晋商银行
Jinshang Bank

晉商銀行股份有限公司
JINSHANG BANK CO., LTD.

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

Stock Code: 2558

ANNUAL REPORT
2019

Contents

Definitions

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

"Articles of Association"	our articles of association, as amended, supplemented or otherwise modified from time to time
"Bank" or "our Bank"	Jinshang Bank Co., Ltd. (晉商銀行股份有限公司), a joint stock company established on October 16, 1998 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches, excluding its subsidiary
"Board" or "Board of Directors"	the Board of Directors of the Bank
"Board of Supervisors"	the Board of Supervisors of the Bank
"CBIRC"	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
"China" or "PRC"	the People's Republic of China, for the purpose of this Annual Report, excluding Hong Kong, Taiwan and Macau
"Director(s)"	the director(s) of the Bank
"Domestic Shares"	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
"Group", "we" or "us"	the Bank together with its subsidiary, and, if the context requires, includes its predecessors, branches and sub-branches
"H Shares"	the ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
"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 Listing Rules" or "Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRS 9"	International Financial Reporting Standard 9 "Financial instruments"
"IFRS"	International Financial Reporting Standards issued by the International Accounting Standards Board
"Listing Date"	July 18, 2019, the listing date on which the H Shares were listed on the Hong Kong Stock Exchange

Definitions

"subsidiary(ies)"	has the meaning ascribed to it under Section 2 of the Companies Ordinance
"PBoC" or "the central bank"	the People's Bank of China (中國人民銀行)
"Reporting Period"	the year ended December 31, 2019
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Selling Shareholder(s)"	the state-owned shareholders, collectively, who are required to reduce their shareholding pursuant to the relevant PRC regulations relating to reduction of state-owned shares
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	the holder(s) of the Share(s) of the Bank
"Share(s)"	ordinary shares in the share capital of the Bank with a nominal value of RMB1.00 each
"Supervisor(s)"	the supervisor(s) of the Bank

Corporate Information

Legal Chinese Name	晉商銀行股份有限公司*
Abbreviation in Chinese	晉商銀行
Legal English Name	Jinshang Bank Co., Ltd.
Abbreviation in English	Jinshang Bank
Legal Representative	YAN Junsheng[1]
Authorized Representatives	YAN Junsheng[2], YEUNG Ching Man
Secretary to the Board of Directors	LI Weiqiang
Joint Company Secretaries	HAO Qiang, YEUNG Ching Man
Registered Address and Address of Head Office	No. 59 Changfeng Street, Xiaodian District, Taiyuan, Shanxi Province, the PRC
Principal Place of Business in Hong Kong	40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
Tel	0351-6819503
Fax	0351-6819503
E-mail	dongban@jshbank.com
Website	www.jshbank.com
Website of the Hong Kong Stock Exchange for publishing the H-share annual report	www.hkexnews.hk
Initial Registration Date	October 16, 1998
Registration Number of the Enterprise Business License	1400001006774
Unified Social Credit Code	911400007011347302
Financial License Institution Number	B0116H214010001

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

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

* Jinshang 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 and/or deposit-taking business in Hong Kong.

Corporate Information

Listing Place of Shares	The Stock Exchange of Hong Kong Limited
Abbreviated Stock Name	JINSHANG BANK
Stock Code	2558
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wan Chai, Hong Kong
PRC Legal Advisor	King & Wood Mallesons 17th Floor, One ICC Shanghai ICC 999 Middle Huai Hai Road, Xuhui District Shanghai, the PRC
Hong Kong Legal Advisor	Paul Hastings 21-22/F, Bank of China Tower 1 Garden Road Hong Kong
Domestic Auditors	KPMG Huazhen LLP 8th Floor, KPMG Tower Oriental Plaza 1 East Chang An Avenue Beijing, the PRC
International Auditors	KPMG (Public Interest Entity Auditor registered under the Financial Reporting Council Ordinance) 8th Floor, Prince's Building 10 Chater Road, Central Hong Kong

Corporate Information

Board Committees	Development and Strategy Committee WANG Junbiao (Chairperson), JIN Haiteng (Vice Chairperson), TANG Yiping, LI Shishan, DUAN Qingshan Audit Committee WANG Liyan (Chairperson), SAI Zhiyi (Vice Chairperson), LIU Chenhang, SUN Shihu, YE Xiang Risk Management Committee SAI Zhiyi (Chairperson), JIN Haiteng (Vice Chairperson), TANG Yiping, WANG Jianjun, DUAN Qingshan Related Parties Transactions Control Committee JIN Haiteng (Chairperson), SUN Shihu (Vice Chairperson), WANG Peiming, RONG Changqing, WANG Liyan Nomination, Remuneration and HR Committee DUAN Qingshan (Chairperson), JIN Haiteng (Vice Chairperson), WANG Junbiao, XIANG Lijun, SAI Zhiyi Consumer Rights Protection Committee SUN Shihu (Chairperson), WANG Liyan (Vice Chairperson), TANG Yiping, LI Yang, SAI Zhiyi

Summary of Four-Year Accounting Data and Financial Indicators

	For the year ended December 31,				
	2019[a]	2018[a]	Rate of change (%)	2017[b]	2016[b]
	(Expressed in millions of RMB, unless otherwise stated)				
Results of operations					
Interest income	**8,741.0**	8,345.0	4.7	8,199.5	7,663.0
Interest expense	**(5,496.2)**	(5,166.2)	6.4	(4,184.3)	(4,147.9)
Net interest income	**3,244.8**	3,178.8	2.1	4,015.2	3,515.1
Fee and commission income	**710.6**	490.3	44.9	374.0	436.3
Fee and commission expense	**(85.8)**	(66.6)	28.8	(42.3)	(33.4)
Net fee and commission income	**624.8**	423.7	47.5	331.7	402.9
Net trading gains/(losses)	**435.4**	231.8	87.8	(59.9)	(60.5)
Net gains arising from investment securities	**746.2**	887.4	(15.9)	91.3	82.2
Other operating income [c]	**37.7**	31.1	21.2	7.6	10.1
Operating income	**5,088.9**	4,752.8	7.1	4,385.9	3,949.8
Operating expense	**(1,836.8)**	(1,750.8)	4.9	(1,680.3)	(1,707.4)
Impairment losses on assets	**(1,665.5)**	(1,535.5)	8.5	(1,203.5)	(905.1)
Share of profits of associate	**20.9**	33.2	(37.0)	18.1	0.4
Profit before tax	**1,607.5**	1,499.7	7.2	1,520.2	1,337.7
Income tax	**(125.1)**	(186.1)	(32.8)	(289.7)	(305.8)
Net profit for the period	**1,482.4**	1,313.6	12.9	1,230.5	1,031.9
Net profit attributable to:					
Equity shareholders of the Bank	**1,483.6**	1,310.3	13.2	1,227.0	1,026.5
Non-controlling interests	**(1.2)**	3.3	(136.4)	3.5	5.4
Earnings per share attributable to equity shareholders of the Bank (RMB per share)					
—Basic	**0.28**	0.27	3.7	0.33	0.31
—Diluted	**0.28**	0.27	3.7	0.33	0.31

Notes:

(a) Prepared according to IFRS 9.

(b) Prepared according to IAS 39.

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

Summary of Four-Year Accounting Data and Financial Indicators

	As of December 31, 2019[a]	As of December 31, 2018[a]	Rate of change (%)	As of December 31, 2017[b]	As of December 31, 2016[b]
	(Expressed in millions of RMB, unless otherwise stated)				
Key indicators for assets/liabilities					
Total assets	**247,571.2**	227,247.8	8.9	206,869.8	173,385.9
Of which: net loans and advances to customers	**111,712.6**	98,118.1	13.9	94,250.4	66,484.0
Total liabilities	**227,411.9**	211,251.9	7.6	192,193.5	163,714.6
Of which: deposits from customers	**155,322.2**	144,896.8	7.2	136,198.9	116,301.4
Share capital	**5,838.7**	4,868.0	19.9	3,268.0	3,268.0
Equity attributable to equity shareholders of the Bank	**20,135.2**	15,969.9	26.1	14,642.8	9,636.4
Total equity	**20,159.3**	15,995.9	26.0	14,676.3	9,671.3

		For the year ended December 31,			
	2019	2018	Change	2017	2016
Profitability indicators (%)					
Return on average assets (1)	**0.62**	0.61	0.01	0.65	0.62
Return on average equity (2)	**8.20**	8.70	(0.50)	10.11	11.05
Net interest spread (3)	**1.68**	1.68	0.00	2.03	1.81
Net interest margin (4)	**1.61**	1.70	(0.09)	2.25	2.09
Net fee and commission income to operating income	**12.28**	8.91	3.37	7.56	10.20
Cost-to-income ratio (5)	**34.79**	35.75	(0.96)	37.19	39.29

	As of December 31, 2019	As of December 31, 2018	Change	As of December 31, 2017	As of December 31, 2016
Asset quality indicators (%)					
NPL ratio (6)	**1.86**	1.87	(0.01)	1.64	1.87
Allowance coverage ratio (7)	**199.92**	212.68	(12.76)	183.96	163.52
Allowance to gross loan ratio (8)	**3.71**	3.97	(0.26)	3.02	3.05

Notes:

(a) Prepared according to IFRS 9.

(b) Prepared according to IAS 39.

Summary of Four-Year Accounting Data and Financial Indicators

	As of December 31, 2019	As of December 31, 2018	Change	As of December 31, 2017	As of December 31, 2016
Capital adequacy indicators (%) [9]					
Core tier-one capital adequacy ratio [10]	**11.47**	10.63	0.84	10.16	9.65
Tier-one capital adequacy ratio [11]	**11.47**	10.63	0.84	10.16	9.65
Capital adequacy ratio [12]	**13.60**	12.99	0.61	12.52	12.50
Total equity to total assets	**8.14**	7.04	1.10	7.08	5.56
Other indicators (%)					
Loan-to-deposit ratio [13]	**75.49**	70.99	4.50	71.36	58.97
Liquidity coverage ratio [14]	**252.85**	226.64	26.21	113.34	106.33
Liquidity ratio [15]	**90.01**	83.91	6.10	49.95	75.54

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

Notes:

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

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

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

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

Summary of Four-Year Accounting Data and Financial Indicators

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

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

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

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

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

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

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

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

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

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

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

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

Chairman's Statement

WANG Junbiao
Chairman

Chairman’s Statement

Jinshang Bank was listed in the Hong Kong Stock Exchange in 2019 after its establishment for 10 years. This is a major event of which we are proud in the history of the development of Jinshang Bank.

During the Reporting Period, Jinshang Bank always adhered to the compliance culture philosophy of prudent operation, insisted on making progress while maintaining stability, highlighted strategic guidance, explored innovative development, pragmatically developed business, steadily improved management, and displayed a good image of a responsible listed bank. As a result, business continued to improve with better development momentum. At the end of 2019, the total assets of the Bank was RMB247.571 billion, the balance of deposits was RMB155.322 billion, the balance of loans was RMB115.483 billion, and the net profit amounted to RMB1.482 billion. The main regulatory indicators were in line with the regulatory requirements. The Bank ranked 421st in the “2019 Global Top 1000 Banks” list released by the British Banker, moving up 19 places from the previous year; in the regulatory rating of China Banking and Insurance Regulatory Commission, the Bank maintained its rating of 2C; the Bank ranked 68th on the list of “China’s Top 100 Banks in 2019” issued by the China Banking Association, moving up 6 places from the previous year.

The above achievements were made under the correct leadership of the Provincial Party Committee and the Provincial Government, the guidance and assistance of the regulatory authorities, the support of shareholders and investors, the vigorous support of all sectors of society, and the joint efforts of the entire bank. On behalf of the Board of Directors, I would like to extend great respect and sincere thanks to you!

2020 is the first year for Jinshang Bank to achieve high-quality development. Jinshang Bank will be guided by Xi Jinping Thought on Socialist with Chinese Characteristics for a New Era in accordance with the Shanxi Provincial Party Committee’s overall thinking and requirements of “prioritizing transformation, projects, reform and innovation and promoting high-quality development, high-level ascent, high-standard protection and high-quality life to build a well-off society in an all-round way by 2020 and basically realize socialist modernization by 2035 in pace with the nation”. Based on the development goals of “Comprehensive Development, Four Modernizations and Four-Efficiency”, the Bank adhered to the Party’s leadership to “efficiently meet market demand, efficiently provide financial products, efficiently achieve optimal investment returns, and efficiently and reasonably distribute operating profits “through “technical guidance, market-based talent selection and employment, professional business services, and systematic risk prevention and control”, to continuously improve the innovation and competitiveness of the Bank’s business development, create more value for shareholders and investors, and make unremitting efforts to create Jinshang Bank as a “Centennial Bank” in the new era for “serving local area with the most obvious industry characteristics”.

WANG Junbiao
Chairman

President's Statement

TANG Yiping
President

President's Statement

In the past year, faced with a complex and ever-changing economic and financial environment, the Bank recorded an operating income which met expectations under the correct leadership of the Board of Directors, with the care and support of the shareholders and with the joint efforts of all employees of the Bank. The Bank has achieved coordinated development in scale, efficiency, quality, structure and brand and was listed on the Main Board of the Hong Kong Stock Exchange, marking a milestone in its development history.

Over the past year, the Bank actively worked on the new ideas, new ways and new methods in-relation to value creation, continued deepening internal reform, and made great efforts in improving operating performance while focusing on increasing intermediary business revenue. As a result, our main businesses maintained stable growth, the pace of transformation was accelerated, and the concept of innovation was deeply rooted in our employees' hearts. In addition, channels to increase revenue were broadened with online and offline channels continuously optimized, giving rise to a significant improvement in service experience. As our ability to attract and explore customers was greatly enhanced, our market competitiveness in terms of product innovation, channel building, service upgrade and other aspects were also remarkably strengthened. Innovation and transformation across the bank yielded remarkable and satisfactory results, showing a robust development momentum. The Bank ranked 421st among the "Top 1000 World Banks 2019" and ranked 68th among the "Top 100 Chinese Banks 2019". These achievements were attributed to the understanding and trust of our investors, the strong support of our customers and the care and help from all sectors of society. On behalf of the senior management, I would like to extend my heartfelt thanks and sincere respect to our friends from all walks of life who cared about and supported the development of our Bank!

2020 marks the first anniversary of the listing of our H shares. We will thoroughly implement the Shanxi provincial Party Committee's general idea of "prioritizing transformation, projects, reform and innovation and promoting high-quality development, high-level ascent, high-standard protection and high-quality life to build a well-off society in an all-round way by 2020 and basically realize socialist modernization by 2035 in pace with the nation" and the strategic goal of "forming a prototype of transformation". With a broader political perspective and in light of the regional economic landscape of Shanxi, while promoting the real economy, developing inclusive finance and supporting private businesses as well as small and micro enterprises, we will grasp the strategic opportunities for our own development and growth, make greater progress in high-quality development, and reward our shareholders and the wider community with better performance!

TANG Yiping
President

Management Discussion and Analysis

1 REVIEW OF THE ECONOMIC, FINANCIAL AND POLICY ENVIRONMENT

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

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

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

2 BUSINESS OVERVIEW AND DEVELOPMENT STRATEGIES

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

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

We focused on market positioning and stuck to serving the local economy. First, we supported key local projects. We coordinated our agencies to proactively approach, and helped the constructions of major projects such as municipal works, rail transit, and infrastructures with all efforts according to the lists of local governments' key projects. We further widened the "green lanes" for credit approval, and provided credit support to relevant enterprises in the Comprehensive Reform Demonstration Zone within a short time span, which has been unanimously recognized by the Comprehensive Reform Demonstration Zone and the enterprises settled there. Second, we assisted enterprises transformation. In response to the transformation financial needs of strategic customers, we actively innovated financial means, mobilized financial resources from various parties, and provided energy companies with efficient and high-quality comprehensive financial services. In 2019, the accumulated syndicated loans lead by the Bank amounted to RMB2.05 billion and the syndicated loans participated by the Bank amounted to RMB410.0 million. We focused to support environmental protection, energy saving and emission reduction projects, and accessed a great base of green and clean energy potential customers. Third, we intensified the cooperation between governments and the Bank. We continuously enriched the forms and scope of government-bank cooperation, and carried out in-depth cooperation in a number of tasks, such as subscriptions to local debts, promoting the development of new materials industries, and implementing county-town medical integrated informatization transformation. Fourth, we promoted inclusive finance services. We continued to increase investments in resources for private and small and micro enterprises, and carried out a series of works to improve quality and efficiency in the implementation of task indicators, innovation and optimization of products, and prevention and mitigation of risks. We gathered the strengths and resources of various departments and institutions, firmly tackled the task of poverty alleviation, worked on the key tasks of poverty alleviation by industries, deployed staff in villages to give assistance, and facilitated infrastructure construction, and upheld and practiced the concept of inclusive finance with concrete actions.

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

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

3 INCOME STATEMENT ANALYSIS

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

Note:

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

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

3.1 Net interest income, net interest spread and net interest margin

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

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

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

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

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

Notes:

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

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

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

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

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

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

3.2 Interest income

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

Interest income from loans and advances to customers

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

Interest income from financial investments

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

Interest income from placements with banks and other financial institutions

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

Interest income from financial assets held under resale agreements

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

Interest income from deposits with the central bank

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

Interest income from deposits with banks and other financial institutions

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

3.3 Interest expense

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

Interest expense on deposits from customers

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

Interest expense on deposits from banks and other financial institutions

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

Interest expense on placements from banks and other financial institutions

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

Interest expense on financial assets sold under repurchase agreements

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

Interest expense on debt securities issued

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

Interest expense on borrowing from the central bank

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

3.4 Net fee and commission income

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

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

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

3.5 Net trading gains

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

3.6 Net gains arising from investment securities

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

3.7 Operating expenses

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

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

Notes:

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

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

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

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

Staff Costs

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

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

Rental and Property Management Expenses

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

Depreciation and Amortization

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

Taxes and Surcharges

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

Interest expense on lease liabilities

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

Other General and Administrative Expenses

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

3.8 Impairment losses on assets

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

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

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

3.9 Income tax

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

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

Note:

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

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

4 FINANCIAL STATEMENT ANALYSIS

4.1 Assets

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

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

Note:

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

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

Loans and Advances to Customers

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

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

Corporate Loans

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

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

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

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

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

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

Note:

(1) Consist primarily of syndicated loans.

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

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

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

Personal Loans

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

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

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

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

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

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

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

Discounted Bills

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

Financial Investments

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

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

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

Debt Securities Investment

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

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

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

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

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

SPV Investment

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

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

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

Other Components of the Group's Assets

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

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

Note:

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

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

4.2 Liabilities

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

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

Notes:

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

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

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

Deposits from Customers

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

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

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

Note:

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

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

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

Debt Securities Issued

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

Financial Assets Sold under Repurchase Agreements

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

4.3 Equity

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

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

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

5 OFF-BALANCE SHEET ITEMS ANALYSIS

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

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

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

6 ASSET QUALITY ANALYSIS

Distribution of Loans by Five-Category Loan Classification

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

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

Note:

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

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

Distribution of Loans by Collateral

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

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

Note:

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

Distribution of Corporate Loans by Industry

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

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

Note:

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

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

Distribution of Non-Performing Corporate Loans by Industry

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

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

Notes:

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

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

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

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

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

Distribution of NPLs by Product Type

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

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

Notes:

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

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

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

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

Distribution of NPLs by Geographical Region

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

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

Note:

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

Borrowers Concentration

a. Loans to the Ten Largest Single Borrowers

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

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

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

Note:

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

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

b. Credit Exposure to Ten Largest Group Customers

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

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

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

Notes:

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

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

Loan Aging Schedule

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

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

Note:

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

Changes to Allowance for Impairment Losses

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

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

Notes:

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

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

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

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

7 GEOGRAPHICAL SEGMENTS REPORT

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

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

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

8 CAPITAL ADEQUACY RATIO ANALYSIS

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

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

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

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

9 RISK MANAGEMENT

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

Credit Risk

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

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

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

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

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

Market Risk

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

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

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

Liquidity Risk

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

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

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

Operational Risk

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

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

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

Information Technology Risk

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

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

Reputational Risk

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

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

Strategic Risk

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

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

10 BUSINESS REVIEW

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

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

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

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

Note:

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

Corporate banking

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

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

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

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

Retail banking

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

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

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

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

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

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

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

Financial markets

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

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

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

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

Interbank Market Transactions

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

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

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

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

Investment Management

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

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

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

Wealth Management

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

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

Debt Securities Distribution

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

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

Changes in Share Capital and Information of Shareholders

I. CHANGES IN SHARE CAPITAL

On July 18, 2019, the Bank was listed on the Main Board of the Hong Kong Stock Exchange, with an initial public offering of 860,000,000 H Shares with a par value of RMB1. In addition, 110,650,000 H Shares were issued pursuant to the partial exercise of the over-allotment option as set out in the Bank's prospectus and were listed on the Main Board of the Hong Kong Stock Exchange on August 14, 2019. A total of 970,650,000 H Shares were issued during the Reporting Period.

As at December 31, 2019, the Bank issued a total of 5,838,650,000 shares, including 4,868,000,000 Domestic Shares and 970,650,000 H Shares.

	December 31, 2018		Changes during the Reporting Period	December 31, 2019	
	Number of shares	Percentage of total share capital		Number of shares	Percentage of total share capital
Domestic state-owned shares	466,142,486	9.58%	–	**466,142,486**	**7.98%**
Domestic state-owned legal person shares	2,732,041,542	56.12%	–	**2,732,041,542**	**46.79%**
Domestic social legal person shares	1,590,785,918	32.68%	–	**1,590,785,918**	**27.25%**
Domestic natural person shares	79,030,054	1.62%	–	**79,030,054**	**1.35%**
H Shares	–	–	970,650,000	**970,650,000**	**16.62%**
Total shares	4,868,000,000	100.00%	970,650,000	**5,838,650,000**	**100.00%**

Note: The difference between the figures in the list and the aggregate figures is due to rounding.

II. INFORMATION OF SHAREHOLDERS

1. Total number of domestic shareholders

As at December 31, 2019, the total number of domestic shareholders of the Bank was 7,309.

2. Top 10 holders of domestic shares

No.	Name of Shareholder	Nature of Shareholder	Total number of shares held at the end of the Reporting Period (shares)	Percentage of total share capital at the end of the Reporting Period (%)	Share pledged or frozen	
					Share status	Quantity
1	Shanxi Financial Investment Holding Group Co., Ltd. (山西金融投資控股集團有限公司)	State-owned legal person shares	715,109,200	12.25%	Normal	–
2	Huaneng Capital Services Co., Ltd. (華能資本服務有限公司)	State-owned legal person shares	600,000,000	10.28%	Normal	–
3	Taiyuan Municipal Finance Bureau (太原市財政局)	State-owned shares	466,142,486	7.98%	Normal	–

No.	Name of Shareholder	Nature of Shareholder	Total number of shares held at the end of the Reporting Period (shares)	Percentage of total share capital at the end of the Reporting Period (%)	Share pledged or frozen	
					Share status	Quantity
4	Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司) (“**Changzhi Nanye**”)	Social legal person shares	450,657,435	7.72%	Normal	–
5	Shanxi Lu’an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司)	State-owned legal person shares	359,091,687	6.15%	Normal	–
6	Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司)	State-owned legal person shares	300,000,000	5.14%	Normal	–
7	Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司)	State-owned legal person shares	291,339,054	4.99%	Normal	–
8	Changzhi Huashengyuan Mining Industry Co., Ltd. (長治市華晟源礦業有限公司) (“**Changzhi Huashengyuan**”)	Social legal person shares	234,569,820	4.02%	Normal	–
9	Taiyuan Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司)	State-owned legal person shares	200,000,000	3.43%	Normal	–
10	Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司)	State-owned legal person shares	200,000,000	3.43%	Normal	–
	Total		3,816,909,682	65.39%[1]	–	–

Note: (1) The inconsistency between the figures and the total sum stated in this table is caused by rounding.

3. Interests and short positions under the SFO in Hong Kong

As at December 31, 2019, according to the register maintained by the Bank pursuant to section 336 of the SFO, and to the best knowledge of the Bank, the following persons (other than the Directors, Supervisors and chief executives of the Bank) will have or be deemed or taken to have interests and/or short positions in the Shares or underlying Shares of the Bank which would be required to be disclosed to our Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital of the Bank carrying rights to vote in all circumstances at the general meetings of any other members of our Bank:

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held (long position)	Number of Shares directly or indirectly held (short position)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Shanxi State-owned Capital Investment and Operation Co., Ltd. (山西省國有資本投資運營有限公司)[1] ("**SSCIO**")	Interest in controlled corporations	Domestic Shares	1,406,430,741		24.09%	28.89%
Shanxi Financial Investment Holding Group Co., Ltd. (山西金融投資控股集團有限公司)	Beneficial owner	Domestic Shares	715,109,200		12.25%	14.69%
China Huaneng Group Co., Ltd. (中國華能集團有限公司)[2]	Interest in controlled corporations	Domestic Shares	600,000,000		10.28%	12.33%
Huaneng Capital Services Co., Ltd. (華能資本服務有限公司)	Beneficial owner	Domestic Shares	600,000,000		10.28%	12.33%
Taiyuan Municipal Finance Bureau (太原市財政局)	Beneficial owner	Domestic Shares	466,142,486		7.98%	9.58%
	Interest in controlled corporations	H Shares	102,400,000		1.75%	10.54%
Taiyuan State-owned Investment Group Limited (太原國有投資集團有限公司)	Beneficial owner	H Shares	102,400,000		1.75%	10.54%
Changzhi Nanye[3]	Beneficial owner	Domestic Shares	450,657,435		7.72%	9.26%
	Interest in controlled corporations	Domestic Shares	234,569,820		4.02%	4.82%
Ms. WANG Yanli[3]	Interest in controlled corporations	Domestic Shares	685,227,255		11.74%	9.26%
Changzhi Huashengyuan[3]	Beneficial owner	Domestic Shares	234,569,820		4.02%	4.82%
	Interest in controlled corporations	Domestic Shares	450,657,435		7.72%	9.26%
Shanxi Lu'an Mining (Group) Co., Ltd.	Beneficial owner	Domestic Shares	359,091,687		6.15%	7.38%

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held (long position)	Number of Shares directly or indirectly held (short position)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Jinneng Group Co., Ltd. (晉能集團有限公司) [4]	Interest in controlled corporations	Domestic Shares	300,000,000		5.14%	6.16%
Shanxi International Electricity Group Limited Company	Beneficial owner	Domestic Shares	300,000,000		5.14%	6.16%
Shanxi Coking Coal Group Co., Ltd.	Beneficial owner	Domestic Shares	291,339,054		4.99%	5.98%
Shanxi Qinxin Energy Group Co., Ltd. (山西沁新能源集團股份有限公司)	Beneficial owner	H Shares	102,297,000		1.75%	10.54%
Taiyuan Industrial Park Investment Holdings Co., Ltd. (太原工業園區投資控股有限公司)	Beneficial owner	H Shares	102,297,000		1.75%	10.54%
Guotai Junan International Holdings Limited (國泰君安國際控股有限公司) [5]	Interest in controlled corporations	H Shares	61,300,000		1.05%	6.32%
	Interest in controlled corporations	H Shares		61,300,000	1.05%	6.32%
Guotai Junan (Hong Kong) Limited (國泰君安(香港)有限公司) [5]	Interest in controlled corporations	H Shares	61,300,000		1.05%	6.32%
	Interest in controlled corporations	H Shares		61,300,000	1.05%	6.32%
Guotai Junan Financial Products Limited (國泰君安金融產品有限公司) [5]	Beneficial owner	H Shares	61,300,000		1.05%	6.32%
	Beneficial owner	H Shares		61,300,000	1.05%	6.32%
China Credit Trust Co., Ltd. (中誠信託有限責任公司) [6]	Interest in controlled corporations	H Shares	102,297,000		1.75%	10.54%
Harvest Fund Management Co., Ltd (嘉實基金管理有限公司) [6]	Investment manager	H Shares	102,297,000		1.75%	10.54%
Orient Fund Management Co., Ltd. (東方基金管理有限責任公司)	Trustee	H Shares	102,430,000		1.75%	10.55%
China Foreign Economy and Trade Trust Co., Ltd. (中國對外經濟貿易信託有限公司)	Trustee	H Shares	102,297,000		1.75%	10.54%
Guotai Asset Management Co., Ltd. (國泰基金管理有限公司)	Investment manager	H Shares	62,044,000		1.06%	6.39%
GF Asset Management – Xumao Single Investment Asset Management Plan (廣發資管－旭茂投資單一資產管理計劃)	Trustee	H Shares	57,830,000		0.99%	5.95%

Notes:

(1) SSCIO indirectly held 1,406,430,741 Domestic Shares, representing 24.09% equity interest in our Bank. SSCIO's shareholding in our Bank was held through several subsidiaries, including (i) Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司) with 6.15% equity interest in our Bank; (ii) Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司) with 4.99% equity interest in our Bank; (iii) Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司) with 5.14% equity interest in our Bank; (iv) Taiyuan Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司) with 3.43% equity interest in our Bank; (v) Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司) with 3.43% equity interest in our Bank; and (vi) Shanxi Investment Group Co., Ltd. (山西省投資集團有限公司) with 0.98% equity interest in our Bank.

(2) China Huaneng Group Co., Ltd. indirectly held 600,000,000 Domestic Shares, representing 10.28% equity interest in our Bank through Huaneng Capital Services Co., Ltd., in which China Huaneng Group Co., Ltd. held 61.22% equity interest. By virtue of SFO, China Huaneng Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Huaneng Capital Services Co., Ltd.

(3) Mr. LI Yang held 90% equity interest in Changzhi Nanye, and Ms. WANG Yanli held 70% equity interest in Changzhi Huashengyuan.

Changzhi Nanye and Changzhi Huashengyuan are parties acting-in-concert according to their respective confirmation. Therefore, Mr. LI Yang, Ms. WANG Yanli, Changzhi Nanye and Changzhi Huashengyuan will be deemed to be interested in 685,227,255 Domestic Shares, representing 11.74% equity interest in our Bank. By virtue of SFO, Mr. LI Yang and Ms. WANG Yanli are deemed to be interested in the Domestic Shares held by both Changzhi Nanye and Changzhi Huashengyuan, while Changzhi Nanye and Changzhi Huashengyuan are deemed to be interested in the Domestic Shares held by each other.

(4) Jinneng Group Co., Ltd., a subsidiary of SSCIO with 64% equity interest, indirectly held 300,000,000 Domestic Shares, representing 5.14% equity interest in our Bank through its wholly-owned subsidiary, Shanxi International Electricity Group Limited Company. By virtue of SFO, Jinneng Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Shanxi International Electricity Group Limited Company.

(5) Guotai Junan International Holdings Limited was interested in the long position of 61,300,000 H Shares, representing 1.05% equity interest in our Bank, and 61,300,000 short positions in H Shares, representing 1.05% equity interest in our Bank through its wholly-owned subsidiaries, Guotai Junan (Hong Kong) Limited and Guotai Junan Financial Products Limited. By virtue of SFO, Guotai Junan International Holdings Limited and Guotai Junan (Hong Kong) Limited are deemed to be interested in the H Shares held by Guotai Junan Financial Products Limited.

(6) China Credit Trust Co., Ltd. was interested in the long position of 102,297,000 H Shares, representing 1.75% equity interest in our Bank through its wholly-owned subsidiary Harvest Fund Management Co., Ltd. By virtue of SFO, China Credit Trust Co., Ltd. is deemed to be interested in the H Shares held by Harvest Fund Management Co., Ltd.

III. MAJOR SHAREHOLDERS DURING THE REPORTING PERIOD

According to the Interim Measures for the Equity Management of Commercial Banks issued by the CBIRC, major shareholders of a commercial bank refer to shareholders holding or controlling 5% or more of shares or voting right of the commercial bank, or holding less than 5% of total capital or total shares of the commercial bank but having significant impact on the operational management of the commercial bank. The significant impact mentioned above includes but not limited to dispatching directors, supervisors or senior management to a commercial bank, influencing the financial and operational management decisions of commercial banks through agreements or other means and other circumstances identified by the CBRC or its local offices.

1. Shareholders holding 5% or more of the Bank's share capital

Shanxi Financial Investment Holding Group Co., Ltd. is wholly-owned by the Shanxi Provincial Department of Finance; the actual controller is the Shanxi Provincial Department of Finance, and the ultimate beneficiary is Shanxi Financial Investment Holding Group Co., Ltd., without person acting-in-concert.

The controlling shareholder of Huaneng Capital Services Co., Ltd. is China Huaneng Group Co., Ltd.; the actual controller is the State-owned Assets Supervision and Administration Commission of the State Council, and the ultimate beneficiary is Huaneng Capital Services Co., Ltd., without person acting-in-concert.

Taiyuan Municipal Finance Bureau is a government authority legal person, and the ultimate beneficiary is the Taiyuan Municipal Finance Bureau, without person acting-in-concert.

The controlling shareholder of Changzhi Nanye Industry Group Co., Ltd. is Li Yang; the actual controller is Li Yang, and the ultimate beneficiary is Changzhi Nanye Industry Group Co., Ltd., being persons acting-in-concert with Changzhi Huashengyuan Mining Industry Co., Ltd.

Shanxi Lu'an Mining (Group) Co., Ltd. is wholly-owned by SSCIO; the actual controller is the State-owned Assets Supervision and Administration Commission of Shanxi Province, and the ultimate beneficiary is Shanxi Lu'an Mining (Group) Co., Ltd., without person acting-in-concert.

Shanxi International Electricity Group Limited Company is wholly-owned by Jinneng Group Co., Ltd.; the actual controller is the State-owned Assets Supervision and Administration Commission of Shanxi Province, and the ultimate beneficiary is Shanxi International Electricity Group Limited Company, without person acting-in-concert.

For shareholders holding 5% or more of the Bank's share capital, please see II. Information of Shareholders above.

2. Other major shareholders

In addition to the Shanxi Financial Investment Holding Group Co., Ltd., Huaneng Capital Services Co., Ltd., Taiyuan Municipal Finance Bureau, Changzhi Nanye, Shanxi Lu'an Mining (Group) Co., Ltd. and Shanxi International Electricity Group Limited Company disclosed above, Shanxi Coking Coal Group Co., Ltd. and Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. hold less than 5% of the Bank 's shares but dispatch directors or supervisors to the Bank.

Shanxi Coking Coal Group Co., Ltd. is wholly-owned by SSCIO. The actual controller is the State-owned Assets Supervision and Administration Commission of Shanxi Province and the ultimate beneficiary is Shanxi Coking Coal Group Co., Ltd., without person acting-in-concert.

The controlling shareholder of Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. is SSCIO. The actual controller is the State-owned Assets Supervision and Administration Commission of Shanxi Province, and the ultimate beneficiary is Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd., without person acting-in-concert.

IV. SHAREHOLDERS' NOMINATION OF DIRECTORS AND SUPERVISORS

(1) Shanxi Financial Holding Group Co., Ltd. nominated LI Shishan as a Director of the Bank;

(2) Huaneng Capital Services Corporation Ltd. nominated XIANG Lijun as a Director of the Bank;

(3) Taiyuan Municipal Finance Bureau nominated LIU Chenxing as a Director of the Bank;

(4) Changzhi Nanye nominated LI Yang as a Director of the Bank;

(5) Shanxi Lu'an Mining (Group) Co., Ltd. nominated WANG Jianjun as a Director of the Bank;

(6) Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. nominated Bi Guoyu as a Supervisor of the Bank;

(7) Shanxi Coking Coal Group Co., Ltd. nominated XU Jin as a Supervisor of the Bank;

(8) Shanxi International Electricity Group Limited Company nominated XIA Guisuo as a Supervisor of the Bank.

