, such as overdue payment of interest or principal or default.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

3 stage classification (continued)

(2) Definition of default and loss incurred.

When a financial instrument meets one or more of the following conditions, the Bank considers the financial asset as being defaulted, and the criteria are consistent with the definition of the loss incurred

Quantitative criteria

The principal or interest of the contract is overdue for more than 90 days.

The debtor's external credit rating (bond rating or issuer rating) has broken down.

Qualitative criteria

The debtor is likely to go bankrupt or carry out other financial restructuring.

The issuer of financial instruments assets held by the Bank has serious financial difficulties.

The Bank has made concessions to the debtor in financial difficulty for economic or legal reasons.

The market of related financial instruments is deserted due to the debtor's financial difficulty.

The above criteria apply to all financial instruments of the Bank; the definition of default is consistently applied to the calculation of expected credit losses of the Bank, including default probability (PD), exposure at default (EAD) and loss given default (LGD) modeling.

When a financial instrument does not meet any definition of default for six consecutive months, the Bank no longer regards it as an asset in default (reversal). According to the relevant analysis, the Bank has considered the possibility that the financial instruments will be in default again from the reversal under various circumstances, and decided to adopt the six-month observation period.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

3 stage classification (continued)

- (3) measurement of expected credit loss: explanation of parameters, assumptions and estimation techniques.

Depending on whether there is a significant increase in credit risk and whether the assets have been impaired, the Bank will measure the loss provision for different assets by expected credit losses for 12 months or entire life of the asset. Expected credit loss is the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD) after term adjustment and discount. Related definitions are as follows:

Probability of default (PD) refers to the possibility that the borrower will not be able to fulfil his obligations in the next 12 months or throughout the remaining period of existence. The Bank builds the migration matrix based on historical data to calculate the 12-month probability of default, and derives the default probability of the entire duration from the 12-month probability of default through the Markov chain model.

Loss given default (LGD) is the percentage of risk exposure loss at the time of default. The default loss rate varies depending on the type of counterparty and the availability of collateral or other credit support.

Exposure at default (EAD) refers to the amount that the Bank should pay when the default occurs in the next 12 months or throughout the remaining life. The Bank's exposure at default is determined by the expected repayment arrangements, and different types of products will vary. For installments and one-time repayments, the Bank determines the exposure at default according to the repayment plan stipulated in the contract.

The Bank determines the expected credit losses by forecasting the probability of default, loss given default and exposure at default of single debt. The Bank multiplies the three items and adjusts their duration (if there is no early repayment or breach of contract). This approach can effectively calculate the expected credit losses for future periods, and then discount the results of each period to the report date and add up. The discount rate used in the calculation of expected credit loss is the real interest rate or its approximate value.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

3 stage classification (continued)

(4) Establishment of impairment model

The Bank has established macro-economic forecast model, along with adjustments from external economic experts. The Bank conducts forecasts regularly and establishes three possible economic scenarios, optimistic, basic and pessimistic. Basic scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better and worse than basic scenario respectively.

The impairment model is established through a top down approach. The Bank has developed several corporate and retail impairment models, including regression models for different macro-economic indicators such as Macro-economic Climate Index, Enterprise Climate Index, National Housing Climate Index and the Ratio of Non-performing Loans of Commercial Banks etc. and use MERTON formula and historical default information to make ‘forward looking’ adjustments to probability of default to achieve “forward-looking” calculation of provision.

For asset portfolios that regression model cannot be established, for example, customers’ default rate is extremely low or assets without an appropriate internal rating method, the Bank mainly applies expected loss rate from similar portfolios which regression model have been established so as to increase coverage range of existing impairment models.

(1) *Forwarding-looking information included in ECL model*

The assessment of significant increases in credit risk and the calculation of expected credit losses involve forward-looking information. The Bank identifies the key economic indicators affecting the credit risk and expected credit loss of each asset portfolio, through historical data analysis,

Coverage	
Macro-economic Climate Index	Corporate loans, Bill discount, Retail loans, Financial investments – credit related financial assets, Off-balance sheet business
National Housing Climate Index	Retail Loans

These economic indicators and their impact on PD, EAD and LGD depend on different financial instruments, which involved expert judgments. The Bank annually makes forecasts on these economic indicators (“basic economic scenarios”) and provides the best estimation of the economics for the next two years. The Bank believes that the economic indicators from two years later to the end of the maturity of financial instruments tend to maintain average or average growth for a long time in the following period through the mean regression method. The Bank finds the relationship between these economic indicators and their impact of historical changes on PD, EAD and LGD.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

(1) *Forwarding-looking information included in ECL model (continued)*

The Bank sets other possible scenarios and scenario weightings according to external data. Based on the analysis for each major portfolio and the number of scenarios, the Bank keeps their non-linear characteristics. The Bank reassesses the number and characteristics of scenarios annually. On 1 January 2019 and 31 December 2019, the Bank's three scenarios(basic, optimistic and pessimistic) can properly reflect the non-linear characteristics of each portfolio. The Bank determines scenario weightings through statistical analysis and expert credit judgment, and also considers the possible range of outcomes represented by scenarios. The Bank recognizes the ECL both for 12-month and life time with the classification of stage 1, stage 2 and stage 3 of financial instruments. The Bank measures the ECL with weighted ECL for 12-month (Stage 1) and weighted ECL for life time (Stage 2 and Stage 3), which is calculated by multiplying the ECL under each scenario by their weightings respectively, rather than by weighting the parameters. On 31 December 2019, the weightings allocated to each economic scenario were 60% for basic, 10% for optimism and 30% for pessimism.

Similar to other economic predictions, there is highly inherent uncertainty to the prediction and estimation of probability. Therefore, the actual results may significantly differ from the prediction. The Bank believes that these predictions reflect the best estimation of possible outcomes, and the chosen scenarios can represent possible scenarios appropriately.

(2) *Hypothesis on Economic Indicators*

On 31 December 2019, the important assumptions used for ECL are listed below. The three scenarios of basic, optimism and pessimism apply to all combinations.

	2020	2021
Macro-economic Climate Index	92.76-93.41	92.51-93.32
National Housing Climate Index	98.74-101.00	99.12-100.39

(3) *Sensitivity Analysis*

Important assumptions affecting the ECL allowance are as follows:

Retail loans	<ul style="list-style-type: none"> i. Macro-economic Climate Index: Impact on the contractual repayment capacity of non-mortgage borrowers; ii. National Housing Climate Index: Impact on the contractual repayment capacity of mortgage borrowers;
Corporate loans	<ul style="list-style-type: none"> i. Macro-economic Climate Index: Impact on the performance and the contractual repayment capacity of the borrowers;
Financial investments – credit related financial assets	<ul style="list-style-type: none"> i. Macro-economic Climate Index: Impact on the performance and the contractual repayment capacity of the underlying borrowers;

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

(3) Sensitivity Analysis (continued)

On 31 December 2019, assuming that the economic indicators used by the Bank have changed reasonably, the expected credit losses will change as follows:

Retail Loans

		Macro-economic Climate Index		
		Down 0.1%	No change	Up 0.1%
National Housing Climate Index	Down 1%	1,744	1,074	419
	No change	670	–	(655)
	Up 1%	(261)	(930)	(1,586)

Corporate Loans

		Change	Amount
Macro-economic Climate Index	Up 0.1%		(13,082)
	Down 0.1%		13,299

Financial investments – credit related financial assets

		Change	Amount
Macro-economic Climate Index	Up 0.1%		(5,275)
	Down 0.1%		5,383

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements:

	As at 31 December 2019				
	Stage 1	Stage 2	Stage 3	ECL allowance	Total
Assets					
Balances with central bank	9,324,826	-	-	-	9,324,826
Financial assets held under resale agreements, due from other banks and financial institutions	3,285,004	-	13,442	(13,606)	3,284,840
Customer loans	42,651,837	1,679,465	427,416	(1,459,984)	43,298,734
Financial investments- credit related financial assets	4,197,887	50,117	-	(61,204)	4,186,800
Financial investments – fair value through profit or loss	1,860,243	-	-	-	1,860,243
Financial investments – fair value through other comprehensive income	5,755,246	-	-	-	5,755,246
Financial investments – amortized cost	22,542,457	255,886	-	(298,407)	22,499,936
Other financial assets	32,718	-	-	-	32,718
	89,650,218	1,985,468	440,858	(1,833,201)	90,243,343
Off balance sheet guarantees and commitments	1,845,102	-	-	(16,513)	1,828,589

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)

	As at 31 December 2018				Total
	Stage 1	Stage 2	Stage 3	ECL allowance	
Assets					
Balances with central bank	8,273,126	–	–	–	8,273,126
Financial assets held under resale agreements, due from other banks and financial institutions	7,633,494	13,442	–	(13,555)	7,633,381
Customer loans	30,493,449	526,513	259,225	(792,833)	30,486,354
Financial investments- credit related financial assets	5,910,012	–	–	(88,410)	5,821,602
Financial investments – fair value through profit or loss	1,841,322	–	–	–	1,841,322
Financial investments – fair value through other comprehensive income	5,867,342	–	–	–	5,867,342
Financial investments – amortized cost	21,608,925	–	–	(213,163)	21,395,762
Other financial assets	12,009	–	–	–	12,009
	81,639,679	539,955	259,225	(1,107,961)	81,330,898
Off balance sheet guarantees and commitments					
	2,762,118	–	–	(19,931)	2,742,187

The above table represents a case scenario of the maximum credit risk exposure to the Bank at 31 December 2019 and 2018, without taking account of any related collateral or other credit enhancements. For on-balance sheet assets, the exposures above are based on net carrying amounts as reported in the statement of financial position.

As shown above, as at 31 December 2019, the total on-balance sheet exposure which were derived from customer loans and financial investments were 85.99%. (31 December 2018: 80.43%)

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans

Customer loans are summarised as follows:

As at 31 December 2019				
	Corporate loans	Personal loans	Discounted bills	Total
Stage 1	35,010,431	6,018,422	1,499,648	42,528,501
Stage 2	1,518,220	113,699	–	1,631,919
Stage 3	373,746	43,658	–	417,404
Total	36,902,397	6,175,779	1,499,648	44,577,824
Accrued interest	142,320	38,574	–	180,894
Less: ECL allowance	(1,389,389)	(70,595)	–	(1,459,984)
Net amount	35,655,328	6,143,758	1,499,648	43,298,734

As at 31 December 2018				
	Corporate loans	Personal loans	Discounted bills	Total
Stage 1	24,174,699	5,572,367	644,908	30,391,974
Stage 2	435,088	90,211	–	525,299
Stage 3	174,688	73,566	–	248,254
Total	24,784,475	5,736,144	644,908	31,165,527
Accrued interest	67,015	46,645	–	113,660
Less: ECL allowance	(727,189)	(65,644)	–	(792,833)
Net amount	24,124,301	5,717,145	644,908	30,486,354

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(a) Stage-3 loans

As at 31 December 2019	Collateralised loans				Non-collateralised loans		
	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets (Stage 3)							
Loans and advances to customers							
– Corporate loans	30,647	(14,232)	16,415	27,711	343,099	(202,100)	140,999
– Retail loans	35,857	(15,674)	20,183	29,982	7,801	(3,631)	4,170
Total	66,504	(29,906)	36,598	57,693	350,900	(205,731)	145,169

As at 31 December 2018	Collateralised loans				Non-collateralised loans		
	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets (Stage 3)							
Loans and advances to customers							
– Corporate loans	122,570	(63,561)	59,009	103,619	52,119	(24,263)	27,856
– Retail loans	67,995	(25,079)	42,916	49,917	5,570	(5,570)	–
Total	190,565	(88,640)	101,925	153,536	57,689	(29,833)	27,856

The amount of the fair value of the collaterals are limited to the credit risk exposure of each loan and advance payment secured.

The fair value of collaterals is estimated based on the latest available external valuations, the realization experience of the current collaterals and the market conditions.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(b) Restructured customer loans

Restructuring activities include approved debt repayment plans, modification and deferral of payments. Following restructuring, deferred customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue to be made. These policies are under regular review. Restructuring is most commonly applied to term loans, in particular mid-term and long-term loans.

	As at 31 December	
	2019	2018
Restructured customer loans	127,432	185,139

(c) Overdue customer loans by security and overdue date

	As at 31 December 2019				
	Overdue up to 90 days	Overdue 90 days – 1 year	Overdue 1 – 3 years	Overdue over 3 years	Total
Guaranteed loans	102,829	224,228	25,825	–	352,882
Collateralised loans	245,741	42,986	4,372	260	293,359
Unsecured loans	5,252	3,864	179	83	9,378
Pledged loans	4,690	–	–	–	4,690
Total	358,512	271,078	30,376	343	660,309

	As at 31 December 2018				
	Overdue up to 90 days	Overdue 90 days – 1 year	Overdue 1 – 3 years	Overdue over 3 years	Total
Guaranteed loans	30,707	26,025	–	1,500	58,232
Collateralised loans	48,460	88,878	55,273	22,208	214,819
Unsecured loans	137	120	2,207	67	2,531
Pledged loans	980	820	–	–	1,800
Total	80,284	115,843	57,480	23,775	277,382

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(d) Industry analysis

Concentration risks analysis for customer loans(gross) by economic sectors:

	As at 31 December			
	2019		2018	
	Amount	%	Amount	%
Corporate loans				
Leasing and commercial services	14,023,090	31.33	6,962,009	22.26
Construction	7,544,089	16.86	4,435,333	14.18
Real estate	6,003,260	13.41	2,836,858	9.07
Wholesale and retail trade	2,940,201	6.57	3,380,618	10.81
Manufacturing	2,795,517	6.25	3,338,540	10.67
Education	946,100	2.11	887,400	2.84
Administration of water conservancy, environment and public facilities	858,719	1.92	878,110	2.81
Accommodation and catering	517,428	1.16	1,030,228	3.29
Transportation, warehousing and express service	250,339	0.56	351,819	1.12
Electricity, heat, gas and water production and supply	235,000	0.53	105,500	0.34
Agriculture, forestry, animal husbandry and fishery	221,774	0.50	114,620	0.37
Health and social work	150,300	0.34	57,950	0.19
Culture, sports and entertainment	120,600	0.27	93,600	0.30
Scientific research and technology services	104,300	0.23	128,540	0.41
Household services, repairs and other services	83,900	0.19	87,850	0.28
Mining	66,500	0.15	91,000	0.29
Information transmission, software and information technology services	41,280	0.09	4,500	0.01
Total corporate loans	36,902,397	82.47	24,784,475	79.24
Personal business loans	3,441,444	7.69	2,100,873	6.72
Residential mortgage loans	1,968,716	4.40	2,876,068	9.19
Personal consumption loans	765,619	1.71	759,203	2.43
Total personal loans	6,175,779	13.80	5,736,144	18.34
Discounted bills	1,499,648	3.33	644,908	2.06
Interest receivable	180,894	0.40	113,660	0.36
Total customer loans excluding ECL allowance	44,758,718	100.00	31,279,187	100.00

The concentration risks analysis of customer loans is analyzed based on industry classification of the borrowers.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(e) *Type of collateral analysis*

Analysis for customer loans(gross) by type of collateral:

	As at 31 December	
	2019	2018
Guaranteed loans	18,298,585	10,493,307
Collateralised loans	15,610,001	12,869,755
Pledged loans	7,096,700	5,170,934
Unsecured loans	3,572,538	2,631,531
Interest receivable	180,894	113,660
Total	44,758,718	31,279,187

3.1.7 Investment securities

As at 31 December 2019 and 2018, RMB securities are rated by major domestic rating agencies.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

The rating results of investment securities as following:

As at 31 December 2019

	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortized cost	Financial investment – credit related financial assets	Total
RMB securities					
AAA	233,921	613,659	479,906	–	1,327,486
AA- to AA+	622,157	646,332	139,939	–	1,408,428
Unrated ^(a)	1,004,165	4,378,471	21,820,170	4,237,600	31,440,406
Minus: expected credit impairment provision	–	–	(298,407)	(61,204)	(359,611)
Interest receivable	–	116,784	358,328	10,404	485,516
Total	1,860,243	5,755,246	22,499,936	4,186,800	34,302,225

(a) Unrated securities

	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortized cost	Financial investment – credit related financial assets	Total
Local government bond	–	–	1,101,208	–	1,101,208
National bond	–	263,995	1,080,872	–	1,344,867
Commercial bank bond	–	498,650	–	–	498,650
Policy bank bond	–	756,394	3,192,725	–	3,949,119
Corporate entity bond	347,833	2,859,432	1,376,385	–	4,583,650
Equity securities	45,625	–	–	–	45,625
Funds	610,707	–	–	–	610,707
Industry funds					
(Senior tranche)	–	–	5,756,330	–	5,756,330
Unlisted corporate bond	–	–	8,712,650	–	8,712,650
Trust plans	–	–	600,000	3,712,600	4,312,600
Asset management plans	–	–	–	525,000	525,000
Total	1,004,165	4,378,471	21,820,170	4,237,600	31,440,406

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

As at 31 December 2018

	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortized cost	Financial investment – credit related financial assets	Total
RMB securities					
AAA	–	–	39,993	–	39,993
AA- to AA+	102,858	1,051,807	946,341	–	2,101,006
Unrated ^(a)	1,738,464	4,695,362	20,217,498	5,896,000	32,547,324
Minus: expected credit impairment provision	–	–	(213,163)	(88,410)	(301,573)
Interest receivable	–	120,173	405,093	14,012	539,278
Total	1,841,322	5,867,342	21,395,762	5,821,602	34,926,028

(a) Unrated securities

	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortized cost	Financial investment – credit related financial assets	Total
Local government bond	–	–	1,035,662	–	1,035,662
National bond	–	263,903	1,190,487	–	1,454,390
Policy bank bond	–	3,157,177	3,441,909	–	6,599,086
Corporate entity bond	–	1,274,282	1,316,360	–	2,590,642
Equity securities	45,352	–	–	–	45,352
Funds	1,693,112	–	–	–	1,693,112
Industry funds					
(Senior tranche)	–	–	5,716,330	–	5,716,330
Unlisted corporate bond	–	–	5,430,750	–	5,430,750
Trust plans	–	–	2,086,000	3,620,100	5,706,100
Asset management plans	–	–	–	2,275,900	2,275,900
Total	1,738,464	4,695,362	20,217,498	5,896,000	32,547,324

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

Financial investments-amortized cost are summarised as follows:

	As at 31 December	
	2019	2018
Stage 1	22,190,015	21,203,832
Stage 2	250,000	–
Less: ECL allowance	(298,407)	(213,163)
Add: Interest receivable	358,328	405,093
Net amount	22,499,936	21,395,762

Financial investments- credit related financial assets are summarised as follows:

	As at 31 December	
	2019	2018
Stage 1	4,187,600	5,896,000
Stage 2	50,000	–
Less: ECL allowance	(61,204)	(88,410)
Add: Interest receivable	10,404	14,012
Net amount	4,186,800	5,821,602

Concentration risks analysis for financial investments – credit related financial assets by industry sectors:

	As at 31 December			
	2019		2018	
	amount	%	amount	%
Financial assets- credit related financial assets				
Leasing and commercial services	2,225,350	52.24	2,987,850	50.56
Construction	1,082,000	25.40	246,000	4.16
Real estate	636,500	14.94	1,395,000	23.60
Administration of water conservancy, environment and public facilities	243,750	5.72	281,250	4.76
Manufacturing	50,000	1.17	222,900	3.77
Wholesale and retail trading	–	–	530,000	8.97
Public administration, social security and social organizations	–	–	233,000	3.94
Interest receivable	10,404	0.53	14,012	0.24
Total	4,248,004	100.00	5,910,012	100.00

The concentration risks analysis of financial assets – credit related financial assets is analyzed based on industry classification of the borrowers.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.8 Foreclosed assets

	As at 31 December	
	2019	2018
Business properties	50,490	152,877
Provision for foreclosed assets	(19,461)	(23,446)
Total	31,029	129,431

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Bank does not generally occupy foreclosed properties for its business use. Foreclosed assets are classified in the statement of financial position as other assets.

3.1.9 Concentration risk analysis for financial assets with credit risk exposure

The Bank's geographical risk is primarily concentrated in Mainland China.

3.2 Market risk

3.2.1 Overview

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates and prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are monitored by risk management department and asset and liability management department. Regular reports are submitted to the Board of Directors and head of each business unit.

In accordance with the requirements of the CBIRC, the Bank categorises its business into either the trading book or the banking book. The trading book consists of positions in financial instruments held either with trading intent or in order to economically hedge other elements of the trading book or the banking book. The banking book consists of the financial instruments purchased with excess funds and other financial instruments that are not captured in trading book.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.2 Interest rate risk

The interest rate risk of the Bank mainly comes from the interest rate change and the mismatch of the interest-rate-sensitive assets and liabilities' maturity date or the re-pricing date, which influences net interest income and asset value. The Chinese government has gradually liberalized interest rates in recent years. The Bank operates its business predominantly in the PRC under the interest rate scheme regulated by the PBOC. The PBOC established RMB benchmark interest rates for loans with a floor and such policy was eliminated with effect from 20 July 2013 whereby financial institutions are in a position to price their loans based on commercial and market factors. Since 24 October 2015, the PBOC has cancelled the upper limit of floating of benchmark interest rate for deposit. The Bank conducts most of its businesses including loans and deposits as well as the majority of financial guarantees and credit commitments based upon the published PBOC basic interest rates. On 20 August 2019, the first quotation formed in accordance with the new Loan Prime Rate (LPR) mechanism was officially launched, and the newly issued loans are priced mainly at LPR. On 28 December 2019, PBOC announced that financial institutions should complete the conversion of the pricing benchmark of existing floating rate loans to LPR between March and August in 2020. With the LPR mechanism, the Bank's exposure to interest rate risk will reduce, consequently interest margin will be more stable under different monetary policies. The Bank has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Bank regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Bank, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates and adjusts the repricing term structure of interest rate based on allocation strategy of assets and liabilities. Consequently, the Bank is less vulnerable to interest rate risk.

During the reporting period, the Bank closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Bank, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.2 Interest rate risk (continued)

The tables below summarise the Bank's exposures to interest rate risks. The tables show the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2019							
Assets							
Cash and balances with central bank	9,398,543	-	-	-	-	2,968	9,401,511
Financial assets held under resale agreements, due from other banks and financial institutions	3,184,072	99,940	-	-	-	828	3,284,840
Financial investments at fair value through profit or loss	-	-	-	1,189,706	-	670,537	1,860,243
Financial investments – fair value through other comprehensive income	518,645	-	-	4,716,782	403,035	116,784	5,755,246
Customer loans	11,316,919	15,170,347	10,350,407	5,552,762	727,405	180,894	43,298,734
Financial investments – credit related financial assets	478,933	295,993	624,935	1,215,793	1,560,742	10,404	4,186,800
Financial investments – amortized cost	147,978	52,795	2,383,346	15,272,010	4,285,479	358,328	22,499,936
Other financial assets	15,397	4,020	10,024	3,277	-	-	32,718
Total financial assets	25,060,487	15,623,095	13,368,712	27,950,330	6,976,661	1,340,743	90,320,028
Liabilities							
Due to central bank	-	-	540,000	-	-	760	540,760
Financial assets sold under repurchase agreements, due to other banks and financial institutions	440,296	300,000	2,173,000	1,000,000	-	36,284	3,949,580
Customer deposits	27,333,440	2,598,626	5,533,165	25,159,209	-	812,520	61,436,960
Debt securities issued	868,602	3,835,701	12,472,923	-	1,000,000	48,370	18,225,596
Other financial liabilities	4,078	-	118,779	42,901	-	12,234	177,992
Total financial liabilities	28,646,416	6,734,327	20,837,867	26,202,110	1,000,000	910,168	84,330,888
Total interest sensitivity gap	(3,585,929)	8,888,768	(7,469,155)	1,748,220	5,976,661	430,575	5,989,140

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.2 Interest rate risk (continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2018							
Assets							
Cash and balances with central bank	8,369,517	-	-	-	-	3,521	8,373,038
Financial assets held under resale agreements, due from other banks and financial institutions	5,604,982	997,830	996,801	-	-	33,768	7,633,381
Financial investments at fair value through profit or loss	-	-	-	-	-	1,841,322	1,841,322
Financial investments – fair value through other comprehensive income	-	-	178,813	3,021,223	2,547,133	120,173	5,867,342
Customer loans	8,367,212	8,217,095	7,874,550	5,099,106	814,731	113,660	30,486,354
Financial investments – credit related financial assets	-	-	436,057	3,392,878	1,978,655	14,012	5,821,602
Financial investments – amortized cost	464,379	687,616	3,143,101	12,215,311	4,480,262	405,093	21,395,762
Other financial assets	985	3,683	4,446	2,740	-	155	12,009
Total financial assets	22,807,075	9,906,224	12,633,768	23,731,258	9,820,781	2,531,704	81,430,810
Liabilities							
Due to central bank	-	-	865,000	-	-	-	865,000
Financial assets sold under repurchase agreements, due to other banks and financial institutions	1,904,059	1,000,000	5,670,000	-	-	101,580	8,675,639
Customer deposits	23,716,087	1,251,249	8,274,710	18,665,611	-	477,947	52,385,604
Debt securities issued	1,468,307	2,764,917	8,518,900	-	1,000,000	48,370	13,800,494
Other financial liabilities	12,363	10,730	103,352	12,663	-	29,042	168,150
Total financial liabilities	27,100,816	5,026,896	23,431,962	18,678,274	1,000,000	656,939	75,894,887
Total interest sensitivity gap	(4,293,741)	4,879,328	(10,798,194)	5,052,984	8,820,781	1,874,765	5,535,923

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.3 Sensitivity tests

Interest rate sensitivity test

The result of the interest rate sensitivity tests set out in the table below is based on the following assumptions. The projections assume that yield curves move parallel to the change of interest rate; the assets and liabilities portfolio has a static structure of interest rate; all positions are held and renewed after maturity. But the Bank has not considered the following: changes after the balance sheet date; the impact of interest rate fluctuations on the customers' behaviors; the complicated relationship between complex structured products and interest rate fluctuations; the impact of interest rate fluctuations on market prices; the impact of interest rate fluctuations on off-balance sheet products; and impact of risk management.

On the basis of the above gap analysis on the interest rate, the Bank implemented sensitivity test to analyse the sensitivity of Bank's net interest income against change in interest rate. The table below illustrates the analysis of potential impact on the Bank's net interest income at 31 December 2019 and 2018 on the assumption of a 100 basis point parallel move of the yield curves on each balance sheet date.

	Expected changes of net interest income	
	As at 31 December	
	2019	2018
+ 100 basis point parallel move in all yield curves	11,699	(40,981)
- 100 basis point parallel move in all yield curves	(11,699)	40,981

The table below illustrates the potential impact of a 100 basis point move on the other comprehensive income of the Bank.

	Change of other comprehensive income	
	As at 31 December	
	2019	2018
+ 100 basis point parallel move in all yield curves	(126,702)	(229,598)
- 100 basis point parallel move in all yield curves	135,798	245,86

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.4 Foreign exchange risk

The main place of business of the Bank is located in China, and the main business is settled in RMB. However, the Bank's foreign currency assets and liabilities and forward foreign exchange transactions still have exchange rate risks. Exchange rate risk arises from adverse exchange rate movements.

The Bank's main principle of controlling exchange rate risks is to match assets and liabilities in different currencies as much as possible and to control exchange rate risks within the limits set by the Bank. The Bank sets risk tolerance limits in accordance with the guiding principles of the risk management committee, relevant regulatory requirements and the assessment of the current environment by the management, and minimizes the currency mismatch of assets and liabilities by reasonably arranging the sources of foreign currency funds and using them. The Bank shall set strict position limits, risk limits and stop-loss limits for its foreign exchange exposure arising from its trading business.

The following table summarizes the distribution of the Bank's exchange rate exposure at the end of the year, and the book value of each foreign currency asset and liability has been converted into RMB amount.

	RMB	HKD	USD	Total
As at 31 December 2019				
Assets				
Cash and balances with central bank	9,401,511	-	-	9,401,511
Financial assets held under resale agreements, due from other banks and financial institutions	2,483,898	14,305	786,637	3,284,840
Customer loans (Including discounted bills)	43,298,734	-	-	43,298,734
Financial investments – fair value through profit or loss	1,860,243	-	-	1,860,243
Financial investments – fair value through other comprehensive income	5,755,246	-	-	5,755,246
Financial investments – amortized cost	22,499,936	-	-	22,499,936
Financial investments – credit related financial assets	4,186,800	-	-	4,186,800
Other financial assets	32,718	-	-	32,718
Total assets	89,519,086	14,305	786,637	90,320,028
Liabilities				
Due to central bank	(540,760)	-	-	(540,760)
Financial assets sold under repurchase agreements, due to other banks and financial institutions	(3,949,580)	-	-	(3,949,580)
Customer deposits	(61,436,960)	-	-	(61,436,960)
Debt securities issued	(18,225,596)	-	-	(18,225,596)
Other financial liabilities	(177,992)	-	-	(177,992)
Total liabilities	(84,330,888)	-	-	(84,330,888)
Total exchange rate sensitivity gap	5,188,198	14,305	786,637	5,989,140
Financial guarantee and credit commitments	1,845,102	-	-	1,845,102

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.4 Foreign exchange risk (continued)

	RMB	HKD	Total
As at 31 December 2018			
Assets			
Cash and balances with central bank	8,373,038	–	8,373,038
Financial assets held under resale agreements, due from other banks and financial institutions	6,112,809	1,520,572	7,633,381
Customer loans (Including discounted bills)	30,486,354	–	30,486,354
Financial investments – fair value through profit or loss	1,841,322	–	1,841,322
Financial investments – fair value through other comprehensive income	5,867,342	–	5,867,342
Financial investments – amortized cost	21,395,762	–	21,395,762
Financial investments – credit related financial assets	5,821,602	–	5,821,602
Other financial assets	12,009	–	12,009
Total assets	79,910,238	1,520,572	81,430,810
Liabilities			
Due to central bank	(865,000)	–	(865,000)
Financial assets sold under repurchase agreements, due to other banks and financial institutions	(8,675,639)	–	(8,675,639)
Customer deposits	(52,385,604)	–	(52,385,604)
Debt securities issued	(13,800,494)	–	(13,800,494)
Other financial liabilities	(168,150)	–	(168,150)
Total liabilities	(75,894,887)	–	(75,894,887)
Total exchange rate sensitivity gap	4,015,351	1,520,572	5,535,923
Financial guarantee and credit commitment	2,762,118	–	2,762,118

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.4 Foreign exchange risk (continued)

Exchange rate sensitivity test

Following table shows the impact on pre-tax profit when foreign exchange rate changes by 1% against RMB exchange rate:

	Anticipated change in pretax profit/loss	
	31 December 2019	31 December 2018
Up 1%	8,009	15,206
Down 1%	(8,009)	(15,206)

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that the Bank can not get sufficient funds in time with reasonable cost and unable to meet its payment obligations associated with its financial liabilities when they fall due or to meet immediate fund needs. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. The Bank's objective in liquidity management is to ensure the availability of adequate funding to meet its needs to fund deposits withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Bank is exposed to daily calls on its available cash resources from current deposits, matured deposits, loan draw downs, guarantees and cash deposit hold as collateral. The Board of Directors set the minimum proportion of funds to be made available to meet such calls and the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. As at 31 December 2019, 8.50% (31 December 2018: 12.50%) of the Bank's total RMB-denominated deposits must be deposited with the PBOC.