V. PURCHASE, SALE AND REDEMPTION OF ANY OF THE BANK'S LISTED SECURITIES

During the Reporting Period, the Bank issued 970,650,000 H shares, which were listed on the Main Board of the Hong Kong Stock Exchange on July 18, 2019 for the first time. From the Listing Date to the date of this Annual Report, the Bank or any of its subsidiaries did not purchase, sell or redeem any of the Bank's listed securities.

Directors, Supervisors, Senior Management and Employees

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Directors

Our Board of Directors consists of fifteen Directors, including four executive Directors, five non-executive Directors and six independent non-executive Directors. Our Directors are elected for a term of three years and are subject to re-election, provided that the cumulative term of an independent non-executive Director shall not exceed six years in accordance with PRC laws and regulations. The following table sets forth certain information regarding our Directors.

Name	Age	Position(s)	Date of appointment [1]
Mr. WANG Junbiao (王俊飈)	49	Executive Director; Chairman of the Board	March 10, 2020 [2]
Mr. YAN Junsheng (閻俊生)	58	Executive Director; Chairman of the Board	February 25, 2009 [4] (as executive Director) December 8, 2014 (as Chairman of the Board)
Mr. TANG Yiping (唐一平)	52	Executive Director; vice chairman of the Board and president	February 16, 2017
Mr. WANG Peiming (王培明)	59	Executive Director	February 16, 2013
Mr. RONG Changqing (容常青)	50	Executive Director and vice president	September 29, 2018
Mr. LI Shishan (李世山)	55	Non-executive Director	June 21, 2017
Mr. XIANG Lijun (相立軍)	43	Non-executive Director	August 8, 2018
Mr. LIU Chenhang (劉晨行)	55	Non-executive Director	December 30, 2019
Mr. LI Yang (李楊)	33	Non-executive Director	May 4, 2018 [3]
Mr. WANG Jianjun (王建軍)	44	Non-executive Director	August 8, 2018
Mr. JIN Haiteng (金海騰)	68	Independent non-executive Director	June 5, 2017
Mr. SUN Shihu (孫試虎)	75	Independent non-executive Director	February 24, 2017
Mr. WANG Liyan (王立彥)	63	Independent non-executive Director	September 14, 2018
Mr. DUAN Qingshan (段青山)	62	Independent non-executive Director	May 4, 2018 [3]
Mr. SAI Zhiyi (賽志毅)	50	Independent non-executive Director	August 7, 2018
Mr. YE Xiang (葉翔)	56	Independent non-executive Director	August 8, 2019

Notes:

(1) The date of appointment as a Director stated here represents the date on which the relevant Director obtained the qualification approval from CBIRC Shanxi Office.

(2) Mr. WANG Junbiao was approved by the Shareholders' general meeting as an executive Director on March 10, 2020, his qualification of directorship shall be subject to the approval from the regulatory authorities for the banking industry and other relevant regulatory authorities (the "**Relevant Regulatory Authorities**"), and his term shall be effective for three years from the date of approval by the Relevant Regulatory Authorities to the date of expiration of the term of office of the fifth section of the Board of the Bank.

(3) The date of appointment as a Director for Mr. LI Yang and Mr. DUAN Qingshan stated here represents the date on which each of them was elected as a Director at the relevant Shareholders' general meeting of our Bank. Their qualifications of directorship are subject to the approval by the CBIRC Shanxi Office.

(4) As stated herein, due to work re-arrangement, Mr. YAN Junsheng resigned as an executive Director, the chairman of the Board, the chairperson and a member of the Development and Strategy Committee, a member of the Nomination, Remuneration and HR Committee and an authorized representative of the Bank on January 8, 2020. Mr. Yan's resignation took effect on January 8, 2020. For details, please refer to the announcement entitled "Resignation of Executive Director and Chairman" issued by the Bank on January 8, 2020.

2. Supervisors

The PRC Company Law requires a joint stock company to establish a board of supervisors that is responsible for supervising performance of the board of directors and senior management, its financial operations, internal control and risk management. Our Board of Supervisors consists of nine Supervisors, including three employees' representative Supervisors, three Shareholders' representative Supervisor and three external Supervisors. Our Supervisors are elected for a term of three years and may be subject to re-election, and the cumulative term of an external Supervisor shall not exceed six years. The following table sets forth certain information about our Supervisors.

Name	Age	Position(s)	Date of appointment
Mr. XIE Liying (解立鷹)	52	Employees' representative Supervisor Chairman of the Board of Supervisors	July 24, 2009 (as a Supervisor) December 8, 2016 (as the chairman of the Board of Supervisors)
Mr. BI Guoyu (畢國鈺)	55	Shareholders' representative Supervisor	February 5, 2009
Ms. XU Jin (徐瑾)	43	Shareholders' representative Supervisor	December 18, 2015
Mr. XIA Guisuo (夏貴所)	57	Shareholders' representative Supervisor	May 4, 2018
Mr. GUO Zhenrong (郭振榮)	55	Employees' representative Supervisor	May 13, 2019
Mr. WEN Qingquan (溫清泉)	46	Employees' representative Supervisor	May 13, 2019
Mr. LIU Shoubao (劉守豹)	53	External Supervisor	December 18, 2015
Mr. WU Jun (吳軍)	66	External Supervisor	May 4, 2018
Mr. LIU Min (劉旻)	57	External Supervisor	May 4, 2018

3. Senior management

Name	Age	Position(s)	Date of appointment [1]
Mr. TANG Yiping (唐一平)	52	Executive Director, vice chairman of the Board of Directors and president	February 16, 2017
Ms. HAO Qiang (郝強)	47	Vice president	November 20, 2017
Mr. GAO Jiliang (高計亮)	54	Vice president	May 15, 2018
Mr. RONG Changqing (容常青)	50	Executive Director and vice president	December 21, 2018
Ms. HOU Xiuping (侯秀萍)	52	Chief financial officer	October 8, 2015
Mr. ZHANG Yunfei (張雲飛)	49	Chief risk officer	May 26, 2011
Mr. WEN Gensheng (溫根生)	54	Chief human resources officer	December 8, 2016 [2]
Mr. ZHAO Jiquan (趙基全)	46	Chief audit officer (chief compliance officer)	April 3, 2019 [3]
		Assistant to the president	November 22, 2019
Mr. NIU Jun (牛俊)	52	Chief operation officer	January 2, 2020
Mr. ZHAO Fu (趙富)	52	Chief marketing officer	January 2, 2020
Mr. LI Weiqiang (李為強)	55	Secretary to the Board of Directors	December 9, 2019
Mr. SHANGGUAN Yujiang (上官玉將)	47	Assistant to the president	December 9, 2019

Notes:

(1) Unless otherwise stated, the date of appointment stated here represents the date on which the relevant senior management members obtained the qualification approval from the CBIRC Shanxi Office.

(2) Mr. WEN Gensheng is our chief human resources officer whose qualification does not need to obtain the qualification approval from CBIRC Shanxi Office. The date stated here represents the date of appointment by the Board of Directors.

(3) The date stated here represents the date of appointment to the Board of Directors of Mr. ZHAO Jiquan, which is subject to the qualification approval by the CBIRC Shanxi Office.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Between the Reporting Period and the date of this report, the following changes have been made to the Directors, Supervisors and senior management of the Bank.

Changes in Directors

On August 8, 2019, Mr. YE Xiang was approved by the China Banking and Insurance Regulatory Commission Shanxi Office as an independent Director.

On December 30, 2019, Mr. LIU Chenhang was approved by the China Banking and Insurance Regulatory Commission Shanxi Office as a Director.

On January 8, 2020, due to work re-arrangement, Mr. YAN Junsheng resigned as an executive Director, the chairman of the Board, the chairperson and a member of the Development and Strategy Committee, a member of the Nomination, Remuneration and HR Committee and an authorized representative of the Bank. Mr. Yan's resignation took effect on January 8, 2020. For details, please refer to the announcement entitled "Resignation of Executive Director and Chairman" issued by the Bank on January 8, 2020.

On March 10, 2020, Mr. Wang Junbiao was approved by the Shareholder's general meeting as an executive Director, and his qualification of directorship shall be subject to the approval from the Relevant Regulatory Authorities.

Changes in Supervisors

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

Changes in Senior Management

On November 22, 2019, Mr. ZHAO Jiquan was approved by the China Banking and Insurance Regulatory Commission Shanxi Office as an assistant to the president.

On December 9, 2019, Mr. LI Weiqiang was approved by the China Banking and Insurance Regulatory Commission Shanxi Office as a secretary of the board of directors.

On December 9, 2019, Mr. SHANGGUAN Yujiang was approved by the China Banking and Insurance Regulatory Commission Shanxi Office as an assistant to the president.

On January 2, 2020, Mr. NIU Jun was approved by the China Banking and Insurance Regulatory Commission Shanxi Office as a chief operation officer.

On January 2, 2020, Mr. ZHAO Fu was approved by the China Banking and Insurance Regulatory Commission Shanxi Office as a chief marketing officer.

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

Changes in Joint Company Secretaries

Ms. HAO Qiang and Ms. YEUNG Ching Man have served as joint company secretaries of the Bank since January 25, 2019.

III. RESUME OF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Executive Director, WANG Junbiao

Mr. WANG Junbiao, aged 49, was elected as an executive Director and the chairman of the Board of Directors in March 2020, and he has more than 25 years of experience in banking industry and has been elected as the deputy at the Thirteenth National People's Congress since January 2018. Since January 2020, he has been serving as the secretary to the party committee of the Bank. Mr. Wang served as the secretary to the party committee and chairman of the board of directors of Shanxi State-owned Capital Investment and Operation Co., Ltd. (山西省國有資本投資運營有限公司) from July 2017 to December 2019; vice chairman of the board of directors, deputy secretary to the party committee and general manager of Shanxi Financial Investment Holding Group Co., Ltd. (山西金融投資控股集團有限公司) from May 2016 to July 2017; the deputy mayor of Yuncheng City, Shanxi Province from May 2013 to May 2016. Mr. Wang served as the deputy director and a member of the party committee of the Shanxi Provincial Agricultural Credit Cooperative (山西省農村信用社聯合社) from September 2009 to May 2013; the director and secretary to the leading party members' group of the Datong Office (大同辦事處) of the Shanxi Provincial Agricultural Credit Cooperative from December 2006 to September 2009; the leader of the preparatory team of the Datong Office of the Shanxi Provincial Agricultural Credit Cooperative from May to December 2006; the deputy general manager of the credit loan management department (信貸管理部) of the Shanxi Provincial Agricultural Credit Cooperative from November 2005 to May 2006; the assistant to the president of the head office of Taiyuan City Commercial Bank Co., Ltd. (太原市商業銀行股份有限公司) ("**Taiyuan Commercial Bank**") from July to November 2005; the president and secretary of the Bingzhou South Road main branch (並州南路管轄支行) of Taiyuan Commercial Bank from January to September 2003; the president of the Yingze Street sub-branch (迎澤街支行) of Taiyuan Commercial Bank from July 2000 to January 2003; the deputy president of the Xikuang Street sub-branch (西礦街支行) of Taiyuan Commercial Bank from October 1998 to July 2000; the assistant to the director of the Wenmiao Urban Credit Cooperative (文廟城市信用社) in Taiyuan City from October 1996 to October 1998; and a staff member, the director and the deputy manager of the Tiangong Hotel of the Taiyuan Finance Committee (太原市財委天公賓館) from August 1992 to October 1996.

Mr. Wang studied in the Shanxi University (山西大學) in philosophy of scientific technology from September 2003 to July 2005 and obtained a master's degree in philosophy. He was engaged in his on-the-job postgraduate study in Shanxi University in management science and engineering from September 2005 to July 2008 and obtained a doctor's degree in management. He was engaged in the post-doctoral research in finance at the Guanghua School of Management of Peking University (北京大學光華管理學院) from October 2008 to September 2011. He was accredited as a senior accountant in December 2017.

Executive Director, YAN Junsheng

Mr. YAN Junsheng, aged 58, has been an executive Director since February 2009, and the chairman of the Board since December 2014. On January 8, 2020, due to work re-arrangement, he resigned as an executive Director, the chairman of the Board, the chairperson and a member of the Development and Strategy Committee, a member of the Nomination, Remuneration and HR Committee and an authorized representative of the Bank.

Mr. Yan has more than 25 years of experience in banking industry. He was the candidate of the chairman of the Board of Directors from June 2014 to December 2014. From February 2009 to June 2014, Mr. Yan was the vice chairman of the Board of Directors and the president of our Bank. He worked at the preparatory team (籌備組) of our Bank from August 2008 to February 2009. Prior to joining our Bank, Mr. Yan worked at Taiyuan branch, Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600000) as the leader of the preparatory team (籌建負責人) from July 2003 to April 2004, and as a vice president from April 2004 to August 2008. Mr. Yan served as a vice president of Taiyuan City Commercial Bank Co., Ltd. from June 1998 to July 2003 and as a director of Taiyuan City Commercial Bank Co., Ltd. from October 1998 to July 2003. Prior to that, Mr. Yan worked for Taiyuan Urban Credit Cooperative Union (太原市城市信用合作社聯合社) as the deputy director (副主任) from July 1993 to June 1998 and as the deputy managing director (副理事長) and the manager of the operation department (營業部經理) from January 1997 to June 1998. From January 1997 to June 1998, he was also the deputy director of the preparatory team (籌備組) of Taiyuan City Commercial Bank Co., Ltd.

Mr. Yan obtained an executive master of business administration degree from Shanghai University of Finance and Economics (上海財經大學) in Shanghai, the PRC, in June 2006. He is a senior economist granted by Department of Human Resources of Shanxi Province (山西省人事廳) in August 2001.

Executive Director, TANG Yiping

Mr. TANG Yiping (唐一平), aged 52, has been an executive Director, the vice chairman of the Board of Directors and our president since February 2017.

Mr. Tang has over 26 years of experience in banking industry. He joined our Bank in August 2016. Prior to joining our Bank, Mr. Tang worked at Agricultural Bank of China Limited (中國農業銀行股份有限公司) ("**ABC**") (a company listed on the Shanghai Stock Exchange with stock code 601288, and on the Hong Kong Stock Exchange with stock code 1288) for over 24 years. He was the leader of the preparatory team of Moscow branch of ABC from February 2013 to March 2015 and then served as the director and the general manager of ABC (Moscow) Ltd. (中國農業銀行(莫斯科)有限公司) from March 2015 to August 2016. Mr. Tang worked at ABC Shenzhen branch and served as the principal and then the general manager of human resources department from December 2008 to September 2009, and as a vice president from September 2009 to February 2013. Mr. Tang served as the president of ABC Longgang sub-branch (龍崗支行) in Shenzhen from March 2006 to June 2006 and the president of ABC Overseas Chinese Town sub-branch (華僑城支行) in Shenzhen from June 2006 to December 2008. He worked as the division director (處長) of the assets and liabilities management division (資產負債管理處) of ABC Shenzhen branch (深圳分行) from February 2004 to March 2006. From October 1998 to February 2004, he worked as a deputy division director (副處長) of different departments of ABC Shenzhen branch (深圳分行), including market development division (市場開發處), comprehensive planning division (綜合計劃處), personal business division (個人業務處), and assets and liabilities management division (資產負債管理處). Mr. Tang worked as a vice president of ABC Hongling North Road sub-branch (紅嶺北路支行) from March 1997 to October 1998. He worked as the section chief (科長) and then the assistant to division director (處長助理) of the planning division (計劃處) of ABC Shenzhen branch (深圳分行) from September 1995 to March 1997. Mr. Tang worked at the personnel division (人事處) of ABC Shenzhen branch as a deputy section chief (副科長) from March 1995 to September 1995. He worked as a staff member (科員) and then a deputy section chief (副科長) of the planning division of ABC Shenzhen branch from July 1992 to March 1995.

Mr. Tang obtained a bachelor's degree in economics from East China Normal University (華東師範大學) in Shanghai, the PRC, in July 1989. He obtained a master's degree in economics from Finance Research Institute of Head Office of the People's Bank of China (中國人民銀行總行金融研究所) (currently known as PBC School of Finance, Tsinghua University (清華大學五道口金融學院)) in Beijing, in July 1992. He is a senior economist granted by ABC in December 2011.

Executive Director, WANG Peiming

Mr. WANG Peiming (王培明), aged 59, has been an executive Director since February 2013.

Mr. Wang has over 30 years of experience in banking industry. He joined our Bank in May 2009 and worked as an assistant to the president from May 2009 to February 2014. Mr. Wang was the chairman of the board of directors of Jinshang Consumer Finance Co., Ltd. (晉商消費金融股份有限公司) from February 2016 to November 2018. Mr. Wang served as a vice president of our Bank from March 2014 to September 2016. Prior to joining our Bank, Mr. Wang worked at Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司) ("**ICBC**") (a company listed on the Shanghai Stock Exchange with stock code 601398, and on the Hong Kong Stock Exchange with stock code 1398) from May 1985 to May 2009. He worked as a deputy section chief (副科長) of the security department (保衛科) and then a deputy section chief (副科長) of the commercial credit division (商業信貸科) of ICBC Changzhi sub-branch (長治市支行) from May 1985 to October 1988. Mr. Wang served as the president of ICBC Zhangzi county sub-branch (長子縣支行) from October 1988 to March 1991. He served as the director (主任) of Changbei office (長北辦事處) of ICBC in Changzhi from March 1991 to February 1997. Mr. Wang worked as an assistant to president and the office head (辦公室主任) of ICBC Changzhi sub-branch from February 1997 to April 1998. He worked as a vice president of ICBC Yuci branch (榆次分行) from April 1998 to September 2000. Mr. Wang worked at ICBC Yuncheng branch (運城分行) as a vice president and then the president from September 2000 to September 2005. Mr. Wang served as the president of ICBC Changzhi branch from October 2005 to May 2009.

Mr. Wang graduated from the Graduate School of the Central Communist Party School of the CPC (中共中央黨校研究生學院) in the PRC, in July 2011, majoring in economics. He is a senior economist granted by ICBC in November 1994.

Executive Director, RONG Changqing

Mr. RONG Changqing (容常青), aged 50, has been an executive Director since September 2018, and a vice president of our Bank since December 2018.

Mr. Rong has over 27 years of experience in auditing and corporate management. Prior to joining our Bank, he worked at Huaneng Capital Service Co., Ltd. for about 14 years since June 2004, as the director (主管) and then the deputy division director (副處長) of the audit and supervision department (審計監察部), the deputy division director (副處長) and then the deputy manager (副經理) of the general manager work department (總經理工作部), the manager of the risk control department (風險控制部), and the general counsel (總法律顧問). Prior to that, he worked at Beijing Wandong Medical Equipment Co., Ltd. (北京萬東醫療裝備股份有限公司) (currently known as Huarun Wandong Medical Equipment Co., Ltd. (華潤萬東醫療裝備股份有限公司)) (a company listed on the Shanghai Stock Exchange with stock code 600055) as the deputy manager of the finance department from April 2004 to June 2004.

From October 2003 to April 2004, Mr. Rong served at Beijing Rongtai Hengjia Real Estate Development Co., Ltd. (北京榮泰恒嘉房地產開發有限公司) (currently known as Beijing Kaiya Real Estate Development Co., Ltd. (北京凱亞房地產開發有限公司)) as the chief auditor (審計總監). He worked at mobile digital department (移動數碼事業部) of BOE Technology Group Co., Ltd. (京東方科技集團股份有限公司) as a staff (職員) from February 2003 to October 2003. Prior to that, Mr. Rong once worked at Wuhan special commissioner's office of the Audit Office (審計署武漢特派辦).

Mr. Rong obtained a bachelor's degree in economics from Wuhan University (武漢大學) in Hubei Province, the PRC, in July 1991. He obtained a master's degree in management from Zhongnan University of Economics and Law (中南財經政法大學) in Hubei Province, the PRC, in December 2002. He is a senior auditor granted by the National Audit Office of the PRC (中華人民共和國審計署) in September 2005. Mr. Rong was granted the Qualification of Corporate Legal Counsel by Beijing Human Resources and Social Security Bureau (北京人力資源和社會保障局) in October 2009.

Non-executive Director, LI Shishan

Mr. LI Shishan (李世山), aged 55, has been a non-executive Director since June 2017.

Mr. Li has more than 34 years of experience in economic management. Mr. Li worked in Shanxi Finance Bureau for over 30 years from November 1984 to August 2016. He was employed by Shanxi Financial Investment Holding Group Co., Ltd. (山西金融投資控股集團有限公司) ("**Shanxi Financial Investment**") and was nominated by Shanxi Financial Investment as a director of our Board in July 2016. He was the division director (處長) of economic development division I (經濟建設一處) from August 2015 to August 2016. He was the division director (處長) of the agricultural division from November 2009 to August 2015. Prior to that, Mr. Li worked in the information and internet center (信息網絡中心) from August 2005 to November 2009 as the director (主任). From August 2003 to August 2005, he served as the deputy division director (副處長) of the international matters division (國際處) and the deputy director (副主任) of the loan management office (貸款管理辦公室). Mr. Li was the deputy division director (副處長) of the external debts division (外債處) from August 2000 to August 2003. From April 1997 to August 2000, he was the deputy division director (副處長) of the foreign trade division (對外經濟貿易處). Prior to that, Mr. Li worked as a staff member, senior staff member (副主任科員), and then principal staff member (主任科員) in the industrial transportation division (工交處) of Shanxi Finance Bureau from November 1984 to April 1997.

Mr. Li graduated from Correspondence Institute of the Central Committee Party School of the CPC (中共中央黨校函授學院) through correspondence study in December 2000, majoring in politics and law. He is an accountant granted by Ministry of Finance of the PRC (中華人民共和國財政部) in October 1994.

Non-executive Director, XIANG Lijun

Mr. XIANG Lijun (相立軍), aged 43, has been a non-executive Director since August 2018.

Mr. Xiang has about 20 years of experience in accounting. He holds positions at several subsidiaries of China Huaneng Group Co., Ltd. (中國華能集團有限公司) ("**China Huaneng Group**"), including the chairman of the board of directors of Huaneng Baocheng Wuhua Co., Ltd. (華能寶城物華有限公司) since January 2019, a director of Beijing Yuncheng Financial Information Services Co., Ltd. (北京雲成金融信息服務有限公司) since January 2018, a director of Huaneng Carbon Assets Management Co., Ltd. (華能碳資產經營有限公司) since October 2017, and a deputy general manager of Huaneng Capital Service Co., Ltd. (華能資本服務有限公司) since March 2016. Mr. Xiang has been the vice chairman of the board of directors of Huaxi Securities Co., Ltd. (華西證券股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 002926) since August 2017. Mr. Xiang worked at China Huaneng Group from July 2005 to March 2016, as an officer (幹部) of the information services center (資訊服務中心) from July 2005 to November 2005, as a deputy division director (副處長) of the finance and accounting division I (財會一處), as a deputy division director (副處長) of the accounting division (會計處) and the division director (處長) of the general administration division (綜合處) from November 2005 to May 2012, as the division director (處長) of the general administration and statistics division (綜合與統計處) and the budget and general planning department (預算與綜合計劃部) from May 2012 to October 2012, and as a secretary of the secretary office of general office (辦公廳秘書處) and the division director (處長) of the general administration division (綜合處) from October 2012 to March 2016. From January 2003 to July 2005, Mr. Xiang worked as an accountant and a deputy manager for planning and finance department of Huaneng Information Industry Holding Co., Ltd. (華能信息產業控股有限公司) ("**Huaneng Information Industry**"). From July 2000 to January 2003, he was an assistant accountant (助理會計師) of the assets management department of Huaneng Comprehensive Industry Co., Ltd. (華能綜合產業有限公司). Prior to that, Mr. Xiang worked as an officer (幹部) at the corporate management department of China Huaneng Technology Development Co., Ltd. (中國華能技術開發有限公司) (currently known as Huaneng Comprehensive Industry Co., Ltd. (華能綜合產業有限公司)) ("**Huaneng Comprehensive Industry**") from April 2000 to July 2000. Huaneng Information Industry and Huaneng Comprehensive Industry both are subsidiaries of China Huaneng Group.

Mr. Xiang obtained a bachelor's degree in accounting from Renmin University of China (中國人民大學) in Beijing, the PRC, in July 1998. He obtained a master's degree in business administration from Tsinghua University (清華大學) in Beijing, the PRC, in July 2004. Mr. Xiang is a senior accountant granted by China Huaneng Group in December 2006.

Non-executive Director, LIU Chenhang

Mr. LIU Chenhang (劉晨行), aged 55, has served as a non-executive Director since December 2019.

Mr. Liu has more than 30 years of experience in economic management. He has been serving as the general manager of Taiyuan Haixin Assets Management Co., Ltd. (太原市海信資產管理有限公司) since February 2018, as the deputy manager of Taiyuan Finance Assets Management Center (太原市財政資產管理中心) since February 2018, as the general manager of Taiyuan Linhaitong Technology and Innovation Corporate Management Co., Ltd. (太原林海通科創企業管理有限公司) since May 2018, as the vice chairman of the board of directors of Taiyuan Shuilang Road Network Construction Co., Ltd. (太原水廊路網建設工程有限公司) since July 2018, and as a director of Taiyuan Haixin Public Rental Housing Real Estate Development Co., Ltd. (太原海信公租房置業發展有限公司) since July 2018. Mr. Liu worked at Taiyuan Municipal Finance Bureau from August 1985 to February 2018 and served as a staff member of city construction section (城建科) from August 1985 to May 1995, as a deputy section chief (副科長) of other corporations section (其他企業科) from June 1995 to September 1998, as a deputy section chief (副科長) of city construction section from September 1998 to June 2002, as a deputy division director (副處長) of city construction division from June 2002 to March 2013, and as the office director (辦公室主任) of Taiyuan Municipal Finance Bureau from March 2013 to February 2018.

Mr. Liu completed studies at junior college level (專科) through correspondence study and graduated from Central Institute of Finance and Banking (中央財政金融學院) (currently known as Central University of Finance and Economics (中央財經大學)) in Beijing, the PRC, in July 1992, majoring in finance. Mr. Liu graduated from Shanxi University of Finance and Economics (山西財經大學) in Shanxi Province, the PRC, in July 1999, majoring in marketing (市場營銷). He is an accountant granted by Ministry of Finance of the PRC (中華人民共和國財政部) in October 1994.

Non-Executive Director, LI Yang

Mr. LI Yang (李楊), age 33, was elected as a non-executive Director in May 2018.

Mr. Li has more than nine years of experience in corporate management. He has been the assistant to the chairman of the board of directors of Changzhi Nanye since December 2010.

Mr. Li obtained a bachelor's degree in law from Shanxi University (山西大學) in Shanxi Province, the PRC, in July 2015. Mr. Li was previously the legal representative, managing director or supervisor of the companies shown in the table below before their respective revocation of business license or deregistration.

Name of the Company	Place of establishment	Position	Status	Date of revocation of business license
Changzhi Nanye Mining Industry Co., Ltd. (長治市南燁礦業有限責任公司)(“**Changzhi Nanye Mining Industry**”)	PRC	Legal representative and managing director	Business license revoked	April 25, 2008
Changzhi Huashengrong Mining Industry Co., Ltd. (長治市華晟榮礦業有限公司) (“**Changzhi Huashengrong**”)	PRC	Supervisor	Dissolved and deregistered	June 30, 2012

Mr. Li confirmed that the business license of Changzhi Nanye Mining Industry was revoked due to its failure to undergo annual inspection under the relevant PRC regulations because of its unfamiliarity with the relevant laws and regulations. Mr. Li confirmed that he did not incur any debt and/or liabilities because of such revocation of business license, and that the revocation of business license did not have any negative effect on our Bank.

Mr. Li confirmed that Changzhi Huashengrong was absorbed by Shanxi Huashengrong Coal Mine Co., Ltd. (山西華晟榮煤礦有限公司) in June 2012 and the debts and obligations of Changzhi Huashengrong were all transferred to Shanxi Huashengrong Coal Mine Co., Ltd. Mr. Li confirmed that after the absorption, Changzhi Huashengrong was deregistered and it was solvent at the time of deregistration, and he did not incur any debt and/or liabilities because of such deregistration, and that the deregistration did not have any negative effect on the Bank.

As of the date of this Report, Mr. Li held 90% equity interest in Changzhi Nanye. Changzhi Nanye and Changzhi Huashengyuan are parties acting-in-concert according to their respective confirmation. Therefore, Mr. Li was deemed to be interested in 685,227,255 Domestic Shares, representing 11.97% equity interest in the Bank. By virtue of SFO, Mr. Li is deemed to be interested in the Domestic Shares held by both Changzhi Nanye and Changzhi Huashengyuan.

Non-Executive Director, WANG Jianjun

Mr. WANG Jianjun (王建軍), aged 44, has been a non-executive Director since August 2018.

Mr. Wang has over 20 years of experience in accounting. He holds positions at several subsidiaries of Lu'an Mining Industry (Group) Co., Ltd. (潞安礦業(集團)有限責任公司),including a director of Lu'an Group Finance Co., Ltd. (潞安集團財務有限公司) since August 2018, a director of Shanxi Lu'an Ruitai Investment Co., Ltd. (山西潞安瑞泰投資有限責任公司) since December 2017, and the head (部長) of the finance department (財務部) of Shanxi Lu'an Environmental-friendly Energy Development Co., Ltd. (山西潞安環保能源開發股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code: 601699) since November 2017. From March 2015 to November 2017, Mr. Wang worked at Wangzhuang pit (王莊煤礦) of Lu'an Mining Group, as the section chief (科長) of the finance section (財務科) from March 2015 to February 2017, and as the chief accountant (總會計師) from February 2017 to November 2017. He was the financial director (財務總監) of Shanxi Shouyang Luyang Ruilong Coal Industry Co., Ltd. (山西壽陽潞陽瑞龍煤業有限公司) from July 2012 to March 2015. Prior to that, Mr. Wang worked as the financial director of Shanxi Shouyang Luyang Changtai Coal Industry Co., Ltd. (山西壽陽潞陽昌泰煤業有限公司) from December 2009 to July 2012. He worked at the finance section (財務科) of Changcun pit (常村煤礦) of Lu'an Mining Group, as a staff member (科員) and then a deputy section chief (副科長) from May 1997 to December 2009.

Mr. Wang graduated from Harbin Normal University (哈爾濱師範大學) through correspondence study in Heilongjiang Province, the PRC, in July 2013, majoring in financial management (財務管理). Mr. Wang has been a member of the Chinese Institute of Certified Public Accountants since December 2009. Mr. Wang is a middle level accountant granted by the Ministry of Finance of the PRC in May 2002.

Independent Non-Executive Director, JIN Haiteng

Mr. JIN Haiteng (金海騰), aged 68, has been an independent non-executive Director since June 2017.

Mr. Jin has more than 35 years of experience in banking industry and administrative management. He has been the chief executive officer (總裁) of Shanghai Rongzhidao Investment Management and Consulting Co., Ltd. (上海融至道投資管理諮詢有限公司) since November 2011. He has been an executive director and the general manager of Shenzhen Qianhai Jin Haiteng Management and Consulting Co., Ltd. (深圳前海金海騰管理諮詢有限公司) since February 2015. Mr. Jin has been a supervisor of Guangzhou Rongzhiyi Education Information Consulting Co., Ltd. (廣州融至益教育信息諮詢有限公司) since January 2014. From March 2005 to December 2011, Mr. Jin served as a vice president of China Guangfa Bank Co., Ltd. ("**CGB**"). From June 1997 to December 2007, he was the president of Hangzhou branch, CGB. From January 1990 to May 1994, Mr. Jin served as the acting president (代縣長) and then the president (縣長) of Yin County (鄞縣). Prior to that, he was the vice director (副主任) of the finance office (財辦) of Ningbo Municipal Government from February 1987 to January 1990, during which time he also served as the head (局長) of commercial bureau (商業局) of Ningbo from May 1988 to January 1990. Mr. Jin worked at the Commodities Pricing Bureau (物價局) of Ningbo from February 1981 to February 1987, as a deputy section chief (副科長) from February 1981 to June 1985, and as a deputy head (副局長) from June 1985 to February 1987.

Mr. Jin is an independent non-executive Director of the companies shown in the table below.

Name of the Company	Place of Establishment	Nature of Business	Term of Service
Suzhou Bank Co., Ltd.(蘇州銀行股份有限公司), listed on the Shenzhen Stock Exchange (stock code:002966)	PRC	Banking	February 2015 to present
Beijing Xin'an Century Technology Co., Ltd. (北京信安世紀科技股份有限公司)	PRC	Technology services	November 2017 to present
Guangdong Wanzhang Jinshu Information and Technology Co., Ltd. (廣東萬丈金數信息技術股份有限公司)	PRC	Science studies and technology services	December 2018 to present

Mr. Jin obtained a junior college level (專科) degree in basics for party and government leaders (黨政幹部基礎科) from Hangzhou University (杭州大學) in Zhejiang Province, the PRC, in June 1987.

Independent Non-Executive Director, SUN Shihu

Mr. SUN Shihu (孫試虎), aged 75, has been an independent non-executive Director since February 2017.

Mr. Sun has more than 30 years of experience in banking industry. Mr. Sun has been an independent non-executive director of Tangshan Bank Co., Ltd. (唐山銀行股份有限公司) since August 2013. Mr. Sun worked at the head office of Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司) ("**ICBC**") (a company listed on the Shanghai Stock Exchange with stock code 601398, and the Hong Kong Stock Exchange with stock code 1398) from April 1997 to March 2005 and served as the deputy general manager (副總經理) of the commercial credit loan department (商業信貸部) from April 1997 to April 1998, as the deputy general manager (副總經理) of the industrial and commercial credit loan department (工商信貸部) from April 1998 to July 2001, as the deputy general manager (副總經理) of the credit loan management department (信貸管理部) from July 2001 to February 2004, and as a researcher of the credit loan management department (信貸管理部) from February 2004 to March 2005. Prior to that, Mr. Sun worked at the Hubei branch of ICBC and served as the deputy division director of commercial credit loan division (商業信貸處) from July 1985 to August 1991, as the director of real estate credit loan department (房地產信貸部) from August 1991 to September 1993, as the general manager of Trust and Investment Company of Hubei Branch of ICBC (中國工商銀行湖北分行信託投資公司) from April 1992 to March 1996, as the division director (處長) of the audit division (稽核處) from March 1996 to October 1996 and as the chief economist (總經濟師) from October 1996 to April 1997.

Mr. Sun graduated from China Hubei University (中國湖北大學) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in Hubei Province, the PRC, in August 1969, majoring in statistics. He is a senior economist (經濟師) granted by ICBC in December 1987.

Independent non-executive Director, WANG Liyan

Mr. WANG Liyan (王立彥), aged 63, has been an independent non-executive Director since September 2018.

He has been working at Peking University for over 30 years since 1985 and consecutively served as a teaching assistant (助教), teacher (講師), associate professor and professor of accounting. Mr. Wang is a professor and Ph.D. supervisor of Accounting Faculty of Guanghua School of Management, Peking University. Mr. Wang is also the director of the Research Center for International Accounting and Finance of Peking University. Mr. Wang is the editor-in-chief of China Accounting Review (《中國會計評論》) and China Management Accounting (《中國管理會計》).

Mr. Wang is an independent non-executive director of the listed companies shown in the table below.

Name of the Company	Place of Establishment	Nature of Business	Term of Service
China Shengmu Organic Milk Ltd. (中國聖牧有機奶業有限公司), listed on the Hong Kong Stock Exchange (stock code: 1432)	Cayman Islands	Dairy industry	June 2017 to present
Huaxin Cement Co., Ltd. (華新水泥股份有限公司), listed on the Shanghai Stock Exchange (stock code: 600801)	PRC	Cement industry	April 2015 to present
Unigroup Guoxin Microelectronics Co., Ltd. (紫光國芯微電子股份有限公司), listed on the Shenzhen Stock Exchange (stock code: 002049)	PRC	Circuit chip design and development	March 2017 top resent
Gettop Acoustic Co., Ltd. (共達電聲股份有限公司), listed on the Shenzhen Stock Exchange (stock code: 002655)	PRC	Audio engineering industry	April 2018 to present
Shenzhen Sunwin Intelligent Co., Ltd. (深圳市賽為智能股份有限公司), listed on the Shenzhen Stock Exchange (stock code: 300044)	PRC	Software development	September 2014 to August 2017

Mr. Wang obtained a doctor's degree in economics from Peking University in Beijing, the PRC, in July 1992. He has been a non-practicing member of the Chinese Institute of Certified Public Accountants since April 1994.

Independent non-executive Director, DUAN Qingshan

Mr. DUAN Qingshan (段青山), aged 62, was elected as an independent non-executive Director by the Shareholders' general meeting in May 2018.

Mr. Duan has more than 20 years of experience in banking industry. He worked at the head office of China Minsheng Bank Corp., Ltd. (中國民生銀行股份有限公司) ("**China Minsheng Bank**") (a company listed on the Shanghai Stock Exchange with stock code 600016, and on the Hong Kong Stock Exchange with stock code 1988) from November 2007 to February 2017, and served as the general manager of human resources department from November 2007 to September 2012, as the chief financial director (財務總監) from April 2010 to April 2012, and as the chairman of the board of supervisors from April 2012 to January 2018. Mr. Duan worked at Taiyuan branch, China Minsheng Bank from November 1996 to November 2007, as a vice president from November 1996 to August 2000, and as the president from August 2000 to November 2007.

Mr. Duan obtained a master's degree in business administration from Wuhan University in Hubei Province, the PRC, in December 2006.

Independent non-executive Director, SAI Zhiyi

Mr. SAI Zhiyi (賽志毅), aged 50, has been an independent non-executive Director since August 2018.

Mr. Sai has over 27 years of experience in banking industry and corporate management. Mr. Sai has been the deputy general manager of Shandong Hi-speed Group Limited (山東高速集團有限公司) since August 2017, and the chairman of the board of directors of its subsidiary Shandong Hi-speed Co., Ltd. (山東高速股份有限公司) ("**Shandong Hi-speed**", a company listed on the Shanghai Stock Exchange with stock code 600350) since July 2018.

Mr. Sai worked as the vice chairman of the board of directors and the general manager of Shandong Hi-speed from June 2017 to July 2018. Prior to that, Mr. Sai worked as the vice chairman of the board of directors and the president of Weihai Commercial Bank Co., Ltd. (威海市商業銀行股份有限公司) ("**Weihai Bank**") from May 2011 to June 2017. He was the general manager of Shandong Re-guarantee Group Co., Ltd. (山東再擔保集團有限公司) from November 2009 to June 2011. Mr. Sai served as a vice president of Weihai Bank from January 2002 to October 2009. From December 1998 to January 2002, Mr. Sai served as the president of a sub-branch of Weihai Bank. From August 1997 to December 1998, he was the director (主任) of credit loan department (信貸部) of Weihai City Cooperative Bank Co., Ltd. (威海市城市合作銀行股份有限公司) (currently known as Weihai City Commercial Bank Co., Ltd. (威海市商業銀行股份有限公司)). Mr. Sai worked for the Weihai branch of ICBC as an officer at deputy section level (副科級幹部) from February 1996 to August 1997. From November 1995 to February 1996, Mr. Sai served as the vice plant manager of Weihai Hua'ao Aluminum Windows Co., Ltd. (威海華澳鋁塑門窗有限公司). He worked at Weihai branch of ICBC and consecutively served as an accountant, an office clerk (辦事員) and an operation officer (業務主任) from January 1992 to November 1995.

Mr. Sai obtained a master's degree in management from Tongji University (同濟大學) in Shanghai, the PRC, in May 2004. He obtained a doctor's degree in management from Tongji University in Shanghai, the PRC, in June 2008. Mr. Sai is a senior economist granted by Department of Human Resources of Shandong Province (山東省人事廳) in March 2007.

Independent non-executive Director, YE Xiang

Mr. YE Xiang (葉翔), aged 56, has been an independent non-executive Director since August 2019.

Mr. Ye has nearly 20 years of experience in financial industry. He is the founder and has been the managing director (董事總經理) of Vision Gain Capital Co., Ltd. (匯信資本股份有限公司) since January 2018. From August 2001 to November 2007, Mr. Ye worked at the China affairs department (中國事務部) of the SFC, as a senior manager from August 2001 to July 2005, as an associate director from August 2005 to July 2006, and as the director from August 2006 to November 2007.

Mr. Ye is an independent non-executive director of the listed companies shown in the table below.

Name of the Company	Place of Establishment	Nature of Business	Term of Service
51 Credit Card Inc. (51信用卡有限公司), listed on the Hong Kong Stock Exchange (stock code: 2051)	Cayman Islands	Peer to peer (P2P) lending platform	July 2018 to present
Datang Environment Industry Group Co., Ltd. (大唐環境產業集團股份有限公司), listed on the Hong Kong Stock Exchange (stock code: 1272)	PRC	Development of environmental protection and energy conservation business	November 2016 to present
Wuling Motors Holdings Limited (五菱汽車集團控股有限公司), listed on the Hong Kong Stock Exchange (stock code: 0305)	Bermuda	Automobile industry	October 2008 to present
Digital China Group Co., Ltd. (神州數碼集團股份有限公司),listed on the Shenzhen Stock Exchange (stock code:000034)	PRC	Information Technology services	June 2011 to April 2016

Mr. Ye obtained a bachelor's degree in engineering from Zhejiang University (浙江大學) in Zhejiang Province, the PRC, in July 1983. He obtained a master's degree in economics from Zhejiang University in January 1991. Mr. Ye obtained a doctor's degree in economics from Finance Research Institute of Head Office of the People's Bank of China (中國人民銀行總行金融研究所) (currently known as PBC School of Finance, Tsinghua University (清華大學五道口金融學院)) in Beijing, the PRC, in April 1995. He is a chartered financial analyst granted by CFA Institute in September 2004.

Mr. Ye was previously a director of the company shown in the table below before its deregistration.

Name of the company	Place of establishment	Position	Status	Date of deregistration
VisionGain Capital Partners Limited	Hong Kong	Director	Dissolved and deregistration	September 25, 2015

Mr. Ye confirmed that the company never commenced operations and its deregistration was voluntary by the resolutions of the shareholders of the company. The above company was solvent at the time of deregistration, and he did not incur any debt and/or liabilities because of such deregistration, and that the deregistration did not have any negative effect on the Bank.

2. Supervisors

The PRC Company Law requires a joint stock company to establish a board of supervisors that is responsible for supervising performance of the board of directors and senior management, its financial operations, internal control and risk management. Our Board of Supervisors consists of nine Supervisors, including three employees' representative Supervisors, three Shareholders' representative Supervisor and three external Supervisors. Our Supervisors are elected for a term of three years and may be subject to re-election, and the cumulative term of an external Supervisor shall not exceed six years. The following table sets forth certain information about our Supervisors.

Mr. XIE Liying (解立鷹), aged 52, has been an employees' representative Supervisor since July 2009 and the chairman of the Board of Supervisors since December 2016.

Mr. Xie has over 20 years of experience in administrative and corporate management. He has been the chief human resources officer (首席人力資源官) of our Bank since January 2014. He served as the general manager of the human resources department (人力資源部) of our Bank from May 2009 to January 2014. Mr. Xie was seconded to the preparatory team of our Bank from September 2008 to May 2009, when he worked as the deputy director (副主任) in the cadre report center (幹部舉報中心) of the organization department of the Shanxi Provincial Party Committee (山西省委組織部) from April 2006 to May 2009. Mr. Xie was a principal staff member (主任科員) in the cadre (under direct management) section (省直幹部處) of the organization department of the Shanxi Provincial Party Committee from April 2003 to April 2006. Prior to that, he worked as an officer at the expert services center (專家服務中心) of the organization department of the Shanxi Provincial Party Committee (山西省委組織部) from February 1998 to April 2003. Mr. Xie worked as the deputy director (副主任) and then the director (主任) of the office of the training center (培訓中心辦公室) of Shanxi Administration for Industry and Commerce (山西省工商行政管理局) from December 1994 to February 1998, during which period he was seconded to the expert services center (專家服務中心) of the organization department of the Shanxi Provincial Party Committee (山西省委組織部) from October 1996 to February 1998.

Mr. Xie obtained a bachelor's degree in economics from Beijing College of Finance and Commerce (北京財貿學院) in Beijing, the PRC, in July 1989.

Mr. BI Guoyu (畢國鈺), aged 55, has been a Shareholder's representative Supervisor since February 2009.

Mr. Bi has around 30 years of experience in accounting. Mr. Bi has been the head of comprehensive department of the financial center (財務中心) of Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司) since August 2019. He had been working as an accountant of the financial center of Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. since July 1986 and then a deputy manager accountant (副主任會計師) until July 2019.

Mr. Bi graduated from Hohai University (河海大學) in Jiangsu Province, the PRC, through correspondence study in July 2004, majoring in accounting. He is an accountant granted by Ministry of Finance of the PRC (中華人民共和國財政部) in October 1994.

Ms. XU Jin (徐瑾), aged 43, has been a Shareholders' representative Supervisor since December 2015.

Ms. Xu has over 20 years of experience in accounting. Ms. Xu has been working as the deputy director (副部長) of the finance department of Shanxi Coking Coal Co., Ltd. (山西焦煤集團有限責任公司) (the "**Shanxi Coking Coal**") since June 2013. From November 2017 to November 2018, Ms. Xu also served as the director (主任) of the preparatory office of finance shared center (財務共享中心籌備辦公室) of Shanxi Coking Coal. Ms. Xu was the section chief (科長) of the finance department (財務部) of Shanxi Coking Coal from December 2009 to May 2013. Prior to that, she worked at Xishan Coal and Electricity Group Co., Ltd. (西山煤電集團有限責任公司) and served as a staff member (科員) of the finance division (財務處) from December 1999 to December 2005, and as a deputy section chief (副科長) of the capital settlement and management center (資金結算管理中心) from January 2006 to December 2009.

Ms. Xu obtained a bachelor's degree in engineering in June 2003 from Taiyuan University of Technology (太原理工大學) in Shanxi Province, the PRC. She obtained a bachelor's degree in accounting from Taiyuan University of Technology in January 2008 through correspondence study. Ms. Xu obtained a master's degree in business administration in June 2011 from Shanxi University of Finance and Economics (山西財經大學) in Shanxi Province, the PRC. Ms. Xu has been a non-practicing member of the Chinese Institute of Certified Public Accountants since December 2009. She is also a holder of the certificate of senior level of accounting granted by Department of Human Resource and Social Security of Shanxi Province (山西省人力資源和社會保障廳) in April 2011.

Mr. XIA Guisuo (夏貴所), aged 57, has been a Shareholders' representative Supervisor since May 2018.

Mr. Xia has more than 25 years of experience in accounting and financial industry. Mr. Xia has been a director of Shanxi Securities Co., Ltd. (山西證券股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 002500) since July 2018. He served as a deputy head (副部長) of finance management department (財務管理部) of Jinneng Group Co., Ltd. (晉能集團有限公司) from November 2017 to February 2020. Mr. Xia has been a director of Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司) ("**Shanxi International Electricity**") since April 2017 and served as the head (部長) of its finance department (財務部) from November 2017 to February 2020. Mr. Xia has been a director of Shanxi Top Energy Co., Ltd. (山西通寶能源股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600780) since May 2016. Mr. Xia was the manager of finance department of Shanxi International Electricity from July 2010 to November 2017, during which period he also served as the chief accountant (總會計師) at Jinneng Electricity Group Co., Ltd. (晉能電力集團有限公司) from February 2014 to March 2017, and as a director of Shanxi Zhangze Electric Power Co., Ltd. (山西漳澤電力股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 000767) from April 2014 to May 2016. He was a director of Beijing Jingneng Power Co., Ltd. (北京京能電力股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600578) from August 2013 to December 2017. Mr. Xia worked as the chief accountant at Shanxi International Electricity Power Distribution Management Co., Ltd. (山西國際電力配電管理有限公司) (dissolved) from February 2008 to July 2010. From November 1992 to February 2008, he worked at Shanxi Top Energy Co., Ltd. (山西通寶能源股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600780), as the chief accountant (主管會計) from November 1992 to November 1996, as a deputy manager of finance department from November 1996 to January 1998, as the manager of finance department from January 1998 to November 2001, as an assistant to the general manager from August 2000 to November 2001, as the chief accountant from November 2001 to February 2008, and as the deputy general manager from March 2004 to February 2008.

Mr. Xia graduated from Shanxi Finance College (山西財經學院) (currently known as Shanxi University of Finance and Economics (山西財經大學)) in Shanxi Province, the PRC, in May 1989, majoring in finance (財政). He is a senior accountant granted by Department of Human Resources of Shanxi Province (山西省人事廳) in December 2000.

Mr. Xia was previously a director of the companies shown in the table below before their respective deregistration or revocation of business license.

Name of the Company	Place of establishment	Nature of business	Position	Status	Date of deregistration
Shanghai Tongbao Venture Investment Co., Ltd. (上海通寶創業投資有限公司)	PRC	Business service industry	Director	Dissolved and deregistered	March 31, 2006
Shanxi Tongbao Industry and Trade Co., Ltd. (山西通寶工貿有限公司)	PRC	Wholesale and retail	Director	Business license revoked	December 25, 2003

Mr. Xia confirmed that the deregistration of Shanghai Tongbao Venture Investment Co., Ltd. (上海通寶創業投資有限公司) was voluntary by the shareholders of the company. The Company was solvent at the time of deregistration.

Mr. Xia confirmed that the business license of Shanxi Tongbao Industry and Trade Co., Ltd. (山西通寶工貿有限公司) was revoked due to its failure to undergo annual inspection under the relevant PRC regulations.

Mr. Xia confirmed that he did not incur any debt and/or liabilities because of such deregistration/revocation of business license, and that the deregistration/revocation of business license did not have any negative effect on our Bank.

Mr. WEN Qingquan (溫清泉), aged 46, has been an employees' representative Supervisor since May 2019.

Mr. Wen has more than eight years of experience in banking industry. Mr. Wen has been the director (主任) of the president's office (行長辦公室) of our Bank since February 2019. Mr. Wen joined our Bank in March 2011. He worked as the deputy general manager (副總經理) of the HR department (人力資源部) of our Bank from May 2015 to February 2019, during which period he also served as the deputy director (副主任) of the assessment office (考核辦公室) of our Bank from November 2016 to February 2018 and then the general manager (總經理) of the assessment training department (考核培訓部) of our Bank from February 2018 to February 2019. Mr. Wen served as the assistant to the general manager (總經理助理) of the HR department (人力資源部) of our Bank from April 2011 to May 2015. Prior to joining our Bank, Mr. Wen worked at Shanxi Elderly Cadre Bureau of Shanxi Provincial Party Committee (山西省委老幹部局) from September 2001 to March 2011 and served as a senior staff member (副主任科員) from November 2002 to October 2005, as a principal staff member (主任科員) from October 2005 to February 2009 and as an associate editor (副主編) and the vice president (副社長) of Shanxi Elderly Magazine (老年雜誌社) of Shanxi Elderly Cadre Bureau of Shanxi Provincial Party Committee from February 2009 to March 2011. Mr. Wen worked at the party school of Heshun County Party Committee (和順縣委黨校) from August 1998 to October 2000 and then worked at the organization department of Heshun County Party Committee (和順縣委組織部) from October 2000 to November 2001.

Mr. Wen obtained a bachelor's degree in economics from Shanxi Agricultural University (山西農業大學) in Shanxi Province, the PRC, in July 1998.

Mr. GUO Zhenrong (郭振榮), aged 55, has been an employees' representative Supervisor since May 2019.

Mr. Guo has more than 30 years of experience in banking industry. Mr. Guo has been the general manager of the Financial Services Guarantee Department (金融服務保障部) (Consumer Rights Protection Department) since November 2019. Mr. Guo joined our Bank in May 2009 and worked as the general manager of the No. 2 business department (業務二部) of our Bank from May 2009 to March 2011, as the president of our Linfen branch (臨汾分行) from March 2011 to January 2014, as the general manager of the personal credit assets department (個人信貸資產部) of our Bank from January 2014 to January 2017, as the general manager of the institutional development department (機構發展部) of our Bank from January 2017 to February 2019 and as the candidate of the president of our Comprehensive Reform Demonstration Zone sub-branch (太原綜改示範區支行) from February 2019 to November 2019. Prior to joining our Bank, Mr. Guo worked at China Construction Bank Corporation (中國建設銀行股份有限公司) ("**CCB**") (a company listed on the Shanghai Stock Exchange with stock code 601939 and on the Hong Kong Stock Exchange with stock code 939) for over 20 years. He served as a cadre (幹部), a staff member (科員) and then a senior staff member (副主任科員) of the central investment division (中央投資處) of CCB Shanxi branch from July 1986 to July 1993, as a senior staff member (副主任科員) of the credit management division (信貸管理處) from July 1993 to August 1994 and as the section chief (科長) of the business audit section (業務審計科) of the inspection and review division (稽審處) of CCB Shanxi branch from August 1994 to February 1998. He then worked as the assistant to president (行長助理), the chief inspection and approval officer (總稽核) and then the deputy director (副主任) of the audit office (審計辦事處) of CCB Linfen branch from February 1998 to April 2002. Mr. Guo worked at CCB Shanxi branch as the deputy division director (副處長) of the comprehensive business division (綜合業務處) of the general audit office (總審計室) from April 2002 to June 2003 and then as the deputy general manager (副總經理) of the planning and finance department (計劃財務部) from June 2003 to June 2007. He worked as the vice president of CCB Linfen branch for nearly two years since June 2007.

Mr. Guo obtained a bachelor's degree in economics from Dongbei University of Finance & Economics (東北財經大學) in Liaoning Province, the PRC, in July 1986. Mr. Guo completed graduate studies and graduated from Beijing Technology and Business University (北京工商大學) in Beijing, the PRC in January 2004, majoring in industry economics. He further completed studies and graduated from Central Committee Party School of the CPC (中共中央黨校) in July 2006. Mr. Guo is a China Registered Senior Business Strategist certified by China Commercial Occupational Skill Testing and Instruction Center (中國商業聯合會商業職業技能鑑定指導中心) in January 2008. He is a senior economist granted by CCB in December 1998.

Mr. LIU Shoubao (劉守豹), aged 53, has been an external Supervisor since December 2015.

Mr. Liu has over 20 years of experience in law. Mr. Liu has been working as the director (主任) at Beijing P.H. Law Firm LLP (北京市普華律師事務所) since December 1996. Prior to that, he served as the director (主任) and partner at Beijing Huangdu Law Firm LLP (北京市皇都律師事務所) for about two years from December 1994. Mr. Liu once served as an officer of the International Institute (國際研究所) of CITIC Trust Investment Co., Ltd. (中國國際信託投資公司). Mr. Liu obtained a bachelor's degree in law from Jiangxi University (江西大學) (currently known as Nanchang University (南昌大學)) in Jiangxi Province, the PRC, in July 1987. He obtained a master's degree in economic law from Southwest College of Political Science and Law (西南政法學院) (currently known as Southwest University of Political Science and Law (西南政法大學)) in Chongqing, the PRC, in July 1990. Mr. Liu obtained a doctor's degree in civil and commercial law from Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in Beijing, the PRC, in June 1993. Mr. Liu has been a practicing lawyer of the PRC since December 1995.

Mr. Liu worked as an independent non-executive director of the listed companies shown in the table below.

Name of the Company	Place of Establishment	Nature of Business	Term of Service
Beijing Capital Development Co., Ltd. (北京首都開發股份有限公司), listed on the Shanghai Stock Exchange (stock code: 600376)	PRC	Property Development and Sale	August 2010 to August 2016
China Television Media Co., Ltd. (中視傳媒股份有限公司), listed on the Shanghai Stock Exchange (stock code: 600088)	PRC	Advertisement, media and tourism	June 2010 to June 2016
Ourpalm Co., Ltd. (北京掌趣科技股份有限公司, listed on the Shenzhen Stock Exchange, stock code: 300315)	PRC	Mobile games, online games and e-sports	October 2019 to present

Mr. WU Jun (吳軍), aged 66, has been an external Supervisor since May 2018.

Mr. Wu worked at School of Banking & Finance (金融學院) ("**SoBF**") of University of International Business and Economics for over 25 years since 1992 and once served as deputy professor, professor, Ph.D. supervisor and dean of SoBF.

Mr. Wu was and is an independent non-executive director of the listed companies shown in the table below.

Name of the Company	Place of Establishment	Nature of Business	Term of Service
Southwest Securities International Securities Ltd. (西證國際證券股份有限公司), listed on the Hong Kong Stock Exchange (stock code: 0812)	Bermuda	Financial services	January 2015 to present
Southwest Securities Co., Ltd. (西南證券股份有限公司), listed on the Shanghai Stock Exchange (stock code: 600369)	PRC	Financial services	March 2009 to March 2017
Bank of Jinzhou Co., Ltd. (錦州銀行股份有限公司, shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited, stock code: 0416)	PRC	Financial services	November 2019 to present

Mr. Wu obtained a junior college (專科) degree in finance from the finance department, Yunnan Finance and Trade College in Yunnan Province, the PRC, in July 1981. He obtained a master's degree in finance from the Finance Research Institute of Head Office of the People's Bank of China (中國人民銀行總行金融研究所) (currently known as PBC School of Finance, Tsinghua University (清華大學五道口金融學院)) in Beijing, the PRC, in July 1987. Mr. Wu obtained a doctor's degree in finance from the Finance Research Institute of Head Office of the People's Bank of China in May 1995.

Mr. LIU Min (劉旻), aged 57, has been an external Supervisor since May 2018.

Mr. Liu has about 20 years of experience in accounting. Mr. Liu has been the responsible person of Shanxi Branch, BDO China Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所) (the "**BDO**") since August 2008. He once served as the deputy general manager of Beijing BDO. Prior to that, he was the vice director (副所長) of Taiyuan Certified Public Accountants (太原會計師事務所) from July 1997 to December 1998, the director (所長) of Shanxi Jinyuan Certified Public Accountants (山西晉元會計師事務所) ("**Shanxi Jinyuan**") from January 1999 to December 2000 and the chief accountant (主任會計師) of Shanxi Tianyuan Certified Public Accountants (山西天元會計師事務所) ("**Shanxi Tianyuan**") from January 2001 to May 2005. Shanxi Jinyuan was established in the PRC and it merged with Shanxi Zhongyuan Certified Public Accountants (山西中元會計師事務所) and formed Shanxi Tianyuan as approved by Shanxi Finance Bureau (山西省財政廳) in July 2000. Shanxi Tianyuan was then deregistered voluntarily by the resolutions of the shareholders of the company in July 2005. Shanxi Tianyuan was solvent at the time of deregistration, and he did not incur any debt and/or liabilities because of such deregistration, and that the deregistration did not have any negative effect on the Bank.

Mr. Liu graduated from Shijiazhuang Army Command College, China P.L.A. (中國人民解放軍石家莊陸軍指揮學院) in Hebei Province, the PRC, in July 1982, majoring in military command (軍事指揮). He 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 Shanxi Finance College (山西財經學院) (currently known as Shanxi University of Finance and Economics (山西財經大學)) in Shanxi Province, the PRC, in December 1991. Mr. Liu has been a member of the Chinese Institute of Certified Public Accountants since October 2006. He is also a holder of the certificate of senior level of accounting granted by Department of Human Resources of Shanxi Province (山西省人事廳) in January 2003.

3. Senior Management

For biographical details of **Mr. TANG Yiping (唐一平) and Mr. RONG Changqing (容常青)**, please see "- III. Biography of Directors, Supervisors and Senior Management – 1. Directors" of this section.

Ms. HAO Qiang (郝強), aged 47, has been a vice president of our Bank since November 2017.

Ms. Hao has over 25 years of experience in banking industry. She joined our Bank in September 2008 and worked at the preparatory team of our Bank from September 2008 to May 2009. Afterwards, Ms. Hao served as the general manager of the credit review department (授信審查部) of our Bank from May 2009 to May 2013, as the principal (負責人) and then the president of Jinyang sub-branch of our Bank from May 2013 to January 2015, as the assistant to the president of our Bank and the general manager of the corporate finance department (公司金融部) from January 2015 to November 2017, during which period she was also the general manager of the investment banking department (投資銀行部) of our Bank from April 2015 to January 2017 and as the secretary to the Board of Directors from June 2017 to April 2019. Prior to joining our Bank, Ms. Hao worked at ICBC (a company listed on the Shanghai Stock Exchange with stock code 601398, and on the Hong Kong Stock Exchange with stock code 1398) from December 1993 to September 2008. She served as an officer of the international business department (國際業務部) of ICBC Taiyuan branch from December 1993 to January 1996. From January 1996 to September 2008, Ms. Hao worked at several departments of ICBC Shanxi branch, including the industry and transportation credit department (工交信貸部), the projects credit section (項目信貸處), the corporate business department (公司業務部) and the credit approval department (授信審批部) and consecutively served as a staff member (科員), a senior staff member (副主任科員), a principal staff member (主任科員) and a full-time reviewer (專職審議委員). Ms. Hao once worked as a senior staff member (副主任科員) of the projects credit department (項目信貸部) at the headquarter of ICBC in 2000. Ms. Hao obtained a bachelor's degree in English from Shanxi Normal University (山西師範大學) in Shanxi Province, the PRC, in June 1993. She completed the on-the-job postgraduate study in finance of Shanxi University of Finance and Economics (山西財經大學) in Shanxi Province, the PRC, in July 2003. Ms. Hao completed the EMBA core courses training program of ICBC and obtained the training certificate in November 2005.

Mr. GAO Jiliang (高計亮), aged 54, has been a vice president of our Bank since May 2018.

Mr. Gao has over 25 years of experience in banking industry. He was the chief operation officer of our Bank from October 2015 to April 2019. He was the general manager of small enterprises financial services center (小企業金融服務中心) of our Bank from March 2015 to November 2017. He was the general manager of the corporate finance department (公司金融部) of our Bank from May 2013 to March 2015. From October 2010 to May 2013, Mr. Gao worked as the general manager of small enterprises finance department (小企業金融部) of our Bank. He was also the general manager of small enterprises financial services center of our Bank from June 2012 to May 2013. Mr. Gao worked at the SMEs financial center (中小企業金融服務中心) of our Bank and consecutively served as the principal (負責人) and the general manager from May 2009 to October 2010. He served as the principal (負責人) of the president's office (行長辦公室) and the office of the Board of Directors (董事會辦公室) of our Bank from February 2009 to May 2009. Prior to that, Mr. Gao served as the president of our Jiefang North Road sub-branch (解放北路支行) from October 1998 to February 2009. He worked at Taiyuan South Inner Cycle Street Credit Union (太原市南內環街信用社) as the vice general manager from February 1993 to April 1997 and then as the principal (負責人) from April 1997 to October 1998.

Mr. Gao obtained a bachelor's degree in economics from Shanxi University of Finance and Economics (山西財經學院) in Shanxi Province, the PRC, in July 1985. He obtained a master's degree in economics from Zhongnan University of Economics (中南財經大學) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in Hubei Province, the PRC, in June 1994.

Ms. HOU Xiuping (侯秀萍), aged 52, has been the chief financial officer of our Bank since October 2015 and the general manager of the financial accounting department (財務會計部) of our Bank since October 2015.

Ms. Hou has more than 20 years of experience in financial accounting. She worked at the funding financial department of our Bank from January 2015 to October 2015 and served as the department's general manager from April 2015 to October 2015. Prior to joining our Bank, Ms. Hou worked as the general manager of Taigang (Tianjin) Financial Leasing Co., Ltd. (太鋼(天津)融資租賃有限公司) from April 2014 to January 2015. Ms. Hou worked as a director of Taiyuan Steel (Group) Finance Co., Ltd. (太原鋼鐵(集團)財務有限公司) and Shanxi Taigang Insurance Agency Co., Ltd. (山西太鋼保險代理有限公司) from January 2013 to April 2014. Ms. Hou worked at Taiyuan Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司) ("**Taiyuan Steel**") as a staff member (科員) of the finance division (財務處) from July 1989 to August 1997, and as a deputy section chief (副科長) of the finance section in Qiya (駐七軋財務科) from August 1997 to June 1998. She worked at Shanxi Taigang Stainless Steel Co., Ltd. (山西太鋼不銹鋼股份有限公司) from June 1998 to June 2008, as the director (主管) of the finance and development department (計財發展部) from June 1998 to May 2004, and as an assistant to head (部長助理) of the finance and development department (計財發展部) from May 2004 to June 2008. She worked at Taiyuan Steel as a deputy head (副部長) of the accounting and finance department (計財部) from June 2008 to April 2014.

Ms. Hou obtained a bachelor's degree in economics from Nankai University (南開大學) in Tianjin, the PRC in July 1989. Ms. Hou obtained a master's degree in business administration from Renmin University of China (中國人民大學) in Beijing, the PRC in July 2000. Ms. Hou is a senior accountant granted by Department of Human Resources of Shanxi Province (山西省人事廳) in December 2001.

Mr. ZHANG Yunfei (張雲飛), aged 49, has been the chief risk officer of our Bank since May 2011.

Mr. Zhang has more than 25 years of experience in banking industry. Mr. Zhang joined our Bank in September 2009 and worked at our Bank's risk management department from September 2009 to January 2014 and served as the general manager of the risk management department of our Bank from May 2013 to January 2014. Prior to joining our Bank, Mr. Zhang worked as a deputy general manager (副總經理) of the credit management department (信貸管理部) and the general manager (總經理) of the small enterprises finance business department (小企業金融業務部) of Shanxi branch of ICBC (a company listed on the Shanghai Stock Exchange with stock code 601398, and on the Hong Kong Stock Exchange with stock code 1398) from December 2006 to August 2009. Mr. Zhang seconded as a chief reviewer of Credit Review Department (信用審批部主審查人) of ICBC from December 2005 to December 2006. Mr. Zhang worked as a principle staff member (主任科員) of the personal finance business department (個人金融業務部) and a deputy general manager (副總經理) of credit management department (信貸管理部) of ICBC Shanxi branch from December 2003 to December 2005. Mr. Zhang worked as an assistant to president (行長助理) of ICBC Changzhi branch from July 2002 to December 2003. He served as a senior staff member of the industrial and commercial credit division (工商信貸處) and a senior staff member of the credit management department from November 2000 to July 2002. Mr. Zhang worked as a staff member and then a deputy division director (副處長) of the industrial and commercial credit division (工商信貸處) of ICBC Shanxi branch from June 1998 to November 2000. Mr. Zhang worked as a staff member (科員) of the commercial credit section (商業信貸科) of ICBC Taiyuan branch Jiefang Road office (太原市分行解放路辦事處) from July 1994 to June 1998.

Mr. Zhang obtained a bachelor's degree in international trade from Shanxi Economics Management College (山西經濟管理學院) (currently known as Shanxi University of Finance and Economics (山西財經大學)) in Shanxi Province, the PRC, in July 1994. Mr. Zhang is a middle level economist granted by ICBC in July 1999.

Mr. Zhang received a warning from CBRC Shanxi Office as our chief risk officer in March 2018 due to our head office's failure to properly check underlying assets or ultimate financing parties of relevant SPV investment which resulted in insufficient impairment provision and failure to conduct sufficient due diligence on the use of proceeds of working capital loans.

Mr. WEN Gensheng (溫根生), aged 54, has been the chief human resources officer of our Bank since December 2016.

Mr. Wen has more than 20 years of experience in administrative management. Mr. Wen joined our Bank in November 2016. He worked as the general manager (head) (總經理(部長)) of the human resources department (organization department of the party committee) (人力資源部(黨委組織部)) from November 2016 to December 2016. Prior to joining our Bank, Mr. Wen worked as a deputy division director (副處長) and researcher (調研員) of the cadre section II (幹部二處) of the organization department of Shanxi Provincial Party Committee (山西省委組織部) from July 2015 to November 2016. Mr. Wen worked as a deputy division director (副處長) and researcher (調研員) of local cadre section (地方幹部處) of the organization department of Shanxi Provincial Party Committee (山西省委組織部) from October 2010 to July 2015. Mr. Wen worked as a principal staff member (主任科員) and a deputy researcher (副調研員) of the organization guide section (組織指導處) of the organization department of Shanxi Provincial Party Committee (山西省委組織部) from July 2003 to October 2010. Mr. Wen worked as a principal staff member (主任科員) of fundamental politics section (基政處) and personnel education section (人事教育處) of Shanxi Civil Affairs Bureau (山西省民政廳) from January 1997 to July 2003.

Mr. Wen graduated from Taiyuan Normal College (太原師範專科學校) in Shanxi Province, the PRC, majoring in geography, in July 1985. Mr. Wen graduated from the Correspondence Institute of the Central Communist Party School of the CPC (中央黨校函授學院) through correspondence study in December 1996, majoring in economics management.

Mr. ZHAO Jiquan (趙基全), aged 46, was appointed as the assistant to the president of our Bank in November 2019.

Mr. Zhao has over 13 years of experience in banking industry. He served as general manager of the audit department of our Bank from April 2019 to July 2019 and as the chairman of Jinshang Consumer Finance Co., Ltd. since July 2019. Mr. Zhao joined our Bank in May 2009. Mr. Zhao worked as the candidate of the president (行長擬聘人選) and then the president of Linfen branch (臨汾分行) of our Bank from January 2014 to January 2015 and then as the president of Jinyang sub-branch (晉陽支行) of our Bank from January 2015 to April 2019. He worked at the audit department of our Bank from May 2009 to June 2010. He worked as the general manager of the internal control department of our Bank from June 2010 to May 2013, during which period he also served as the general manager of the audit department of our Bank from November 2011 to May 2013. He served as the general manager of the credit review department of our Bank from May 2013 to January 2014. Prior to joining our Bank, Mr. Zhao worked at Shanxi Provincial Agricultural Credit Cooperative (山西省農村信用社聯合社) as a vice general manager (副總經理) of the due diligence department (稽核部) from November 2005 to May 2009. He worked as a principal staff member (主任科員) of the working division of the board of supervisors (監事會工作處) of Shanxi SASAC from May 2004 to November 2005 and during this period he also once served as the chief accountant (總會計師) of Shanxi Guorui Investment Co., Ltd. (山西國瑞投資有限公司). He consecutively served as a senior staff member (副主任科員) and principal staff member (主任科員) of the working division of the board of supervisors (監事會工作處) of Shanxi Enterprises Working Committee (山西省企業工作委員會) from November 2000 to April 2004. Mr. Zhao worked as a senior staff member (副主任科員) of the finance division (財務處) of Shanxi Province Textile Union (山西省紡織總會) from May 1998 to November 2000, and served as an officer (幹部) of the finance department (財務部) of Taiyuan Heavy Machinery Group Co., Ltd. (太原重型機械集團有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 600169) from July 1996 to May 1998.