3.3.2 Liquidity risk management process

The Board of Directors and the liquidity risk management committee formulate the policies, strategies, procedures, limits and contingency plans relate to the overall management of liquidity risk according to risk preference. The assets and liabilities management department cooperates with other business department to form a well-organised, fully functional liquidity risk management system.

The Bank proactively applies new technology to enhance the involvement of IT in liquidity risk management. The system monitors the liquidity index and exposure, which form a mechanism in regular, automatic liquidity risk assessment, and arrange the Banking processes according to current liquidity exposure. The Bank actively modifies the assets and liabilities maturity structure by applying internal fund transfer pricing, while taking control of the limit of the liquidity risk positively by carrying out performance assessment. The Bank pays constant attention to its liquidity risk management process, holds the weekly meeting for assets and liabilities integration, enhances and improves liquidity risk related policy timely, eventually achieve its goal in liquidity risk management.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the undiscounted cash flows of the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the balance sheet date.

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Overdue	Total
As at 31 December 2019									
Liabilities									
Due to central bank	-	-	-	554,861	-	-	-	-	554,861
Financial assets sold under repurchase agreements, due to other banks and financial institution	85,687	360,772	303,710	2,250,256	1,076,192	-	-	-	4,076,617
Customer deposits	26,578,737	864,346	2,675,322	6,282,018	28,652,413	-	-	-	65,052,836
Debt securities issued	-	870,000	3,860,000	12,780,000	-	1,000,000	-	-	18,510,000
Other financial liabilities	12,234	4,078	-	118,779	42,901	-	-	-	177,992
Total financial liabilities	26,676,658	2,099,196	6,839,032	21,985,914	29,771,506	1,000,000	-	-	88,372,306
Assets									
Cash and balances with central bank	4,263,643	-	-	-	-	-	5,137,868	-	9,401,511
Financial assets held under resale agreements, due from other banks and financial institutions	127,596	3,059,651	101,386	-	-	-	-	13,442	3,302,075
Financial investments – fair value through profit or loss	-	-	610,707	30,000	1,614,335	-	15,625	-	2,270,667
Financial investments – FVOCI	-	520,520	14,019	332,107	5,582,761	473,840	-	-	6,923,247
Customer loans	-	3,335,003	2,445,787	9,649,256	21,358,366	22,086,277	-	138,818	59,013,507
Financial investments – credit related financial assets	-	481,440	299,060	685,041	1,529,028	2,321,985	-	-	5,316,554
Financial investments – amortized cost	-	193,380	121,408	2,755,058	17,926,839	6,716,014	-	-	27,712,699
Other financial assets	2,724	12,673	4,020	10,024	3,277	-	-	-	32,718
Total financial assets	4,393,963	7,602,667	3,596,387	13,461,486	48,014,606	31,598,116	5,153,493	152,260	113,972,978
Net positions	(22,282,695)	5,503,471	(3,242,645)	(8,524,428)	18,243,100	30,598,116	5,153,493	152,260	25,600,672

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk (continued)

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Overdue	Total
As at 31 December 2018									
Liabilities									
Due to central bank	-	-	-	888,722	-	-	-	-	888,722
Financial assets sold under repurchase agreements, due to other banks and financial institution	163,238	1,742,506	1,048,460	5,969,290	-	-	-	-	8,923,494
Customer deposits	22,805,339	967,981	1,390,359	8,941,043	21,462,481	-	1,036	-	55,568,239
Debt securities issued	-	1,470,000	2,790,000	8,740,000	-	1,000,000	-	-	14,000,000
Other financial liabilities	29,041	12,363	10,731	103,352	12,663	-	-	-	168,150
Total financial liabilities	22,997,618	4,192,850	5,239,550	24,642,407	21,475,144	1,000,000	1,036	-	79,548,605
Assets									
Cash and balances with central bank	2,085,335	-	-	-	-	-	6,287,703	-	8,373,038
Financial assets held under resale agreements, due from other banks and financial institutions	115,721	5,518,796	1,035,950	1,049,503	-	-	-	-	7,719,970
Financial investments – fair value through profit or loss	-	-	1,693,111	30,000	119,295	-	15,352	-	1,857,758
Financial investments – FVOCI	-	120,173	38,204	445,179	3,856,995	2,856,151	-	-	7,316,702
Customer loans	-	1,236,659	1,440,774	8,675,285	13,768,843	17,030,875	-	78,214	42,230,650
Financial investments – credit related financial assets	-	-	14,011	470,878	3,948,296	3,121,399	-	-	7,554,584
Financial investments – amortized cost	-	570,284	1,034,860	3,662,362	15,772,074	6,927,740	-	-	27,967,320
Other financial assets	409	731	3,683	4,446	2,740	-	-	-	12,009
Total financial assets	2,201,465	7,446,643	5,260,593	14,337,653	37,468,243	29,936,165	6,303,055	78,214	103,032,031
Net positions	(20,796,153)	3,253,793	21,043	(10,304,754)	15,993,099	28,936,165	6,302,019	78,214	23,483,426

Assets available to meet all of the liabilities include cash, balances with central bank, items in the course of collection and treasury; due from other banks and financial institutions; and customer loans. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, certain debt securities have been pledged for liabilities. The Bank would also be able to meet unexpected net cash outflows by selling securities, using credit commitments from other financial institutions, early termination of borrowings from other financial institutions and repurchase agreements and using the mandatory reserve deposits upon the PBOC's approval.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.4 Maturity analysis

The table below analyses the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Overdue	Total
As at 31 December 2019									
Assets									
Cash and balances with central bank	4,263,643	-	-	-	-	-	5,137,868	-	9,401,511
Financial assets held under resale agreements, due from other banks and financial institutions	127,596	3,057,272	99,972	-	-	-	-	-	3,284,840
Financial investments – fair value through profit or loss	-	-	610,707	30,000	1,203,911	-	15,625	-	1,860,243
Financial investments – FVOCI	-	518,681	9,049	107,699	4,716,782	403,035	-	-	5,755,246
Customer loans	-	3,106,543	2,250,322	8,883,611	16,868,619	12,050,821	-	138,818	43,298,734
Financial investments – credit related financial assets	-	479,791	296,793	626,746	1,219,337	1,564,133	-	-	4,186,800
Financial investments – amortized cost	-	191,362	108,785	2,442,795	15,452,429	4,299,408	-	5,157	22,499,936
Other financial assets	2,724	12,673	4,020	10,024	3,277	-	-	-	32,718
Total financial assets	4,393,963	7,366,322	3,379,648	12,100,875	39,464,355	18,317,397	5,153,493	143,975	90,320,028
Liabilities									
Due to central bank	-	-	-	540,760	-	-	-	-	540,760
Financial assets sold under repurchase agreements, due to other banks and financial institution	85,687	380,266	301,555	2,180,911	1,001,161	-	-	-	3,949,580
Customer deposits	27,365,163	780,797	2,598,626	5,533,165	25,159,209	-	-	-	61,436,960
Debt securities issued	-	868,602	3,884,071	12,472,923	-	1,000,000	-	-	18,225,596
Other financial liabilities	12,234	4,078	-	118,779	42,901	-	-	-	177,992
Total financial liabilities	27,463,084	2,033,743	6,784,252	20,846,538	26,203,271	1,000,000	-	-	84,330,888
Net liquidity gap	(23,069,121)	5,332,579	(3,404,604)	(8,745,663)	13,261,084	17,317,397	5,153,493	143,975	5,989,140

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.4 Maturity analysis (continued)

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Overdue	Total
As at 31 December 2018									
Assets									
Cash and balances with central bank	2,085,335	-	-	-	-	-	6,287,703	-	8,373,038
Financial assets held under resale agreements, due from other banks and financial institutions	114,993	5,523,755	997,830	996,803	-	-	-	-	7,633,381
Financial investments – fair value through profit or loss	-	-	1,693,111	30,000	102,859	-	15,352	-	1,841,322
Financial investments – FVOCI	-	120,173	-	178,813	3,021,223	2,547,133	-	-	5,867,342
Customer loans	-	1,186,711	1,348,426	7,976,804	10,717,205	9,178,994	-	78,214	30,486,354
Financial investments – credit related financial assets	-	14,011	436,057	3,392,878	1,978,656	-	-	-	5,821,602
Financial investments – amortized cost	-	628,791	928,297	3,143,101	12,215,312	4,480,261	-	-	21,395,762
Other financial assets	409	731	3,683	4,446	2,740	-	-	-	12,009
Total financial assets	2,200,737	7,474,172	5,407,404	15,722,845	28,037,995	16,206,388	6,303,055	78,214	81,430,810
Liabilities									
Due to central bank	-	-	-	865,000	-	-	-	-	865,000
Financial assets sold under repurchase agreements, due to other banks and financial institution	163,238	1,842,401	1,000,000	5,670,000	-	-	-	-	8,675,639
Customer deposits	23,291,822	901,176	1,251,249	8,274,710	18,665,611	-	1,036	-	52,385,604
Debt securities issued	-	1,516,677	2,764,917	8,518,900	-	1,000,000	-	-	13,800,494
Other financial liabilities	29,041	12,363	10,731	103,352	12,663	-	-	-	168,150
Total financial liabilities	23,484,101	4,272,617	5,026,897	23,431,962	18,678,274	1,000,000	1,036	-	75,894,887
Net liquidity gap	(21,283,364)	3,201,555	380,507	(7,709,117)	9,359,721	15,206,388	6,302,019	78,214	5,535,923

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.5 Off-balance-sheet items

The table below lists the off-balance-sheet statement items of the Bank according to their remaining term to maturity, and also includes the future minimum lease payments under non-cancellable operating leases where the Bank are the lessees. The financial commitments are listed by the earliest maturity date in its notional principal.

As at 31 December 2019	Within 1 year	1-5 years	Over 5 years	Total
Acceptances	955,805	–	–	955,805
Guarantees	3,871	885,426	–	889,297
Capital expenditure commitments	27,730	56,573	–	84,303
Total	987,406	941,999	–	1,929,405

As at 31 December 2018	Within 1 year	1-5 years	Over 5 years	Total
Acceptances	1,585,988	–	–	1,585,988
Guarantees	300,000	876,130	–	1,176,130
Operating lease commitments	11,824	24,917	2,800	39,541
Capital expenditure commitments	76,466	10,630	–	87,096
Total	1,974,278	911,677	2,800	2,888,755

The Bank has no irrevocable loan commitments.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities

(a) Financial instruments not measured at fair value

Financial assets and liabilities that are not measured at fair value in consolidated financial position mainly include: balances with central bank, due from other banks and financial institutions, customer loans, credit related financial assets, financial assets-amortized cost, due to other banks and financial institutions, customer deposits, debt securities issued. Except for the following financial assets and financial liabilities, the carrying amounts of financial assets and liabilities that are not measured at fair value are quite small from the fair value.

The table below summarises the financial assets and liabilities that have difference between carrying amounts (include accrued interest) and fair value as at 31 December 2019 and 2018.

	As at 31 December 2019				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments – amortized cost	22,499,936	-	7,569,536	15,224,835	22,794,371
Financial investments – credit related financial assets	4,186,800	-	-	4,225,093	4,225,093
Financial liabilities					
Debt securities issued	18,225,596	-	18,271,313	-	18,271,313

	As at 31 December 2018				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments – amortized cost	21,395,762	-	8,081,864	13,335,412	21,417,276
Financial investments – credit related financial assets	5,821,602	-	-	5,900,218	5,900,218
Financial liabilities					
Debt securities issued	13,800,494	-	13,793,731	-	13,793,731

Financial investments – credit related financial assets

The fair value for financial investments – credit related financial assets is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

Financial investments – amortized cost

The fair value for financial investments – amortized cost (excluding bonds) is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

The fair value for bonds measured at amortized cost are based on market prices or broker/dealer price quotations. Where the information is not available, fair value is estimated using quoted market prices for securities with similar credit risk, maturity and yield characteristics.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities (continued)

(a) Financial instruments not measured at fair value (continued)

Debt securities issued

The fair value of fixed interest bearing debt securities issued is calculated using a discounted cash flow model which is based on a current yield curve appropriate for the remaining term to maturity.

Other than above, the carrying values of those financial assets and liabilities not presented at their fair value on the consolidated statement of financial position are a reasonable approximation of their fair values. Those financial assets and liabilities include balances with central bank, due from other banks and financial institutions, customer loans, due to other banks and financial institutions, customer deposits, etc. Fair value is measured using a discounted future cash flow model.

(b) Fair value hierarchy

IFRS 7 specifies the levels of valuation techniques that based on the inputs of valuation techniques that are observable or not. The observable inputs reflect the market data obtained from independent sources. These two inputs lead to the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities, debt instruments in house (e.g. Hong Kong Stock Exchange).
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly or indirectly. This level includes the debt instruments dealing in the interbank market. For example, the input parameters of bond yield curves and counterparty credit risk from China bond information website and Bloomberg.
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs). This level includes equity instruments and structural financial instruments.

The Bank determines the fair value of the financial instruments by valuation techniques when it is difficult to obtain quotations from the open market. The main parameters of valuation techniques used in financial instruments includes the price of the bond, interest rate, exchange rate, stock and equity price, volatility level, correlation, prepayment rates, and the credits spreads of counterparty. All of these parameters can be observed and obtained from the open market.

The measurement of the fair value of those asset-backed securities and unlisted equity (private equity) held by the Bank adopts unobservable parameters that may have significant impact on the valuations. Thus, the Bank would better classify these financial instruments to the third level. Management has assessed the influence of macroeconomic factors, the valuation by external appraiser, loss coverage, and many other parameters, so as to examine the correlation between the fair value of third level financial instruments and the above parameters. The Bank has established an internal control system to supervise the exposure of the Bank to such financial instruments.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Fair values of assets and liabilities are as below

As at 31 December 2019	Level 1	Level 2	Level 3	Total
Customer loans – discounted bills	–	–	1,499,648	1,499,648
Financial investments – fair value through profit or loss	1,829,247	–	30,996	1,860,243
Financial investments – FVOCI	–	5,755,246	–	5,755,246
Total	1,829,247	5,755,246	1,530,644	9,115,137

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Customer loans – discounted bills	–	–	644,908	644,908
Financial investments – fair value through profit or loss	1,810,326	–	30,996	1,841,322
Financial investments – FVOCI	–	5,867,342	–	5,867,342
Total	1,810,326	5,867,342	675,904	8,353,572

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Movement of Level-3 valuation methodology

Financial investments – fair value through profit or loss	
Balance at 1 January 2019	30,996
Total gains or losses	–
– Other comprehensive income	–
Purchase of level 3	–
Maturity of level 3	–
Balance at 31 December 2019	30,996
Total gains for the year included in statement of comprehensive income for assets/liabilities held at 31 December 2019	–

Financial investments – fair value through profit or loss	
Balance at 1 January 2018	2,311,837
Total gains or losses	–
– Other comprehensive income	(10,841)
Purchase of level 3	6,030,000
Maturity of level 3	(8,300,000)
Balance at 31 December 2018	30,996
Total gains for the year included in statement of comprehensive income for assets/liabilities held at 31 December 2018	–

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- To comply with the capital requirements set by the regulators of the Banking markets where the entities within the Bank operate;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy ratio and the use of regulatory capital are monitored quarterly by the Bank's management with employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis.