Mr. Zhao earned a master's degree in engineering from Shanxi University (山西大學) in Shanxi Province, the PRC in June 2012. He obtained a bachelor's degree in economics from Lanzhou University (蘭州大學) in Gansu Province, the PRC in June 1996. Mr. Zhao has been a non-practicing member of the Chinese Institute of Certified Public Accountants since December 2001. Mr. Zhao was certified as a senior accountant by the Shanxi Senior Accountants Technical Position Evaluation Committee (山西省高級會計師技術職務評審委員會) in December 2003 and was awarded the Certificate for Chinese Registered Financial Analysts (Level II) (中國註冊金融分析師(二級)證書) by the China Enterprise Confederation (中國企業聯合會) in September 2010.

Mr. ZHAO Fu (趙富), aged 52, has been the chief marketing officer of our Bank since January 2020.

Mr. Zhao has over 30 years of experience in banking industry. He has been the general manager of the institutional clients department of our Bank since April 2019. Mr. Zhao joined our Bank in January 2008. Mr. Zhao worked as the general manager of the personal finance department (個人金融部) of Taiyuan City Commercial Bank Co., Ltd. (太原市商業銀行股份有限公司) from January 2008 to May 2009. He worked at our credit cards business department from May 2009 to February 2011, during which period he served as the vice general manager of our credit cards business department from August 2009 to February 2011 and also as the vice general manager of our retail banking department from June 2010 to February 2011. He served as a member of the preparatory team (籌備組) of our Datong branch (大同分行) from February 2011 to July 2012, as the president of our Datong branch (大同分行) from July 2012 to January 2014, as the president of our Taiyuan Longcheng sub-branch (太原龍城支行) from January 2014 to February 2018 and as the president of our Taiyuan Transformation and Comprehensive Reform Demonstration Zone sub-branch (太原綜改示範區支行) from February 2018 to March 2019. Prior to joining our Bank, Mr. Zhao once served as the vice general manager (副總經理) of retail banking department (零售銀行部) of Taiyuan branch (太原分行) of China Merchants Bank Co. Ltd. (招商銀行股份有限公司) (a company listed on the Hong Kong Stock Exchange with stock code 03968). Mr. Zhao worked at ICBC (a company listed on the Shanghai Stock Exchange with stock code 601398, and on the Hong Kong Stock Exchange with stock code 1398) from August 1987 to May 2007. He worked as a vice president of ICBC Datong Mining Bureau sub-branch (大同市礦務局支行) from February 2006 to May 2007. Mr. Zhao served as the president of ICBC Datong Mudan sub-branch (大同市牡丹支行) from June 2005 to February 2006. He served as the president of ICBC Datong Yuhe North Road sub-branch (大同市御河北路支行) from May 2002 to June 2005. He worked as the director (主任) of ICBC Datong branch Yunzhong Mall sub-operating office (大同市分行雲中商城分理處) from June 2000 to May 2002. He worked at ICBC Datong branch (大同市分行) and served as the deputy manager (副經理) of the marketing development department (市場開發部) from July 1997 to January 1999 and then as a deputy section chief (副科長) of the corporate deposit section (對公存款科) from January 1999 to June 2000. He worked at the ICBC Datong branch Yuhe North Road sub-branch (大同分行御河北路支行) and served as the section chief (科長) of the secretarial section (秘書科) from June 1993 to July 1995 and then as the manager of the management department (管理部) from July 1995 to July 1997. Mr. Zhao worked at the business department (營業部) of ICBC Yanbei district central sub-branch (雁北地區中心支行) and served as an accountant (會計員) of the accounting segment (會計股) from August 1987 to April 1988, as a clerk (幹事) of the secretarial segment (秘書股) from April 1988 to September 1988, as the credit clerk (信貸員) of the credit segment (信貸股) from September 1988 to October 1992, and as the deputy section chief (副科長) of the secretarial section (秘書科) from October 1992 to June 1993.

Mr. Zhao completed junior college level (專科) studies and graduated from Shanxi Finance and Economics College (山西財經學院) (currently known as Shanxi University of Finance and Economics (山西財經大學)) in Shanxi Province, the PRC in December 1990, majoring in finance. Mr. Zhao graduated from Correspondence Institute of the Central Committee Party School of the CPC (中共中央黨校函授學院) through correspondence study in December 2000, majoring in economics management. Mr. Zhao completed top-up (專升本) studies and graduated from Central Broadcasting and Television University (中央廣播電視大學) (currently known as The Open University of China (國家開放大學)) in June 2005, majoring in finance. Mr. Zhao obtained a master's degree in control engineering from Shanxi University (山西大學) in Shanxi Province, the PRC in June 2013. Mr. Zhao was certified as an economist by ICBC Shanxi branch in December 1994.

Mr. NIU Jun (牛俊), aged 52, has been the chief operation officer of our Bank since January 2020.

Mr. Niu has over 30 years of experience in banking industry. He has been the president of Lvliang branch (呂梁分行) of our Bank since April 2019. Mr. Niu joined our Bank in January 2013. Mr. Niu worked as the president of Longcheng sub-branch (太原龍城支行) of our Bank from February 2018 to April 2019. He consecutively served as the leader of the preparatory group (籌備組) of Xinzhou branch (忻州分行) of our Bank from January 2013 to August 2013 and as a vice president and then the president of Xinzhou branch (忻州分行) of our Bank from August 2013 to February 2018. Prior to joining our Bank, Mr. Niu worked at ABC (a company listed on the Shanghai Stock Exchange with stock code 601288, and on the Hong Kong Stock Exchange with stock code 1288) for approximately 20 years. He was appointed as the president of ABC Dai County sub-branch (代縣支行) in January 2008. He worked as a vice president and then the president of ABC Yuanping sub-branch (原平市支行) from July 2003 to January 2008. He served as a vice president of ABC Dai County sub-branch (代縣支行) from January 1999 to July 2003. Mr. Niu served as the deputy director (副主任) and then the director (主任) of Xingao business office (新高營業所) of ABC Dai County sub-branch (代縣支行) from September 1988 to January 1999.

Mr. Niu completed junior college level (專科) studies and graduated from Renmin University of China (中國人民大學) in Beijing, the PRC in 1994, majoring in administrative management. Mr. Niu graduated from Shanxi University (山西大學) in Shanxi Province, the PRC in December 2001, majoring in administrative management.

Mr. LI Weiqiang (李為強), aged 55, has been serving as the secretary of the Board of Directors since December 2019.

Mr. Li has more than 30 years of experience in banking industry. Mr. Li has been the director (主任) of the Board's office (董事會辦公室) of our Bank since March 2019, and was the director (主任) of the president's office (行長辦公室) of our Bank from February 2012 to February 2019. He served as an employees' representative Supervisor from January 2016 to May 2019. From March 2011 to February 2012, he was also the director (主任) of the assessment office (考核辦公室) of our Bank. He served for ABC before joining our Bank. From January 2007 to July 2011, he was the director (處長) of credit management division (信貸管理處) in ABC Shanxi branch. From December 2003 to January 2007, Mr. Li was the deputy director and then the director of the party committee office (黨委辦公室) of ABC Shanxi branch. Mr. Li was a vice president (副行長) of ABC Yangquan branch from October 1998 to December 2003. He was the office director of ABC Yangquan branch from February 1997 to October 1998. Before that, he worked as a vice president of ABC Yangquan suburban district sub-branch from November 1995 to February 1997. Mr. Li served as the office staff member (辦公室科員) and then the deputy director (副主任) of ABC Yangquan branch from July 1988 to November 1995.

Mr. Li obtained a bachelor's degree from Hebei Finance College (河北財經學院) (currently known as Hebei University of Economics and Business (河北經貿大學)) in Hebei Province, the PRC, in July 1988, majoring in rural finance (農村金融). He is a senior economist (高級經濟師) granted by ABC in December 2001.

Mr. SHANGGUAN Yujiang (上官玉將), aged 47, has been serving as assistant to the president of our Bank since December 2019.

Mr. Shangguan has about 25 years of experience in banking industry. He has been the general manager of energy division of the Bank since March 2019, and was the president of Bingzhou branch (並州支行) of our Bank from January 2018 to February 2019. He served as an employees' representative Supervisor from June 2018 to May 2019. From October 2012 to January 2018, Mr. Shangguan worked at Changzhi branch (長治分行) of our Bank, as the leader of the preparatory team from October 2012 to August 2013, as a vice president from August 2013 to July 2015, and as the president from July 2015 to January 2018. Prior to joining our Bank, Mr. Shangguan worked for China Bohai Bank Co., Ltd. (渤海銀行股份有限公司) ("**Bohai Bank**") from December 2007 to October 2012, as an account manager (客戶經理) of the corporate business department (公司業務部) at Beijing branch, Bohai Bank from December 2007 to October 2008, as an account manager at Weigongcun branch (魏公村支行), Bohai Bank from October 2008 to November 2009, as the deputy general manager of the risk management department and the corporate business management department (公司業務管理部) at Beijing branch, Bohai Bank from November 2009 to October 2012. He was the president of rural area sub-branch (郊區支行), Changzhi City Commercial Bank Co., Ltd. (長治市商業銀行股份有限公司) ("**Changzhi City Commercial Bank**") from August 2007 to November 2007. From March 2003 to August 2007, Mr. Shangguan worked as the president of Taixi sub-branch (太西支行), Changzhi City Commercial Bank. Mr. Shangguan worked as an assistant to the director (主任助理) of Yingxiong Road Urban Credit Cooperative (英雄路城市信用社) from March 2001 to March 2003. He served as an assistant to the director (主任助理) of Square Urban Credit Cooperative (廣場城市信用社) from September 1999 to March 2001. He worked at Taihang Road Urban Credit Cooperative (太行路城市信用社) from August 1995 to August 1999 and consecutively served as accounting section chief (會計科長), the director of operation office (營業室主任) and an assistance to the director (主任助理).

Mr. Shangguan completed studies at junior college level (專科) through correspondence study and graduated from Shanxi University of Finance and Economics (山西財經大學) in Shanxi Province, the PRC, in July 1999, majoring in accounting. He graduated from Beijing Institute of Technology (北京理工大學) in Beijing, the PRC, in July 2007, majoring in business administration. Mr. Shangguan obtained a master's degree in business administration from Xiamen University (廈門大學) in Fujian Province, the PRC, in September 2018. He is a middle level economist granted by Ministry of Human Resources of the PRC (中華人民共和國人事部) in November 2000.

IV. CONFIRMATION OF THE INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Bank has received the annual independence confirmation letter from each of the independent non-executive Directors and believes that all independent non-executive Directors are independent according to the relevant guidelines contained in Rule 3.13 of the Hong Kong Listing Rules.

V. INFORMATION ON REMUNERATION PAID TO DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For the total amount of the remuneration of Directors and Supervisors during the Reporting Period, please refer to Note 9 to the financial statements. 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.

VI. NUMBER OF EMPLOYEES, REMUNERATION POLICIES, EQUITY INCENTIVE PLAN AND TRAINING PROGRAMS

As of December 31, 2019, the total number of employees of the Group reached 4,314, of which 40.57% were employees aged 30 and below, and 84.1% were employees with bachelor's degree or above. Excellent age distribution and professional talent team can help cultivate a positive and innovative corporate culture and strengthen the ability to respond to market changes and seize market opportunities. As of December 31, 2019, the Bank had 339 employees qualified for AFP certification; 31 had CFP certificates.

The Bank earnestly implemented the national vocational skills improvement action plan, closely focused on financial hotspots and trend of international economic and the bank-wide management and development strategy, took into account the Bank's actual business development needs, formulated an annual training plan, and strived to build a high-quality professional talent team. The annual training work was aimed at providing strong talent support and system guarantee for the long-term development of the Bank. It has been carried out practically from the three dimensions of focusing on capacity building, improving the training system and strengthening the training management mechanism building. During the Reporting Period, the Bank consolidated the three-level training resources at its headquarters, branches and sub-branches, adhered to the principle of combining internal training with external training, and complemented each other online and offline, and carried out all-round and multi-angle training work for bank-wide employees focusing on front-line business operations, new products business promotion, customer marketing management, and case study of internal control compliance.

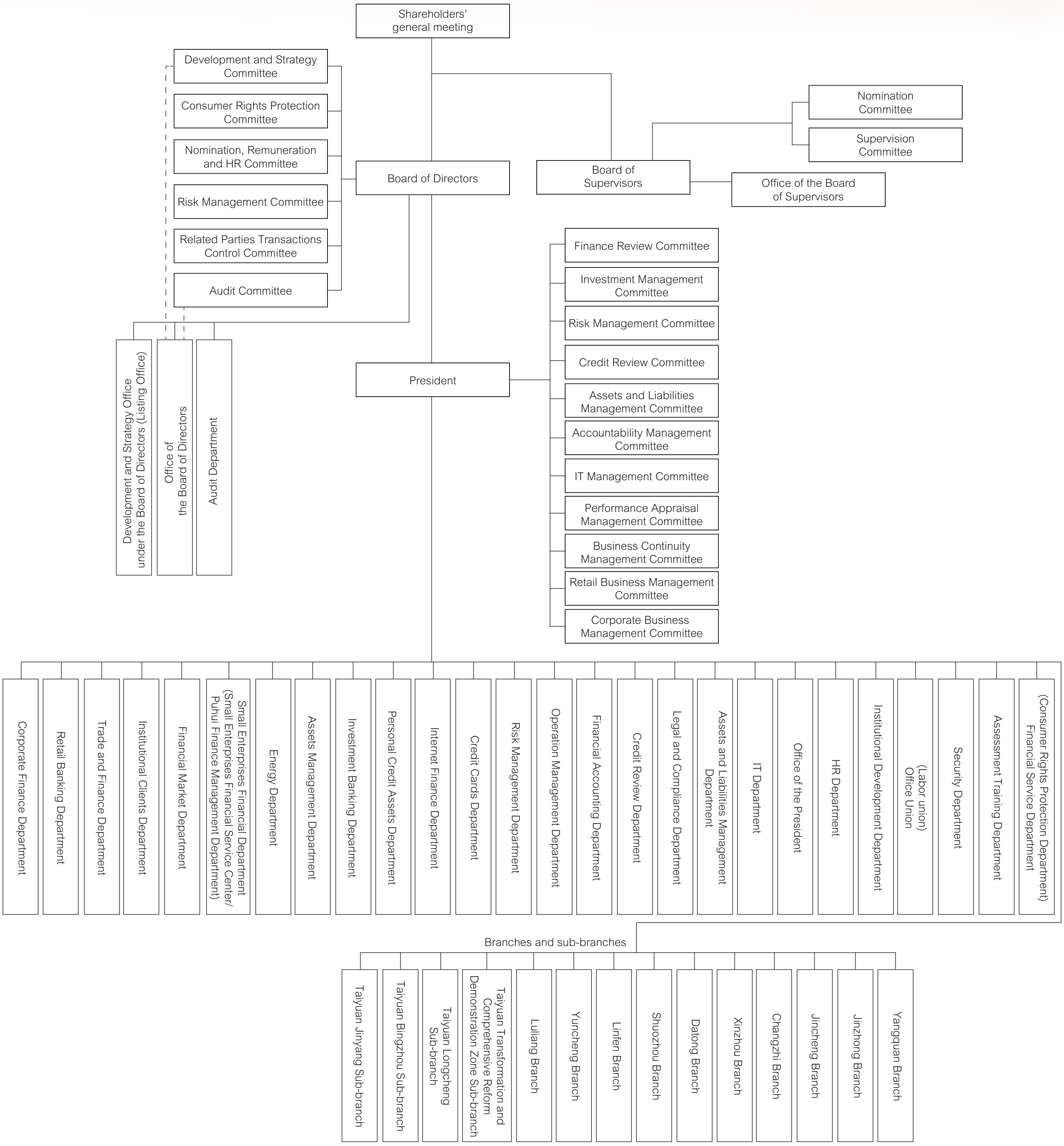
In compliance with the PRC laws and regulations, we contribute to our employees' social security and other benefits program including pension, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing allowances and corporate annuity. Our Bank has a labor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

VII. SHARE INCENTIVE PLAN

During the Reporting Period, the Bank did not implement any share incentive plan.

Corporate Governance Report

ORGANIZATIONAL STRUCTURE FOR CORPORATE GOVERNANCE



I. CORPORATE GOVERNANCE CODE

During the reporting period, the Bank continued to improve the transparency and accountability of its corporate governance and ensured high-level corporate governance practices to protect the shareholders' interests and enhance the corporate value and commitment.

Our Bank has established a relatively comprehensive corporate governance structure in accordance with the requirements of the Hong Kong Listing Rules. The composition of the Board of Directors and the special committees under the Board of Directors are in compliance with the requirements of the Hong Kong Listing Rules. The Bank clearly divides the duties of the shareholders' general meeting, the Board of Directors, the Board of Supervisors and senior management. The shareholders' general meeting is the supreme authority of the Bank. The Board of Directors is accountable to the shareholders' general meeting. The Board of Directors has established six special committees, which operate under the leadership of the Board of Directors and advise on the decisions of the Board. The Board of Supervisors is responsible for supervising the performance of duties by the Board of Directors and the senior management as well as the financial activities, risk management and internal control of the Bank. Under the leadership of the Board of Directors, the senior management is responsible for executing the resolutions of the Board and for the day-to-day business and management of the Bank, and reports to the Board of Directors and the Board of Supervisors on a regular basis. The president of the Bank is appointed by the Board of Directors to be responsible for the overall business operation and management of the Bank.

The Bank has adopted the Corporate Governance Code (the "**Code**") in Appendix 14 to the Listing Rules, and has also met the requirements of the administrative measures and corporate governance for domestic commercial banks and established a good corporate governance system. During the reporting period, the Bank has observed all applicable code provisions set forth in Appendix 14 to the Listing Rules.

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

Shareholders' general meeting

During the reporting period, the Bank held two shareholders' general meetings in total. At the meeting held on April 29, 2019, the Bank reviewed the resolution on declaring and distributing cash dividend of RMB486.8 million for the year ended December 31, 2018 to all existing shareholders on record as of December 31, 2018. At the meeting held on November 5, 2019, the Bank reviewed and adopted the resolution on re-electing and appointing the directors of the fifth session of the Board of Directors, the resolution on re-electing and appointing the shareholders' representative Supervisors and external supervisors of the fifth session of the Board of Supervisors, and the resolution on adopting the Measures for the Management of Equity of Jinshang Bank Co., Ltd. and Rules on Equity Pledge Management of Jinshang Bank Co., Ltd.

The notification, convening and voting procedures of the above shareholders' general meetings are all in compliance with the relevant provisions of the PRC Company Law and the Articles of Association.

Functions and powers of the shareholders' general meeting

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

- determining the operation strategies and particularly significant investment plans of the Bank;
- electing and replacing directors and determining the remuneration of relevant directors;
- electing and replacing non-employee representative supervisors and determining the remuneration of relevant supervisors;
- reviewing and approving the reports of the Board of Directors;
- reviewing and approving the reports of the Board of Supervisors;
- listening to the evaluations of the Board of Directors on the directors and the evaluation reports by independent directors on each other;
- listening to the evaluations of the Board of Supervisors on supervisors and the evaluation reports by external supervisors on each other;
- reviewing and approving the annual financial budget plans and final accounting plans of the Bank;

- reviewing and approving the profit distribution plans and loss recovery plans of the Bank;
- reviewing and approving the Bank's particularly significant foreign investments, assets purchase and disposal, external guarantees and related party transactions;
- determining the increase or decrease in the registered capital of the Bank;
- determining the issuance of bonds or 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;
- determining the appointment, dismissal or non-reappointment of auditors of the Bank;
- reviewing the purchase or disposal of major assets by the Bank within one year with the transaction amount exceeding 30% of the latest audited total assets of the Bank;
- reviewing and approving the changes in the use of proceeds;
- reviewing the share incentive plans;
- reviewing the proposals by shareholders individually or in aggregate holding 3% or more of the voting shares of the Bank;
- reviewing and approving other matters which should be submitted to the shareholders' general meeting for consideration in accordance with the laws, administrative regulations, rules, the securities regulations of the place where the Bank's shares are listed and the Articles.

Meetings of the Board of Directors and special committees

The Board shall hold at least four regular meetings annually, and arrange other meetings if necessary. Board meetings shall be held onsite or by means of teleconference. The Board of Directors shall send a meeting notice to all directors in advance and timely provide all directors with sufficient information (including background information about the proposals submitted and other information necessary for the directors to make informed decisions). The notice of a regular Board meeting shall be given to all directors at least 14 days before the date of the meeting, and the notice of all other Board meetings shall be given to all directors five days before the date of the meeting. A good communication and reporting mechanism has been established among the directors, Board of Directors and senior management. All directors may seek independent professional opinions at the expense of the Bank. Our president reports to the Board on a regular basis and accepts the supervision thereof. At the Board meetings, directors may freely express their opinions, but important decisions shall be subject to detailed discussion.

During the reporting period, the Board of Directors held six meetings, at which 69 resolutions were considered and adopted. The special committees under the Board of Directors held 20 meetings, including four meetings of the Strategic Development Committee, four meetings of the Audit Committee, five meetings of the Related Party Transactions Control Committee, and four meetings of the Risk Management Committee, two meetings of the Nomination, Remuneration and HR Committee and one meeting of the Consumer Rights Protection Committee, at which 49 resolutions were considered and adopted.

The Board of Directors shall have a board office as its daily administrative body responsible for preparing shareholders' general meetings, Board meetings and meetings of various special committees under the Board and for handling other tasks assigned by the same. The Board of Directors and senior management exercise their respective powers within their terms of reference as specified in the Articles of Association. Directors who have significant interests in a proposal must waive their right to discuss and vote on the proposal and shall not be included in the quorum of the proposal. The Board of Directors has reviewed the effectiveness of the Bank's risk management and internal control system (covering finance, operation and compliance control). The risk management and internal control system is reviewed 2 times every year (for the period from January 1, 2019 to December 31, 2019). The Bank believes that relevant review is sufficient and effective.

The Board believes that the risk management and internal control system established and implemented by the Bank is sufficient and effective.

For details about the internal audit of the Bank, please refer to "Risk Management and Internal Control – Internal Audit" of this annual report.

Composition of the Board of Directors

As of the date of this annual report, the Board of Directors of the Bank comprises 15 directors, including four executive directors, namely Mr. WANG Junbiao, Mr. TANG Yiping, Mr. WANG Peiming and Mr. RONG Changqing; five non-executive Directors, namely Mr. LI Shishan, Mr. XIANG Lijun, Mr. LIU Chenxing, Mr. LI Yang and Mr. WANG Jianjun; and six independent non-executive Directors, namely Mr. JIN Haiteng, Mr. SUN Shihu, Mr. WANG Liyan, Mr. DUAN Qingshan, Mr. SAI Zhiyi and Mr. YE Xiang. The term of office of the directors is three years. On January 8, 2020, Mr. YAN Junsheng resigned as chairman and vice chairman Mr. TANG Yiping temporarily served as chairman of the Board. For details, please refer to the announcement titled "Resignation of Executive Director and Chairman" issued by the Bank on January 8, 2020. The membership and composition of the Bank's Board of Directors are in compliance with applicable laws and regulations.

Please refer to the section headed "Directors, Supervisors, Senior Management and Employees" of this annual report for the resumes and terms of office of directors. None of the members of the Board is connected with other members.

Changes in Board members during the reporting period

For details of the changes in directors of the Bank, see "Directors, Supervisors, Senior Management and Employees – Changes in Directors, Supervisors and Senior Management During the Reporting Period" in this annual report.

Functions and powers of the Board of Directors

The Board of Directors shall be accountable to the shareholders' general meeting, undertake final responsibility of operation and management of the Bank, and exercise the following functions and powers in accordance with law:

(1) to convene shareholders' general meetings, report its performance at the shareholders' general meetings, and implement resolutions of the shareholders' general meetings;

(2) to decide on development strategies, operational plans and investment programs of the Bank;

(3) to formulate annual financial budget plans, final accounting plans, and risk capital allocation plan of the Bank;

(4) to formulate profit distribution plans and loss recovery plans of the Bank;

(5) to formulate proposals for increases in or reductions of registered capital, issuance of bonds or other securities and listing plans of the Bank;

(6) to formulate proposals for repurchase of the Bank's shares;

(7) to formulate plans for merger, spin-offs, dissolution, or change of corporate form of the Bank;

(8) to formulate proposals for any amendment to the Articles of Association;

(9) to formulate the basic management system of the Bank;

(10) to formulate and execute clear responsibility system and accountability system, and to assess and complete corporate governance of the Bank regularly;

(11) to decide asset and liability management (including but not limited to capital requirement), risk tolerability, risk management, and internal control policy of the Bank;

(12) to formulate capital planning, and undertake final responsibility of capital management;

(13) to formulate related party transaction management system, to examine and approve or accredit Related Party Transactions Control Committee to approve related party transactions;

(14) to examine and approve annual work report of the Bank;

(15) to decide long-term award plan, remuneration packages and salary plan of the Bank;

(16) to approve internal audit plan, annual work plan and audit budget of the Bank;

(17) to examine and approve proposals raised by each special committee of the Board of Directors;

(18) to decide the Bank's significant foreign investments, assets purchase and disposal, external guarantees, trust management and related party transactions, as well as large loans; to initially examine the Bank's particularly significant foreign investments, assets purchase and disposal, external guarantees, trust management and related party transactions, and submit them to the shareholders' general meeting for approval;

(19) to appoint or dismiss the president, the secretary to the Board, chief audit (compliance) officer and the person in charge of the audit department as nominated by the chairman; to appoint or dismiss the vice president, assistant to the president, chief finance officer, chief risk officer, chief operation officer, chief technology information officer, chief human resources officer, chief data officer, and marketing director, etc. as nominated by the president; and to decide remunerations, awards and punishments of the aforesaid persons;

(20) to authorize certain operation and management power to the president annually, and to review working reports of the president and to examine the performance of the president;

(21) to decide chairperson and members of each special committee of the Board as nominated by the Nomination, Remuneration and HR Committee;

(22) to decide on the establishment of internal management structure of the Bank and establishment of branches of the Bank;

(23) to propose to the shareholders' general meeting the engagement, dismissal or discontinuation of the appointment of the accounting firm auditing the Bank, and to give explanation to the shareholders' general meeting on the non-standard audit opinions of certified public accountant on our financial report;

(24) to disclose information of the Bank and take ultimate responsibility for the authenticity, completeness, accuracy, and timeliness of our accounting and financial reports;

(25) to regularly debrief the internal audit department and compliance department's report on internal audit and examination result, and regulatory opinions of relevant regulatory authorities on the Bank, and to examine the Bank's rectification report on executing regulatory opinions; to regularly assess operation status of the Bank, comprehensively evaluate performance of senior management personnel according to assessment result, and to supervise and ensure effective management performance of senior management;

(26) to safeguard legal interests of depositors and other stakeholders;

(27) to establish an identification, investigation and management mechanism for the conflict of interest between the Bank and shareholders, especially substantial shareholders; and

(28) to exercise any other functions and powers prescribed by the laws, administrative regulations, and the Articles of Association and authorized by the shareholders' general meetings.

Directors' responsibility for preparing financial statements

Directors confirm that they shall be responsible for preparing the financial statements for the year ended December 31, 2019 that truly and fairly reflect the affairs and results of the Bank. When preparing financial statements, directors select and implement appropriate accounting policies and make use of accounting estimates applicable to relevant circumstances. Under the assistance of accounting and financial personnel, directors ensure that the Bank prepares financial statements in accordance with statutory provisions and applicable financial reporting standards. Reporting obligation statements of the external auditors on the Group's financial statements are set out in the independent auditors' report on pages 155 to 164.

Board meetings and directors' attendances at the meetings

During the reporting period, the Bank convened a total of six Board meetings, and deliberated and approved 69 proposals, which mainly involved topics including profit distribution plan, reelection and appointment of directors and supervisors, and adoption of the Measures for the Management of Equity of Jinshang Bank Co., Ltd. and Rules on Equity Pledge Management of Jinshang Bank Co., Ltd. Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of the executive Directors during the year. Details of the Board meetings convened during the reporting period are as follows:

Meeting	Meeting date	Meeting form
The 23rd meeting of the fourth session of the Board of Directors	January 25, 2019	Onsite
The 24th meeting of the fourth session of the Board of Directors	April 3, 2019	Onsite
The 25th meeting of the fourth session of the Board of Directors	June 21, 2019	Onsite
The 26th meeting of the fourth session of the Board of Directors	August 28, 2019	Onsite and by means of teleconference
The 1st meeting of the fifth session of the Board of Directors	November 5, 2019	Onsite and by means of teleconference
The 2nd meeting of the fifth session of the Board of Directors	December 17, 2019	By means of teleconference

Attendances of each director at Board meetings during the reporting period are as follows:

Member of the Board	Number of scheduled attendances at Board meetings	Number of attendances in person at Board meetings	Number of attendances by proxy at Board meetings	Number of actual attendances at shareholders' general meetings/ number of required attendances at shareholders' general meetings
Mr. YAN Junsheng [(1)]	6	5	1	2/2
Mr. WANG Junbiao	–[(3)]	–	–	–
Mr. TANG Yiping	6	6	0	1/2
Mr. WANG Peiming	6	5	1	0/2
Mr. RONG Changqing	6	6	0	2/2
Mr. LI Shishan	6	6	0	2/2
Mr. XIANG Lijun	6	4	2	0/2
Mr. LIU Chenhang	–	–	–	–
Mr. LI Yang	–	–	–	–
Mr. WANG Jianjun	6	6	0	2/2
Mr. JIN Haiteng	6	5	1	1/2
Mr. SUN Shihu	6	6	0	1/2
Mr. WANG Liyan	6	5	1	1/2
Mr. DUAN Qingshan	–	–	–	–
Mr. SAI Zhiyi	6	5	1	0/2
Mr. YE Xiang[(2)]	3	3	0	0/1

Notes: (1) On January 8, 2020, Mr. YAN Junsheng resigned as executive director and chairman of the Board, chairperson and member of the Strategic Development Committee, member of the Nomination, Remuneration and HR Committee and authorized representative.

(2) Mr. YE Xiang worked as an independent non-executive Director of the Bank from August 8, 2019.

(3) "–" means that they have not obtained approval from the regulatory authorities for the qualifications of directorship as of the meeting date, therefore they shall not perform duties according to regulatory requirements. (The same below)

Independent non-executive Directors

The Board of the Bank currently has six independent non-executive Directors in compliance with the provisions of Hong Kong Listing Rules on appointment of at least three independent non-executive Directors, who shall jointly account for at least one third of members of the Board of Directors and at least one of whom shall have appropriate professional qualifications or accounting or relevant financial management expertise.

During the reporting period, independent non-executive Directors performed their fiduciary and due diligence duties, as well as duties required to be performed under the Articles of Association, and protected the interests of the Bank and its shareholders as a whole. Independent non-executive Directors of the Bank earnestly attended meetings of the Board and special committees, put forward objective and independent opinions on a number of issues discussed at the meetings of the Board and related special committees, and actively participated in the decision-making of the Board and supervised the Board.

The Bank has received the annual confirmation from every independent non-executive Director concerning independence thereof in accordance with Hong Kong Listing Rules for written confirmation of their independence. Therefore, the Bank confirms that all the independent non-executive Directors have complied with Hong Kong Listing Rules regarding independence thereof.

Special committees of the Board of Directors

As of the date of this annual report, the Board of Directors has established six special committees, including the Strategic Development Committee, Audit Committee, Risk Management Committee, Related Party Transactions Control Committee, Nomination, Remuneration and HR Committee, and Consumer Rights Protection Committee.

Strategic Development Committee

As of the date of this annual report, the Strategic Development Committee consisted of five directors, being Mr. WANG Junbiao, Mr. JIN Haiteng, Mr. TANG Yiping, Mr. LI Shishan and Mr. DUAN Qingshan. The chairperson of the Strategic Development Committee is Mr. WANG Junbiao. Mr. TANG Yiping is an executive director, Mr. LI Shishan is a non-executive Director, and Mr. JIN Haiteng and Mr. DUAN Qingshan are independent non-executive directors. The primary duties of the Strategic Development Committee include:

- formulating our development strategies and operational objectives, and making relevant recommendations to the Board of Directors;

- reviewing our annual budgets, strategic asset allocation plans, goals for assets and liabilities management, and development plans on various matters, and making relevant recommendations to the Board of Directors;

- making recommendations on plans for our organizational re-construction, material investment plans and merger and acquisition plans to the Board of Directors;

- assessing the soundness of our corporate structure to improve our financial reports, risk management and internal control in accordance with the standards of our corporate governance policies, and supervising the implementation of our annual operational and investment plans; and

- performing other duties as authorized by the Board of Directors and in accordance with applicable laws and regulations.

During the reporting period, the Strategic Development Committee convened four meetings, and deliberated and approved nine proposals, which mainly involved topics including profit distribution, financial budget, plans for management of capital adequacy ratio, institutional setting plans, initial public offering of H shares and arrangements of global offering. Attendances of each member at the meetings of the Strategic Development Committee in 2019 are as follows:

Member	Number of scheduled attendances at the meetings	Number of attendances in person at the meetings	Number of attendances by proxy at the meetings
Mr. YAN Junsheng (1)	4	3	1
Mr. JIN Haiteng	4	3	1
Mr. TANG Yiping	4	4	0
Mr. LI Shishan	4	4	0
Mr. DUAN Qingshan	–	–	–

Note: (1) Resigned as chairperson and member of the Strategic Development Committee on January 8, 2020.

Audit Committee

The Bank has established an Audit Committee with written terms of reference in compliance with the requirements under the Hong Kong Listing Rules. As of the date of this annual report, the Audit Committee consisted of five directors, being Mr. WANG Liyan, Mr. SAI Zhiyi, Mr. LIU Chenhang, Mr. SUN Shihu and Mr. YE Xiang. The chairperson of the Audit Committee is Mr. WANG Liyan. Mr. LIU Chenhang is a non-executive Director, and Mr. WANG Liyan, Mr. SAI Zhiyi, Mr. SUN Shihu and Mr. YE Xiang are independent non-executive Directors. More than half of the members of the Audit Committee of the Bank are independent non-executive Directors and the chairperson of the Audit Committee is an independent non-executive Director. The primary duties of the Audit Committee include:

- reviewing our risk management and compliance conditions, accounting policies, financial conditions and financial report procedures;

- conducting inspections on our risk control system to make sure that the management has established an effective system;

- conducting inspections and reviewing the compliance and effectiveness of our material operational activities;

- being responsible for our annual audit work and material adjustments regarding the same;
- supervising the completeness of the audited financial reports, reviewing such reports before submitting them to our Board of Directors for review;
- making recommendations on appointment, re-appointment or removal of external auditors, and communicating with the external auditors on behalf of the Bank and providing responses to their management letter;
- raising concerns about possible improprieties in financial reporting, internal control or other matters, and making sure that proper arrangements are in place for fair and independent investigations; and
- performing other duties as authorized by the Board of Directors and in accordance with applicable laws and regulations.

During the reporting period, the Audit Committee convened four meetings, and deliberated and approved twelve proposals, which mainly involved topics including appointment of auditors, annual report, interim report and interim results announcement, financial statements for listing and Measures for Administration of Information Disclosure of Jinshang Bank Co., Ltd..

The Audit Committee also arranged preparation and review of the interim report 2019 and annual report 2019 according to the provisions on disclosure in the annual financial report. During the reporting period, the Audit Committee had several meetings and communications with external auditors in the absence of the executive directors and senior management. As at March 25, 2020, the Audit Committee had reviewed the audited consolidated financial statements for the year ended December 31, 2019, which were prepared in accordance with the accounting principles and policies of the Bank. It also reviewed the effectiveness of the internal control system and internal audit functions of the Bank by regularly listening to the audit department's report on internal audit.

Attendances of each member at the meetings of the Audit Committee during the reporting period are as follows:

Member	Number of scheduled attendances at the meetings	Number of attendances in person at the meetings	Number of attendances by proxy at the meetings
Mr. WANG Liyan	4	3	1
Mr. SAI Zhiyi	4	3	1
Mr. LIU Chenhang	–	–	–
Mr. SUN Shihu	4	4	0
Mr. YE Xiang	1	1	0

Related Party Transactions Control Committee

The Bank has established a Related Party Transactions Control Committee with written terms of reference. As of the date of this annual report, the Related Party Transactions Control Committee consisted of five directors, being Mr. JIN Haiteng, Mr. SUN Shihu, Mr. WANG Peiming, Mr. RONG Changqing and Mr. WANG Liyan. The chairperson of the Related Party Transactions Control Committee is Mr. JIN Haiteng. Mr. WANG Peiming and Mr. RONG Changqing are executive directors. Mr. JIN Haiteng, Mr. SUN Shihu and Mr. WANG Liyan are independent non-executive Directors. The primary duties of the Related Party Transactions Control Committee include:

- assisting the Board of Directors in performing duties in relation to related party transactions and connected transactions in accordance with applicable laws and regulations;
- reviewing, supervising and approving the lists of related parties and connected persons, and identifying and managing related party transactions and connected transactions, so as to control risks in relation to such transactions;
- examining and supervising the control over our related party transactions and connected transactions and the implementation of systems in relation to related party transactions and connected transactions, and reporting to the Board of Directors;
- being responsible for the information disclosure of our related party transactions and connected transactions, and the authenticity, accuracy and completeness of the information in relation to such transactions; and
- performing other duties as authorized by the Board of Directors and in accordance with applicable laws and regulations.

During the reporting period, the Related Party Transactions Control Committee convened five meetings, and deliberated and approved six proposals, which mainly involved topics including credit business for material related party transactions of Jinshang Bank in 2019, credit business for material related party transactions between Jinshang Bank and Huaneng Capital Services Co., Ltd. and related parties and identification of connected persons.

Attendances of each member at the meetings of the Related Party Transactions Control Committee during the reporting period are as follows:

Member	Number of scheduled attendances at the meetings	Number of attendances in person at the meetings	Number of attendances by proxy at the meetings
Mr. JIN Haiteng	5	5	0
Mr. SUN Shihu	5	5	0
Mr. WANG Peiming	5	4	1
Mr. RONG Changqing	5	5	0
Mr. WANG Liyan	5	4	1

Risk Management Committee

The Bank has established a Risk Management Committee with written terms of reference. As of the date of this annual report, the Risk Management Committee consisted of five directors, being Mr. SAI Zhiyi, Mr. JIN Haiteng, Mr. TANG Yiping, Mr. WANG Jianjun and Mr. DUAN Qingshan. The chairperson of the Risk Management Committee is Mr. SAI Zhiyi. Mr. TANG Yiping is an executive director, Mr. WANG Jianjun is a non-executive Director, and Mr. JIN Haiteng and Mr. DUAN Qingshan are independent non-executive Directors. The primary duties of the Risk Management Committee include:

- reviewing our overall risk management policies, measures and preferences in relation to various risks, and assessing the control over these risks by our senior management;
- periodically conducting assessment and listening to reports on our risk policies, management status and risk tolerance ability;
- formulating working procedures and evaluating the working proficiency of our internal audit department and advising on improvement of our risk management and internal control system;
- conducting preliminary examination of the risk identification of various types of transactions, reviewing such transactions and providing opinions in relation to such transactions; and
- performing other duties as authorized by the Board of Directors and in accordance with applicable laws and regulations.

During the reporting period, the Risk Management Committee convened four meetings, and deliberated and approved 11 proposals, which mainly involved topics including guiding opinions on risk management in 2019, anti-money laundering risk management policy, disposal of non-performing loans in package, and plan on building the machine room for the Mingli-based disaster recovery center and purchase of office and business premises. The Risk Management Committee reviews the Bank's risk management system covering credit risk, market risk, operational risk, information technology risk, reputational risk and strategic risk by listening to the senior management's reports on the Bank's risk management on a quarterly basis, puts forward opinions and suggestions on improving the Bank's risk management work and urges the senior management to improve the risk management process according to changes in economic trends and macroeconomic control policies and the actual business development of the Bank.

Attendances of each member at the meetings of the Risk Management Committee during the reporting period are as follows:

Member	Number of scheduled attendances at the meetings	Number of attendances in person at the meetings	Number of attendances by proxy at the meetings
Mr. SAI Zhiyi	4	4	0
Mr. JIN Haiteng	4	4	0
Mr. TANG Yiping	4	4	0
Mr. WANG Jianjun	4	4	0
Mr. DUAN Qingshan	–	–	–

Nomination, Remuneration and HR Committee

The Bank has established a Nomination, Remuneration and HR Committee with written terms of reference in compliance with the requirements under the Hong Kong Listing Rules. As of the date of this annual report, the Nomination, Remuneration and HR Committee consisted of five directors, being Mr. DUAN Qingshan, Mr. JIN Haiteng, Mr. WANG Junbiao, Mr. XIANG Lijun and Mr. SAI Zhiyi. The chairperson of the Nomination, Remuneration and HR Committee is Mr. DUAN Qingshan. Mr. XIANG Lijun is a non-executive director, and Mr. DUAN Qingshan, Mr. JIN Haiteng and Mr. SAI Zhiyi are independent non-executive Directors. More than half of the members of the Nomination, Remuneration and HR Committee are independent non-executive Directors, and the chairperson is an independent non-executive Director. The primary duties of the Nomination, Remuneration and HR Committee include:

Nomination duties

Formulating the criteria and procedures for selecting directors and senior management personnel for approval by the Board of Directors;

Periodically making recommendations on the size and composition of the Board of Directors in accordance with the Bank's development strategies;

Identifying qualified individuals as directors, the president of the Bank, the chief audit officer, and the secretary to the Board of Directors, conducting preliminary examination of qualifications and conditions of candidates for directorships and senior management positions, and making recommendations to the Board of Directors;

Assessing the independence of independent non-executive Directors;

Making recommendations on the appointment, re-appointment of directors to the Board of Directors; and

Formulating training plans for senior management and key personnel of the Bank.

Remuneration and appraisal duties

Making recommendations to the Board of Directors on the policy and structure for remunerations of directors and senior management personnel, and on the establishment of a formal and transparent procedures for developing remuneration policy;

Reviewing and approving the management's remuneration proposals with reference to the Board of Directors' corporate goals and objectives;

Formulating the remuneration packages of directors and senior management, making recommendations to the Board of Directors regarding such packages, submitting such packages to the shareholders' general meeting for approval, and supervising the implementation of the same;

Reviewing the Bank's remuneration policies, contemplating the criteria for appraising directors and senior management, conducting assessment and evaluation and making recommendations to the Board of Directors according to actual conditions;

Reviewing and approving compensation payable to executive directors and senior management for any loss or termination of office, to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

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; and

Performing other duties as authorized by the Board and in accordance with applicable laws and regulations.

During the reporting period, the Nomination, Remuneration and HR Committee convened two meetings, and deliberated and approved 10 proposals, which mainly involved topics including recruitment and dismissal of senior management personnel, re-election of the Board and performance evaluation report for directors in 2018.

Attendances of each member at the meetings of the Nomination and Remuneration Committee during the reporting period are as follows:

Member	Number of scheduled attendances at the meetings	Number of attendances in person at the meetings	Number of attendances by proxy at the meetings
Mr. DUAN Qingshan	–	–	–
Mr. JIN Haiteng	2	2	0
Mr. YAN Junsheng (1)	2	2	0
Mr. XIANG Lijun	2	1	1
Mr. SAI Zhiyi	2	2	0

Note: (1) Resigned as a member of the Nomination, Remuneration and HR Committee on January 8, 2020.

The Board believes the diverse Board membership is conducive to improving the Bank's performance. The Board diversity of the Bank is of huge importance to achieve sustainable development, implement strategies and maintain good corporate governance.

The Bank adopted a board diversity policy (the "**Board Diversity Policy**") before listing setting out the approach to achieve and maintain diversity on the Board in compliance with the Hong Kong Listing Rules, pursuant to which the Bank seeks to achieve Board diversity through consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge, length of service and any other factors that the Board may consider relevant and applicable from time to time.

Furthermore, the Nomination, Remuneration and HR Committee will review the Board composition at least once annually taking into account the benefits of all relevant diversity aspects, and adhere to the Board Diversity Policy when making recommendation to the Board on appointment of new directors. The Nomination, Remuneration and HR Committee will also review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness and the Bank will take opportunities to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for the Board so as to ensure that appropriate gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices.

The Board comprises 15 members, including four executive Directors, five non-executive Directors and six independent non-executive Directors. Directors of the Bank have a balanced mix of experience, including banking, corporate/economics/administrative management, auditing, accounting and finance. Furthermore, the Board has a relatively wide range of age, ranging from 33 years old to 75 years old. Taking into account the Bank's existing business model and meritocracy of the directors, despite lack of female representation on the Board, the directors consider that the current composition of the Board satisfies the principles under the Board Diversity Policy. Nevertheless, in recognizing the particular importance of gender diversity, the Nomination, Remuneration and HR Committee will use its best efforts to identify and recommend suitable female candidates to the Board for its consideration and the Bank aims to appoint at least one female director by the end of 2020. The Bank will use its best efforts to achieve at least 15% female representation in the Board within five years of listing.

Going forward, to develop a pipeline of potential successors to the Board that could ensure gender diversity of the Board in a few years' time, the Bank will (i) consider the possibility of nominating female senior management who has the necessary skills and experience to the Board; (ii) ensure that there is gender diversity when recruiting staff at mid to senior level; and (iii) engage more resources in training female staff with the aim of promoting them to the senior management or directorship of the Bank.

Consumer Rights Protection Committee

The Bank has established a Consumer Rights Protection Committee with written terms of reference. As of the date of this annual report, the Consumer Rights Protection Committee consisted of five directors, being Mr. SUN Shihu, Mr. WANG Liyan, Mr. TANG Yiping, Mr. LI Yang and Mr. SAI Zhiyi. The chairperson of the Consumer Rights Protection Committee is Mr. SUN Shihu. The primary duties of the Consumer Rights Protection Committee are as follows:

- being responsible for formulating the strategies, policies and goals of the Bank's consumer rights protection work;

- supervising the senior management to effectively implement consumer rights protection work;

- periodically listening to special reports on consumer rights protection work, supervising and evaluating the comprehensiveness, promptness, and effectiveness of the Bank's consumer rights protection work and the performance of the senior management, and submitting the relevant reports to the Board of Directors; and

- performing other duties as authorized by the Board of Directors and in accordance with applicable laws and regulations.

During the reporting period, the Consumer Rights Protection Committee convened one meeting, and deliberated and approved one proposal, which mainly involved topics including the Administrative Measures for Consumer Rights Protection of Jinshang Bank Co., Ltd.

Attendances of each member at the meeting of the Consumer Rights Protection Committee during the reporting period are set out as follows:

Member	Number of scheduled attendances at the meetings	Number of attendances in person at the meetings	Number of attendances by proxy at the meetings
Mr. SUN Shihu	1	1	0
Mr. WANG Liyan	1	1	0
Mr. TANG Yiping	1	1	0
Mr. LI Yang	–	–	–
Mr. SAI Zhiyi	1	1	0

Corporate governance function

As the Bank has no corporate governance committee, the Board undertakes the Bank's corporate governance functions, such as formulating and reviewing the Bank's policies and corporate governance practices, reviewing and supervising the training and continuous professional development of directors, supervisors and senior management, reviewing and supervising the Bank's compliance with the policies and practices under the laws and regulatory requirements, and reviewing the Bank's compliance with related codes and disclosure in corporate governance report.

BOARD OF SUPERVISORS

Composition of the Board of Supervisors

As of the date of this annual report, the Board of Supervisors consisted of nine supervisors, including three employee representative supervisors, namely Mr. XIE Liying, Mr. WEN Qingquan and Mr. GUO Zhenrong; three shareholder representative supervisors, namely Mr. BI Guoyu, Ms. XU Jin and Mr. XIA Guisuo; and three external supervisors, namely Mr. LIU Shoubao, Mr. WU Jun and Mr. LIU Min. The number of members and composition of the Board of Supervisors complied with the applicable laws and regulations.

Changes in members of the Board of Supervisors during the reporting period

Save as disclosed in the section "Directors, Supervisors, Senior Management and Employees – Changes in Directors, Supervisors and Senior Management During the Reporting Period", there were no other changes in the members of the Board of Supervisors of the Bank during the reporting period.

Meetings of the Board of Supervisors and supervisors' attendances at the meetings

During the reporting period, the Bank convened six meetings of the Board of Supervisors, and deliberated and approved 83 proposals, which mainly involved topics including dividend distribution plan, reelection and appointment of directors and supervisors, amendments to the Working Rules for the Nomination Committee under the Board of Supervisors of Jinshang Bank Co., Ltd. and the Working Rules for the Supervision Committee under the Board of Supervisors of Jinshang Bank Co., Ltd., etc.

Attendances of each supervisor at the meetings of the Board of Supervisors during the reporting period are as follows:

Member	Number of scheduled attendances at the meetings	Number of attendances in person at the meetings	Number of attendances by proxy at the meetings
Mr. XIE Liying	6	6	0
Mr. BI Guoyu	6	6	0
Ms. XU Jin	6	6	0
Mr. XIA Guisuo	6	6	0
Mr. WEN Qingquan	4[(1)]	4	0
Mr. GUO Zhenrong	4[(2)]	4	0
Mr. LIU Shoubao	6	6	0
Mr. WU Jun	6	5	1
Mr. LIU Min	6	6	0

Note:

(1) and (2) Mr. WEN Qingquan and Mr. GUO Zhenrong have worked as employees' representative Supervisors of the Bank since May 13, 2019.

Committees under the Board of Supervisors

There are two committees under the Bank's Board of Supervisors, namely, the Supervision Committee and the Nomination Committee. The committees operate in accordance with the terms of reference established by the Board of Supervisors.

Supervision Committee

As of the date of this annual report, the Supervision Committee consisted of five supervisors, being Mr. LIU Shoubao, Mr. BI Guoyu, Ms. XU Jin, Mr. XIA Guisuo and Mr. GUO Zhenrong. The chairperson of the Supervision Committee is Mr. LIU Shoubao. The primary duties of the Supervision Committee include:

- supervising the formulation of supervision and examination plans, and the implementation of supervision on our operational decisions, financial activities, risk management and internal control;
- making recommendations on penalties over violations of applicable laws, regulations and rules by the Board of Directors and senior management;
- supervising the issuance of written reports by the office of the Board of Supervisors on financial reports and distribution plans;
- conducting preliminary review on removals of independent non-executive directors, and making recommendations to the Board of Supervisors regarding such removals;
- supervising other relevant matters which are material to our business and operation; and
- performing other duties as authorized by the Board of Supervisors.

During the reporting period, the Supervision Committee convened five meetings, and deliberated and approved 42 proposals, which mainly involved topics including the proposal on amendments to the Working Rules for the Supervision Committee under the Board of Supervisors of Jinshang Bank Co., Ltd., the proposal on amendments to the basic accounting system of Jinshang Bank Co., Ltd. and the proposal on administrative measures for consumer rights protection of Jinshang Bank Co., Ltd. Attendances of each member at the meetings of the Supervision Committee during the reporting period are as follows:

Member	Number of scheduled attendances at the meetings	Number of attendances in person at the meetings	Number of attendances by proxy at the meetings
Mr. LIU Shoubao	5	5	0
Mr. BI Guoyu	5	5	0
Ms. XU Jin	5	5	0
Mr. XIA Guisuo	5	5	0
Mr. GUO Zhenrong	2	2	0

Nomination Committee

As of the date of this annual report, the Nomination Committee consisted of five supervisors, being Mr. WU Jun, Mr. XIE Liying, Mr. BI Guoyu, Mr. LIU Min and Mr. WEN Qingquan. The chairperson of the Nomination Committee is Mr. WU Jun. The primary duties of the Nomination Committee include:

- instructing the formulation of criteria and procedures for selecting supervisors;
- conducting preliminary examination of qualifications and conditions of supervisor candidates, and making recommendations to our Board of Supervisors;
- formulating the assessment plans for supervisors, conducting assessment for supervisors, and raising preliminary assessment opinions;
- formulating the remuneration packages for supervisors, making recommendations to the Board of Supervisors in relation to such packages, and submitting to the shareholders' general meeting for approval;
- periodically assessing the performance of directors and senior management and reporting to the shareholders' general meeting;
- conducting preliminary review on resignations or removals of supervisors, and making recommendations to the Board of Supervisors; and
- performing other duties as authorized by the Board of Supervisors.

During the reporting period, the Nomination Committee convened five meetings, and deliberated and approved 35 proposals, which mainly involved topics including the proposal on amendments to the Working Rules for the Nomination Committee under the Board of Supervisors of Jinshang Bank Co., Ltd., the proposal on amendments to the Measures for Performance Evaluation on Directors of the Board of Supervisors of Jinshang Bank Co., Ltd., the proposal on amendments to the Measures for Performance Evaluation on Supervisors of the Board of Supervisors of Jinshang Bank Co., Ltd. and the proposal on amendments to the Measures for Performance Supervision Evaluation on Senior Management Personnel of the Board of Supervisors of Jinshang Bank Co., Ltd.. Attendances of each member at the meetings of the Nomination Committee during the reporting period are as follows:

Member	Number of scheduled attendances at the meetings	Number of attendances in person at the meetings	Number of attendances by proxy at the meetings
Mr. WU Jun	5	4	1
Mr. XIE Liying	5	5	0
Mr. BI Guoyu	5	5	0
Mr. LIU Min	5	5	0
Mr. WEN Qingquan	2	2	0

Attendances at the shareholders' general meetings during the reporting period

During the reporting period, the Bank convened two shareholders' general meetings. The Board of Supervisors dispatched representatives to attend the meetings and supervise onsite whether the contents considered at the meetings, meeting procedures and voting processes comply with the laws and regulations.

Attendances at the Board meetings during the reporting period

During the reporting period, to improve the basic duty performance evaluation work, the Bank's Board of Supervisors dispatched supervisors to attend the Board meetings and required the supervisors to record the key contents and information related to the meetings of the special committees of the Board attended by them, which records were used as the basic data for year-end evaluation of the Board of Supervisors and effectively improved the objectivity of evaluation work.

Trainings of the directors and supervisors during the reporting period

During the reporting period, directors and supervisors of the Bank participated in the related trainings mainly on duty performance of directors and supervisors, etc.

SENIOR MANAGEMENT

Senior management has the power granted by the Board of the Bank to manage the daily operation of the Bank. President of the Bank is mainly responsible for executing the decisions of the Board and reporting to the Board. The Bank has also appointed three vice presidents and other senior management personnel to work with the president of the Bank and perform their respective management responsibilities.

The Bank's Board and management represented by the president perform their respective responsibilities according to the terms of reference specified in the Articles of Association. Under the Articles of Association, the president and senior management are accountable to the Board and accept the supervision of the Board of Supervisors. The president and senior management shall, in a regular manner or as required by the Board or Board of Supervisors, report to the Board or Board of Supervisors the Bank's operation performance, financial conditions, risk conditions, operation prospects, material contracts, significant events and other conditions, and shall ensure the authenticity of such reports. Senior management may set up special committees and functional departments according to work needs and as required by the Board, and specify the structure of functional departments.

CHAIRMAN OF THE BOARD AND PRESIDENT

During the reporting period, the positions and functions of the chairman of the Board and president of the Bank were undertaken by different persons and their respective duties were defined clearly, which complied with the Hong Kong Listing Rules.

On the date of this annual report, Mr. TANG Yiping, vice chairman of the Board, temporarily performed the duty of chairman of the Board. On January 8, 2020, Mr. YAN Junsheng asked to resign as chairman of the Bank. For details, please refer to the announcement titled "Resignation of Executive Director and Chairman" issued by the Bank on January 8, 2020. Mr. TANG Yiping is also the president of the Bank, responsible for the daily operation and management of our Bank and in charge of the president's office.

COMPANY SECRETARIES

Ms. HAO Qiang and Ms. YEUNG Ching Man have been joint company secretaries of the Bank since January 25, 2019. Each director may discuss with the company secretaries for advice and information. Ms. HAO Qiang is Ms. YEUNG Ching Man's main liaison in the Bank. Ms. HAO Qiang and Ms. YEUNG Ching Man confirmed that they have received at least 15 hours of relevant professional training during the reporting period.

RELATIONSHIP BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PERSONNEL

There is no financial, business or kinship relationship between the directors, supervisors and senior management personnel of the Bank.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE BANK

To reflect the changes in the total amount of issued share capital of the Bank after the completion of the global offering and the partial exercise of over-allotment option, the chairman of the Bank has approved the corresponding changes in the registered capital of the Bank and the amendments to the Articles of Association in accordance with the authorization granted by the shareholders' general meeting held on December 17, 2018 and the further authorization granted by the Board, and has gone through the registration formalities with the Shanxi Provincial Administration of Market Supervision upon approval by the CBIRC Shanxi Office.

For details, please refer to the announcement titled "Change of Registered Capital and Amendments to the Articles of Association" issued by the Bank on December 13, 2019.

Except as disclosed above, there are no other significant changes in the Articles of Association between the reporting period and the date of this annual report. The Articles of Association are available on the websites of the Bank and Hong Kong Stock Exchange.

COMMUNICATIONS WITH SHAREHOLDERS

The Bank attached great importance to the opinions and suggestions of shareholders and actively organized various communication activities with investors and analysts, so as to maintain a good relationship and respond to the reasonable requirements of shareholders in a timely manner. Shareholders may make enquiries to the Board through the office of the Board. Contact details of the Board are as follows:

Address: No. 59 Changfeng Street, Xiaodian District, Taiyuan, Shanxi Province, the PRC
Postal Code: 030006
Tel.: 0351-6819503
Fax: 0351-6819503
E-mail: dongban@jshbank.com

SHAREHOLDERS' RIGHTS

Procedures for shareholders to call an extraordinary general meeting

The Bank effectively safeguards shareholders' rights in strict accordance with the applicable laws and regulations, Hong Kong Listing Rules, Articles of Association and corporate governance system.

Pursuant to the Articles of Association:

An extraordinary general meeting is required to be held within two months from the date of occurrence of any of the following:

Shareholders individually or in aggregate holding 10% or more of the Bank's shares may request in writing to the Board to convene an extraordinary general meeting or class meeting; the Board shall, pursuant to relevant laws, administrative regulations and the Articles of Association, give a written reply on whether to convene the extraordinary general meeting or class meeting within ten days after receipt of the request. The number of shares held by the aforesaid shareholders shall be subject to the number of shares held by such shareholders on the date of their written request to the Board.

More than half of the independent directors (if there are only two independent directors, the independent directors shall agree unanimously) shall be entitled to propose to the Board to convene an extraordinary general meeting. The Board shall, pursuant to relevant laws, administrative regulations and the Articles of Association, give a written reply on whether or not it agrees to hold such an extraordinary general meeting within 10 days after receipt of the proposal of the independent directors to hold such a meeting. If the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board. If the Board does not agree to hold the extraordinary general meeting, it shall give the reasons.

The Board of Supervisors or more than half of the external supervisors (if there are only two external supervisors, they shall agree unanimously) shall be entitled to propose to the Board to convene an extraordinary general meeting, and shall put forward its proposal to the Board in writing. The Board shall, pursuant to relevant laws, administrative regulations and the Articles of Association, give a written reply on whether or not it agrees to hold such an extraordinary general meeting within 10 days after receipt of the proposal.

If the Board agrees to hold the extraordinary general meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board. Any change to the original proposal sets forth in the notice shall be subject to approval by the Board of Supervisors. if the Board does not agree to hold the extraordinary general meeting or fails to give a written reply within 10 days after receipt of the proposal, it shall be deemed to be unable to perform or fail to perform the duty of convening the extraordinary general meeting, and the Board of Supervisors may convene and preside over the meeting by itself.

For further details, shareholders may refer to the Articles of Association published on the websites of Hong Kong Stock Exchange and our Bank.

Procedures for making proposals at shareholders' general meeting

Where the Bank convenes a shareholders' general meeting, the Board, Board of Supervisors, and shareholder(s) individually or in aggregate holding more than 3% of the total voting shares of the Bank may make proposals to the Bank. The Bank shall include in the agenda of the meeting the matters in the proposal that fall within the scope of functions of the shareholders' general meeting.

Shareholders individually or in aggregate holding more than 3% of the total voting shares of the Bank may submit written provisional proposals to the convener 10 days before the shareholders' general meeting. The convener shall serve a supplementary notice of shareholders' general meeting within two days after receipt of the proposals and announce the contents of the provisional proposals.

Save as specified in the preceding paragraph, the convener shall not change the proposals set out in the notice of shareholders' general meeting or add any new proposal after the said notice is served.

For further details, shareholders may refer to the Articles of Association published on the websites of Hong Kong Stock Exchange and our Bank.

EXTERNAL AUDITORS AND THEIR REMUNERATIONS

The Bank has engaged KPMG and KPMG Huazhen LLP as the international and domestic auditors of the Bank for the past three years in a row without changing domestic and overseas accounting firm. For the year ended December 31, 2019, the remuneration agreed to be paid by the Bank to KPMG and KPMG Huazhen LLP for the review of interim financial statements and the audit of annual financial statements was RMB3.98 million in aggregate (not including non-audit expense).

At the 2018 annual general meeting held on April 29, 2019, the shareholders have considered and approved the appointment of KPMG and KPMG Huazhen LLP as the Bank's auditors in 2019 for a term of office until the end of the next annual general meeting of the Bank.

Renumeration of senior management

Details of the remuneration of senior management for the year ended December 31, 2019 are set out in the "Directors, Supervisors, Senior Management and Employees – Remuneration of Directors, Supervisors and Senior Management" of this annual report.

Risk management and internal control

For details of the Bank's risk management and internal control, please refer to the "Risk Management and Internal Control" of this annual report.

Securities transactions by directors, supervisors and relevant employees

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

Directors' Report

THE BOARD HEREBY PRESENTS THE DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS OF THE BANK FOR THE YEAR ENDED DECEMBER 31, 2019.

MAIN OPERATIONS

The Bank is principally engaged in banking and relevant financial services, including 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.

BUSINESS REVIEW

Business review of the Bank

The business review of the Bank during the Reporting Period is set out in "Management Discussion and Analysis — Business Review".

Environmental policy and performance

In recent years, the Bank has actively undertaken social responsibilities related to environmental policies. In 2019, the Bank complied with the "comply or explain" provisions set forth in the Environmental, Social and Governance Reporting Guide. 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.

For details of the Bank's environmental policy and performance, please refer to "2019 Annual Environmental, Social and Governance Report of Jinshang Bank Co., Ltd.".

CONSUMER RIGHTS PROTECTION

The Board has established the Consumer Rights Protection Committee. For details of its responsibilities, please refer to the "Board-Consumer Rights Protection Committee" of this annual report.

In terms of consumer rights protection, the Bank mainly carried out the following activities: (1) improved the construction of the mechanism, formulated detailed rules for complaint management and hall management services, and improved the service system; (2) strengthened service management and further enhanced the customer experience and service level by setting up a "benchmark outlet" model and strengthening innovation inspection; (3) improved the complaint mechanism, established a unified consumer complaint classification standard, and realized the normalization, standardization and routinization of the complaint handling and management process; (4) performed social responsibilities and continued to increase financial knowledge publicity and education efforts. In 2019, the accumulated number of the employees of the Bank participating in various publicity activities reached 3,559, a total of 1,709 on-site publicity activities were carried out, a total of 68,100 copies of publicity materials were distributed, a total of 45,200 WeChat text messages were sent, and a total of 101,800 customers were benefited, helping consumers improve safety concept and risk prevention ability; (5) cultivated service culture, strengthened corporate culture construction, and established the culture concept of responsibility.

COMPLIANCE WITH LAWS AND REGULATIONS

Based on our risk management principles, the Bank has established a sound risk management organizational structure, comprising (i) the Board of Directors, the Risk Management Committee at the board level and the Board of Supervisors; (ii) various special risk management committees at the board level and at the senior management level that take charge of the guidance, support and coordination of our risk management system; and (iii) various departments at our head office, branches and sub-branches that are in charge of daily risk management work. Capitalizing on our comprehensive risk management structure, the Bank has been able to effectively manage key risks associated with our daily operations, primarily including credit risk, market risk, liquidity risk and operational risk.

The Bank has established a range of systems and measures to manage and control the legal risks faced by the Bank. Our Legal and Compliance Department at the head office and the corresponding departments at the branch level are responsible for management of our legal risk. The Bank carries out legal risk management mainly through the following measures: (1) Implementing the legal review system. The Bank requires the contracts for all types of businesses bank-wide to be submitted to our Legal and Compliance Department for legal review, and to be used only after obtaining our legal opinion. The Bank conducts legal review of our businesses to prevent legal risks and ensure the legality of our operational activities.; (2) Formulating form agreements. The Bank formulates form agreements for frequent operational activities and uses them in bank-wide businesses to reduce legal risks; (3) Strengthening litigation management. The Head Office centralizes the bank-wide litigation management of cases where amounts in dispute exceed RMB1.0 million. The Bank studies and discusses the action plans upon litigation, formulates internal procedures relating to litigation management, and maintains a database of qualified law firms we may choose from, so as to enhance our case management capability; (4) Periodic legal training. The Bank conducts multiple bank-wide legal training every year to enhance the legal knowledge and risk awareness of our personnel; and (5) Legal risk alert system. For common legal risks in the Bank's business operations, the Bank publishes legal risk alerts to remind our employees to prevent and reduce the occurrence of legal risk incidents.

The Bank has developed internal policies and procedures with respect to anti-money laundering which are primarily relating to customer due diligence, transaction record keeping, suspected terrorism financing activities, anti-money laundering classification, and large and suspicious transaction reporting. The Bank systematically conducted customer due diligence and collected relevant information and transaction records pursuant to applicable laws and regulations and our internal policies. The Bank has developed an anti-money laundering system, which enables us to effectively identify, evaluate, monitor, control and report anti-money laundering risks. The Bank also optimizes the system and improves our model for identifying suspicious transactions on a continuous basis in order to enhance our ability to report large-amount and suspicious transactions. The Bank provides frequent training to our employees to assist them to understand the latest development about domestic and international anti-money laundering laws.

Based on our internal rules and policies, the Bank classifies our customers into five levels based on their money laundering risk. For newly acquired customers who have a newly established business relationship with us, the Bank reviews the customer information and classify their risk levels. The Bank continuously monitors changes in the customer's situation and their transactional records and adjusts their risk levels as appropriate. For high risk customers, the Bank conducts identification recognition. The Bank focuses on analyzing their source of funds, use of funds, financial condition, operational status, controlling shareholders and controlling persons. The Bank also conducts closer monitoring on their transactional details through our core business system or anti-money laundering system.

The Bank has established a management system for large and suspicious transaction reporting, and has formulated independent monitoring rules and models according to the requirements set forth by the regulatory authorities. The Bank submits suspicious transaction reports which fulfill the requirements and have gone through the artificial analysis to the Anti-money Laundering Monitoring Center of PBoC, and the Bank timely files the key suspicious transaction reports to the local PBoC representative.

The Board closely monitors 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 in all material respects with all applicable laws and regulations which could materially affect the Bank.

RELATIONSHIP BETWEEN THE BANK AND ITS EMPLOYEES

The senior management of the Bank pays particular attention to the cultivation of talents and consider the identification and utilization of talents the basis of the Bank's sustainable development. The Bank has established a workforce with necessary expertise and strong execution capacity. The Bank has established a comprehensive incentive management system offering a clear career development path for its staff, encouraging employees with different expertise to fully realize their value. The Bank invests in improvements in our continued training program for employees that comprise multi-level courses and on-the-job training covering various positions, where it aims to enhance employees' professional capability and to build a professional, dedicated, honest and united talent team.

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

In compliance with the PRC laws and regulations, the Bank contributes to its employees' social security and other benefits program including pension, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing allowances and corporate annuity.

The Bank has a labor union established in accordance with PRC laws and regulations, which represents the interests of the employees and works closely with the management of the Bank on labor-related issues. During the Reporting Period, the Bank had not experienced any strikes or other material labor disputes that affect its operations, and the Bank believed the management had been maintaining a good relationship with the labor union.

For details of the Bank's employees and employment policies, please refer to the aforesaid section "Directors, Supervisors, Senior Management and Employees" and 2019 Environmental, Social and Governance Report published by the Bank on the websites of the Hong Kong Stock Exchange and the Bank in due time.

PERFORMANCE

The performance of the Bank for the year ended December 31, 2019 is set out in the section headed "Financial Statements".

LISTING OF H SHARES ON THE HONG KONG STOCK EXCHANGE

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

DIVIDEND

Aiming at providing stable and sustainable returns to shareholders, the Bank strives to maintain a stable dividend policy, under which when deciding whether to distribute dividends and the amount of dividends, the Board will consider the Group's operating results, financial conditions, distributable profits generated in the current year, working capital adequacy, capital requirements, future prospects and any other factors the Board deems appropriate.

On April 3, 2019, the Board passed a resolution which proposed to declare and distribute cash dividends of RMB10.0 (tax inclusive) per 100 shares, totaling RMB486.8 million for the year ended December 31, 2018 to all existing shareholders on record as of December 31, 2018. The declaration and distribution of these dividends were approved at the shareholders' general meeting on April 29, 2019. The Bank has declared and distributed these dividends for the year ended December 31, 2018 with its internal funds on May 29, 2019.

The profits of the Bank for the year ended December 31, 2019 and the financial conditions of the Bank as of the same date are set out in the section "Financial Statements" of this annual report.

The Board has proposed to distribute final dividends for the year ended December 31, 2019 at RMB11.0 (tax inclusive) per 100 shares in cash, with an aggregate amount of approximately RMB642.3 million. The final dividend is subject to approval of shareholders at the annual general meeting of 2019 ("**2019 Annual General Meeting**") to be held by the Bank.

If approved at the 2019 Annual General Meeting of the Bank, the final dividend is expected to be paid on July 29, 2020.

If the proposal is approved at the 2019 Annual General Meeting, the dividend will be distributed to holders of Domestic Shares and H Shares registered on the share register of the Bank on June 18 , 2020 (Thursday). The aforesaid dividend proposed to be distributed will be denominated in RMB and distributed to holders of Domestic Shares in RMB and holders of H Shares in Hong Kong dollars, respectively. The applicable exchange rate for calculating the dividend to be distributed in Hong Kong dollars will be the average of the RMB central parity in the interbank foreign exchange market announced by the People's Bank of China for the five working days (including the date of convening of the annual general meeting) before declaration of dividend distribution at the 2019 Annual General Meeting. The registration of transfers of Domestic Shares and H Shares of the Bank will be closed from June 13 , 2020 (Saturday) to June 18, 2020 (Thursday) (both days inclusive). If the holders of H Shares of the Bank want to obtain the final dividend of 2019 but have not registered the transfer documents, the said holders shall submit the transfer documents together with the relevant share certificates to our H Share Registrar, namely Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on June 12, 2020 (Friday).

The Bank had no plan for conversion of capital reserve into share capital in the past three years. The cash dividend on ordinary shares in the past three years is as follows:

	2018	2017	2016
Cash dividend (tax inclusive, in millions of RMB)	486.8	486.8	326.8
Percentage in the annual profit (%)	36.98	39.62	32.01

Date of the 2019 Annual General Meeting and Closure of Registration of Share Transfer

The Bank planned to hold the 2019 Annual General Meeting on June 9, 2020 (Tuesday). For the purpose of determining shareholders who have the right to attend and vote at the 2019 Annual General Meeting, the register of H shares of the Bank will be closed from May 9, 2020 (Saturday) to June 9, 2020 (Tuesday) (both days inclusive). The holders of H shares of the Bank who intend to attend and vote at the 2019 Annual General Meeting shall submit all the transfer documents together with the relevant share certificates to our H Share Registrar, namely Computershare Hong Kong Investor Services Limited located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before 4:30 p.m. on May 8, 2020 (Friday). Shareholders registered on our share register as at the close of business on May 8, 2020 (Friday) shall be entitled to attend and vote at the 2019 Annual General Meeting.