The Bank calculated the capital adequacy ratio based on the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial) issued by CBIRC in June 2012. According to the approach, the Bank calculated the credit risk-weighted assets measurement by the weighted method, market risk-weighted assets measurement by the standard method, and operation risk-weighted assets measurement by the basic indicator method.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial). For systematically important banks, CBIRC requires minimum core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of 8.50%, 9.50% and 11.50% respectively. For non-systematically important banks, CBIRC requires corresponding minimum ratios of 7.50%, 8.50% and 10.50%, respectively. At present, the Bank is fully compliant with these legal and regulatory requirements.

The capital adequacy ratio of 2019 and 2018 half year under the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial) is as follows:

	As at 31 December 2019	2018
Core capital:	8,932,089	7,904,483
Core Tier 1 Capital total	6,889,509	6,366,786
Tier 2 Capital total	2,042,580	1,537,697
Net capital	8,891,351	7,867,832
Total Net Core Tier 1 Capital	6,848,771	6,330,135
Net Tier 1 Capital	6,848,771	6,330,135
Total risk-weighted assets after applying capital base	73,539,932	59,214,150
Core Tier 1 Capital adequacy ratio	9.31%	10.69%
Tier 1 Capital adequacy ratio	9.31%	10.69%
Capital adequacy ratio	12.09%	13.29%

Notes to the Financial Statements

For the year ended December 31, 2019

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.6 Fiduciary activities

The Bank provides custody and trustee services to third parties. Those assets that are held in a fiduciary capacity are not included in the financial statements.

	As at 31 December	
	2019	2018
Entrusted loans	3,657,341	5,047,273

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) ECL allowance of financial assets

The Bank has adopted IFRS 9 on 1 January 2018 to measure and account for financial instruments. For customer loans, credit related financial assets and financial investments measured at amortised cost, the measurement of expected credit losses uses complex models and a large number of assumptions. These models and assumptions relate to future macroeconomic conditions and borrowers' credit behavior (e.g. the probability of default and the corresponding losses).

According to the requirements of accounting standards, the measurement of expected credit losses involves many critical judgements. For example:

Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;

Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;

Selection of economic indicators for forward-looking measurement, and the application of economic scenarios and weightings.

For measurement of the expected credit loss of financial assets, please refer to Note 3.1.4.

Notes to the Financial Statements

For the year ended December 31, 2019

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation models (e.g. discounted cash flow model). To the extent practical, only observable data is used in the discounted cash flow model. However, areas such as credit risks (from both parties of transactions), market volatilities and correlations require the management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

c) Income taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice. Where the final tax outcomes of these matters are different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and business tax in the period during which such a determination is made (Note 13).

d) Consolidation of structured entity

Structured entity, refers that when judging the control side of the entity, the key elements to consider are the contracts which the entities' main activities are based on or the corresponding arrangements rather than the voting rights or similar rights (for example: the voting rights are just associated with administrative matters only).

When the Bank acts as asset manager in structured entity, the Bank needs to identify whether it control the entity. There are 3 considerations. (i) Power to the invested entity; (ii) Exposure to variable remuneration of the invested entity; (iii) The ability to use the power to influence the amount of remuneration of the invested entity. If there is any indication that the control elements of the above have changed, the Bank will reassess its control over the invested entity. During the evaluation, the Bank considers many factors, such as: the scope of asset manager's decision-making power, rights held by other parties, commission levels as management service provider, and any other arrangements (such as direct investment) which could affect the amount of remuneration.

Notes to the Financial Statements

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

5 NET INTEREST INCOME

	Year ended 31 December	
	2019	2018
Interest income		
Balances with central bank	108,310	114,787
Financial assets held under resale agreements, due from other banks and financial institutions	153,622	344,017
Customer loans	2,997,655	1,731,365
Financial investments – credit related financial assets	463,697	557,356
Financial investments	1,688,773	1,251,189
Total	5,412,057	3,998,714
Include : interest income generated from impaired financial assets.	4,397	5,568
Interest expense		
Due to central bank	(25,738)	(10,219)
Financial assets sold under repurchase agreements, due to other banks and financial institutions	(219,108)	(355,477)
Customer deposits	(1,812,834)	(1,280,020)
Debt securities issued	(634,203)	(580,600)
Other interest expense	(2,049)	–
Total	(2,693,932)	(2,226,316)
Net interest income	2,718,125	1,772,398

6 NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2019	2018
Fee and commission income		
Commission income from settlement and agency services	2,229	1,703
Commission income from bank card services	2,277	2,270
Commission income from custodian service	968	2,036
Commission income from guarantees and credit commitments	4,223	2,513
Commission income from wealth management agency service	–	120
Commission income from investment banking	693	514
Other commission income	167	89
Total	10,557	9,245
Fee and commission expense	(5,472)	(7,377)
Net fee and commission income	5,085	1,868

Notes to the Financial Statements

For the year ended December 31, 2019

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

7 NET GAINS ON TRADING ACTIVITIES

	Year ended 31 December	
	2019	2018
Debt securities	12,298	2,858
Foreign exchange gains/(losses)	11,803	(19,289)
Monetary funds	-	53,111
Equity investments	-	(12,569)
Total	24,101	24,111

8 NET GAINS ARISING FROM FINANCIAL INVESTMENTS

	Year ended 31 December	
	2019	2018
Net gains arising from de-recognition of FVOCI	19,409	60,333
Net gains arising from de-recognition of financial investments – fair value through profit or loss	37,495	74,442
Total	56,904	134,775

9 OTHER OPERATING INCOME

	Year ended 31 December	
	2019	2018
Net loss on disposal of foreclosed assets	(10,347)	(8,999)
Net gain on disposal of fixed assets	-	111
Incentive and subsidy funds	5,582	3,298
Compensation on breach of contract	2,340	2,422
Rental income from investment properties	4,733	3,876
Other miscellaneous income	108	228
Total	2,416	936

Notes to the Financial Statements

For the year ended December 31, 2019

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

10 OPERATING EXPENSES

	Year ended 31 December	
	2019	2018
Staff costs (including directors and supervisors' emoluments (allowance inclusive)) (i)	595,549	399,518
Business and administrative expenses	229,146	162,158
Professional fees	32,224	12,522
Auditor's remuneration	2,800	2,700
Rental fees	870	21,080
Depreciation and amortization	123,489	58,274
Tax and surcharges	27,487	18,947
Expenditures on public welfare donations	7,889	3,862
Other non-operating expenses	1,861	1,448
Other business expenses	15,016	6,419
Total	1,036,331	686,928

(i) STAFF COSTS

	Year ended 31 December	
	2019	2018
Salaries and bonuses	437,663	293,398
Pension cost – defined contribution plan	26,300	21,724
Other social security and benefit costs	34,602	25,841
Housing benefits and subsidies	21,853	15,702
Corporate annuity	23,499	14,918
Staff benefits	32,102	19,594
Staff education expenses	19,530	8,341
Total	595,549	399,518

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

11 DIRECTORS AND SUPERVISORS' EMOLUMENTS (ALLOWANCE INCLUSIVE)

Top five highest paid individuals' remunerations are shown as below:

	Year ended 31 December	
	2019	2018
Salaries, allowance and benefits	3,258	3,196
Discretionary bonuses	8,309	8,077
Contribution to pension schemes	66	86
	11,633	11,359

The range of senior managements' remuneration is shown as below:

	Number of individuals	
	Year ended 31 December	
	2019	2018
HK\$0- HK\$ 999,999	-	-
HK\$1,000,000- HK\$ 1,499,999	-	-
HK\$1,500,000- HK\$ 1,999,999	-	1
HK\$2,000,000- HK\$ 2,499,999	2	1
HK\$2,500,000- HK\$ 2,999,999	3	1
HK\$3,000,000- HK\$ 3,499,999	-	2
	5	5

Five highest paid individuals

For the year ended 31 December 2019, the five highest paid individuals in the Bank are all marketing management, none of them are directors or supervisors (2018: Same).

The Bank does not pay any remuneration to any director, supervisor or five persons with the highest remuneration to compensate them for bonuses or resignations to join or upon joining the Bank.

In accordance with regulations authorised by relevant authorities in the PRC, the compensation package for certain directors and supervisors for the current year have not been finalised. Management of the Bank believes that difference in emoluments will not have significant impact on the financial statements of the Bank for the year ended 31 December 2019. The disclosed amount of remuneration is the amount paid in current year, including the emolument of the previous year deferred to the current year. The amount of final remuneration will be announced after approval.

Notes to the Financial Statements

For the year ended December 31, 2019

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

11 DIRECTORS AND SUPERVISORS' EMOLUMENTS (ALLOWANCE INCLUSIVE) (continued)

Details of the directors' and supervisors' emoluments for the year ended 31 December 2019 are as follows:

Name	Fees	Salaries, allowance and benefits	Discretionary bonuses	Contribution to pension schemes	Total
Executive directors					
You Jiang	-	353	723	17	1,093
Xu Xianzhong	-	355	723	17	1,095
Liu Shirong	-	339	653	17	1,009
Non-executive directors					
Gu Ming'an	304	-	-	-	304
Huang Yongqing	302	-	-	-	302
Tang Baoqi	255	-	-	-	255
Ye Changqing	254	-	-	-	254
Liu Xiaoyu	187	-	-	-	187
Xiong Guoming	26	-	-	-	26
Xu Yan	3	-	-	-	3
Liu Qi	7	-	-	-	7
Dai Zhiwei	6	-	-	-	6
Pan Lina	-	-	-	-	-
Liu Anyuan	-	-	-	-	-
Jiang Bo	-	-	-	-	-
Supervisors					
Yuan Shihong	-	344	651	17	1,012
Chen Yong	-	256	341	17	614
Liu Yongli	-	269	389	17	675
Huang Ping	68	-	-	-	68
Guo Bing	32	-	-	-	32
Duan Xuebin	87	-	-	-	87
	1,531	1,916	3,480	102	7,029

- (1) At the 2018 annual general meeting of shareholders held on 28 May 2019, Pan Lina, Liu Anyuan and Jiang Bo were elected as non-executive directors of the Bank. The three directors have been performing their duties since 31 December 2019. Xu Yan no longer served as non-executive director and Liu Xiaoyu no longer served as independent director.
- (2) At the 2018 annual general meeting of shareholders held on 28 May 2019, Guo Bing was elected as supervisor. Huang Ping no longer served as supervisor.

Notes to the Financial Statements

For the year ended December 31, 2019

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

11 DIRECTORS AND SUPERVISORS' EMOLUMENTS (ALLOWANCE INCLUSIVE) (continued)

Details of the directors' and supervisors' emoluments for the year ended 31 December 2018 are as follows:

Name	Fees	Salaries, allowance and benefits	Discretionary bonuses	Contribution to pension schemes	Total
Executive directors					
You Jiang	–	352	738	17	1,107
Xu Xianzhong	–	359	738	17	1,114
Liu Shirong	–	315	665	17	997
Non-executive directors					
Xu Yan	5	–	–	–	5
Xiong Guoming	27	–	–	–	27
Liu Qi	7	–	–	–	7
Dai Zhiwei	5	–	–	–	5
Liu Xiaoyu	170	–	–	–	170
Gu Ming'an	170	–	–	–	170
Huang Yongqing	170	–	–	–	170
Tang Baoqi	25	–	–	–	25
Ye Changqing	25	–	–	–	25
Supervisors					
Yuan Shihong	–	315	665	17	997
Huang Ping	80	–	–	–	80
Duan Xuebin	80	–	–	–	80
Liu Yongli	–	252	413	17	682
Chen Yong	–	191	332	17	540
	764	1,784	3,551	102	6,201

- (1) At the 2017 annual general meeting of shareholders held on 30 May 2018, Ye Changqing and Tang Baoqi were elected as independent directors of the Bank. The two directors have been performing their duties since 17 December 2018, when the Bank went public.

Notes to the Financial Statements

For the year ended December 31, 2019

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

11 DIRECTORS AND SUPERVISORS' EMOLUMENTS (ALLOWANCE INCLUSIVE) (continued)

The remuneration shown above represents remuneration received from the Bank by these directors in their capacity as employees of the Bank.

Emolument waived by directors during each of the years ended 31 December 2019 and 2018:

	Year ended 31 December	
	2019	2018
Xu yan	20	20
Liu Qi	20	20
Dai Zhiwei	20	20
Total	60	60

No emoluments were paid by the Bank to the directors as an inducement to join the Bank, or as compensation for loss of office during each of the years ended 31 December 2019 and 31 December 2018.

(a) Directors' retirement benefits

There is no retirement benefits paid to the directors during the year ended 31 December 2019 by defined benefit pension plans operated by the Bank. No other retirement benefits were paid to the directors in respect of their other services in connection with the management of the Bank other than those disclosed above (2018: same).

(b) Directors' termination benefits

None of the directors received or will receive any termination benefits during each of the years ended 31 December 2019 and 31 December 2018.

Notes to the Financial Statements

For the year ended December 31, 2019

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

11 DIRECTORS AND SUPERVISORS' EMOLUMENTS (ALLOWANCE INCLUSIVE) (continued)

(c) Consideration provided to third parties for making available directors' services

During each of years ended 31 December 2019 and 31 December 2018, the Bank did not pay any consideration to any third parties for making available the services of themselves as directors of the Bank.

(d) Directors' material interests in transactions, arrangements or contracts

In addition to the transactions disclosed in other parts of the notes to past financial information, the directors of the Bank did not directly or indirectly have significant interests in any other major transactions, arrangements and contracts made by the Bank during the end of the performance record period or at any time during the period.

12 IMPAIRMENT LOSSES/EXPECTED CREDIT LOSSES

	Year ended 31 December	
	2019	2018
ECL for customer loans at amortized cost (Note 17(b))	796,889	331,721
ECL for customer loans – FVOCI (Note 17(b))	13,454	(31,549)
ECL for financial investments – credit related financial assets (Note 18)	(27,206)	(38,740)
ECL for other financial investments	91,588	101,387
ECL for guarantee commitment	(3,418)	12,200
Other impairment losses	73,432	21,791
Total	944,739	396,810

Notes to the Financial Statements

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

13 INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
Current income tax	395,901	247,061
Deferred income tax (Note 28)	(200,165)	(51,378)
Total	195,736	195,683

Current income tax is calculated the statutory tax rate of 25% based on the taxable income of estimated assessable profit of the Bank for the respective year as stipulated in PRC tax laws.

The difference between the actual income tax charge in the profit or loss and the amounts which would result from applying the enacted tax rate 25% (2018: 25%) to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2019	2018
Profit before income tax	829,648	853,990
Tax calculated at a tax rate of 25%	207,412	213,497
Tax effect arising from non-taxable income (a)	(19,076)	(24,045)
Tax effect of expenses that are not deductible for tax purposes(b)	7,400	6,231
Income tax expense	195,736	195,683

- (a) The Bank's non-taxable income mainly represents interest income arising from treasury bonds, which is non-taxable in accordance with the PRC tax laws.
- (b) The Bank's expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses etc., which exceed the tax deduction limits pursuant to the PRC tax laws.

Notes to the Financial Statements

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

14 BASIC AND DILUTED EARNINGS PER SHARE

- (a) Basic earnings per share are calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2019	2018
Net profit attributable to shareholders of the Bank (RMB' 000)	633,912	658,307
Weighted average number of ordinary shares issued (' 000)	2,261,654	1,659,621
Basic earnings per share (in RMB)	0.28	0.40

On 14 January 2019, the Bank has completed its over-allotment of 81,860,000 H shares. After this issue, the share capital of the Bank is RMB2,264,793,385, divided into 2,264,793,385 shares of RMB1 each, including 627,600,000 H shares.

Please refer to Note 31 about the changes in share capital.

(b) Diluted earnings per share

For the years ended 31 December 2019 and 2018, there was no potential diluted ordinary shares, so the diluted earnings per share was the same as the basic earnings per share.

15 CASH AND BALANCES WITH CENTRAL BANK

	As at 31 December	
	2019	2018
Cash	76,685	99,912
Mandatory reserve deposits with central bank	5,137,868	6,287,703
Surplus reserve deposits with central bank	4,068,398	1,897,586
Fiscal deposits with central bank	115,592	84,316
Accrued interest	2,968	3,521
Total	9,401,511	8,373,038

The Bank is required to place mandatory deposits with central bank. The deposits are calculated based on the amount of deposits placed with the Bank by its customers.

	As at 31 December	
	2019	2018
	%	%
Mandatory reserve rate for deposits denominated in RMB	8.50	12.50

Mandatory reserve deposits with central bank are not available for use by the Bank in its day to day operations.

Surplus reserve deposits are maintained with central bank mainly for liquidity purpose.

Notes to the Financial Statements

For the year ended December 31, 2019

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

16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS, DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	As at 31 December	
	2019	2018
Securities assets purchased under resale agreements	2,272,280	3,763,430
Placements with other banks and financial institutions	113,442	1,713,442
Deposits with other banks and financial institutions	911,896	2,136,296
Minus:ECL allowance	(13,606)	(13,555)
Accrued interest	828	33,768
Total	3,284,840	7,633,381

17 CUSTOMER LOANS

(a) Customer loans

	As at 31 December	
	2019	2018
Customer loans at amortized cost		
Corporate loans	36,902,397	24,784,475
Personal loans	6,175,779	5,736,144
Interest receivable	180,894	113,660
Total customer loans at amortized cost	43,259,070	30,634,279
Less: ECL allowance	(1,459,984)	(792,833)
Net customer loans at amortized cost	41,799,086	29,841,446
Customer loans – FVOCI		
Discounted bills	1,499,648	644,908
Net customer loans – FVOCI	1,499,648	644,908
Net customer loans	43,298,734	30,486,354

Notes to the Financial Statements

For the year ended December 31, 2019

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

17 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance

Corporate loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 31 December 2018	517,143	122,222	87,824	727,189
Provision for impairment	172,291	370,812	195,820	738,923
Written-off	-	-	(91,940)	(91,940)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(19,237)	19,237	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(6,627)	-	6,627	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(2,784)	2,784	-
<i>Transfer from Stage 3 to Stage 2</i>	-	-	-	-
<i>Transfer from Stage 2 to Stage 1</i>	-	-	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Recoveries of loans written-off in previous years	-	-	10,273	10,273
Unwinding of discount	-	-	4,944	4,944
Loss allowance as at 31 December 2019	663,570	509,487	216,332	1,389,389

Personal loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 31 December 2018	18,082	16,913	30,649	65,644
Provision for impairment	6,199	10,089	41,678	57,966
Written-off	-	-	(59,670)	(59,670)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(82)	82	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(83)	-	83	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(1,105)	1,105	-
<i>Transfer from Stage 3 to Stage 2</i>	-	290	(290)	-
<i>Transfer from Stage 2 to Stage 1</i>	1,047	(1,047)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	905	-	(905)	-
Recoveries of loans written-off in previous years	-	-	6,197	6,197
Unwinding of discount	-	-	458	458
Loss allowance as at 31 December 2019	26,068	25,222	19,305	70,595

Notes to the Financial Statements

For the year ended December 31, 2019

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17 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance (continued)

Corporate loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 1 January 2018	230,905	90,564	86,508	407,977
Provision for impairment/(reversal)	293,693	41,324	(12,600)	322,417
Written-off	-	-	(8,295)	(8,295)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(6,745)	6,745	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(710)	-	710	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(16,411)	16,411	-
<i>Transfer from Stage 3 to Stage 2</i>	-	-	-	-
<i>Transfer from Stage 2 to Stage 1</i>	-	-	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Recoveries of loans written-off in previous years	-	-	1,059	1,059
Unwinding of discount	-	-	4,031	4,031
Loss allowance as at 31 December 2018	517,143	122,222	87,824	727,189

Personal loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 1 January 2018	13,439	17,108	28,557	59,104
Provision for impairment	4,102	1,706	3,496	9,304
Written-off	-	-	(4,849)	(4,849)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(88)	88	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(147)	-	147	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(1,360)	1,360	-
<i>Transfer from Stage 3 to Stage 2</i>	-	147	(147)	-
<i>Transfer from Stage 2 to Stage 1</i>	776	(776)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Recoveries of loans written-off in previous years	-	-	802	802
Unwinding of discount	-	-	1,283	1,283
Loss allowance as at 31 December 2018	18,082	16,913	30,649	65,644

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For the year ended December 31, 2019
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17 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance (continued)

Discounted bills	Stage 1 12M ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 31 December 2018	7,712	-	-	7,712
Provision for impairment	13,454	-	-	13,454
As at 31 December 2019	21,166	-	-	21,166

Discounted bills	Stage 1 12M ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	39,261	-	-	39,261
Reversal of impairment allowances	(31,549)	-	-	(31,549)
As at 31 December 2018	7,712	-	-	7,712

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For the year ended December 31, 2019

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17 CUSTOMER LOANS (continued)

(c) Movements on gross amount (excluding interest receivable) of customer loans

Corporate loans	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2018	24,174,699	435,088	174,688	24,784,475
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(1,411,237)	1,411,237	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(336,930)	-	336,930	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(12,000)	12,000	-
<i>Transfer from Stage 3 to Stage 2</i>	-	-	-	-
<i>Transfer from Stage 2 to Stage 1</i>	-	-	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Derecognition of financial assets of current year	(12,319,666)	(316,105)	(57,932)	(12,693,703)
New financial assets occurred or purchased	24,903,565	-	-	24,903,565
Written-off	-	-	(91,940)	(91,940)
Loss allowance as at 31 December 2019	35,010,431	1,518,220	373,746	36,902,397
Personal loans	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2018	5,572,367	90,211	73,566	5,736,144
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(53,614)	53,614	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(46,854)	-	46,854	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(7,716)	7,716	-
<i>Transfer from Stage 3 to Stage 2</i>	-	2,773	(2,773)	-
<i>Transfer from Stage 2 to Stage 1</i>	6,372	(6,372)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	2,678	-	(2,678)	-
Derecognition of financial assets of current year	(2,097,416)	(18,811)	(19,357)	(2,135,584)
New financial assets occurred or purchased	2,634,889	-	-	2,634,889
Written-off	-	-	(59,670)	(59,670)
Loss allowance as at 31 December 2019	6,018,422	113,699	43,658	6,175,779

Notes to the Financial Statements

For the year ended December 31, 2019
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17 CUSTOMER LOANS (continued)

(c) Movements on gross amount (excluding interest receivable) of customer loans (continued)

Corporate loans	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	11,363,056	464,183	123,923	11,951,162
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(321,950)	321,950	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(41,950)	-	41,950	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(77,270)	77,270	-
<i>Transfer from Stage 3 to Stage 2</i>	-	-	-	-
<i>Transfer from Stage 2 to Stage 1</i>	-	-	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Derecognition of financial assets of current year	(5,086,631)	(273,775)	(60,160)	(5,420,566)
New financial assets occurred or purchased	18,262,174	-	-	18,262,174
Written-off	-	-	(8,295)	(8,295)
Loss allowance as at 31 December 2018	24,174,699	435,088	174,688	24,784,475
Personal loans	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	4,810,168	90,082	68,791	4,969,041
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(38,809)	38,809	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(39,633)	-	39,633	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(7,538)	7,538	-
<i>Transfer from Stage 3 to Stage 2</i>	-	2,027	(2,027)	-
<i>Transfer from Stage 2 to Stage 1</i>	9,294	(9,294)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Derecognition of financial assets of current year	(1,769,108)	(23,875)	(35,520)	(1,828,503)
New financial assets occurred or purchased	2,600,455	-	-	2,600,455
Written-off	-	-	(4,849)	(4,849)
Loss allowance as at 31 December 2018	5,572,367	90,211	73,566	5,736,144

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17 CUSTOMER LOANS (continued)

(c) Movements on gross amount (excluding interest receivable) of customer loans (continued)

Discounted bills	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2018	644,908	-	-	644,908
New financial assets originated or purchased	1,499,648	-	-	1,499,648
Proceeds received	(644,908)	-	-	(644,908)
As at 31 December 2019	1,499,648	-	-	1,499,648

Discounted bills	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	2,481,153	-	-	2,481,153
New financial assets originated or purchased	644,908	-	-	644,908
Proceeds received	(2,481,153)	-	-	(2,481,153)
As at 31 December 2018	644,908	-	-	644,908

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17 CUSTOMER LOANS (continued)

(d) Loans listed by assessment method for allowance

As at 31 December 2019	ECL allowance			Total
	Stage 1	Stage 2	Stage 3	
Total customer loans	42,528,501	1,631,919	417,404	44,577,824
– Corporate loans	36,510,079	1,518,220	373,746	38,402,045
– Personal loans	6,018,422	113,699	43,658	6,175,779
Less:ECL allowance	(689,638)	(534,709)	(235,637)	(1,459,984)
Accrued interest	123,336	47,546	10,012	180,894
Net customer loans	41,962,199	1,144,756	191,779	43,298,734

As at 31 December 2018	ECL allowance			Total
	Stage 1	Stage 2	Stage 3	
Total customer loans	30,391,974	525,299	248,254	31,165,527
– Corporate loans	24,819,607	435,088	174,688	25,429,383
– Personal loans	5,572,367	90,211	73,566	5,736,144
Less:ECL allowance	(535,225)	(139,135)	(118,473)	(792,833)
Accrued interest	101,475	1,214	10,971	113,660
Net customer loans	29,958,224	387,378	140,752	30,486,354

18 FINANCIAL INVESTMENTS- CREDIT RELATED FINANCIAL ASSETS

The Bank's credit related financial assets are corporate loans issued through consolidated structured entities (trust and asset management plans).

	As at 31 December	
	2019	2018
Financial investments		
– credit related financial assets		
– Trust plans ⁽¹⁾	3,712,600	3,620,100
– Asset management plans ⁽²⁾	525,000	2,275,900
Less:ECL allowance	(61,204)	(88,410)
Accrued interest	10,404	14,012
Total	4,186,800	5,821,602

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18 FINANCIAL INVESTMENTS- CREDIT RELATED FINANCIAL ASSETS (continued)

(1) Trust plans

	As at 31 December	
	2019	2018
Pledged	1,370,750	200,000
Guaranteed	1,278,350	1,449,850
Collateralised	561,500	807,250
Unsecured	502,000	1,163,000
Total	3,712,600	3,620,100

(2) Asset management plans

	As at 31 December	
	2019	2018
Collateralised	475,000	475,000
Guaranteed	50,000	-
Pledged	-	1,710,900
Unsecured	-	90,000
Total	525,000	2,275,900

The movement of ECL of financial investments- credit related financial assets is as follows:

	Financial investments – credit related financial assets			Total
	Stage 1 12M ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
As at 31 December 2018	88,410	-	-	88,410
Provision for ECL	(34,308)	7,102	-	(27,206)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(1,169)	1,169	-	-
As at 31 December 2019	52,933	8,271	-	61,204

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18 FINANCIAL INVESTMENTS- CREDIT RELATED FINANCIAL ASSETS (continued)

(2) Asset management plans (continued)

	Financial investments – credit related financial assets			Total
	Stage 1 12M ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
As at 1 January 2018	127,150	–	–	127,150
Provision for ECL	(38,740)	–	–	(38,740)
As at 31 December 2018	88,410	–	–	88,410

The movement on gross amount (excluding interest receivable) of financial investments- credit related financial assets is as follows:

	Financial investments – credit related financial assets			Total
	Stage 1	Stage 2	Stage 3	
As at 31 December 2018	5,896,000	–	–	5,896,000
New financial assets originated or purchased	1,851,500	–	–	1,851,500
Financial assets matured	(3,509,900)	–	–	(3,509,900)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(50,000)	50,000	–	–
As at 31 December 2019	4,187,600	50,000	–	4,237,600

	Financial investments – credit related financial assets			Total
	Stage 1	Stage 2	Stage 3	
As at 1 January 2018	8,404,050	–	–	8,404,050
New financial assets originated or purchased	867,900	–	–	867,900
Financial assets matured	(3,375,950)	–	–	(3,375,950)
As at 31 December 2018	5,896,000	–	–	5,896,000

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19 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2019	2018
Financial assets – fair value through profit or loss		
– Debt securities	1,203,911	102,859
– Funds and others	640,707	1,723,111
– Equity securities	15,625	15,352
Total	1,860,243	1,841,322

	As at 31 December	
	2019	2018
Financial investments – fair value through profit or loss		
– Listed outside Hong Kong	1,218,540	117,214
– Unlisted	641,703	1,724,108
Total	1,860,243	1,841,322

20 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December	
	2019	2018
Financial investments – FVOCI		
– Debt securities	5,638,462	5,747,169
Interest receivable	116,784	120,173
Total	5,755,246	5,867,342

	As at 31 December	
	2019	2018
Financial investments – FVOCI		
– Listed outside Hong Kong	3,454,136	2,383,025
– Unlisted	2,301,110	3,484,317
Total	5,755,246	5,867,342

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20 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Debt securities are analysed by issuer as follows:

	As at 31 December	
	2019	2018
Corporate entities	4,119,423	2,326,089
Policy banks	756,394	3,157,177
Commercial banks	498,650	–
Government	263,995	263,903
Total	5,638,462	5,747,169

The movement of ECL allowance of financial investments-FVOCI is as follows:

	As at 31 December 2019 Financial investments-FVOCI 12-month ECL for stage 1
As at 31 December 2018	5,935
Provision for ECL	6,293
As at 31 December 2019	12,228

	As at 31 December 2019 Financial investments-FVOCI 12-month ECL for stage 1
As at 1 January 2018	1,110
Provision for ECL	4,825
As at 31 December 2018	5,935

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21 FINANCIAL INVESTMENTS – AMORTIZED COST

	As at 31 December	
	2019	2018
Financial investments – amortized cost		
– Industry funds (Senior tranche)	5,756,330	5,716,330
– Unlisted corporate bonds	8,712,650	5,430,750
– Trust plans	600,000	2,086,000
– Debt securities (1)	7,371,035	7,970,752
Subtotal	22,440,015	21,203,832
Less: ECL allowance	(298,407)	(213,163)
Interest receivable	358,328	405,093
Total	22,499,936	21,395,762

	As at 31 December	
	2019	2018
Financial investments – amortized cost		
– Listed outside Hong Kong	994,796	995,696
– Unlisted	21,505,140	20,400,066
Total	22,499,936	21,395,762

(1) Debt securities analysed by issuer:

	As at 31 December	
	2019	2018
Policy banks	3,192,725	3,441,909
Government	2,182,079	2,266,244
Corporate entities	1,996,231	2,016,206
Commercial banks	–	246,393
Total	7,371,035	7,970,752

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21 FINANCIAL INVESTMENTS – AMORTIZED COST (continued)

(1) Debt securities (continued)

The movement of ECL allowance of financial investments-amortized cost is as follows:

	Financial investments – amortized cost			Total
	Stage 1	Stage 2	Stage 3	
	12M ECL	Lifetime ECL	Lifetime ECL	
As at 31 December 2018	213,163	-	-	213,163
Provision for ECL	(1,988)	87,232	-	85,244
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(4,530)	4,530	-	-
As at 31 December 2019	206,645	91,762	-	298,407

	Financial investments – amortized cost			Total
	Stage 1	Stage 2	Stage 3	
	12M ECL	Lifetime ECL	Lifetime ECL	
As at 1 January 2018	128,532	-	-	128,532
Provision for ECL	84,631	-	-	84,631
As at 31 December 2018	213,163	-	-	213,163

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21 FINANCIAL INVESTMENTS – AMORTIZED COST (continued)

(1) Debt securities (continued)

The movement on gross amount (excluding interest receivable) of financial investments- amortized cost is as follows:

	Financial investments – amortized cost			Total
	Stage 1	Stage 2	Stage 3	
As at 31 December 2018	21,203,832	-	-	21,203,832
New financial assets originated or purchased	3,911,426	-	-	3,911,426
Financial assets matured	(2,675,243)	-	-	(2,675,243)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(250,000)	250,000	-	-
As at 31 December 2019	22,190,015	250,000	-	22,440,015

	Financial investments – amortized cost			Total
	Stage 1	Stage 2	Stage 3	
As at 1 January 2018	16,996,229	-	-	16,996,229
New financial assets originated or purchased	7,057,046	-	-	7,057,046
Financial assets matured	(2,849,443)	-	-	(2,849,443)
As at 31 December 2018	21,203,832	-	-	21,203,832

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22 INVESTMENT IN AN ASSOCIATE

	As at 31 December	
	2019	2018
Balance at the beginning of the year	36,651	33,011
Share of profit after tax	4,087	3,640
Balance at the end of the year	40,738	36,651

The Bank invested in Luxian Yuantong Rural Bank Co., Ltd. on 8 April 2009. The registered capital of the invested enterprise was RMB30 million, and the Bank invested RMB9 million, accounting for 30%.