RELATIONSHIP BETWEEN THE BANK AND ITS CUSTOMERS

The Bank is the only provincial city commercial bank in Shanxi Province. We have established an extensive business network covering Shanxi Province that fully penetrated into regions with strong economic growth. As of December 31, 2019, we had a business network comprising 159 outlets that covered all 11 prefecture-level cities in Shanxi Province. Capitalizing on our deep knowledge on the local economy and leveraging policies promulgated by PRC Government in recent years promoting industry upgrade and economic transformation in Shanxi Province, we strategically expanded into industries that enjoy strong business prospect. In particular, we invested in capturing opportunities arising from industries and businesses encouraged by favorable policies, including the consolidation and upgrade of coal-related industries, the integration of coal and power industries as well as the new material industries, and the development of advanced manufacturing and tourism industries that focus on products and services with unique features and advantages.

Following policies of PRC Government encouraging financial services supporting the real economy, particularly micro and small enterprises, we launched a series of loan products based on the fund needs and business features of micro and small enterprises that are well-recognized by the market, including "Kuai Ya Dai (快押貸)" and "Lian Lian Rong(聯鏈融)".

In 2019, we were ranked 421st among the "Top 1000 World Banks" in terms of tier-one capital as of December 31, 2018 by The Banker, moving up 19 places compared with our ranking in 2018.

KEY RISKS FACING THE BANK

For key risks facing the Bank during the Reporting Period, please see "Management Discussion and Analysis – Risk Management".

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

For significant events of the Bank subsequent to the end of the Reporting Period, please refer to "Important – Significant Events Subsequent to the End of the Reporting Period".

FUTURE DEVELOPMENT

A review on aspects affecting the future development of the Bank is set out in "Management Discussion and Analysis – Environment and Prospect".

ANALYSIS OF KEY FINANCIAL PERFORMANCE INDICATORS DURING THE YEAR

For details, please refer to the sections headed "Summary of Accounting Data and Financial Indicators" and "Management Discussion and Analysis" of this annual report.

SHARE CAPITAL

For details of the Bank's share capital, please refer to "Changes in Share Capital and Information of Shareholders – I. Changes in the Bank's Shares".

PREEMPTIVE RIGHT

The Articles of Association and relevant PRC laws have no provisions on granting the preemptive right to the shareholders of the Bank. According to the Articles of Association, the Bank may increase its capital as follows in the light of its business and development needs, in accordance with laws, administrative regulations, and rules governing securities of the place where shares of the Bank are listed, resolutions made at the shareholders' general meeting and upon approval by relevant competent authorities of the State: public offering of shares; non-public offering of shares; placing new shares to existing shareholders; distributing new shares to existing shareholders; transferring reserve funds to increase share capital; other methods stipulated by laws, administrative regulations and permitted by relevant competent authorities of the State. The Bank's increase of capital by issuing new shares shall be conducted in accordance with the procedures provided in relevant laws, administrative regulations, rules governing securities of the place where shares of the Bank are listed, after being approved according to the Articles of Association.

MAJOR SHAREHOLDERS

Please refer to "Changes in Share Capital and Information of Shareholders – II. Information of Shareholders" for details of the Bank's major shareholders at the end of the Reporting Period.

DONATIONS

The charitable donations and other donations made by the Bank for the year ended December 31, 2019 amounted to RMB1.1 million.

PROPERTY AND EQUIPMENT

Details of changes in the property and equipment of the Group for the year ended December 31, 2019 are set out in Note 22 to the financial statements of this annual report.

CHANGES IN RESERVES

Details of changes in the Group's reserves for the year ended December 31, 2019 are set out in the consolidated statement of changes in equity in the financial statements.

RESERVES AVAILABLE FOR DISTRIBUTION

The Group's reserves available for distribution as of December 31, 2019 were RMB1,419.6 million.

RETIREMENT BENEFITS

For details of retirement benefits provided to employees of the Bank, please refer to Note 30(a) to the financial statements of this annual report.

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. As at the end of the Reporting Period, the five largest depositors of the Bank accounted for less than 30% of total deposits and the five largest borrowers accounted for less than 30% of total loans and advances to customers. None of the Directors of the Bank and their close associates or any shareholder which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Bank had any interest in the said five largest customers.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For the biographical information of the members of the Board of Directors of the Bank and the changes of directors during the Reporting Period, please refer to the section headed "Directors, Supervisors, Senior Management and Employees" of this annual report.

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, observation of the Articles of Association and provisions on arbitration. During the Reporting Period, none of the Directors or Supervisors of the Bank had any service contract that shall be made with compensation by the Bank upon its termination within one year (other than statutory compensation).

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 against the liabilities incurred in the corporate activities for the year ended December 31, 2019.

Except as disclosed above, during the Reporting Period and up to the date of this annual report, there were no permitted indemnity provision in favour of any Director or Supervisor (whether or not entered into by the Bank or otherwise) or any director or supervisor of an associated corporation of the Bank (if entered into by the Bank).

MATERIAL INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

MANAGEMENT CONTRACT

Except for service contracts entered into with the management of the Bank, the Bank has not entered into any other contracts with any individual, company or body corporate regarding the management or handling of the whole or any significant part of any business of the Bank.

DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' INTERESTS IN SHARES OF THE BANK

As at the end of the Reporting Period, the interests and short positions of the Directors, Supervisors and chief executives of the Bank and their associates in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under Section 352 of the SFO or required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules are set out as follows:

Directors

Name of Director	Capacity	Class of Shares	Number of shares held directly or indirectly (long position)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Mr. LI Yang (李楊)(1)	Interest in controlled corporations	Domestic Shares	685,227,255	11.74%	14.08%
Mr. YAN Junsheng (閻俊生)(2)	Interest of spouse	Domestic Shares	81,191	0.0014%	0.0016%

Notes:

(1) Mr. LI Yang held 90% equity interest in Changzhi Nanye, and Ms. WANG Yanli held 70% equity interest in Changzhi Huashengyuan.

Changzhi Nanye and Changzhi Huashengyuan are parties acting-in-concert according to their respective confirmation. Therefore, Mr. LI Yang, Ms. WANG Yanli, Changzhi Nanye and Changzhi Huashengyuan will be deemed to be interested in 685,227,255 Domestic Shares, representing approximately 11.74% equity interest in our Bank. By virtue of SFO, Mr. LI Yang and Ms. WANG Yanli are deemed to be interested in the Domestic Shares held by both Changzhi Nanye and Changzhi Huashengyuan, while Changzhi Nanye and Changzhi Huashengyuan are deemed to be interested in the Domestic Shares held by each other.

(2) Ms. HAO Ronghua is Mr. YAN Junsheng's spouse, holding 81,191 Domestic Shares of our Bank. Mr. YAN Junsheng is deemed to be interested in the Domestic Shares held by Ms. HAO Ronghua under the SFO. On January 8, 2020, subsequent to the Reporting Period, Mr. YAN Junsheng tendered his resignation as an executive director of the Bank due to work re-arrangement.

Save as disclosed above, none of the Directors, chief executives or Supervisors of the Bank or their associates had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations as of December 31, 2019.

CORPORATE GOVERNANCE

The Bank is committed to maintaining a high level of corporate governance. Please refer to the "Corporate Governance Report" in this annual report.

PUBLIC FLOAT

Based on information that is publicly available to the Bank and to the knowledge of the Directors, as of the date of this annual report, the Bank has maintained sufficient public float in compliance with the minimum requirement of Hong Kong Listing Rules and the waiver granted by the Hong Kong Stock Exchange after the listing of the Bank.

CONNECTED TRANSACTIONS

The Bank provided commercial banking services and products to members of the public in China in its ordinary and usual course of business, including major shareholders, certain Directors and Supervisors, the president and/or their respective associates. Each of the above persons is a connected person of the Bank under Hong Kong Listing Rules. As these transactions are entered into on normal commercial terms in the ordinary and usual course of the business of the Bank, such transactions are exempt from the reporting, annual review, disclosure and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

During the Reporting Period, the Bank complied with the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules in respect of certain non-exempt continuing connected transactions. For details of the following connected transactions, please refer to the prospectus of the Bank. The table below sets forth the information of these continuing connected transactions.

No.	Continuing connected transactions	Connected persons	2019 annual caps *(in thousands of RMB)*	2019 actual transaction amounts *(in thousands of RMB)*
(1)	Participation in Asset Management Schemes and Trust Schemes issued by associates of Huaneng Capital Service	Huaneng Capital Service Co., Ltd. ("**Huaneng Capital Service**") and its associates	*Investment amount:* Great Wall Securities Asset Management Schemes: 1,679,893.0 Huaneng Guicheng Trust Schemes: 1,000,000.0 Total: **2,679,893.0** *Return of investment:* Great Wall Securities Asset Management Schemes: 75,595.2 Huaneng Guicheng Trust Schemes: 45,000.0 Total: **120,595.2** Management fee and trust remuneration (in connection with Huaneng Guicheng Trust Schemes only) to be paid by the Bank: Great Wall Securities Asset Management Schemes: 4,185.7 Huaneng Guicheng Trust Schemes: 4,000.0 Total: **8,185.7**	*Actual investment amount:* Great Wall Securities Asset Management Schemes: 1,673,859.6 Huaneng Guicheng Trust Schemes: 1,000,000.0 Total: **2,673,859.6** *Actual return of investment:* Great Wall Securities Asset Management Schemes: 75,323.7 Huaneng Guicheng Trust Schemes: 44,998.2 Total: **120,321.9** Management fee and trust remuneration (in connection with Huaneng Guicheng Trust Schemes only) to be paid by the Bank: Great Wall Securities Asset Management Schemes: 673.8 Huaneng Guicheng Trust Schemes: 1,500.0 Total: **2,173.8**

No.	Continuing connected transactions	Connected persons	2019 annual caps *(in thousands of RMB)*	2019 actual transaction amounts *(in thousands of RMB)*
(2)	Commercial banking services and products provided in the ordinary and usual course of business – fee- and commission-based products and services to SSCIO and its associates	Shanxi State-owned Capital Investment and Operation Co., Ltd. ("**SSCIO**") and its associates	Fees and commissions from the provision of fee- and commission-based products and services to SSCIO and its associates: 137,000.0	Actual fees and commissions from the provision of fee- and commission-based products and services to SSCIO and its associates: 128,627.4

1. Participation in Asset Management Schemes and Trust Schemes issued by associates of Huaneng Capital Service

In the ordinary and usual course of business, we participate in the asset management schemes launched by Great Wall Securities ("**Great Wall Securities Asset Management Schemes**") during the Track Record Period and expect to continue to participate in such asset management schemes and also to participate in the collective trust schemes launched by Huaneng Guicheng Trust ("**Huaneng Guicheng Trust Schemes**"). To comply with the requirements of the Hong Kong Listing Rules, we entered into a framework agreement (the "**Huaneng Framework Agreement**") with Huaneng Capital Service on June 24, 2019 to cover both the Great Wall Securities Asset Management Schemes and Huaneng Guicheng Trust Schemes. The Huaneng Framework Agreement will be valid until December 31, 2021, unless terminated earlier in accordance with the agreement.

Huaneng Capital Service, a major shareholder of our Bank, is a connected person of our Bank. Huaneng Capital Service held 46.38% equity interest in Great Wall Securities Co., Ltd. ("**Great Wall Securities**"). Thus, Great Wall Securities is an associate of Huaneng Capital Service and a connected person of our Bank. Huaneng Capital Service held 67.92% equity interest in Huaneng Guicheng Trust Corp., Ltd. ("**Huaneng Guicheng Trust**"). Thus, Huaneng Guicheng Trust is an associate of Huaneng Capital Service and will become a connected person of our Bank following the Listing.

Principal terms:

The principal terms of Great Wall Securities Asset Management Schemes are set out as follows:

- Great Wall Securities shall independently operate and manage the assets in accordance with the terms and conditions of the asset management schemes subject to the supervision of the asset custodian;

- the historical annualized return on investment of the assets management schemes ranges from 5.1% to 5.7%, the management fee rate ranges from 0.2% to 0.3% and the annual custody fee rate payable by the Bank to the asset custodian ranges from 0.02% to 0.1%;

- the term of such asset management schemes may range from six months to three years; and

- Great Wall Securities shall issue and publish asset management reports about the portfolio of the investment assets, net value of the assets, fees and investment return in accordance with the asset management schemes.

The principal terms of Huaneng Guicheng Trust Schemes are set out as follows:

- Huaneng Guicheng Trust shall, in its own name, manage, utilize or dispose the trust property in the interest of the Bank;

- the annual trust remuneration and the annual management fee payable to the trustee shall be calculated according to the formula as provided in the relevant trust agreement at a minimum rate of 0.3% and 0.1% respectively, and the annual custody fee rate payable by the Bank to the trust custodian is 0.01%;

- the term of such trust schemes is 36 months; and

- Huaneng Guicheng Trust shall provide the Bank with information relevant to the trust schemes, including but not limited to notice of establishment of trust plan, trust property management report, trust property utilization and return report.

Implications under the Hong Kong Listing Rules

The Hong Kong Stock Exchange has granted a waiver to the Bank from strict compliance with the announcement and independent shareholders' approval requirements set out in Rules 14A.35 and 14A.36 of the Listing Rules in respect of the transactions under the Huaneng Framework Agreement.

As the highest applicable percentage ratio based on the relevant annual caps for Huaneng Framework Agreement, is expected to be more than 5%, these transactions are subject to the announcement, reporting, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. Provide fee-and commission-based products and services to SSCIO and its associates

In the ordinary and usual course of business, we provide fee-and commission-based products and services to SSCIO and its associates. To comply with the requirements of the Hong Kong Listing Rules, we entered into a financial products and services framework agreement (the "SSCIO Financial Products and Services Framework Agreement") with SSCIO on June 24, 2019. The SSCIO Financial Products and Services Framework Agreement will be valid until December 31, 2021, unless terminated earlier in accordance with the agreement.

SSCIO, a major shareholder of our Bank, is a connected person of our Bank.

Principal terms:

The fee-and commission-based products and services to be provided to SSCIO and its associates mainly include bank acceptance bills, letters of credit, debt securities distribution, debt securities underwriting, syndicated loans, direct banking services, settlement services and wealth management business.

The fees and commissions of such fee-and commission-based products and services to SSCIO and its associates by us are at our normal fee standards. For such fee-and commission-based products and services, we generally charge fees and commissions at a certain rate which is also applicable to independent counterparties.

Implications under the Hong Kong Listing Rules

The Hong Kong Stock Exchange has granted a waiver to the Bank from strict compliance with the announcement and independent shareholders' approval requirements set out in Rules 14A.35 and 14A.36 of the Listing Rules in respect of the transactions under the SSCIO Financial Products and Services Framework Agreement.

As the highest applicable percentage ratio based on the relevant annual caps for SSCIO Financial Products and Services Framework Agreement, is expected to be more than 5%, these transactions are subject to the announcement, reporting, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

3. Confirmation of the independent non-executive Directors

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that those transactions have been entered into:

1. in the ordinary and usual course of business of the Bank;

2. on normal commercial terms or better; and

3. according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole.

4. Confirmation of the auditor

According to Rule 14A.56 of the Hong Kong Listing Rules, the Board have engaged KPMG, the overseas auditor of the Bank, to perform a limited assurance engagement for the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants (HKICPA). The Board confirms that the auditor has reported the results after performing the procedures, stating that:

a. nothing has come to the auditor's attention that causes it to believe that the continuing connected transactions have not been approved by the Bank's Board of Directors;

b. for transactions involving the provision of services by the Bank, nothing has come to the auditor's attention that causes it to believe that the transactions were not conducted, in all material respects, in accordance with the pricing policies of the Bank;

c. nothing has come to the auditor's attention that causes it to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to the auditor's attention that causes it to believe that the continuing connected transactions have exceeded the maximum aggregate annual value for 2019 that the Bank has applied for.

The details of the related party transactions conducted by the Bank in the ordinary and usual course of business during the Reporting Period are set out in Note 37 to the financial statements. The definition of connected persons under Chapter 14A of the Hong Kong Listing Rules is different from the definition of related parties under International Accounting Standard 24, "Related Party Disclosures" and its interpretations by the International Accounting Standards Board. Related party transactions set out in Note 37 to the financial statements do not constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules. Save as disclosed in this annual report, 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.

The Bank confirms that it has complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The Bank provides emoluments to executive Directors, employee representative supervisors and senior management members, who are also employees of the Bank, in the form of salaries, bonuses, social security plans, housing provident fund plans and other benefits. The independent non-executive Directors and external supervisors of the Bank receive remuneration based on their responsibilities. For details of the emoluments of Directors and Supervisors, please refer to Note 9 to the financial statements of this report.

The Bank strictly implements relevant regulatory requirements on the payment of remuneration. The Bank evaluates senior management according to Administration Measures for the Compensation of Principal of Shanxi Provincial State-owned Local Financial Enterprises (《山西省省屬國有地方金融企業負責人薪酬管理辦法》), Administration Interim Measures on Staff Ranking and Compensation of Jinshang Bank Co., Ltd. (《晉商銀行股份有限公司員工行員等級及薪酬管理暫行辦法》) and other relevant provisions issued by Shanxi Provincial Finance Department and the Bank's Annual Senior Management Assessment Measures and provides executive Directors and senior management with compensation based on the evaluation results.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors and Supervisors of the Bank has any interest in any business that directly or indirectly competes or may compete with the Bank under Rule 8.10 (2) of the Hong Kong Listing Rules.

TAX RELIEF

Withholding and payment of enterprise income tax for overseas non-resident enterprises

Pursuant to the applicable provisions and the Implementing Regulations of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) and the Notice from the State Administration of Taxation on Issues Concerning Withholding the Corporate Income Tax on Dividends Paid by Chinese Resident Enterprises to H-share Holders which are Overseas Non-Residents Enterprises(《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》), the Bank shall withhold and pay enterprise income tax at the rate of 10% for non-resident enterprise holders of H Shares (including H shares registered in the name of Hong Kong Securities Clearing Company Nominees Limited).

Withholding and payment of individual income tax for overseas non-resident individual shareholders

Pursuant to the applicable provisions of the Individual Income Tax Law of the People's Republic of China and its implementation provisions, and the Notice of the State Administration of Taxation on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Guo Shui Fa [1993] No. 45 Document, the Bank shall withhold and pay individual income tax for holders of H Shares as follows:

For individual holders of H Shares who are Hong Kong or Macau residents or those whose country of domicile is a country/region which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Bank shall withhold and pay individual income tax at the rate of 10% for individual holders of H Shares when paying the final dividend;

For individual holders of H Shares whose country of domicile is the country/region which has entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Bank shall temporarily withhold and pay individual income tax at the rate of 10% for individual holders of H Shares. If relevant individual holders of H Shares wish to apply for a refund of the excessive amount of tax withheld, the Bank will handle applications on their behalf for preferential treatments as stipulated in relevant tax treaties pursuant to the Tax Notice. Eligible holders of H Shares shall submit promptly to the H Share Registrar of the Bank, Computershare Hong Kong Investor Services Limited, a written authorization and all application materials, which shall be handed on by the Bank to the applicable tax authorities for approval. The Bank will assist in refunding the excessive amount of tax withheld and paid upon approval;

For the individual holders of H Shares whose country of domicile is a country/region which has entered into a tax treaty with the PRC stipulating a dividend rate of more than 10% but less than 20%, the Bank shall withhold and pay individual income tax at the applicable tax rate stipulated in the relevant tax treaty when paying the final dividend; and

For the individual holders of H Shares whose country of domicile is a country/region which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 20%, or a country/region which has not entered into any tax treaties with the PRC, or under any other circumstances, the Bank shall withhold and pay individual income tax at the rate of 20% for individual holders of H Shares when paying the final dividend.

AUDITOR

For information about the Bank's auditor, please refer to the section headed "Corporate Governance Reports-External Auditors and Auditors' Remuneration".

ISSUANCE OF BONDS

During the Reporting Period, the Bank did not issue any bonds.

HISTORICAL ISSUANCE OF FINANCIAL BONDS

The Bank issued financial bonds in the national inter-bank bond market on December 13, 2018 and the payment was completed on December 17, 2018. This tranche of bonds totaled RMB5.00 billion with a maturity of three years at a fixed interest rate and a coupon interest rate of 4.00%.

The Bank issued 10-year tier-two capital debts with face value of RMB2,000.0 million in August 2015. The coupon interest rate per annum was 5.80%. The Bank had an option to redeem the bonds at the end of the fifth year. During the Reporting Period, the Bank did not exercise such redemption option.

EQUITY LINKED AGREEMENT

No other equity-linked agreements were entered into by the Bank or existed during the Reporting Period.

On behalf of the Board
TANG Yiping
Vice Chairman

Taiyuan, China

Report of the Board of Supervisors

During the Reporting Period, pursuant to the Company Law, the Commercial Bank Law and other laws and regulations and the Articles of Association of Jinshang Bank Co., Ltd., the Board of Supervisors performed supervisory duties with due diligence, made overall arrangements for strict supervision, operations promotion and risk prevention, and continued to play its supervisory role in duty performance, financial activity, risk management and internal control, driving the Bank to constantly improve its corporate governance and achieve steady development in compliance with laws.

I. PRINCIPAL WORK OF THE BOARD OF SUPERVISORS IN 2019

(I) Focus on effectively leveraging its ability in handling meeting proceedings and improve supervision efficiency at meetings

In 2019, the Board of Supervisors gave full play to its supervisory function at discussion meetings by paying attention to focal points, deliberating important events and focusing on improving effectiveness. During the year, the Board of Supervisors convened 16 meetings in total, including six meetings of the Board of Supervisors, five meetings of the Supervisory Committee and five meetings of the Nomination Committee. In financial supervision, risk management, internal control supervision, duty performance supervision, etc, the Board of Supervisors considered and voted on 83 issues, reviewed 124 proposals, and produced five feedback letters of the Board of Supervisors.

(II) Enhance the systematic operation mechanism with focus on improving modern corporate governance

In 2019, according to the Working Guidelines for the Board of Supervisors of Commercial Banks and under the basic framework of the Articles of Association of the Bank, the Board of Supervisors amended the Rules of Procedure for Meetings of the Board of Supervisors of Jinshang Bank Co., Ltd., Working Rules for the Supervisory Committee of the Board of Supervisors of Jinshang Bank Co., Ltd. and Working Rules for the Nomination Committee of the Board of Supervisors of Jinshang Bank Co., Ltd., further improved its institutional restrictions and deliberation procedures, regulated the work process and specified the supervisory functions of various special committees of the Board of Supervisors, thereby solidifying the system base of the Board of Supervisors.

(III) Continue to intensify supervision and evaluation and effectiveness regarding duty performance

In 2019, the Board of Supervisors gradually improved daily supervision on duty performance. The members of the Board of Supervisors mainly supervised performance with an eye on continuous improvement of corporate governance, risk management, internal control, significant external investments, significant related party transactions and important financial system management by such supervisory means as attending relevant meetings of the Board of Directors and the senior management without voting rights, reviewing the meeting minutes and addressing inquiries regarding the work of relevant functional departments. Such solid measures of daily supervision helped effectively enhance the supervision and evaluation of duty performance. While effectively conducting daily supervision on duty performance, the Board of Supervisors, in strict accordance with the requirements of the newly revised measures of Board of Supervisors regarding performance evaluation of directors, supervisors and senior management personnel, set up the evaluation process in a scientific manner, organized relevant personnel to earnestly promote performance evaluation, and completed the annual performance evaluation of directors, supervisors and senior management personnel.

(IV) Make full use of the functions of special committees and continuously improve the service concept

Efforts were made to strengthen targeted research on focus work areas. The Board of Supervisors continued to reinforce the work method of "shifting the focus forward" and the awareness of actively serving the grassroots, while carrying out special research in a scientific manner and fully performing its supervisory duties. Placing the focus of research and supervision on major issues concerning the implementation of national policies, bank-wide reform and development as well as upgrading and transformation, the Board of Supervisors stayed close to the bank's key work in operation management and the new normal of business development. In 2019, it organized special research and supervision regarding the bank-wide implementation of inclusive finance as well as rectification of internal audit issues, and actively put forward reasonable suggestions.

(V) Continue to strengthen capacity-building and improve the overall quality of the team

With a long-standing commitment to strengthening capacity-building as an important fundamental task, the Board of Supervisors encouraged learning for all staff by organizing and arranging special training and peer exchanges and effectively conducting training. A variety of initiatives were adopted to improve work quality, further broaden the work mindset of supervisors, and enhance the learning atmosphere and cultural development at the board level.

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

(I) Legal and compliance operations

During the Reporting Period, the Bank operated in compliance with the Company Law, Commercial Bank Law and Articles of Association of Jinshang Bank Co., Ltd., and the decision-making procedure was lawful and valid. The directors and senior management of the Bank performed their duties diligently and faithfully, and none of them went against any laws and regulations or damaged the interests of the Bank in performing their duties.

(II) Authenticity of the financial report

During the Reporting Period, the Board of Supervisors conducted a detailed review of the Bank' s 2019 financial report. In the view of the Board of Supervisors, the procedure for preparation of the 2019 financial report by the Board of Directors complied with laws, administrative regulations and rules and regulations, and KPMG Huazhen LLP and KPMG engaged by the Board of the Bank audited the 2019 financial report and issued unqualified audit report, which gave a true, accurate and complete view of the actual conditions of the Bank.

(III) Related party transactions

During the Reporting Period, the Board of Supervisors didn't find any related party transaction against the spirit of fairness or detrimental to the interests of the Bank and shareholders.

(IV) Information disclosure

During the Reporting Period, the Bank conscientiously fulfilled the obligation of information disclosure by listed companies, continuously enhanced the transparency of corporate governance and operation management and improved the integrity and adequacy of information disclosure to ensure all shareholders have access to the Company's significant information in a fair manner.

III. PRIORITY WORK AREAS IN 2020

2020 is the first year of high-quality development of the Bank after its listing. Given the prevailing economic conditions, the Bank faces both opportunities and challenges. In response to the evolving situation in 2020, the Board of Supervisors will continue to make overall arrangements and emphasize key areas of work with a focus on the central task of the Bank. We will also conscientiously consider, plan and drive our efforts in different areas to improve our corporate governance system.

(I) Pay attention to supervisory functions and implement supervision more conscientiously

The Board of Supervisors will pay close attention to its basic function of supervision by implementing accurate and practical supervision. Supervision at meetings is an important form of supervision by the Board of Supervisors, and the efficiency and quality of a meeting is vital to the performance of supervisory functions. In 2020, the quality of the meetings of the Board of Supervisors will be improved to achieve more effective supervision and stronger performance of the Board of Supervisors. Firstly, the Board of Supervisors will pay special attention to the quality of communication on topics for discussion before the meetings. It will also exchange opinions with functional departments which have submitted topics for discussion so as to develop a better understanding of the topics at issue and thereby ensure effective discussions at the meetings. Secondly, the Board of Supervisors will seek to establish effective systems for communication and delivery to ensure effective implementation of opinions on supervision and greater effectiveness of supervision.

(II) Implement special supervision to improve effectiveness of supervision

In 2020, with a continued commitment to an issue-driven approach to identify key priorities in supervision, the Board of Supervisors will continuously improve relevant systems to deepen financial supervision, risk supervision, internal control supervision and duty performance supervision.

In respect of financial supervision, the Board of Supervisors will enhance the supervision on important financial decisions and financial sectors. It will leverage the professional experience of supervisors and attach importance to thematic analysis to form valuable opinions and suggestions, so as to earnestly perform the duty of financial supervision.

In respect of risk supervision, focusing on the central task of the Bank, the Board of Supervisors will enhance supervision of the Bank's risk-related strategies, risk management system and related party relationship management, while providing risk supervision and services for the development of service business.

In respect of internal control supervision, the Board of Supervisors will integrate prior, in-process and follow-up supervisions and implement re-supervision in financial supervision, risk supervision and compliance supervision.

In respect of duty performance supervision, the Board of Supervisors will continue to strengthen supervision of the duty performance of Directors, Supervisors and senior management personnel, and further conduct deeper and earnest performance evaluation of Directors, Supervisors and senior management personnel through attendance at meetings, special examinations and other means.

(III) Promote innovative supervision and capitalize on the synergies of supervision

Committed to innovation-led development, the Board of Supervisors strives to build innovation-driven capacity to effectively promote the steady progress of operations. It has actively adopted multi-party coordination and made all-round efforts to bring forth new ideas in supervision. Firstly, it has built closer ties with the Board of Directors and senior management, so as to facilitate an exchange of views and interaction and jointly promote corporate governance. Secondly, it has further strengthened the capacity of "re-supervision". Under the framework of supervisory functions, the Board of Supervisors should effectively integrate the internal forces of supervision, strengthen joint supervision with the internal supervision department, share supervision and inspection results, and form a multi-dimensional supervision network, so as to improve the effectiveness of supervision and also prevent and mitigate risks. Thirdly, it has effectively implemented the system for reporting information at the operational level. It has optimized the system for information submission and opened up communication channels to facilitate timely access to information and lay a solid foundation for the Board of Supervisors and supervisors to develop a clear understanding of bank-wide management information and development in a timely manner so that suggestions on supervision can be made and practical work initiatives implemented. Fourthly, the Board has actively carried out key research. It has unleased the initiative of each supervisor, building on the research experience gained in 2019 and developing our uniqueness in research work in light of the Bank's actual conditions to achieve actual results. Fifthly, we have done a good job in strengthening our services. Efforts have been pursued to contribute to the improvement of our service value, strengthen the role of guidance in supervision, transform supervision into productivity and promote the sharing of good experiences and best practices to facilitate the high-quality development of the whole bank.

(IV) Strengthen capacity-building and improve the capability of the Board of Supervisors

In the face of Jinshang Bank's ongoing transformation, the Board of Supervisors, as an important part of corporate governance, needs to continuously improve the capacity-building level of each supervisor and office staff to better serve the whole bank. In 2020, the Board of Supervisors should focus on strengthening the sense of responsibility and ensure efficiency and diligence in performance. It should make every effort to improve learning of benchmarking practices, focus on peer exchanges and training, constantly broaden horizons and ideas, strive to enhance the sensitivity, foresight and effectiveness of supervisors, and improve the work efficiency of the Board of Supervisors.

Important Matters

USE OF PROCEEDS

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

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

As approved by the CBIRC Shanxi Office, the Bank issued financial bonds in the national inter-bank bond market on April 15, 2020 and the payment was completed on April 17, 2020. This tranche of bonds totaled RMB4.00 billion with a maturity of three years at a fixed interest rate and a coupon interest rate of 3.00%. All funds raised from this tranche of bonds have been used to optimize the matching structure of medium-to-long-term assets and liabilities, increase the source of stable medium-to-long-term liabilities and support the development of new medium-to-long-term asset business in accordance with applicable laws and approvals from regulatory authorities.

MATERIAL LITIGATION AND ARBITRATION

As of the date of this Annual Report, the Bank expects that any current and pending proceedings or arbitration procedures will not have a material adverse effect on the Bank's business, financial condition and operating results (whether individually or collectively) after accrual of impairment provisions.

As of December 31, 2019, the Bank was the defendant in one pending litigation with a claimable amount of principal exceeding RMB10.0 million (RMB927.6 million). None of our Directors or senior management was involved in the case. Details of this legal proceeding of the Bank is set forth below.

LITIGATION AGAINST THE BANK BROUGHT BY BANK X

In August 2017, Bank X brought a lawsuit against the Bank in relation to a bill-related dispute before the High People's Court in the province where Bank X is located. Bank X claimed that it purchased 98 bank acceptance bills ("**2015 Case Bills**") from Bank Y on August 18, 2015 by entering into a bill repurchase agreement with Bank Y, under which Bank Y agreed to repurchase 2015 Case Bills from Bank X on October 19, 2015. Bank X then claimed that it subsequently passed 2015 Case Bills to the Bank on October 19, 2015 with the expectation that the Bank would make payment to Bank Y after the Bank received the bills, so that Bank Y would have sufficient funds to repurchase 2015 Case Bills from Bank X. Bank X further alleged that the Bank failed to make payment to Bank Y after receiving 2015 Case Bills, nor did the Bank return 2015 Case Bills to Bank X. Based on these allegations, Bank X asserted that the Bank had no legitimate reason to hold or collect on 2015 Case Bills and that our doing so had violated its rights in relation to the same bills. Bank X demanded from the Bank damages equal to the principal of 2015 Case Bills which amounted to RMB927.6 million, together with interest incurred since October 19, 2015, the maturity date of the relevant bills, as well as attorney fees and court costs. As of the date of this Annual Report, court procedures for this case had not commenced.

The Bank is of the view that Bank X's allegations have no merits. Different from Bank X's allegations, the Bank purchased 2015 Case Bills after entering into a valid and binding bank acceptance bill transfer discount contract with Bank Z ("**Contract with Bank Z**") on October 19, 2015. This purchase was reviewed and approved by our Head of Financial Market Department (金融市場部) at the time, who was then the authorized approver for interbank transactions. Subsequently, on October 19, 2015 and in the following chronological order, (i) the Bank received 2015 Case Bills at a hotel from an employee of Bank X, verified the bills' authenticity pursuant to requirements under the relevant laws and regulations governing such transactions, and confirmed that these bills were the very bills listed in Contract with Bank Z; (ii) the Bank paid full price to Bank Z under Contract with Bank Z, as evidenced by a transfer certificate showing Bank Z as the sole recipient of our payment; and (iii) the employee of Bank X, after confirming that the Bank had made full payment to Bank Z, allowed our employee to leave the hotel taking 2015 Case Bills with him. The Bank received 2015 Case Bills from an employee of Bank X, instead of one from Bank Z, because the relevant bills were physically held by Bank X's employee at the time of the transaction.

The Bank has not entered into any agreement or arrangement with Bank X or Bank Y in relation to 2015 Case Bills. Furthermore, neither Bank X nor Bank Y was the endorser on 2015 Case Bills. As advised by the legal advisor the Bank engaged in this case with respect to the relevant PRC laws and regulations, the Bank is of the view that there is no obligation for the Bank, legal or contractual, to make payment to Bank Y or return 2015 Case Bills to Bank X.

The Bank made a self-inspection submission ("**January 2017 Submission**") in January 2017 pursuant to a regulatory investigation jointly initiated by the PBoC and the CBRC in relation to transactions involving 2015 Case Bills. Subsequent to our filing of January 2017 Submission and as of the date of this Annual Report, the Bank had not received further inquiry or penalty from PRC regulatory authorities in relation to transactions involving 2015 Case Bills, except that in May 2017, the Bank received one administrative penalty issued by CBRC Shanxi Office for our employee's failure to strictly follow relevant handling procedures when we accepted 2015 Case Bills from the employee of Bank X, such as demanding and verifying identity documents of the counterparty or conducting the transaction at a proper business venue. the Bank has made timely payment for this penalty.