Investment in the associate of the Bank are unlisted company equity interest. Assets, liabilities, revenue and profit of the associate are as follows:

	Place of incorporation	Assets	Liabilities	Revenue	Profit	Interest held
31 December 2019						
Luxian Yuantong Rural Bank Co., Ltd. (瀘縣元通村鎮銀行)	PRC	1,012,115	876,320	34,216	13,898	30%
31 December 2018						
Luxian Yuantong Rural Bank Co., Ltd. (瀘縣元通村鎮銀行)	PRC	874,169	751,998	29,294	12,232	30%

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23 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Electronic equipment	Office equipment	Construction in progress(a)	Total
Cost						
As at 1 January 2019	612,349	6,985	96,151	25,210	48,360	789,055
Additions	7,874	1,163	12,596	6,158	144,652	172,443
Construction in progress transfer in/(out)	32,588	-	8,258	234	(41,080)	-
Transfer to amortisation of long-term prepaid expenses	-	-	-	-	(45,842)	(45,842)
As at 31 December 2019	652,811	8,148	117,005	31,602	106,090	915,656
Accumulated depreciation						
As at 1 January 2019	(43,951)	(3,916)	(57,630)	(8,200)	-	(113,697)
Charge for the year	(30,054)	(845)	(22,313)	(4,195)	-	(57,407)
Disposals	-	-	-	-	-	-
As at 31 December 2019	(74,005)	(4,761)	(79,943)	(12,395)	-	(171,104)
Net book value						
As at 31 December 2019	578,806	3,387	37,062	19,207	106,090	744,552
	Buildings	Motor vehicles	Electronic equipment	Office equipment	Construction in progress(a)	Total
Cost						
As at 1 January 2018	70,706	8,001	85,419	10,650	524,101	698,877
Additions	3,942	-	14,698	10,858	104,055	133,553
Construction in progress transfer in/(out)	537,764	-	324	4,065	(542,153)	-
Disposals	(63)	(1,016)	(12)	-	-	(1,091)
Transfer to amortisation of long-term prepaid expenses	-	-	(4,278)	(363)	(37,643)	(42,284)
As at 31 December 2018	612,349	6,985	96,151	25,210	48,360	789,055
Accumulated depreciation						
As at 1 January 2018	(33,131)	(4,023)	(40,412)	(6,538)	-	(84,104)
Charge for the year	(10,880)	(858)	(17,230)	(1,662)	-	(30,630)
Disposals	60	965	12	-	-	1,037
As at 31 December 2018	(43,951)	(3,916)	(57,630)	(8,200)	-	(113,697)
Net book value						
As at 31 December 2018	568,398	3,069	38,521	17,010	48,360	675,358

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23 PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2019 and 31 December 2018, the net amount of buildings, for which registrations for the property ownership certificates had not been completed, were RMB35,768 thousand and RMB13,082 thousand respectively. However, directors are of the view that this does not have significant impact on the rights of the Bank to use these assets.

None of the land or property the Bank owned is located in Hong Kong.

(a) Significant construction in progress:

	As at 31 December	
	2019	2018
Software engineering	73,750	20,961
Decoration engineering	6,499	–
Others	25,841	27,399
Total	106,090	48,360

24 OTHER ASSETS

	As at 31 December	
	2019	2018
Amortisation of long-term prepaid expenses	72,454	68,518
Foreclosed assets ^(a)	50,490	152,877
Less: Impairment allowance ^(b)	(19,461)	(23,446)
Other receivables	43,192	21,741
Right-of-use assets ^(c)	42,138	–
Settlement fund	15,472	–
Prepaid expenses	13,243	10,268
Interest receivable from customer loans	2,724	408
Investment properties ^(d)	1,330	1,614
Others	3	154
Total	221,585	232,134

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24 OTHER ASSETS (continued)

(a) Foreclosed assets

	Properties & Plants	Others	Total
As at 1 January 2019	152,877	–	152,877
Additions	21,632	–	21,632
Disposals	(124,019)	–	(124,019)
As at 31 December 2019	50,490	–	50,490
As at 1 January 2018	111,574	5,179	116,753
Additions	65,263	–	65,263
Disposals	(23,960)	(5,179)	(29,139)
As at 31 December 2018	152,877	–	152,877

(b) Impairment for foreclosed assets

	Properties & Plants	Others	Total
As at 1 January 2019	23,446	–	23,446
Impairment	73,432	–	73,432
Written off	(77,417)	–	(77,417)
As at 31 December 2019	19,461	–	19,461
As at 1 January 2018	101	1,554	1,655
Impairment	23,345	–	23,345
Written off	–	(1,554)	(1,554)
As at 31 December 2018	23,446	–	23,446

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24 OTHER ASSETS (continued)

(c) Right-of-use assets

	Buildings	Office equipment	Total
Cost			
As at 31 December 2018	-	-	-
Changes in accounting policies	41,234	-	41,234
As at 1 January 2019	41,234	-	41,234
Additions	15,814	110	15,924
Deductions	-	-	-
As at 31 December 2019	57,048	110	57,158
Accumulated depreciation			
As at 31 December 2018	-	-	-
Changes in accounting policies	-	-	-
As at 1 January 2019	(15,009)	(11)	(15,020)
Depreciation charged for the year	-	-	-
As at 31 December 2019	(15,009)	(11)	(15,020)
Net book value			
As at 31 December 2019	42,039	99	42,138

(d) Investment properties

	As at 31 December	
	2019	2018
Cost		
Balance at the beginning and the end of the year	11,453	11,724
Disposals	-	(271)
Balance at the end of the year	11,453	11,453
Accumulated depreciation		
Balance at the beginning of the year	(9,839)	(9,813)
addition	(284)	(284)
Disposals	-	258
Balance at the end of the year	(10,123)	(9,839)
Net book value		
Balance at the end of the year	1,330	1,614

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24 OTHER ASSETS (continued)

(d) Investment properties (continued)

The analysis of the value of investment properties by remaining leasehold period are as follows:

	As at 31 December	
	2019	2018
Located in the PRC		
Short-term lease (Within 10 years)	1,174	1,614
Held for operating lease	156	–
Total	1,330	1,614

25 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS, DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	As at 31 December	
	2019	2018
Deposits from other banks	1,450,296	5,173,559
Securities sold under repurchase agreements	–	1,680,500
Loans from other banks and financial institutions	2,463,000	1,720,000
Accrued interest payable	36,284	101,580
Total	3,949,580	8,675,639

26 CUSTOMER DEPOSITS

	As at 31 December	
	2019	2018
Corporate demand deposits	23,266,641	20,024,338
Including:		
Pledged deposits held as collateral	1,103,121	1,230,790
Corporate time deposits	6,545,316	9,654,967
Individual demand deposits	3,286,002	2,789,615
Individual time deposits	27,526,481	19,439,874
Accrued interest payable	812,520	476,810
Total	61,436,960	52,385,604

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27 DEBT SECURITIES ISSUED

	As at 31 December	
	2019	2018
Certificates of deposit	17,177,226	12,752,124
Fixed rate tier-2-capital debt – 2027	1,000,000	1,000,000
Accrued interest payable	48,370	48,370
Total	18,225,596	13,800,494

The Bank issued RMB1 billion Tier II capital debt in February 2017. The term of these capital debt lasts for 10 years, and the fixed interest rate is 5.50%. The Bank, as an issuer, can choose to redeem the debt in part or for all on 14 February 2022 at the face value. If the capital level of the Bank still meet the requirement of CBIRC regulatory after executing the right of redemption, the Bank can choose to redeem the debt of this term for part or all on the last day of the interest rate year that is set to redeem in advance in this period.

By the end of 31 December 2019, the Bank did not have overdue in debt issued or certificates of deposit, or any other default.

28 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25% for the year ended 31 December 2019 and 31 December 2018 for transactions in the PRC.

Movements in the deferred income tax account are as follows:

	As at 31 December	
	2019	2018
Balance at the end of last year	186,871	244,306
Impact of first adoption of IFRS 9 on opening balance	N/A	(75,095)
Balance at the beginning of the year	186,871	169,211
Charge to profit or loss (Note 13)	200,165	51,378
Fair value changes of financial investments – FVOCI	(600)	(33,718)
Balance at the end of the year	386,436	186,871

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28 DEFERRED INCOME TAXES (continued)

Deferred income tax assets and liabilities are attributable to the following items:

	As at 31 December			
	2019		2018	
	Temporary differences	Deferred income tax assets/(liabilities)	Temporary differences	Deferred income tax assets/(liabilities)
Deferred income tax liabilities				
Fair value changes of FVPL	–	–	(43,401)	(10,850)
Fair value changes of FVOCI	(85,958)	(21,489)	(83,558)	(20,888)
Subtotal	(85,958)	(21,489)	(126,959)	(31,738)
Deferred income tax assets				
Allowance for impairment losses of loans and provisions for guarantee commitment	1,011,074	252,769	453,161	113,290
Allowance for impairment losses of financial investment	359,611	89,903	301,582	75,395
Allowance for Interbank assets	12,606	3,152	13,555	3,389
Provisions	33,394	8,348	19,931	4,983
Impairment for FVOCI	16,513	4,128	13,647	3,411
Payroll payable	176,982	44,246	48,770	12,192
Fair value changes of FVPL	2,059	515	–	–
Others	19,461	4,864	23,793	5,949
Subtotal	1,631,700	407,925	874,439	218,609
Net deferred income tax assets	1,545,742	386,436	747,480	186,871

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29 RETIREMENT BENEFIT OBLIGATIONS

Employees who retire after 8 November 2016 can voluntarily participate in an annuity plan set up by the Bank pursuant to related state corporate annuity regulations. The Bank contributes to the annuity plan based on certain percentage of the employees' gross salary of previous year and the contribution is recognised in other comprehensive income as incurred.

	As at 31 December	
	2019	2018
Expenses incurred for retirement benefit	27,194	22,481
Expenses incurred for corporate annuity plan	23,499	14,918
	50,693	37,399

30 OTHER LIABILITIES

	As at 31 December	
	2019	2018
Employee benefits payable	250,682	132,989
Dividends payable	83,584	42,102
Deferred income	1,383	–
Deposit of financial guarantee	17,161	15,828
Deposit received	238	164
Settlement and clearance payable	–	13,014
Lease liabilities	36,466	–
Provisions	16,513	19,931
Others	40,781	96,807
Total	446,808	320,835

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31 SHARE CAPITAL AND SHARE PREMIUM

All shares of the Bank issued are fully paid ordinary shares. The par value per share is RMB1.00. The Bank's number of shares is as follows:

	As at 31 December	
	2019	2018
Number of shares	2,264,793	2,182,933

The movement of share capital is as follows:

	Year ended 31 December	
	2019	2018
Balance at the beginning of the year	2,182,933	1,637,193
Issue of shares	81,860	545,740
Balance at the end of the year	2,264,793	2,182,933

Generally, transactions of the following nature are recorded in the share premium:

- (a) Share premium arising from the issue of shares at prices in excess of their par value;
- (b) Donations received from shareholders; and
- (c) Any other items required by the PRC regulations to be so treated.

Share premium can be utilised for the issuance of bonus shares or for increasing paid-in capital as approved by the shareholders.

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31 SHARE CAPITAL AND SHARE PREMIUM (continued)

As at 31 December 2019 and 2018, the Bank's share premium is shown as follow:

	As at 31 December 2018	Increase in the current year	As at 31 December 2019
Share premium	2,094,444	144,870	2,239,314

On 14 January 2019, the Bank has completed its over-allotment of 81,860,000 H shares, increasing the capital reserve by RMB144,869,994. After this issue, the share capital of the Bank is RMB2,264,793,385, divided into 2,264,793,385 shares of RMB1 each, including 627,600,000 H shares.

32 OTHER RESERVES

	Surplus reserve (a)	General reserve (b)	Revaluation reserve of financial assets at FVOCI	Impairment allowances for financial assets at FVOCI	Total
Balance at 31 December 2018	336,340	847,549	52,433	10,236	1,246,558
Other comprehensive income	-	-	(13,011)	14,810	1,799
Addition	63,391	129,893	-	-	193,284
Balance at 31 December 2019	399,731	977,442	39,422	25,046	1,441,641
Balance at 1 January 2018	270,509	691,787	(38,490)	-	923,806
Other comprehensive income	-	-	90,923	10,236	101,159
Addition	65,831	155,762	-	-	221,593
Balance at 31 December 2018	336,340	847,549	52,433	10,236	1,246,558

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32 OTHER RESERVES (continued)

(a) Surplus reserve

In accordance with the Company Law of the People's Republic of China and the Bank's Articles of Association, 10% of the net distributable profit of the Bank, is required to be transferred to a non-distributable statutory reserve until such time when this reserve represents 50% of the share capital of the Bank. With approval, statutory surplus reserve can be used for making up losses, or increasing the share capital.

(b) General reserve

According to the "the notice of the issuance of 'the management methods for the extraction of non-performing loans of financial corporations'" (CAI No. [2005]49) and "the notice for the questions on bad debt reserve issues" (CAI [2005]90) that took effect on 17 May 2015 and 5 September 2005, banks are required to set aside general risk reserve from the net profits through profit appropriations. The accrue proportion of the general risk reserve is determined by the Bank considering the factor of its risk exposure, usually no less than the 1% of final balance of risk assets.

The Bank follows the "the management methods of financial corporation reserve" (CAI [2012]20) issued by the Ministry of Finance. According to its requirements, the general reserve should not be lower than the 1.5% of the final risk assets. Besides, since proportion of the general reserves to final risk asset of a financial corporation can hardly reach 1.5% at once, the corporation can take years to meet this requirement, but principally it should not exceed 5 years.

On 26 March 2020, the Board of the Bank proposed that 1.5% of the risk assets at the end of 2019 should be accrued for general risk reserve amounted to RMB170,611 thousand (2018: RMB129,893 thousand). This proposal has yet to be approved at the annual general meeting.

Notes to the Financial Statements

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

33 DIVIDENDS

	Year ended 31 December	
	2019	2018
Dividend declared during the year	339,718	418,906
Dividend per share (in RMB)(Based on prior year shares)	0.15	0.12

Under the PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up prior year's cumulative losses, if any;
- (ii) Allocations to the non-distributable statutory accumulation reserve of 10% of the net profit of the Bank.

In accordance with relevant regulations, after the Bank's initial public offering, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lower of (i) the retained profits determined in accordance with the China Accounting Standards and (ii) the retained profit determined in accordance with IFRS.

According to the "Plan for profit distribution of Luzhou Bank Co., Ltd. in 2018" approved in the annual general meeting for year 2018 on 28 May 2019, the Bank had distributed cash dividends RMB339,718 thousand (including tax) as of 6 June 2019 to its shareholders, which is calculated at RMB0.15 dividend per share.

On 26 March 2020, the Board of the Bank proposed the distribution of cash dividends of RMB294,423 thousand (including tax) to its shareholders, which is calculated at RMB0.13 dividend per share based on the total 2,264,793,385 share issued. The 2019 annual dividend distribution plan has yet to be approved by the shareholders at the annual general meeting.

Notes to the Financial Statements

For the year ended December 31, 2019

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34 STRUCTURED ENTITIES

(a) Unconsolidated structured entities

(i) Unconsolidated structured entities managed by the Bank

The unconsolidated structure entities managed by the Bank are mainly wealth management products issued and managed by the Bank acting as an agent. Based on the analysis and research on the potential targeted clients, the Bank designs and sells capital investment and management plan to specific targeted clients, and the raised funds are then put into related financial market or invested in related wealth management products according to the product contracts. Gains would be allocated to investors after the Bank gained from investment. The Bank receives corresponding wealth management commission fee income as the asset manager. The Bank has recognised net commission income from non-guaranteed wealth management products with the amount of RMB0 and RMB120 thousand for the years ended 31 December 2019 and 2018 through provision of asset management service respectively. The Bank has not provided any liquidity support to the wealth management products during the period.

The Bank issues and manages non-guaranteed wealth management products to individual investors. The funds raised from the individual investors are mainly invested in the open market bonds and money market instruments.

The Bank assesses its control on the non-guaranteed wealth management products. The Bank takes a fiduciary role on these wealth management products and has no contractual obligation to repay the principal or interest. The risk exposure of the products is mainly from the fluctuation of the expected return of the bonds market, the performance of trust plans and the performance of targeted asset management plans. The risk of loss is borne by the investors. The Bank earns the net fee and commission income from the products.

On 31 December 2019, the balance of unconsolidated wealth management products issued and managed by the Bank was RMB1,929,193 thousand (31 December 2018: RMB1,009,907 thousand).

Notes to the Financial Statements

For the year ended December 31, 2019

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

34 STRUCTURED ENTITIES (continued)

(a) Unconsolidated structured entities (continued)

(ii) Unconsolidated structured entities invested by the Bank

The structured entities that the Bank did not consolidate in 2019 and 2018 mainly included monetary fund, capital trust schemes, directional asset management plans and financial products issued and managed by independent third parties. The Bank classified the unconsolidated structured entities as financial instruments-amortized cost and financial instruments-fair value through profit or loss.

The table below lists the book value and maximum loss risk exposure of the assets due to the holdings of profits from unconsolidated structured entities (including interest receivable).

As at 31 December 2019	Book value	Maximum risk exposure
Financial instruments-amortized cost	592,474	(592,474)
Financial instruments-fair value through profit or loss	640,707	(640,707)
Total	1,233,181	(1,233,181)

As at 31 December 2018	Book value	Maximum risk exposure
Financial instruments-amortized cost	301,049	(301,049)
Financial instruments-fair value through profit or loss	1,723,111	(1,723,111)
Total	2,024,160	(2,024,160)

For the years ended 31 December 2019 and 2018, the Bank had not provided any financial or other support to unconsolidated structured entities.

The interest income and fee and commission income from the above unconsolidated structured entities were:

	Year ended 31 December	
	2019	2018
Interest income	6,198	14,333
Fee and commission income	-	120

Notes to the Financial Statements

For the year ended December 31, 2019

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

34 STRUCTURED ENTITIES (continued)

(b) Consolidated structured entities

As at 31 December 2019	Book value	Maximum loss exposure
Financial investments – credit related financial assets	4,186,800	(4,186,800)
Financial investments – measured at amortized cost	13,936,458	(13,936,458)
Total	18,123,258	(18,123,258)

As at 31 December 2018	Book value	Maximum loss exposure
Financial investments – credit related financial assets	5,821,602	(5,821,602)
Financial investments – measured at amortized cost	12,728,949	(12,728,949)
Total	18,550,551	(18,550,551)

The Bank's consolidated subsidiaries are only the Bank's consolidated structured entities including trust plans and asset management plans. The underlying assets are debt investments including loans, industry funds and unlisted corporate bonds. The consolidated structured entities are not registered legal entities in the PRC. There are no incorporation or establishment information of such investments.

The Bank's interest income and commission fee income obtained from the above-mentioned consolidated structured entities are as follows:

	As at 31 December	
	2019	2018
Interest income	1,457,555	1,327,528

Notes to the Financial Statements

For the year ended December 31, 2019

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

35 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Bank's financial guarantees and credit related commitments which the Bank commits to extend to customers:

	As at 31 December	
	2019	2018
Bank acceptance Guarantees	955,805	1,585,988
	889,297	1,176,130
Total	1,845,102	2,762,118

The credit risk weighted amount refers to the amount calculated in accordance with the formula promulgated by the CBIRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and credit commitments.

Capital expenditure commitments

	As at 31 December	
	2019	2018
Contracted but not provided for:		
– Capital expenditure commitments for buildings	9,722	3,371
– Acquisition of IT system	74,581	83,725
Total	84,303	87,096

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under irrevocable operating leases in respect of buildings are as follows:

	As at 31 December	
	2019	2018
Within 1 year	N/A	11,824
Between 1 to 5 years	N/A	24,917
Later than 5 years	N/A	2,800
Total	N/A	39,541

Notes to the Financial Statements

For the year ended December 31, 2019

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35 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Legal proceedings

Legal proceedings are initiated by third parties against the Bank as defendant. The Bank had no significant outstanding legal claims at 31 December 2019 and 31 December 2018.

36 COLLATERALS

(a) Assets pledged

As at 31 December 2019, no assets of the Bank have been pledged to financial institutions as collateral in accordance with the repurchase agreement. As at 31 December 2018, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	As at 31 December	
	2019	2018
Debt securities	-	1,810,000

(b) Collateral accepted

The Bank received debt securities and bills as collateral in connection with the purchase of assets under resale agreements. As at 31 December 2019 and 2018, the Bank has not accepted collateral that can be resold or repledged. The Bank has the obligations to return the collateral at the agreed return date. As at 31 December 2019 and 2018, the Bank did not resale or repledge such collateral. The fair value of the collateral is RMB 2,272,980 thousand as at 31 December 2019 (31 December 2018: RMB 3,763,430 thousand).

Notes to the Financial Statements

For the year ended December 31, 2019
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37 OTHER COMPREHENSIVE INCOME

	Before tax amount	Tax (expense) benefit	Net of tax amount
Year ended 31 December 2019			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net gains on valuation of financial assets measured at FVOCI	(17,348)	4,337	(13,011)
Credit loss provision of financial assets measured at FVOCI	19,747	(4,937)	14,810
Other comprehensive income/(losses) for the year	2,399	(600)	1,799

	Before tax amount	Tax (expense) benefit	Net of tax amount
Year ended 31 December 2018			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net gains on valuation of financial assets measured at FVOCI	121,230	(30,307)	90,923
Credit loss provision of financial assets measured at FVOCI	13,647	(3,411)	10,236
Other comprehensive income/(losses) for the year	134,877	(33,718)	101,159

38 NOTES TO STATEMENTS OF CASH FLOWS

For the purposes of the statements of cash flow, cash and cash equivalents comprise the following balances with original maturities of less than three months used for the purpose of meeting short-term cash commitments:

	Year ended 31 December	
	2019	2018
Cash and balances with central bank	4,263,643	2,085,335
Financial assets held under resale agreements, due from other banks and financial institutions	1,011,834	2,839,410
Total	5,275,477	4,924,745

Notes to the Financial Statements

For the year ended December 31, 2019

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39 RELATED PARTY TRANSACTIONS

39.1 Related party relationships

The related parties of the Bank mainly include: the major shareholders as well as the entities controlled by them, the key management personnel (including the Bank's directors and senior management) and their family members who have close relationships with them as well as the entities which are controlled, joint controlled or can be significantly influenced by the Bank's key management personnel or their family members.

As at 31 December 2019, the major shareholders of the Bank is as follows:

Name of shareholders	Number of shares held (share '000)	Percentage (%)
Luzhou Laojiao Group Co., Ltd.	325,440	14.37
Luzhou Laojiao Co., Ltd.	36,160	1.60
Sichuan Jiale Enterprise Group Co., Ltd.	271,200	11.97
Sichuan Luzhou Jiale Real Estate Co., Ltd.	7,232	0.32
Luzhou Xinfu Mining Group Co., Ltd.	271,200	11.97
Luzhou Finance Bureau	161,545	7.13
Luzhou Industrial Investment Group Co., Ltd.	73,462	3.24
Luzhou State Owned Assets Management Co., Ltd.	144,640	6.39
Luzhou Xinglu Investment Group Co., Ltd.	40,549	1.79
Luzhou Xinglu Jutai Real Estate Co., Ltd.	91,716	4.05
Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.	15,006	0.66
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	11,246	0.50
Total	1,449,396	63.99

Notes:

- (1) Luzhou Laojiao Group Co., Ltd. indirectly holds 36,160 thousand domestic shares of the Bank through its holding company Luzhou Laojiao Co., Ltd., accounting for 1.60% of the Bank's equity. The combined shareholding ratio of the two shareholders is 15.97%.
- (2) Sichuan Jiale Enterprise Group Co., Ltd. indirectly holds 7,232 thousand domestic shares of the Bank through its holding company, Sichuan Luzhou Jiale Real Estate Co., Ltd., accounting for 0.32% of the Bank's equity. The combined shareholding ratio of the two shareholders is 12.29%.
- (3) Luzhou Industrial Investment Group Co., Ltd. indirectly holds 144,640 thousand domestic shares of the Bank through its subsidiary Luzhou State Owned Assets Management Co., Ltd., accounting for 6.39% of the Bank's equity. The combined shareholding ratio of the two shareholders is 9.63%.
- (4) Luzhou Xinglu Investment Group Co., Ltd. indirectly holds 117,968 thousand domestic shares of the Bank through its holding companies Luzhou Xinglu Jutai Real Estate Co., Ltd., Luzhou Fundamental Infrastructure Construction Investment Co., Ltd., and Luzhou Xinglu Financing Guarantee Group Co., Ltd., accounting for 5.21% of the Bank's equity. Besides, Luzhou Laojiao Group Co., Ltd and Luzhou Xinglu Investment Group Co., Ltd. entered into an acting-in-concert agreement (the "Concert Parties Agreement") with respect to their respective shareholdings in Luzhou Laojiao Co., Ltd. By virtual of the Concert Parties Agreement, Luzhou Xinglu Investment Group Co., Ltd. was deemed to be interested in the equity interest held by Luzhou Laojiao Co., Ltd. in the Bank. The combined shareholding ratio of the five shareholders is 8.60%.

In addition to the above notes, the Bank does not aware any other shareholders are related or acting in concert.

Notes to the Financial Statements

For the year ended December 31, 2019

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

39 RELATED PARTY TRANSACTIONS (continued)

39.1 Related party relationships (continued)

As at 31 December 2018, the major shareholders of the Bank is as follows:

Name of shareholders	Number of shares held (share '000)	Percentage (%)
Luzhou Laojiao Group Co., Ltd.	325,440	14.91
Luzhou Laojiao Co., Ltd.	36,160	1.66
Sichuan Jiale Enterprise Group Co., Ltd.	271,200	12.42
Sichuan Luzhou Jiale Real Estate Co., Ltd.	7,232	0.33
Luzhou Xinfu Mining Group Co., Ltd.	271,200	12.42
Luzhou Finance Bureau	161,545	7.40
Luzhou Industrial Investment Group Co., Ltd.	73,462	3.37
Luzhou State Owned Assets Management Co., Ltd.	144,640	6.63
Luzhou Xinglu Investment Group Co., Ltd.	40,549	1.86
Luzhou Xinglu Jutai Real Estate Co., Ltd.	91,716	4.20
Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.	15,006	0.69
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	11,246	0.52
Total	1,449,396	66.41

Notes:

- (1) Luzhou Laojiao Group Co., Ltd. indirectly holds 36,160 thousand domestic shares of the Bank through its holding company Luzhou Laojiao Co., Ltd., accounting for 1.66% of the Bank's equity. The combined shareholding ratio of the two shareholders is 16.57%.
- (2) Sichuan Jiale Enterprise Group Co., Ltd. indirectly holds 7,232 thousand domestic shares of the Bank through its holding company, Sichuan Luzhou Jiale Real Estate Co., Ltd., accounting for 0.33% of the Bank's equity. The combined shareholding ratio of the two shareholders is 12.75%.
- (3) Luzhou Industrial Investment Group Co., Ltd. indirectly holds 144,640 thousand domestic shares of the Bank through its subsidiary Luzhou State Owned Assets Management Co., Ltd., accounting for 6.63% of the Bank's equity. The combined shareholding ratio of the two shareholders is 10.00%.
- (4) Luzhou Xinglu Investment Group Co., Ltd. indirectly holds 117,968 thousand domestic shares of the Bank through its holding companies Luzhou Xinglu Jutai Real Estate Co., Ltd., Luzhou Fundamental Infrastructure Construction Investment Co., Ltd., and Luzhou Xinglu Financing Guarantee Group Co., Ltd., accounting for 5.41% of the Bank's equity. Besides, Luzhou Laojiao Group Co., Ltd and Luzhou Xinglu Investment Group Co., Ltd. entered into an acting-in-concert agreement (the "Concert Parties Agreement") with respect to their respective shareholdings in Luzhou Laojiao Co., Ltd. By virtual of the Concert Parties Agreement, Luzhou Xinglu Investment Group Co., Ltd. was deemed to be interested in the equity interest held by Luzhou Laojiao Co., Ltd. in the Bank. The combined shareholding ratio of the five shareholders is 8.93%.

In addition to the above notes, the Bank does not aware any other shareholders are related or acting in concert.

Notes to the Financial Statements

For the year ended December 31, 2019
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39 RELATED PARTY TRANSACTIONS (continued)

39.2 Related party transactions

Transactions between the Bank and related parties are conducted in accordance with general commercial terms and normal business procedures. The pricing principle is consistent with that of an independent third party transaction. The related party transactions of the Bank are as follows:

(1) Related party customer loans

	As at 31 December	
	2019	2018
Other legal related parties	1,778,936	1,708,764
Key management personnel or their family members	63,984	23,623
Total	1,842,920	1,732,387

(2) Related party loan interest income

	Year ended 31 December	
	2019	2018
Major shareholders	–	5,267
Other legal related parties	142,700	109,035
Key management personnel or their family members	3,233	1,458
Total	145,933	115,760

(3) Related party deposits

	As at 31 December	
	2019	2018
Major shareholders	4,506,141	5,396,680
Other legal related parties	1,067,339	1,058,587
Key management personnel or their family members	323,917	116,568
Total	5,897,397	6,571,835

(4) Related party deposit interest expense

	Year ended 31 December	
	2019	2018
Major shareholders	126,328	110,595
Other legal related parties	20,256	10,117
Key management personnel or their family members	298	209
Total	146,882	120,921

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For the year ended December 31, 2019
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39 RELATED PARTY TRANSACTIONS (continued)

39.2 Related party transactions (continued)

(5) Related party other receivables

	As at 31 December	
	2019	2018
Major shareholders	70	70
Other legal related parties	611	611
Total	681	681

(6) Related party financial investments – amortized cost

	As at 31 December	
	2019	2018
Major shareholders	200,000	–
Other legal related parties	140,000	–
Total	340,000	–

(7) Related party financial investments – amortized cost interest income

	Year ended 31 December	
	2019	2018
Major shareholders	1,266	–
Other legal related parties	622	–
Total	1,888	–

(8) Related party financial investments – fair value through profit or loss

	As at 31 December	
	2019	2018
Major shareholders	–	100,000

Notes to the Financial Statements

For the year ended December 31, 2019

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39 RELATED PARTY TRANSACTIONS (continued)

39.2 Related party transactions (continued)

(9) Related party gain from financial investments – fair value through profit or loss

	Year ended 31 December	
	2019	2018
Major shareholders	-	2,536

(10) Related party fees commission and income

	Year ended 31 December	
	2019	2018
Major shareholders	3	2
Other legal related parties	39	37
Key management personnel or their family members	5	3
Total	47	42

(11) Key management compensation

Key management personnel refer to those who are entitled to plan, direct and control the activities of the Bank. The Bank conducts normal banking transactions with key management personnel in its daily operations.