As advised by the legal advisor the Bank engaged in this case and based on the evidence currently available, our Bank believe it is highly unlikely for the Bank to receive unfavorable ruling in this case, primarily because, for the reasons listed below, the Bank has not infringed Bank X's rights: (i) as stated in our Bank's January 2017 Submission, the Bank purchased 2015 Case Bills based on Contract with Bank Z and the Bank has not entered into any agreement or arrangement with Bank X or Bank Y in relation to 2015 Case Bills; (ii) the Bank purchased 2015 Case Bills based on Contract with Bank Z, after paying the full price to Bank Z as stipulated under Contract with Bank Z, and undertook bill collection in accordance with relevant PRC laws and regulations. In addition, according to the relevant PRC laws and regulations, the Bank is not under any obligations, legal or contractual, to make payment to Bank Y or return 2015 Case Bills to Bank X; and (iii) the fact that the Bank received 2015 Case Bills from an employee of Bank X does not subject the Bank to any obligations, legal or contractual, to make payment to Bank Y or return 2015 Case Bills to Bank X, according to relevant PRC laws and regulations.

Our Directors are of the view that this dispute in relation to 2015 Case Bills is an isolated event. As of the date of this Annual Report, the Bank had not been involved in any other litigation triggered by interbank bill-related disputes where the Bank was alleged of infringing upon a counterparty's rights. Nevertheless, to prevent occurrence of similar incidents, the Bank has enhanced our internal control procedures and risk management measures in relation to bill financing transactions, including improving our training, inspections and accountability measures that are applicable to the business. The Bank also reinforced our centralized management system for document verification. Furthermore, in line with PRC laws and regulations issued in 2016 encouraging industry-wide digitalization of bill transactions, the Bank has ceased the dealing of physical bills with face value over RMB3.0 million since January 1, 2017. Subsequently, since January 1, 2018, the Bank has ceased the dealing of physical bills with face value over RMB1.0 million. For the twelve months ended December 31, 2019, the transaction volume of electronic bills accounted for over 99.9% of the accumulated amount of promised payment specified in our bank acceptance bills. Unlike physical bills, our acceptance and handling of electronic bills are undertaken through a digital platform, which is subject to real-time supervision and instant tracking, therefore leaving a full and transparent record for every step of the transaction. Our Directors are of the view that the enhanced internal control measures above will assist the Bank to mitigate the risk of recurrence of similar disputes for reasons attributable to the Bank.

Based on the above, our Directors are of the view that this litigation will not have any material adverse effect on our business, financial condition, results of operations or prospects.

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

During the Reporting Period, the Bank, all of its Directors, Supervisors and senior management were not investigated, administratively penalised or publicly criticized by the China Securities Regulatory Commission, publicly condemned by the Hong Kong Stock Exchange or punished by any other regulatory authorities, which would have a material adverse impact on the Bank's operation.

ACQUISITION AND DISPOSAL OF ASSETS AND BUSINESS MERGER

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

MATERIAL INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

During the Reporting Period, the Bank had no any material investments, or specific plans for material investments or acquisitions of material capital assets or other businesses.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

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

Saved as disclosed above, no other significant events affecting the Bank have occurred subsequent to the end of the Reporting Period.

Risk Management and Internal Control

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Bank has established and continuously improved the effective corporate governance structure, with the shareholders' general meeting as the highest authority, the Board of Directors as the decision-making body, the Board of Supervisors as the supervisory body and the senior management as the executive body, clearly defined the rules of procedure and decision-making procedures of each governance subject of the "Shareholders' general meetings, the Board of Directors, the Board of Supervisors and the senior management" ("三會一層"), and established a scientific and reasonable corporate governance mechanism with clear responsibility, separation of powers and balances and standardized operation.

The Board of Directors has established special committees, including the Development and Strategy Committee, Nomination, Remuneration and HR Committee, Audit Committee, Risk Management Committee, Consumer Rights Protection Committee and Related Parties transactions Control Committee; the Board of Supervisors has established Nomination Committee and Supervision Committee. Risk Management Committee, Investment Management Committee, Assets and Liabilities Management Committee, Credit Review Committee, Financial Review Committee, Information technology Management Committee, Accountability Management Committee, Business Continuity Management Committee, Performance Appraisal Management Committee, corporate business management committee, retail business management committee and other special committees are under the Operation Management. the Board of Directors, the Board of Supervisors and their respective special committees have all formulated corresponding rules of procedure, and the offices of the Board of Directors and the Board of Supervisors are responsible for the daily affairs of "the Shareholders' general meeting, the Board of Directors and the Board of Supervisors" to ensure the normal and orderly running of the operations management and various businesses of the Bank.

The Bank has also established an independent and vertical internal audit system that mainly comprises the Board of Directors, the Audit Committee and the Audit Department. the Board of Directors undertakes ultimate responsibility to ensure the independence and effectiveness of our internal audit. The Audit Committee guides, evaluates and assesses our internal audit work, while our Audit Department of the head office carries out internal auditing at both the head office and the branch level. Our Audit Department formulates internal policies and annual audit plans based on regulatory requirements as well as our operation, management and business profile, and carries out audit work strictly in accordance with the annual audit plans after such plans are approved by the Board of Directors. Audit Department conducts both on-site inspections and off-site monitoring during routine audits on various departments and their operational and management activities. The Bank also conducts specific audits on our exposures to various risks such as credit risk, market risk, operational risk and information technology risk. For the issues or deficiencies identified in audits, the Audit Department gives timely notification to the relevant departments and advises on the implementation of effective rectification measures.

The Bank has formulated a set of comprehensive risk management system that covers key risks facing the Bank, including credit risk, market risk, liquidity risk, operational risk, information technology risk, reputational risk and strategic risk. Based on the risk management principles, the Bank has established a sound risk management organizational structure, comprising (i) the Board of Directors, the Risk Management Committee at the board level and the Board of Supervisors; (ii) various special risk management committees at the board level and the senior management level that take charge of the guidance, support and coordination of the Bank's risk management system; and (iii) various departments at the Bank's head office, branches and sub-branches that are in charge of daily risk management work. For various risks, the Bank has formulated clear and specific procedures for reporting and communication to ensure that the Bank efficiently and effectively coordinates various departments' responses to various risks. For more details on the Bank's risk management system, please refer to the "Management Discussion and Analysis – Risk Management".

The Bank has established an effective credit management system, which covers the entire credit extension process, from application and pre-loan investigation to disbursement of funds and post-loan monitoring. The Bank requires that its employees log detailed information about customers and their applications into the Bank's credit management system on a timely basis pursuant to standardized operational procedures of the Bank. Authorized personnel may approve the loan applications within their respective limits through this credit management system. In managing post-disbursement risks, the Bank requires its employees to conduct inspections and record data in relation to the latest operational and financial performance of the relevant parties into the Bank's credit management system. Based on these data, the Bank is able to analyze its loan portfolio and prudently manage bank-wide credit risks.

The Bank closely monitors fluctuations of interest rate, exchange rate and market price of securities and regularly conduct gap analysis, duration analysis, stress tests and scenario analysis in measuring and evaluating market risk in line with the Bank's prudent risk preferences. In addition, the Bank's Financial Market Department reviews data generated by third-party database to monitor the material fluctuation of the fair value of debt securities.

The Bank has established a comprehensive information technology risk assessment system covering each key aspect of the Bank's operations, including data security, system development, operation and maintenance, connection with external resources and real-time reporting and recording. The Bank requires different operating departments to work with the Bank's Information Technology Department to identify, record and evaluate relevant risks and take proper mitigation measures accordingly. The Bank also closely monitors key risk indicators and issue risk alerts at an early stage.

When the "inside information" referred in Part XIVA of the Securities and Futures Ordinance and other matters that should be disclosed promptly as required by the relevant laws and regulations and rules governing securities of the place where the Bank is listed, except for exemption in accordance with relevant laws and regulations and rules governing securities of the place where the Bank is listed, the Bank shall make disclosure in a timely manner in accordance with relevant laws and regulations and rules governing securities of in the place where the Bank is listed.

INTERNAL AUDIT

The Bank considers internal audit essential to the sustainable development of the Bank's business operations. The Audit Department of the Bank shall strictly follow the principles of independence and objectivity throughout the Bank's internal audit work. During the Reporting Period, the Bank has established an independent and vertical internal audit system that mainly comprises the Board of Directors, the Audit Committee and the Audit Department. the Board of Directors undertakes ultimate responsibility to ensure the independence and effectiveness of our internal audit. the Audit Committee guides, evaluates and assesses our internal audit work, while our Audit Department of the head office carries out internal auditing at both the head office and the branch level.

During the Reporting Period, our Audit Department has formulated internal policies and annual audit plans based on regulatory requirements as well as our operation, management and business profile, and carries out audit work strictly in accordance with the annual audit plans after such plans are approved by the Board of Directors. Our Audit Department carries out routine audits on various departments and their operational and management activities in the forms of on-site inspections and off-site monitoring. The Bank also conducts specific audits on our exposures to various risks such as credit risk, market risk, operational risk and information technology risk. For the issues or deficiencies identified in audits, the Audit Department gives timely notification to the relevant departments and advises on the implementation of effective rectification measures.

Report of Independent Auditor

Independent Auditor's Report To the shareholders of Jinshang Bank Co., Ltd.
(A joint stock company incorporated in the People's Republic of China (the "PRC") with limited liability)

OPINION

We have audited the consolidated financial statements of Jinshang Bank Co., Ltd. ("the Bank") and its subsidiary ("the Group") set out on pages 165 to 292, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Loss allowances of loans and financial investments measured at amortized cost

Refer to the accounting policies in note 2(9), and note 18 and note 19 to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
The Group's loans and financial investments measured at amortized cost as at 31 December 2019 amounted to RMB138,043 million, with loss allowances amounted to RMB5,722 million as at 31 December 2019. The Group uses the expected credit loss ("ECL") model to calculate the loss allowance in accordance with International Financial Reporting Standard 9, Financial instruments ("IFRS 9"). The determination of loss allowances using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.	Our audit procedures to assess loss allowances of loans and financial investments measured at amortized cost included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and financial investments measured at amortized cost, the credit grading process and the measurement of loss allowances; • with the assistance of our internal valuation specialists, assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments;

Loss allowances of loans and financial investments measured at amortized cost (continued)	
Refer to the accounting policies in note 2(9), and note 18 and note 19 to the consolidated financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses for corporate loans and financial investments measured at amortised cost are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The expected credit losses for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors. Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. Management refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of property held as collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of loss allowances as at the end of the reporting period.	• assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loan and financial investment list used by management to assess the loss allowances with the general ledger, selecting samples and comparing individual loan and investment information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and investment list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources; • for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged the reasons for modifications to estimates and input parameters compared with prior period and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development;

Loss allowances of loans and financial investments measured at amortized cost (continued)	
Refer to the accounting policies in note 2(9), and note 18 and note 19 to the consolidated financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
We identified the impairment of loans and advances to customers and financial investments measured at amortized cost as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Group.	• for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the logics and compilation of the overdue information and the operational process of the credit grading of corporate customers for selected samples; • evaluating the validity of management's assessment on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting risk-based samples. We analysed the portfolio by industry sector to select samples in industries more vulnerable to the current economic situation with reference to other borrowers with potential increased credit risk. We checked loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses;

Loss allowances of loans and financial investments measured at amortized cost (continued)	
Refer to the accounting policies in note 2(9), and note 18 and note 19 to the consolidated financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
	• for selected samples of loans and advances to customers that are credit-impaired, evaluating management's assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, challenged the viability of the Group's recovery plans and evaluated other credit enhancements that are integral to the contract terms; • recalculating the amount of credit loss allowance for 12 month and life time credit losses using the expected credit loss model based on the above parameters and assumptions for a sample of loans and investments where the credit risk of the loan has not, or has, increased significantly since initial recognition, respectively; and • assessing whether the disclosures in the consolidated financial statements in relation to impairment of loans and financial investments measured at amortized cost meet the requirements in the prevailing accounting standards.

Assessment of fair value of financial instruments	
Refer to the accounting policies in note 2(26), and note 40 to the consolidated financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group mainly holds level 2 and level 3 financial instruments measured at fair value. As at 31 December 2019, fair value of financial instruments amounted to RMB66,582 million. The valuation of financial instruments measured at fair value of the Group is based on a combination of market data and valuation models which often require a considerable number of inputs. As in the case of level 2 financial instruments measured at fair value, the inputs of valuation models are mainly observable data. As in the case of level 3 financial instruments measured at fair value, where such observable data is not readily available, estimates need to be developed which can involve significant management judgment. The Group has developed its own models to value certain level 2 and level 3 financial instruments measured at fair value, which also involves significant management judgment. We have identified assessment of the fair value of financial instruments as a key audit matter because of the complexity involved in valuing certain financial instruments and the significant judgment exercised by management in determining the inputs used in the valuation models.	Our audit procedures to assess the fair value of financial instruments included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the valuation, independent price verification, front office/back office reconciliations and valuation model approval for financial instruments; • performing, on a sample basis, independent valuations of level 2 and level 3 financial instruments measured at fair value and comparing these valuations with the valuations of the Group. Our procedures included comparing the valuation models of the Group with our knowledge of practice, testing inputs to the fair value calculations or, with the assistance of our internal valuation specialists, establishing our own valuation models to perform revaluations; and • assessing whether the disclosures in the consolidated financial statements appropriately reflect the exposure to financial instrument valuation risk and meet the requirements of the prevailing accounting standards.

Consolidation of structured entities	
Refer to the accounting policies in note 2(26), and note 34 to the consolidated financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through issuing a wealth management product, an asset management plan, a trust plan, an asset-backed security or an investment fund. In determining whether the Group should retain any partial interests in a structured entity or should consolidate a structured entity, management is required to consider the risks and rewards retained, the power the Group is able to exercise over the activities of the entity and its ability to influence the Group's own returns from the entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions. We identified the consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgement exercised by management in the qualitative assessment of the terms and nature of each entity.	Our audit procedures to assess the consolidation of structured entities included the following: • understanding and assessing the design and implementation of key internal controls of financial reporting over consolidation of structured entities; • selecting significant structured entities of each key product type and performing the following procedures for each entity selected: – inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;

Consolidation of structured entities (continued)	
Refer to the accounting policies in note 2(26), and note 34 to the consolidated financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
	– inspecting the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity; and – evaluating management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity; – assessing management's judgement over whether the structured entity should be consolidated or not; and • assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Tat Ming.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 March 2020

Consolidated Statement of Profit or Loss and other Comprehensive Income

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

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

The notes on pages 174 to 292 form part of these financial statements.

Consolidated Statement of Profit or Loss and other Comprehensive Income

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

	Note	2019	2018
Net profit for the year		**1,482,448**	1,313,614
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income:			
– net movement in the fair value reserve, net of tax	32(d)	**(5,269)**	53,648
– net movement in the impairment reserve, net of tax	32(e)	**1,105**	(21,326)
Items that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit liability, net of tax	32(f)	**(1,748)**	(8)
Other comprehensive income, net of tax		**(5,912)**	32,314
Total comprehensive income		**1,476,536**	1,345,928
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**1,477,718**	1,342,597
Non-controlling interests		**(1,182)**	3,331
Total comprehensive income		**1,476,536**	1,345,928
Basic and diluted earnings per share (in RMB)	13	**0.28**	0.27

The notes on pages 174 to 292 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

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

The notes on pages 174 to 292 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

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

Approved and authorised for issue by the board of directors on 26 March 2020.

Tang Yiping
Authorized Representative

Tang Yiping
President

Hou Xiuping
Chief Financial Officer

(Company chop)

The notes on pages 174 to 292 form part of these financial statements.

Consolidated Statement of Changes in Equity

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

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

The notes on pages 174 to 292 form part of these financial statements.

Consolidated Statement of Changes in Equity

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

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

The notes on pages 174 to 292 form part of these financial statements.

Consolidated Cash Flow Statement

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

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

The notes on pages 174 to 292 form part of these financial statements.

Consolidated Cash Flow Statement

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

	Note	2019	2018
Cash flows from operating activities (continued)			
Changes in operating liabilities			
Net increase/(decrease) in borrowing from the central bank		**280,000**	(435,000)
Net increase/(decrease) in deposits from banks and other financial institutions		**1,713,549**	(8,988,283)
Net increase/(decrease) in placements from banks and other financial institutions		**1,810,000**	(400,000)
Net increase/(decrease) in financial assets sold under repurchase agreements		**3,519,449**	(1,625,201)
Net increase in deposits from customers		**9,802,089**	6,977,100
Income tax paid		**(206,107)**	(479,541)
Net decrease in other operating liabilities		**(251,034)**	(1,529,250)
		16,667,946	(6,480,175)
Net cash flows generated from/(used in) operating activities		**16,958,392**	(20,425,178)
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		**126,132,417**	129,017,408
Gains received from investment activities		**801,972**	893,803
Proceeds from disposal of property and equipment and other assets		**12,509**	2,978
Payments on acquisition of investments		**(142,241,336)**	(132,684,214)
Payments on acquisition of property and equipment, intangible assets and other assets		**(898,250)**	(426,370)
Net cash flows used in investing activities		**(16,192,688)**	(3,196,395)

The notes on pages 174 to 292 form part of these financial statements.

Consolidated Cash Flow Statement

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

	Note	2019	2018
Cash flows from financing activities			
Net proceeds from issuance of H shares		**3,174,359**	–
Proceeds from capital contribution by equity shareholders		**–**	914,000
Proceeds from debt securities issued	36(c)	**56,246,356**	69,425,137
Repayment of debt securities issued	36(c)	**(57,190,000)**	(44,350,000)
Interest paid on debt securities issued	36(c)	**(1,780,914)**	(1,665,932)
Dividends paid		**(449,071)**	(463,507)
Proceeds from other financing activities		**–**	11,044
Repayment of lease liabilities	36(c)	**(54,705)**	–
Interest paid on lease liabilities	36(c)	**(21,615)**	–
Net cash flows (used in)/generated from financing activities		**(75,590)**	23,870,742
Effect of foreign exchange rate changes on cash and cash equivalents		**2,305**	(284)
Net increase in cash and cash equivalents	36(a)	**692,419**	248,885
Cash and cash equivalents as at 1 January		**7,202,528**	6,953,643
Cash and cash equivalents as at 31 December	36(b)	**7,894,947**	7,202,528
Interest received		**8,669,297**	8,084,146
Interest paid (excluding interest expense on debt securities issued)		**3,098,315**	3,443,239

The notes on pages 174 to 292 form part of these financial statements.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Changes in accounting policies

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(a) Changes in accounting policies (continued)

A. Definition of a lease

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

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

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

B. As a lessee under operating leases

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

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(a) Changes in accounting policies (continued)

B. As a lessee under operating leases (continued)

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

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

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

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

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

C. Impacts on financial statements.

i. Impacts on transition

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(a) Changes in accounting policies (continued)

C. Impacts on financial statements. (continued)

ii. Impact for the year

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

(5) Subsidiary and non-controlling interests

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(6) Associates and joint ventures

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Translation of foreign currencies

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

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

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

(8) Cash and cash equivalents

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

(9) Financial instruments

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) Financial instruments (continued)

(ii) Classification and subsequent measurement of financial assets

Classification of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) Financial instruments (continued)

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

Classification of financial assets (continued)

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Group also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Subsequent measurement of financial assets

– Financial assets at FVTPL

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

– Financial assets at amortised cost

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

– Debt investments at FVOCI

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

– Equity investments at FVOCI

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) Financial instruments (continued)

(iii) Classification and subsequent measurement of financial liabilities

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

– Financial liabilities at amortised cost

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

– Financial guarantee liabilities

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

  A financial guarantee liability is measured at the higher of:

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

  The amount initially recognised less the cumulative amount of income.

(iv) Impairment

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

– financial assets measured at amortised cost;

– debt investments measured at FVOCI.

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

Measurement of ECL

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) Financial instruments (continued)

(iv) Impairment (continued)

Presentation of allowance for ECL

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

Write-off

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

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

(v) Fair value measurement principles

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) Financial instruments (continued)

(vi) Derecognition of financial assets and financial liabilities

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

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

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

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

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

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

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

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

(vii) Offsetting

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

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

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

(10) Financial assets held under resale and repurchase agreements

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(11) Investment in subsidiary

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

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

(12) Property and equipment and construction in progress

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

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

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

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

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

(13) Leases

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

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

- fulfillment of the arrangement was dependent on the use of a specific asset or assets;
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(a) As a lessee

The Bank classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the right-of-use assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases were classified as operating leases and were not recognised in the Bank's statements of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(13) Leases (continued)

The following accounting policies related to lease apply to the period before 1 January 2019 (continued)

(b) As a lessor

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

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

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

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

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

(a) As a lessee

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

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(13) Leases (continued)

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

(a) As a lessee (continued)

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

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

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(13) Leases (continued)

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

(b) As a lessor

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

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

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

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

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

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

(14) Intangible assets

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

The respective amortization periods for intangible assets are as follows:

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

(15) Repossessed assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

– property and equipment

– construction in progress

– intangible assets

– investment in subsidiary

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(17) Employee benefits

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

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

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

Social pension schemes

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

Annuity plan

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

Housing fund and other social insurances

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

(ii) Supplementary retirement benefits

Early retirement plan

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

Supplementary retirement plan

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(18) Income tax

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(18) Income tax (continued)

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

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

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

  - the same taxable entity; or

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

(19) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

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

(ii) Other provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(20) Fiduciary activities

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

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

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

(21) Income recognition

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

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

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

(i) Interest income

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(21) Income recognition (continued)

(ii) Fee and commission income

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

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

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

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

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

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

(iii) Government grants

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

(iv) Other income

Other income is recognised on an accrual basis.

(22) Expenses recognition

(i) Interest expense

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

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(23) Dividends

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(24) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

(25) Segment reporting

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(26) Significant accounting estimates and judgements

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

(a) Measurement of expected credit loss

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

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

– Determining criteria for significant increase in credit risk;

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

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

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

(b) Fair value of financial instruments

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

(c) Income taxes

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(26) Significant accounting estimates and judgements (continued)

(d) Impairment of non-financial assets

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

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

(e) Depreciation and amortization

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

(f) Determination of control over investees

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

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

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

(g) Defined benefit plan

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

(Expressed in thousands of Renminbi, unless otherwise stated)

3 NET INTEREST INCOME

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

(a) Income and expense streams:

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

(b) Disaggregation of income:

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

(Expressed in thousands of Renminbi, unless otherwise stated)

5 NET TRADING GAINS

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

6 NET GAINS ARISING FROM INVESTMENT SECURITIES

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

7 OTHER OPERATING INCOME

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

(Expressed in thousands of Renminbi, unless otherwise stated)

8 OPERATING EXPENSES

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

Note:

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

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

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

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

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

Notes:

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

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

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

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

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

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

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

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

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

11 IMPAIRMENT LOSSES ON ASSETS

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

(Expressed in thousands of Renminbi, unless otherwise stated)

12 INCOME TAX EXPENSE

(a) Income tax:

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

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

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

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

13 BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

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

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

14 CASH AND DEPOSITS WITH THE CENTRAL BANK

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

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

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

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

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

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

(Expressed in thousands of Renminbi, unless otherwise stated)

17 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

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

(b) Analysed by type of collateral held

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

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

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Analysed by type of collateral

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

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Loans and advances and provision for impairment losses

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

Notes:

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

(f) Movements of provision for impairment losses

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

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

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

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

(g) Disposal of loans and advances to customers

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS

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

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

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

Note:

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

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS (continued)

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

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

Note:

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS (continued)

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

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

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

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

(c) Financial investments measured at amortised cost

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

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS (continued)

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

Note:

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

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

20 INTEREST IN ASSOCIATE

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

Note:

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

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

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

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

21 INVESTMENTS IN SUBSIDIARY

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

22 PROPERTY AND EQUIPMENT

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

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

23 DEFERRED TAX ASSETS

(a) Analysed by nature

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

(b) Movements of deferred tax

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

Notes:

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

24 OTHER ASSETS

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

(a) Right-of-use assets

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

(Expressed in thousands of Renminbi, unless otherwise stated)

24 OTHER ASSETS (continued)

(b) Intangible assets

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

(c) Interests receivables

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

24 OTHER ASSETS (continued)

(d) Land use rights

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

(e) Repossessed assets

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

25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type of and location of counterparty

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

(Expressed in thousands of Renminbi, unless otherwise stated)

26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

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

27 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

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

(b) Analysed by type of collateral held

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

(Expressed in thousands of Renminbi, unless otherwise stated)

28 DEPOSITS FROM CUSTOMERS

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

(Expressed in thousands of Renminbi, unless otherwise stated)

29 DEBT SECURITIES ISSUED

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

Notes:

(a) Interbank deposit issued

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

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

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

(b) Tier-two capital debts issued

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

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

(c) Financial bonds issued

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

30 OTHER LIABILITIES

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

(a) Accrued staff cost

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

Supplementary retirement benefits

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

30 OTHER LIABILITIES (continued)

(a) Accrued staff cost (continued)

Supplementary retirement benefits (continued)

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

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

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

Early retirement plan

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

Supplementary retirement plan

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

Note:

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

(Expressed in thousands of Renminbi, unless otherwise stated)

30 OTHER LIABILITIES (continued)

(b) Lease liabilities

The maturity analysis of lease liabilities – undiscounted analysis:

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

(c) Provisions

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

(Expressed in thousands of Renminbi, unless otherwise stated)

30 OTHER LIABILITIES (continued)

(c) Provisions (continued)

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

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

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

(d) Contract liabilities

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

(Expressed in thousands of Renminbi, unless otherwise stated)

31 SHARE CAPITAL

Authorised and issued share capital

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

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

32 RESERVES

(a) Capital reserve

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

(b) Surplus reserve

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

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

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

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

(c) General reserve

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

(Expressed in thousands of Renminbi, unless otherwise stated)

32 RESERVES (continued)

(d) Fair value reserve

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

(e) Impairment reserve

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

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

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

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

33 RETAINED EARNINGS

(a) Appropriation of profits

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

- Appropriation of statutory surplus reserve base on 10% of the net profit;
- Declaration of cash dividend in an aggregation amount of approximately RMB642 million to all existing shareholders.

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

- Appropriation of statutory surplus reserve base on 10% of the net profit;
- Appropriation of discretionary surplus reserve base on 10% of the net profit amounted to approximately RMB132 million.
- Appropriation of general reserve amounted to approximately RMB227 million; and
- Declaration of cash dividend in an aggregation amount of approximately RMB487 million to all existing shareholders.

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

(Expressed in thousands of Renminbi, unless otherwise stated)

33 RETAINED EARNINGS (continued)

(b) Movements in components of equity

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

34 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

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

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

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

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

34 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

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

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

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

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

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

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

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

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

35 CAPITAL MANAGEMENT

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

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

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

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

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

35 CAPITAL MANAGEMENT (continued)

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net increase in cash and cash equivalents

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

(b) Cash and cash equivalents

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

(Expressed in thousands of Renminbi, unless otherwise stated)

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Reconciliation of liabilities arising from financing activities

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties of the Group

(i) Major shareholders

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

Shareholding in the Bank:

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

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

(ii) Subsidiary of the Bank

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

(iii) Associates of the Bank

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

(iv) Other related parties

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

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(i) Transactions between the Bank and major shareholders:

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

	31 December 2019	31 December 2018
Balances at end of the year		
Loans and advances to customers	**443,792**	532,799
Deposits from customers	**1,040,536**	1,677,580

(ii) Transactions between the Bank and subsidiary:

The subsidiary of the Bank is its related party. The transactions between the Bank and its subsidiary are eliminated on combination.

	2019	2018
Transactions during the year		
Interest expense	**5,206**	8,012

	31 December 2019	31 December 2018
Balances at end of the year		
Deposits from banks and other financial institutions	**208,756**	164,829

(iii) Transactions between the Bank and associates:

	2019	2018
Transactions during the year		
Interest income	**23,569**	23,793
Interest expense	**1,343**	1,079

	31 December 2019	31 December 2018
Balances at end of the year		
Deposits with banks and other financial institutions	**507,355**	402,798
Deposits from banks and other financial institutions	**1,175**	1,543

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(iv) Transactions between the Bank and other related parties:

	2019	2018
Transactions during the year		
Interest income	**858,999**	840,580
Interest expense	**292,703**	291,794
Operating expenses	**74**	550
Fee and commission income	**11,082**	7,536
Debt securities investments	**565,529**	49,510
Debt securities transferring	**440,540**	80,238

	31 December 2019	31 December 2018
Balances at end of the year		
Loans and advances to customers	**7,994,624**	9,095,578
Financial investments	**7,553,445**	8,384,323
Deposits from banks and other financial institutions	**1,155,783**	1,493,362
Deposits from customers	**10,390,421**	9,910,244
Bank acceptances	**3,396,692**	2,628,404
Letters of credit	**243,656**	316,319

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Bank and key management personnel

	2019	2018
Transactions during the year		
Interest income	**382**	655
Interest expense	**271**	1,066

	31 December 2019	31 December 2018
Balances at end of the year		
Loans and advances to customers	**6,644**	5,263
Deposits from customers	**14,356**	8,374

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	2019	2018
Key management personnel compensation	**12,766**	16,858

(d) Loans and advances to directors, supervisors and officers

	31 December 2019	31 December 2018
Aggregate amount of relevant loans outstanding at the end of the year	**6,644**	5,263
Maximum aggregate amount of relevant loans outstanding during the year	**6,644**	5,263

There were no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at 31 December 2019 and 2018.

38 SEGMENT REPORTING

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, personal wealth management services and remittance services.

Treasury business

This segment covers the Group's treasury business operations. The financial markets business enters into inter-bank money market transactions, repurchases transactions, and investments. It also trades in debt securities. The financial markets business segment also covers management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Intra-group balances and intra-group transactions are eliminated by segment income, expenses, assets and liabilities as part of the consolidation process. Segment capital expenditure is the total cost incurred during the year to acquire property and equipment, intangible assets and other long-term assets.

(Expressed in thousands of Renminbi, unless otherwise stated)

38 SEGMENT REPORTING (continued)

	Year ended 31 December 2019				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	2,924,346	(834,607)	1,155,053	–	3,244,792
Internal net interest (expense)/income	(9,392)	1,703,176	(1,693,784)	–	–
Net interest income	2,914,954	868,569	(538,731)	–	3,244,792
Net fee and commission income	274,915	198,856	151,019	–	624,790
Net trading gains	–	–	342,479	92,889	435,368
Net gains arising from investment securities	–	–	746,244	–	746,244
Other operating income	1,694	–	–	36,053	37,747
Operating income	3,191,563	1,067,425	701,011	128,942	5,088,941
Operating expenses	(868,009)	(820,827)	(144,083)	(3,864)	(1,836,783)
Impairment losses on assets	(1,057,528)	(103,725)	(504,228)	–	(1,665,481)
Share of profit of associate	–	–	–	20,878	20,878
Profit before tax	1,266,026	142,873	52,700	145,956	1,607,555
Segment assets	96,715,419	17,881,426	131,533,257	–	246,130,102
Deferred tax assets	–	–	–	1,441,111	1,441,111
Total assets	96,715,419	17,881,426	131,533,257	1,441,111	247,571,213
Segment liabilities	88,696,078	69,095,264	69,620,522	–	227,411,864
Total liabilities	88,696,078	69,095,264	69,620,522	–	227,411,864
Other segment information					
– Depreciation and amortization	121,430	114,829	20,156	–	256,415
– Capital expenditure	441,378	417,387	73,265	–	932,030

(Expressed in thousands of Renminbi, unless otherwise stated)

38 SEGMENT REPORTING (continued)

	Year ended 31 December 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	3,054,419	(486,211)	610,542	–	3,178,750
Internal net interest income/(expense)	155,560	1,415,101	(1,570,661)	–	–
Net interest income	3,209,979	928,890	(960,119)	–	3,178,750
Net fee and commission income	219,248	144,888	59,532	–	423,668
Net trading gains	–	–	231,806	–	231,806
Net gains arising from investment securities	–	–	887,423	–	887,423
Other operating income	27,819	–	–	3,323	31,142
Operating income	3,457,046	1,073,778	218,642	3,323	4,752,789
Operating expenses	(838,818)	(805,387)	(98,356)	(8,257)	(1,750,818)
Impairment (losses)/reversal on assets	(1,779,273)	(30,498)	274,306	–	(1,535,465)
Share of profits of associates	–	–	–	33,216	33,216
Profit before tax	838,955	237,893	394,592	28,282	1,499,722
Segment assets	85,366,236	14,943,847	125,669,007	–	225,979,090
Deferred tax assets	–	–	–	1,268,752	1,268,752
Total assets	85,366,236	14,943,847	125,669,007	1,268,752	227,247,842
Segment liabilities	90,116,804	57,942,379	63,192,670	–	211,251,853
Total liabilities	90,116,804	57,942,379	63,192,670	–	211,251,853
Other segment information					
– Depreciation and amortization	62,287	59,803	7,303	–	129,393
– Capital expenditure	198,417	190,508	23,265	–	412,190

39 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

Risk management system

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors is responsible for establishing and maintaining a robust and effective risk management system and determining general risk preference and risk tolerance of the Group. Based on the general strategy of the Group, the Committee of Risk Management under the Board; reviews the Group's risk management system and basic principles, risk management strategies and internal control system framework. Senior management led by the president will be responsible for the control of credit risk, market risk, operational risk and approval of related policies and procedures; Chief Risk Officer will be led by the president of the Bank. In addition, the Group set up the Department of Risk Management, Department of Credit Examination, Department of Asset and Liability Management, Department of Law and Compliance, Audit Department based on the requirements of general risk management to perform respective functions in risk management, strengthen risk-covering portfolio management capabilities and conduct inspection on compliance with risk management policy of internal control system on regular or irregular basis.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

To identify, assess, monitor and manage credit risks, the Group has designed effective system frameworks, credit policies and processes for credit risk management and implemented systematic control procedures. The responsible department for credit risk management include the Risk Management Department and Credit Approval Department. The Risk Management Department is responsible for implementing the Group's overall risk management system, besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. The Credit Approval Department is independent from customer relationship and product management departments, to ensure the independence of credit approval. Front office departments including Corporate Business Department and Personal Finance Department carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

39 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit business (continued)

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardized loan recovery procedures.

Stages of risks in financial instrument

After adopting IFRS 9 at 1 January 2018, the financial assets are categorized by the Group into the following stages to manage its financial assets' credit risk:

Stage 1

Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

Stage 2

Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3

Financial assets that are in default and considered credit-impaired.

39 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

– The credit spread increases significantly

– Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status

– Application of a grace period or debt-restructuring

– Significant changes with an adverse effect in the borrower's business conditions

– Less value of the collaterals (for the collateral loans and pledged loans only)

– Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/ repayment of loans

– The borrower is more than 30 days past due.

The Group uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at 31 December 2019 and 2018, the Group has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

39 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Definition of "default" and "credit-impaired assets"

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;

– the disappearance of an active market for a security because of financial difficulties of the issuer; or

– overdue more than 90 days.

The above criteria apply to all financial assets of the Group and they are consistent with the definition of "default" adopted by the internal management of credit risk.

Measurement of expected credit losses ("ECL")

The Group adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

– PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;

– EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;

– LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

39 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

The Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, the Group can calculate the ECL for the future months. The results of calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

– In respect of the financial assets with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of overlimit repayment and prepayments/refinancing made by the borrower.

– As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the balance sheet date by the credit conversion factor (CCF).

– The Group determines the 12-month loss given default (LGD) and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.

– As to financial assets classified as guarantees, the Group determines the loss given default (LGD) according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.

– As to credit-based financial assets, the Group usually determines loss given default (LGD) in the product level due to the limited differences in recoverable amounts from different borrowers.

Forward-looking economic information should be considered when determining the 12-month and lifetime probability of default, exposure at default and loss given default.

The Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

As at 31 December 2019 and 2018, there has been no significant changes in the estimate techniques and key assumptions of the Group.