The remuneration of directors and other key management personnel during the years are as follows:

	As at 31 December	
	2019	2018
Remuneration, salary, allowances and benefits	5,491	3,921
Discretionary bonuses	7,318	9,321
Contribution to pension schemes	158	155
Total	12,967	13,397

Notes to the Financial Statements

For the year ended December 31, 2019

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39 RELATED PARTY TRANSACTIONS (continued)

39.2 Related party transactions (continued)

(12) Balance of loan guarantee from related parties to the Bank

	As at 31 December 2019		
	Corporate loans	Personal loans	Total
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	2,887,308	23,768	2,911,076
Luzhou Xinglu Agricultural Financing Guarantee Co., Ltd.	99,524	–	99,524
Luzhou Jintong Financing Guarantee Co., Ltd.	96,950	–	96,950
Luzhou Xingyang Financing Guarantee Co., Ltd.	5,000	–	5,000
Sichuan Hongxin Financing Guarantee Co., Ltd.	472,216	132,200	604,416
Luzhou Industrial Investment and Financing Guarantee Co., Ltd.	272,080	20,790	292,870
Total	3,833,078	176,758	4,009,836

	As at 31 December 2018		
	Corporate loans	Personal loans	Total
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	2,036,810	20,031	2,056,841
Luzhou Xinglu Agricultural Financing Guarantee Co., Ltd.	105,370	–	105,370
Luzhou Jintong Financing Guarantee Co., Ltd.	91,050	7,000	98,050
Luzhou Xingyang Financing Guarantee Co., Ltd.	5,000	–	5,000
Luzhou Longmatan District Small and Medium Sized Enterprise Financing Guarantee Co., Ltd.	–	278	278
Sichuan Hongxin Financing Guarantee Co., Ltd.	486,484	143,770	630,254
Luzhou Industrial Investment and Financing Guarantee Co., Ltd.	205,900	43,890	249,790
Total	2,930,614	214,969	3,145,583

For the year ended 31 December 2019 and 2018, the fees for the guarantee services provided by the related parties to the borrowers of the Bank shall be paid by the borrowers, and the Bank does not pay any fees to the related parties.

Notes to the Financial Statements

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39 RELATED PARTY TRANSACTIONS (continued)

39.2 Related party transactions (continued)

(13) Property leasing agreement

Luzhou Laojiao Real Estate Development Co., Ltd., an related party of the Bank, leases two properties located in Chengdu City, Sichuan Province to the Bank. The lease term starts from 1 January 2019 until 31 December 2019, for a period of one year. The total rent is RMB 1,999,080.

Yijia Real Estate Development Co., Ltd., an related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term starts from 1 August 2016 until 31 July 2026, for a period of ten years. The total rent is RMB840,499.

Luzhou Xinglu Jutai Real Estate Co., Ltd., an related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term starts from 1 September 2014 until 31 August 2022, for a period of eight years. The annual rent in the first year was RMB270,600, and the annual rent increase by 5% annually. The total rent is RMB2,584,044.

Luzhou Guohua Asset Management Co, Ltd., an related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term starts from 1 May 2017 until 30 April 2020, for a period of three years. The annual rent in the first year was RMB805,800, and the annual rent increase by 5% annually. The total rent is RMB2,540,292.

These related party transactions are conducted in accordance with general commercial terms and normal business procedures, and their pricing principles are consistent with those of independent third party transactions.

(14) Government related entities

The transactions between the Bank and the government authorities proceed under normal commercial terms and conditions. These transactions mainly include provision of deposits and agency service. The Bank considers that transactions with these entities are activities conducted in the ordinary course of business. The Bank has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities.

(15) Others

The above range of transaction interest rates with related parties is listed as follows:

	As at 31 December	
	2019	2018
Customer loans	3.25%-9.135%	3.43%-8.5%
Customer deposits	0.385%-5.50%	0.385%-5.50%
Financial investments – amortized cost	6.92%-7%	N/A
Financial investments – fair value through profit or loss	N/A	6.42%

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40 SEGMENT ANALYSIS

The Bank's operating segments are business units which provide different financial products and service and are engaged in different types of financial transactions. As different operating segments face different clients and counterparties supported by specific techniques and market strategies, they operate independently.

The Bank has 4 operating segments: corporate banking, retailing banking, financial markets, and other categories.

Corporate banking mainly provides corporate customers with financial products and services including deposits and loans.

Retailing banking mainly provides individual customers with financial products and services including deposits and loans.

Financial Markets mainly performs inter-bank lending and borrowing, bonds investment and re-purchasing activities.

Others are those businesses not included in the above three segments or cannot be allocated with appropriate basis.

	Year ended 31 December 2019				
	Corporate Banking	Retail Banking	Financial Markets	Others	Total
Net interest income/(expense) from external customers	1,991,015	(808,242)	1,535,352	-	2,718,125
Inter-segment net interest income/(expense)	(454,176)	1,149,538	(695,362)	-	-
Net interest income	1,536,839	341,296	839,990	-	2,718,125
Net fee and commission income/(expense)	4,512	406	-	167	5,085
Net gains on trading activities	-	-	24,101	-	24,101
Net gains arising from financial investments	-	-	56,904	-	56,904
Other operating income	-	-	-	2,416	2,416
Operating income	1,541,351	341,702	920,995	2,583	2,806,631
Operating expense	(495,345)	(74,269)	(465,089)	(1,628)	(1,036,331)
– Depreciation and amortisation	(56,898)	(14,796)	(51,273)	(522)	(123,489)
– Others	(438,447)	(59,473)	(413,816)	(1,106)	(912,842)
Impairment losses	(757,023)	(62,750)	(124,877)	(89)	(944,739)
Share of profit of an associate	-	-	-	4,087	4,087
Profit before income tax	288,983	204,683	331,029	4,953	829,648
Capital expenditure	42,022	10,928	37,867	386	91,203
As at 31 December 2019					
Segment assets	42,242,197	10,985,039	38,065,780	387,605	91,680,621
Segment liabilities	(30,229,136)	(31,565,434)	(22,994,858)	(1,684)	(84,791,112)

Notes to the Financial Statements

For the year ended December 31, 2019

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40 SEGMENT ANALYSIS (continued)

	Year ended 31 December 2018				Total
	Corporate Banking	Retail Banking	Financial Markets	Others	
Net interest income/(expense) from external customers	949,963	(498,618)	1,321,053	-	1,772,398
Inter-segment net interest income/(expense)	(47,740)	832,753	(785,013)	-	-
Net interest income	902,223	334,135	536,040	-	1,772,398
Net fee and commission income/(expense)	3,920	(2,066)	-	14	1,868
Net gains on trading activities	-	-	24,111	-	24,111
Net gains arising from financial investments	-	-	134,775	-	134,775
Other operating income	-	-	-	936	936
Operating income	906,143	332,069	694,926	950	1,934,088
Operating expense	(236,529)	(152,186)	(297,482)	(731)	(686,928)
- Depreciation and amortisation	(13,216)	(4,125)	(19,145)	(83)	(36,569)
- Others	(223,313)	(148,061)	(278,337)	(648)	(650,359)
Impairment losses	(303,066)	(9,304)	(62,649)	(21,791)	(396,810)
Share of profit of an associate	-	-	-	3,640	3,640
Profit before income tax	366,548	170,579	334,795	(17,932)	853,990
Capital expenditure	31,597	9,802	45,500	197	87,096
As at 31 December 2018					
Segment assets	29,947,897	9,290,161	43,124,680	187,077	82,549,815
Segment liabilities	(30,120,029)	(22,485,934)	(23,576,945)	(121)	(76,183,029)

There is no high reliance of the Bank to any of the major external customers.

Notes to the Financial Statements

For the year ended December 31, 2019

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

41 SUBSEQUENT EVENTS

(a) Placement of H shares

At the Board meeting held on 10 January, 2020, the Board approved the proposed issue of not more than 360,000,000 New H Shares, pursuant to a special mandate to be sought at the Extraordinary General Meeting and the Class Meeting, representing approximately 15.90% of the total existing issued share capital of the Bank before the New H Share Issue, and approximately 13.72% of the total enlarged issued share capital of the Bank after the New H Share Issue; and representing approximately 57.36% of the existing issued H Shares of the Bank before the New H Share Issue, and approximately 36.45% of the enlarged issued H Shares of the Bank after the New H Share Issue.

(b) Bond issuance

The Bank has successfully issued “2020 fixed-term capital bonds (phase I)” (“the bonds”) in the national inter-bank bond market, and completed the bond registration and custody in China Central Depository & Clearing Co., Ltd. The bonds will be recorded and filed on 16 March, 2020, and will be issued on 18 March, 2020. The issuance scale is RMB1 billion, and the unit par value is RMB100. The bonds will be issued at par value. The par interest rate of the first five years is 5.8%. The bond interest rate will be adjusted every five years, and the issuer will have conditional redemption right on the fifth year and every interest payment day after that.

After deducting the issuing expenses, the funds raised from of the bonds will be used to supplement other tier one capital of the Bank in accordance with the applicable laws and the approval of the regulatory authority.

(c) Evaluation of the impact of the Coronavirus Disease 2019 (“COVID-19”)

Since the outbreak of COVID-19 around the country in January 2020, the Bank has earnestly implemented the requirements of Notice on Further Strengthening Financial Support for the Prevention and Control of COVID-19 (Yinfa [2020] No.29 jointly issued by PBOC, Ministry of Finance, CBIRC, China Securities Regulatory Commission and State Administration of Foreign Exchange), and enhanced financial support for the epidemic prevention and control. COVID-19 may to some extent affect the quality or yield of the credit assets and investment assets. The Bank has paid close attention to the development of COVID-19, organized specialized risk investigations, assessed and reacted actively to its impacts on the financial position and operating results.

Unaudited Supplementary Financial Information

The information set out below does not form part of the audited financial statements, and is included herein for information purpose only.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

In accordance with the Hong Kong Listing Rules and Banking (Disclosure) Rules, the Bank discloses the unaudited supplementary financial information as follows:

1 LIQUIDITY RATIOS AND LEVERAGE RATIO

(1) Liquidity ratios

	As of December 31, 2015
RMB current assets to RMB current liabilities	57.72%
Foreign currency current assets to foreign currency current liabilities	N/A
	As of December 31, 2016
RMB current assets to RMB current liabilities	44.99%
Foreign currency current assets to foreign currency current liabilities	N/A
	As of December 31, 2017
RMB current assets to RMB current liabilities	48.42%
Foreign currency current assets to foreign currency current liabilities	N/A
	December 31, 2018
RMB current assets to RMB current liabilities	73.40%
Foreign currency current assets to foreign currency current liabilities	N/A
	December 31, 2019
RMB current assets to RMB current liabilities	83.72%
Foreign currency current assets to foreign currency current liabilities	N/A

Unaudited Supplementary Financial Information

(2) Leverage ratio

	As of December 31,				
	2015	2016	2017	2018	2019
Leverage ratio	8.48%	6.38%	5.69%	6.88%	6.81%

Pursuant to the Leverage Ratio Management of Commercial Banks (Amended) issued by the China Banking Regulatory Commission (the “CBRC”) and was effective since April 1, 2015, a minimum leverage ratio of 4% is required.

The above liquidity ratios and leverage ratio were calculated in accordance with the formulas promulgated by the CBRC, and based on the financial information prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance in the People’s Republic of China.

December 31, 2018

	Total customer loans by securities which have been overdue with respect to either principal or interest for periods of									
	1-90 days		90 days – 1 year		1 – 3 years		over 3 years		Total	
	Amount	% of total customer loans	Amount	% of total customer loans	Amount	% of total customer loans	Amount	% of total customer loans	Amount	% of total customer loans
Pledged loans	980	0.35%	820	0.30%	–	–	–	–	1,800	0.65%
Collateralised loans	48,460	17.47%	88,878	32.04%	55,273	19.93%	22,208	8.01%	214,819	77.45%
Guaranteed loans	30,707	11.07%	26,025	9.38%	–	–	1,500	0.54%	58,232	20.99%
Unsecured loans	137	0.05%	120	0.04%	2,207	0.80%	67	0.02%	2,531	0.91%
Total	80,284	28.94%	115,843	41.76%	57,480	20.73%	23,775	8.57%	277,382	100.00%

December 31, 2019

	1 – 90 days		90 days – 1 year		1 – 3 years		over 3 years		Total	
	Amount	% of total customer loans	Amount	% of total customer loans	Amount	% of total customer loans	Amount	% of total customer loans	Amount	% of total customer loans
Pledged loans	4,690	0.71%	–	–	–	–	–	–	4,690	0.71%
Collateralised loans	245,741	37.22%	42,986	6.51%	4,372	0.66%	260	0.04%	293,359	44.43%
Guaranteed loans	102,829	15.57%	224,228	33.96%	25,825	3.91%	–	–	352,882	53.44%
Unsecured loans	5,252	0.80%	3,864	0.58%	179	0.03%	83	0.01%	9,378	1.42%
Total	358,512	54.30%	271,078	41.05%	30,376	4.60%	343	0.05%	660,309	100.00%

Definitions

“Articles of Association” or “Articles”	the articles of association of the Bank, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board of Supervisors”	the board of Supervisors of the Bank
“Board” or “Board of Directors”	the board of Directors of our Bank
“CBIRC”	China Banking and Insurance Regulatory Commission
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“China” or “PRC”	the People’s Republic of China, but for the purpose of this report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Bank”, “our Bank”, “we”, “us” or “Luzhou Bank”	Luzhou Bank Co., Ltd. (瀘州銀行股份有限公司)
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Bank
“Domestic Shares”	ordinary shares in our share capital with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“Global Offering”	the Hong Kong Public Offering and the International Offering, details are set out in the Prospectus
“HK\$” or “HKD” or “Hong Kong Dollars”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“H Shares”	the overseas listed foreign shares in the ordinary share capital of the Bank with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong Dollars and listed and traded on the Hong Kong Stock Exchange

Definitions

“IAS”	International Accounting Standards and its interpretations
“IFRS”	International Financial Reporting Standards issued by the International Accounting Standards Board
“Listing”	the listing of the H Shares on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“Prospectus”	the prospectus of the Global Offering of the Bank
“Reporting Period”	the full year from January 1, 2019 to December 31, 2019
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	the domestic shares and H shares of the Bank
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed to it under Section 2 of the Companies Ordinance
“Supervisor(s)”	the supervisor(s) of the Bank
“U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency of the U.S.