39 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

Forward-looking information included in the expected credit loss model is as follows:

- Both the assessment of significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting the future economic indicators.

- When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of the scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under the different scenarios by the weight of the corresponding scenarios.

- Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.

- Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the expected credit losses were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the reporting period.

(ii) Financial assets analysed by credit quality are summarized as follows:

	31 December 2019				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments*	Others**
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Overdue but not credit-impaired	1,339,642	–	–	–	–
– Neither overdue nor credit-impaired	107,623,484	2,596,464	16,624,996	91,160,927	178,047
Sub-total	108,963,126	2,596,464	16,624,996	91,160,927	178,047
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	1,185,741	–	–	–	–
– Neither overdue nor credit-impaired	3,190,613	–	–	300,000	137,883
Sub-total	4,376,354	–	–	300,000	137,883
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	2,129,945	–	–	1,784,629	–
– Credit-impaired but not overdue	13,064	–	–	155,000	7,849
Sub-total	2,143,009	–	–	1,939,629	7,849
Interests accrued	490,986	7,744	5,023	972,955	–
Less: Provision for impairment losses	(4,260,918)	(174)	(1)	(1,460,872)	(13,541)
Net value	111,712,557	2,604,034	16,630,018	92,912,639	310,238

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

(ii) Financial assets analysed by credit quality are summarized as follows: (continued)

	31 December 2018				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments*	Others**
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Overdue but not credit-impaired	425,818	–	–	–	–
– Neither overdue nor credit-impaired	96,165,484	1,282,071	24,172,953	75,201,590	242,269
Sub-total	96,591,302	1,282,071	24,172,953	75,201,590	242,269
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	247,400	–	–	–	–
– Neither overdue nor credit-impaired	2,898,725	–	–	308,000	137,883
Sub-total	3,146,125	–	–	308,000	137,883
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	1,882,700	–	–	1,023,297	–
– Credit-impaired but not overdue	17,660	–	–	484,934	7,849
Sub-total	1,900,360	–	–	1,508,231	7,849
Interests accrued	497,618	10,501	7,027	704,364	–
Less: Provision for impairment losses	(4,017,266)	(154)	(1)	(957,536)	(13,549)
Net value	98,118,139	1,292,418	24,179,979	76,764,649	374,452

* Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

** Others comprise interests receivable, prepayments for acquisition of property and equipment and other receivables in other assets.

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

(ii) Financial assets analysed by credit quality are summarized as follows: (continued)

Financial assets (exclusive interests accrued) analysed by credit quality

	31 December 2019							
	Balance				Provision for impairment losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and deposits with the central bank	19,101,907	–	–	19,101,907	–	–	–	–
Deposits with banks and other financial institutions	1,296,464	–	–	1,296,464	(166)	–	–	(166)
Placements with banks and other financial institutions	1,300,000	–	–	1,300,000	(8)	–	–	(8)
Financial assets held under resale agreements	16,624,996	–	–	16,624,996	(1)	–	–	(1)
Loans and advances to customers	84,068,786	4,376,354	2,140,609	90,585,749	(2,223,034)	(906,674)	(1,131,210)	(4,260,918)
Financial investments	49,602,721	300,000	1,939,629	51,842,350	(489,084)	(1,975)	(969,813)	(1,460,872)
Other assets	178,047	137,883	7,849	323,779	(98)	(6,881)	(6,562)	(13,541)
Total	172,172,921	4,814,237	4,088,087	181,075,245	(2,712,391)	(915,530)	(2,107,585)	(5,735,506)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	24,894,340	–	2,400	24,896,740	(12,506)	–	(9,600)	(22,106)
Financial investments	11,581,726	–	–	11,581,726	(2,321)	–	–	(2,321)
Total	36,476,066	–	2,400	36,478,466	(14,827)	–	(9,600)	(24,427)
Credit commitments	40,701,255	555,697	6,227	41,263,179	(308,738)	(21,732)	(1,892)	(332,362)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

(ii) Financial assets analysed by credit quality are summarized as follows: (continued)

Financial assets (exclusive interests accrued) analysed by credit quality (continued)

	31 December 2018							
	Balance				Provision for impairment losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and deposits with the central bank	23,589,738	–	–	23,589,738	–	–	–	–
Deposits with banks and other financial institutions	782,071	–	–	782,071	(153)	–	–	(153)
Placements with banks and other financial institutions	500,000	–	–	500,000	(1)	–	–	(1)
Financial assets held under resale agreements	24,172,953	–	–	24,172,953	(1)	–	–	(1)
Loans and advances to customers	83,923,131	3,146,125	1,896,760	88,966,016	(2,158,195)	(776,736)	(1,082,335)	(4,017,266)
Financial investments	45,968,496	308,000	1,508,231	47,784,727	(468,002)	(37,064)	(452,470)	(957,536)
Other assets	242,269	137,883	7,849	388,001	(100)	(6,884)	(6,565)	(13,549)
Total	179,178,658	3,592,008	3,412,840	186,183,506	(2,626,452)	(820,684)	(1,541,370)	(4,988,506)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	12,668,171	–	3,600	12,671,771	(13,104)	–	(8,400)	(21,504)
Financial investments	4,981,207	–	–	4,981,207	(1,449)	–	–	(1,449)
Total	17,649,378	–	3,600	17,652,978	(14,553)	–	(8,400)	(22,953)
Credit commitments	27,312,383	250,365	19,359	27,582,107	(168,335)	(12,282)	(2,920)	(183,537)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

(ii) Financial assets analysed by credit quality are summarized as follows: (continued)

The overall ECL rate for financial assets and credit commitments analysed by credit quality:

	31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Financial assets measured at amortised cost	**1.58%**	**19.02%**	**51.55%**	**3.17%**
Financial assets at fair value through other comprehensive income	**0.04%**	**N/A**	**80.00%**	**0.07%**
Credit commitments	**0.76%**	**3.91%**	**30.38%**	**0.81%**

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	1.47%	22.85%	45.16%	2.68%
Financial assets at fair value through other comprehensive income	0.08%	N/A	70.00%	0.13%
Credit commitments	0.62%	4.91%	15.08%	0.67%

As at 31 December 2019, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB434 million (31 December 2018: RMB857 million). The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB574 million (31 December 2018: RMB736 million). The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(iii) Rescheduled loans and advances to customers

The Group has no rescheduled loans and advances to customers at 31 December 2019 and 2018.

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

(iv) Credit rating

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments (exclusive interests accrued) analysed by the rating agency designations as at the end of the reporting period are as follows:

	31 December 2019	31 December 2018
Neither overdue nor impaired		
Ratings		
– AAA	**33,212,536**	20,956,747
– AA- to AA+	**483,947**	1,938,764
Sub-total	**33,696,483**	22,895,511
Unrated	**149,297**	134,330
Total	**33,845,780**	23,029,841

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The Group has especially built up a market risk management structure and team. The Department of Risk Management takes the major responsibility for the exposure of market risk and preparation of relevant market risk management policies to submit to the Committee of Risk Management. According to established standards and current management capabilities, the Group measures market risk with the major adoption of sensitivity analysis. Before the new products or new business are launched, their market risks will be identified according to regulations.

The major source of market risk of the Group is the asset and liability businesses involved in market operation and the risks in interest rate and exchange rate of products.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of bank assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury business' investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

(i) The following tables indicate the assets and liabilities as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	31 December 2019					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	19,108,325	505,488	18,602,837	-	-	-
Deposits with banks and other financial institutions	1,303,659	7,361	1,065,244	99,834	131,220	-
Placements with banks and other financial institutions	1,300,375	383	1,299,992	-	-	-
Financial assets held under resale agreements	16,630,018	5,023	10,111,157	6,513,838	-	-
Loans and advances to customers (Note (i))	111,712,557	490,986	41,821,404	42,577,380	22,944,418	3,878,369
Financial investments (Note (ii))	92,912,639	27,424,714	6,911,655	17,400,101	29,678,749	11,497,420
Others	4,603,640	4,603,640	-	-	-	-
Total assets	247,571,213	33,037,595	79,812,289	66,591,153	52,754,387	15,375,789
Liabilities						
Borrowing from the central bank	870,731	731	180,000	690,000	-	-
Deposits from banks and other financial Institutions	4,211,308	17,392	1,513,916	2,680,000	-	-
Placements from banks and other financial institutions	1,911,455	1,455	900,000	1,010,000	-	-
Financial assets sold under repurchase agreements	12,201,162	5,771	12,195,391	-	-	-
Deposits from customers	155,322,230	2,344,100	68,952,874	27,992,998	55,985,232	47,026
Debt securities issued	50,345,104	50,372	14,008,106	29,292,059	6,994,567	-
Others	2,549,874	2,549,874	-	-	-	-
Total liabilities	227,411,864	4,969,695	97,750,287	61,665,057	62,979,799	47,026
Asset-liability gap	20,159,349	28,067,900	(17,937,998)	4,926,096	(10,225,412)	15,328,763

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Trading interest rate risk (continued)

(i) (continued)

	31 December 2018					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	23,589,738	881,318	22,708,420	–	–	–
Deposits with banks and other financial institutions	792,312	10,394	381,918	400,000	–	–
Placements with banks and other financial institutions	500,106	107	499,999	–	–	–
Financial assets held under resale agreements	24,179,979	7,027	24,172,952	–	–	–
Loans and advances to customers (Note (i))	98,118,139	497,618	30,434,051	32,519,900	31,182,349	3,484,221
Financial investments (Note (ii))	76,764,649	18,532,613	4,939,460	17,663,064	25,799,072	9,830,440
Others	3,302,919	3,302,919	–	–	–	–
Total assets	227,247,842	23,231,996	83,136,800	50,582,964	56,981,421	13,314,661
Liabilities						
Borrowing from the central bank	590,000	–	–	590,000	–	–
Deposits from banks and other financial Institutions	2,513,697	33,330	180,367	2,300,000	–	–
Placements from banks and other financial institutions	100,000	–	–	100,000	–	–
Financial assets sold under repurchase agreements	8,680,430	4,488	8,675,942	–	–	–
Deposits from customers	144,896,805	1,720,764	71,051,919	31,253,044	40,784,531	86,547
Debt securities issued	51,288,864	50,488	8,911,748	35,333,267	4,998,249	1,995,112
Others	3,182,057	3,182,057	–	–	–	–
Total liabilities	211,251,853	4,991,127	88,819,976	69,576,311	45,782,780	2,081,659
Asset-liability gap	15,995,989	18,240,869	(5,683,176)	(18,993,347)	11,198,641	11,233,002

Notes:

(i) As at 31 December 2019, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB1,455 million (31 December 2018: RMB1,355 million).

(ii) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Trading interest rate risk (continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

	31 December 2019	31 December 2018
Change in net profit	**(Decrease)/Increase**	(Decrease)/Increase
Up 100 bps parallel shift in yield curves	**(113,743)**	(101,620)
Down 100 bps parallel shift in yield curves	**117,867**	102,126

	31 December 2019	31 December 2018
Change in equity	**(Decrease)/Increase**	(Decrease)/Increase
Up 100 bps parallel shift in yield curves	**(242,004)**	(152,103)
Down 100 bps parallel shift in yield curves	**254,094**	155,176

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at the end of the reporting period apply to non-derivative financial instruments of the Group;

– At the end of the reporting period, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the assets and liabilities portfolio;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign currency risk

The majority of the business of the Group is related to Renminbi, as well as a small amount of business related to US dollar and other foreign currencies.

The changes in exchange rates will affect the financial position and cash flow of the Group. Due to the small amount of foreign currency business of the Group, the effect of foreign currency risk on the Group would be immaterial. The major principle of the Group's control on foreign currency risk is to achieve matching of assets and liabilities in each currency and to conduct daily monitoring on currency exposure.

The Group adopts sensitivity analysis to measure the possible effects of changes in exchange rates on net gains and losses and interests of the Group. As the foreign currency assets and liabilities account for an immaterial part of the total assets and total liabilities of the Group, the effect of changes in exchange rates on net gains and losses and interests of the Group would be immaterial.

The currency exposures as at the end of the reporting period are as follows:

	31 December 2019			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	19,108,193	55	77	19,108,325
Deposits with banks and other financial institutions	1,107,497	48,426	147,736	1,303,659
Placements with banks and other financial institutions	1,300,375	–	–	1,300,375
Financial assets held under resale agreements	16,630,018	–	–	16,630,018
Loans and advances to customers	111,712,557	–	–	111,712,557
Financial Investments (Note (i))	92,912,639	–	–	92,912,639
Others	4,603,640	–	–	4,603,640
Total assets	247,374,919	48,481	147,813	247,571,213
Liabilities				
Borrowing from the central bank	870,731	–	–	870,731
Deposits from banks and other financial Institutions	4,211,308	–	–	4,211,308
Placements from banks and other financial institutions	1,911,455	–	–	1,911,455
Financial assets sold under repurchase agreements	12,201,162	–	–	12,201,162
Deposits from customers	155,321,102	1,002	126	155,322,230
Debt securities issued	50,345,104	–	–	50,345,104
Others	2,497,069	34,890	17,915	2,549,874
Total liabilities	227,357,931	35,892	18,041	227,411,864
Net position	20,016,988	12,589	129,772	20,159,349
Off-balance sheet credit commitments	41,263,179	–	–	41,263,179

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

	31 December 2018			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	23,589,576	83	79	23,589,738
Deposits with banks and other financial institutions	756,364	35,848	100	792,312
Placements with banks and other financial institutions	500,106	–	–	500,106
Financial assets held under resale agreements	24,179,979	–	–	24,179,979
Loans and advances to customers	98,118,139	–	–	98,118,139
Financial Investments (Note (i))	76,764,649	–	–	76,764,649
Others	3,302,916	–	3	3,302,919
Total assets	227,211,729	35,931	182	227,247,842
Liabilities				
Borrowing from the central bank	590,000	–	–	590,000
Deposits from banks and other financial Institutions	2,513,697	–	–	2,513,697
Placements from banks and other financial institutions	100,000	–	–	100,000
Financial assets sold under repurchase agreements	8,680,430	–	–	8,680,430
Deposits from customers	144,895,930	750	125	144,896,805
Debt securities issued	51,288,864	–	–	51,288,864
Others	3,147,428	34,560	69	3,182,057
Total liabilities	211,216,349	35,310	194	211,251,853
Net position	15,995,380	621	(12)	15,995,989
Off-balance sheet credit commitments	27,582,107	–	–	27,582,107

(i) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

39 RISK MANAGEMENT (continued)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations.

The Group plays an active part in managing liquidity risks and improves related management system in terms of organisation, institution, system, management and mechanism. The organisational structure of the Group's liquidity risk management consists of the Board of Directors, senior management and its Risk Management Committee and Asset and Liability Management Committee, Department of Risk Liquidity Indicator Management, Department of Asset and Liability Management, Department of Corporate Business, Department of Individual Business, Department of Trade and Finance, Department of Credit Examination, Department of Financial Market, Department of Information Technology and Audit Department, responsible for formulating liquidity risk management strategy and establishing internal control mechanism to support the implementation and supervision of liquidity risk management strategy.

The measurement of liquidity risk of the Group adopts liquidity indicator and cash flow gap calculation. By stress testing, the Group sets up mild, moderate and severe scenarios to examine the capacity to withstand liquidity or liquidity crises and improve liquidity contingency measures. In terms of response to liquidity risks, the Group strengthens management and monitoring of liquidity limits; establishes related liquidity emergency leading groups, early-warning indicators for internal and external liquidity risks and indicators that could trigger contingency plans and monitors these indicators; builds up quality liquidity assets reserve and financing capability management; erects liquidity risk reporting mechanism, in which the asset and liability management department reports to the Asset and Liability Management Committee, senior management and the Board of Directors on issues related to the status, stress testing and contingency plans of liquidity risks on a regular basis.

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	31 December 2019							
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	13,303,425	5,798,482	6,418	-	-	-	-	19,108,325
Deposit with banks and other financial institutions	-	665,078	236,119	-	402,462	-	-	1,303,659
Placements with banks and other financial institutions	-	-	1,300,375	-	-	-	-	1,300,375
Financial assets held under resale agreements	-	-	10,323,258	4,919,792	1,386,968	-	-	16,630,018
Loans and advances to customers	1,167,589	263,728	9,599,136	12,774,727	45,219,973	24,832,119	17,855,285	111,712,557
Financial investments	986,155	26,387,552	3,306,281	3,132,462	17,207,616	30,344,145	11,548,428	92,912,639
Others	3,767,156	836,484	-	-	-	-	-	4,603,640
Total assets	19,224,325	33,951,324	24,771,587	20,826,981	64,217,019	55,176,264	29,403,713	247,571,213
Liabilities								
Borrowing from the central bank	-	-	731	180,000	690,000	-	-	870,731
Deposits from banks and other financial Institutions	-	513,916	-	1,151,685	2,545,707	-	-	4,211,308
Placements from banks and other financial institutions	-	-	900,443	1,012	1,010,000	-	-	1,911,455
Financial assets sold under repurchase agreements	-	-	12,136,265	64,897	-	-	-	12,201,162
Deposit from customers	-	57,442,897	3,739,047	8,497,576	28,620,210	56,975,471	47,029	155,322,230
Debt securities issued	-	-	2,635,902	11,372,204	29,292,059	5,007,037	2,037,902	50,345,104
Others	-	2,460,492	-	-	41,957	47,425	-	2,549,874
Total liabilities	-	60,417,305	19,412,388	21,267,374	62,199,933	62,029,933	2,084,931	227,411,864
Net position	19,224,325	(26,465,981)	5,359,199	(440,393)	2,017,086	(6,853,669)	27,318,782	20,159,349

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period: (continued)

	31 December 2018							
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	17,260,969	6,320,457	8,312	–	–	–	–	23,589,738
Deposit with banks and other financial institutions	–	381,918	–	7,600	402,794	–	–	792,312
Placements with banks and other financial institutions	–	–	500,106	–	–	–	–	500,106
Financial assets held under resale agreements	–	–	23,590,840	589,139	–	–	–	24,179,979
Loans and advances to customers	918,466	490,452	5,152,938	9,991,650	32,569,434	33,703,264	15,291,935	98,118,139
Financial investments	315,854	17,437,095	1,399,201	3,351,604	17,840,178	26,451,643	9,969,074	76,764,649
Others	2,908,312	394,607	–	–	–	–	–	3,302,919
Total assets	21,403,601	25,024,529	30,651,397	13,939,993	50,812,406	60,154,907	25,261,009	227,247,842
Liabilities								
Borrowing from the central bank	–	–	–	–	590,000	–	–	590,000
Deposits from banks and other financial Institutions	–	180,367	5,460	2,253	2,325,617	–	–	2,513,697
Placements from banks and other financial institutions	–	–	–	–	100,000	–	–	100,000
Financial assets sold under repurchase agreements	–	–	8,419,871	260,559	–	–	–	8,680,430
Deposit from customers	–	52,222,595	7,243,274	12,099,039	31,741,332	41,503,945	86,620	144,896,805
Debt securities issued	–	–	1,852,938	7,058,810	35,333,267	5,006,468	2,037,381	51,288,864
Others	–	3,090,086	–	–	47,791	44,180	–	3,182,057
Total liabilities	–	55,493,048	17,521,543	19,420,661	70,138,007	46,554,593	2,124,001	211,251,853
Net position	21,403,601	(30,468,519)	13,129,854	(5,480,668)	(19,325,601)	13,600,314	23,137,008	15,995,989

Note:

(i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents impaired investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities of the Group at the end of the reporting period:

	31 December 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	870,731	894,213	-	-	180,000	714,213	-	-
Deposits from banks and other financial institutions	4,211,308	4,311,499	513,916	-	1,178,111	2,619,472	-	-
Placements from banks and other financial institutions	1,911,455	1,944,669	-	901,033	-	1,043,636	-	-
Financial assets sold under repurchase agreements	12,201,162	12,195,884	-	12,130,823	65,061	-	-	-
Deposits from customers	155,322,230	160,194,769	57,284,116	3,575,262	8,133,390	28,409,502	62,734,871	57,628
Debt securities issued	50,345,104	52,046,000	-	2,640,000	11,440,000	30,186,000	5,664,000	2,116,000
Other financial liabilities	2,549,874	2,611,708	1,997,679	17,052	27,894	100,035	360,764	108,284
Total non-derivative financial liabilities	227,411,864	234,198,742	59,795,711	19,264,170	21,024,456	63,072,858	68,759,635	2,281,912

	31 December 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	590,000	606,362	-	-	-	606,362	-	-
Deposits from banks and other financial institutions	2,513,697	2,543,337	180,367	5,400	2,625	2,354,945	-	-
Placements from banks and other financial institutions	100,000	103,969	-	-	-	103,969	-	-
Financial assets sold under repurchase agreements	8,680,430	8,677,682	-	8,416,306	261,376	-	-	-
Deposits from customers	144,896,805	145,362,673	52,005,627	7,141,902	11,930,898	31,545,892	42,650,232	88,122
Debt securities issued	51,288,864	54,092,002	-	1,891,105	7,212,214	37,012,848	5,864,194	2,111,641
Other financial liabilities	3,182,057	3,182,057	3,090,086	-	-	47,791	44,180	-
Total non-derivative financial liabilities	211,251,853	214,568,082	55,276,080	17,454,713	19,407,113	71,671,807	48,558,606	2,199,763

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

39 RISK MANAGEMENT (continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group has specified issues of operational risks, including its manifestation, management mode, reporting procedure, reporting cycle and statistics of loss and improved comprehensive risk management system, with major initiatives as follows:

– Establishment of operational risk management system in a crisscrossing manner. On the one hand, the Group establishes an operational risk management framework that is compatible with its nature, scale, complexity and risk characteristics, including the operational risk management mechanism that involves its board of directors, board of supervisors, senior management, head office and branches. On the other hand, a three-tier risk prevention system for the front office, middle office and back office has been established for every major risk faced by the Group.

– Formation of business philosophy of compliance and robustness. The Group fosters favourable control environment, including constant advances and promotion in operational risk culture by the board of directors and senior management.

– Preference to low operational risk under the framework of 'robust' risk preference. By conducting controls on operational risk including identification, measurement, resolution, monitoring and reporting, the Group establishes mechanisms for risk avoidance, loss prediction, prevention, control, reduction, financing to control operational risk within the carrying capacity of the Group and maximise its profits.

– Prevention of operational risks based on the means of inspection and supervision. All departments and branches of the head office actively perform their duties of supervision and management, conduct routine and special inspections on operational risks in major businesses, establish ledger of all problems identified for rectification and check-off. Based on the inspection by departments, the internal audit department fully uses the off-site audit system, business risk early-warning system and remote monitoring system to detect violations and pay constant attention to risk-prone problems to prevent operational risks. In the meantime, inspections and investigations are exercised on key businesses, key institutions and key personnel to prevent operational risks.

– Combination of punishment and incentives to encourage compliance and standard operations. Integral management will be implemented on personnel violating operational standards for strict ascertainment of responsibility; employees are encouraged to spontaneously disclose and actively report operational risks; internal management, compliance operation, inspection and supervision and swindle prevention and control of the head office and branches shall be quantitatively assessed for penalty points; innovative implementation of compliance and internal control management of institutions shall be assessed for bonus points.

– Substantive achievements in carrying out system training and improving staff operation skills have been effective in preventing operational risks for the Group.

40 FAIR VALUE

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits and placements with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank, deposits and placements with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBoC rates. Accordingly, the carrying amounts approximate the fair values.

Financial investments at fair value through other comprehensive income and financial assets at fair value through profit or loss are stated at fair value. Financial investments at amortised cost are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

(ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

The book value and fair value of debt securities issued is presented in Note 29. The carrying amounts of other financial liabilities approximate their fair value.

40 FAIR VALUE (continued)

(c) Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

– Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

– Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and exchange rate. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

(Expressed in thousands of Renminbi, unless otherwise stated)

40 FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

	31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Assets				
Financial investments at fair value through profit or loss				
– debt securities	–	1,049,720	149,297	1,199,017
– interbank deposits	–	–	–	–
– investment funds	–	26,387,551	–	26,387,551
– equity investments	–	–	59,097	59,097
– investment management products	–	54,371	2,276,444	2,330,815
Financial investments at fair value through other comprehensive income				
– debt securities	–	6,107,094	–	6,107,094
– equity investments	–	–	151,190	151,190
– investment management products	–	772,517	–	772,517
– interbank deposits	–	4,678,317	–	4,678,317
Loans and advances to customers measured at fair value through other comprehensive income:				
– corporate loans and advances	–	187,447	–	187,447
– discounted bills	–	24,709,293	–	24,709,293
Total	–	63,946,310	2,636,028	66,582,338

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial investments at fair value through profit or loss				
– debt securities	–	283,963	134,330	418,293
– interbank deposits	–	29,261	–	29,261
– investment funds	–	16,885,451	–	16,885,451
– equity investments	–	–	58,285	58,285
– investment management products	–	3,232,890	3,627,708	6,860,598
Financial investments at fair value through other comprehensive income				
– debt securities	–	2,365,658	–	2,365,658
– equity investments	–	–	151,190	151,190
– investment management products	–	952,507	–	952,507
– interbank deposits	–	1,573,472	–	1,573,472
Loans and advances to customers measured at fair value through other comprehensive income:				
– discounted bills	–	12,671,771	–	12,671,771
Total	–	37,994,973	3,971,513	41,966,486

(Expressed in thousands of Renminbi, unless otherwise stated)

40 FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

The movement during the year ended 31 December 2019 in the balance of Level 3 fair value measurements is as follows:

	1 January 2019	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				31 December 2019	Unrealised gains or losses for the period included in profit or loss for assets and liabilities held at the end of the year
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements		
Assets											
Financial investments at fair value through profit or loss											
– debt securities	134,330	-	-	14,967	-	-	-	-	-	149,297	14,967
– equity investments	58,285	-	-	812	-	-	-	-	-	59,097	812
– investment management products	3,627,708	-	-	(6,556)	-	-	-	-	(1,344,708)	2,276,444	(3,819)
Sub-total	3,820,323	-	-	9,223	-	-	-	-	(1,344,708)	2,484,838	11,960
Financial investments at fair value through other comprehensive income											
– equity investments	151,190	-	-	-	-	-	-	-	-	151,190	-
Total	3,971,513	-	-	9,223	-	-	-	-	(1,344,708)	2,636,028	11,960

(Expressed in thousands of Renminbi, unless otherwise stated)

40 FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

The movement during the year ended 31 December 2018 in the balance of Level 3 fair value measurements is as follows:

	1 January 2018 (Note)	Transfer into Level 3	Transfer out of Level 3	Total gains or losses: Recorded in profit or loss	Total gains or losses: Recorded in other comprehensive income	Purchases, issues, sales and settlements: Purchases	Purchases, issues, sales and settlements: Issues	Purchases, issues, sales and settlements: Sales	Purchases, issues, sales and settlements: Settlements	31 December 2018	Unrealised gains or losses for the period included in profit or loss for assets and liabilities held at the end of the year
Assets											
Financial investments at fair value through profit or loss											
– debt securities	131,897	–	–	2,433	–	–	–	–	–	134,330	2,433
– equity investments	898,419	–	–	34,235	–	–	–	–	(874,369)	58,285	98
– investment management products	5,395,468	–	–	6,240	–	1,000,000	–	–	(2,774,000)	3,627,708	8,764
– investment funds	27,173	–	–	981	–	–	–	(28,154)	–	–	–
Sub-total	6,452,957	–	–	43,889	–	1,000,000	–	(28,154)	(3,648,369)	3,820,323	11,295
Financial investments at fair value through other comprehensive income											
– equity investments	8,250	–	–	–	(35,734)	178,674	–	–	–	151,190	–
Total	6,461,207	–	–	43,889	(35,734)	1,178,674	–	(28,154)	(3,648,369)	3,971,513	11,295

Note:

The Group has adopted IFRS 9 since 1 January 2018. According to the classification and measurement requirements under IFRS9, the financial instruments in Level 3 fair value hierarchy have been reclassified and measured on 1 January 2018.

(Expressed in thousands of Renminbi, unless otherwise stated)

40 FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

During each of the years ended 31 December 2019 and 2018, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorized within Level 3.

Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at 31 December 2019	Valuation techniques	Unobservable input
Financial investments at fair value through profit or loss			
– debt securities	**149,297**	Discounted cash flow	Risk-adjusted discount rate, cash flow
– equity investments	**59,097**	Discounted cash flow	Risk-adjusted discount rate, cash flow
– investment management products	**2,276,444**	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments at fair value through other comprehensive income			
– equity investments	**151,190**	Discounted cash flow	Risk-adjusted discount rate, cash flow

	Fair value as at 31 December 2018	Valuation techniques	Unobservable input
Financial investments at fair value through profit or loss			
– debt securities	134,330	Discounted cash flow	Risk-adjusted discount rate, cash flow
– equity investments	58,285	Discounted cash flow	Risk-adjusted discount rate, cash flow
– investment management products	3,627,708	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments at fair value through other comprehensive income			
– equity investments	151,190	Discounted cash flow	Risk-adjusted discount rate, cash flow

(Expressed in thousands of Renminbi, unless otherwise stated)

40 FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

During the years ended 31 December 2019 and 2018, there were no significant change in the valuation techniques.

As at 31 December 2019 and 2018, unobservable inputs such as risk-adjusted discount rate and cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly equity investments and investment management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

The sensitivity of the fair value on changes in unobservable inputs for Level 3 financial instruments is measured at fair value on an ongoing basis.

The fair value of financial instruments is, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 1 percent of change in fair value to reasonably possible alternative assumptions.

	At 31 December 2019			
	Effect on net profit		**Effect on other comprehensive income**	
	Favourable	**(Unfavourable)**	**Favourable**	**(Unfavourable)**
Financial investments at fair value through profit or loss				
– debt securities	**3,274**	**(3,175)**	**–**	**–**
– equity investments	**376**	**(368)**	**–**	**–**
– investment management products	**45,026**	**(42,409)**	**–**	**–**
Financial investments at fair value through other comprehensive income				
– equity investments	**–**	**–**	**578**	**(483)**

	At 31 December 2018			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments at fair value through profit or loss				
– debt securities	4,202	(4,034)	–	–
– equity investments	377	(369)	–	–
– investment management products	60,381	(56,542)	–	–
Financial investments at fair value through other comprehensive income				
– equity investments	–	–	578	(483)

(Expressed in thousands of Renminbi, unless otherwise stated)

41 FIDUCIARY ACTIVITIES

(a) Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statements of financial position. Surplus funding is accounted for as other liabilities.

	31 December 2019	31 December 2018
Entrusted loans	**11,100,352**	9,840,516
Entrusted funds	**11,105,820**	9,846,311

(b) Intermediary matchmaking service

As at 31 December 2019 and 2018, the balance of intermediary matchmaking service business is as follows:

	31 December 2019	31 December 2018
Intermediary matchmaking service business	**6,108,043**	3,461,801

(Expressed in thousands of Renminbi, unless otherwise stated)

42 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December 2019	31 December 2018
Loan commitments		
– Original contractual maturity within one year	**733,891**	150,742
– Original contractual maturity more than one year (inclusive)	**2,947,449**	1,501,600
Credit card commitments	**6,542,674**	2,701,251
Sub-total	**10,224,014**	4,353,593
Acceptances	**27,215,046**	22,081,256
Letters of credit	**3,344,576**	1,101,739
Letters of guarantees	**479,543**	45,519
Total	**41,263,179**	27,582,107

The Group may be exposed to credit risk in all the above credit businesses. Management of the Group periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount for credit commitments

	31 December 2019	31 December 2018
Credit risk-weighted amounts	**21,095,590**	14,603,981

The credit risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the former CBRC.

(Expressed in thousands of Renminbi, unless otherwise stated)

42 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(c) Capital commitments

As at the end of the reporting period, the Group's authorised capital commitments are as follows:

	31 December 2019	31 December 2018
Contracted but not paid for	**100,315**	66,035
Authorised but not contracted for	**–**	–
Total	**100,315**	66,035

(d) Outstanding litigations and disputes

As at 31 December 2019, the Group was the defendant in certain outstanding litigations and disputes with an estimated gross amounts of RMB1,015 million (31 December 2018: RMB1,008 million). The Group has assessed the impact of the above outstanding litigation and disputes that may lead to an outflow of economic benefits. According to the opinion of the Group's lawyers and external lawyers, it is unlikely for the Group to receive unfavorable ruling in these case. Therefore, the Group don't recognised the litigation provision. Directors of the Bank are of the view that these litigations will not have any material adverse effect on the Group's business, financial condition, results of operations or prospects.

(e) Bonds underwriting commitments and redemption obligations

The Group have no outstanding bonds underwriting commitments at the end of the reporting period.

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back its bonds if the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders are calculated in accordance with relevant rules of the MOF and the PBoC.

The redemption price may be different from the fair value of similar instruments traded in the markets at the redemption date. The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Redemption obligations	**3,363,845**	3,270,826

42 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(f) Pledged assets

(i) Assets pledged as collateral

	31 December 2019	31 December 2018
For repurchase agreements:		
– Financial investments measured at amortised cost	**8,750,712**	6,235,125
– Discounted bills	**63,822**	597,662
Total	**8,814,534**	6,832,787

Financial assets pledged by the Group as collateral for liabilities is mainly debt securities for repurchase agreements.

(ii) Pledged assets received

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. The Group's balance of the financial assets held under resale agreements refers to Note 17. The fair value of such collateral accepted by the Group was RMB16,625 million as at 31 December 2019 (31 December 2018: RMB24,173 million). These transactions were conducted under standard terms in the normal course of business.

43 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2019	31 December 2018
Assets			
Cash and deposits with the central bank		**19,043,695**	23,525,037
Deposits with banks and other financial institutions		**1,184,082**	656,067
Placements with banks and other financial institutions		**1,300,375**	500,106
Financial assets held under resale agreements		**16,630,018**	24,179,979
Loans and advances to customers		**111,398,169**	97,775,864
Financial investments:			
Financial investments at fair value through profit or loss		**29,976,480**	24,251,888
Financial investments at fair value through other comprehensive income		**11,709,118**	5,042,827
Financial investments at amortised cost		**51,227,041**	47,469,934
Interest in associate		**272,576**	251,698
Investments in subsidiary	21	**25,500**	25,500
Property and equipment		**1,463,392**	744,698
Deferred tax assets		**1,427,534**	1,257,048
Other assets		**1,417,845**	1,032,440
Total assets		**247,075,825**	226,713,086

43 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

(continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	**31 December 2019**	31 December 2018
Liabilities and equity			
Liabilities			
Borrowing from the central bank		**870,731**	590,000
Deposits from banks and other financial institutions		**4,419,591**	2,670,616
Placements from banks and other financial institutions		**1,911,455**	100,000
Financial assets sold under repurchase agreements		**12,201,162**	8,680,430
Deposits from customers		**154,652,911**	144,237,525
Income tax payable		**193,808**	103,700
Debt securities issued		**50,345,104**	51,288,864
Other liabilities		**2,345,564**	3,073,724
Total liabilities		**226,940,326**	210,744,859
Equity			
Share capital		**5,838,650**	4,868,000
Capital reserve		**6,627,602**	4,423,893
Surplus reserve		**3,467,020**	3,186,830
General reserve		**2,781,004**	2,781,004
Fair value reserve		**(23,204)**	(17,935)
Impairment reserve		**18,320**	17,215
(Deficit)/surplus on remeasurement of net defined benefit liability		**(1,223)**	525
Retained earnings		**1,427,330**	708,695
Total equity		**20,135,499**	15,968,227
Total liabilities and equity		**247,075,825**	226,713,086

Approved and authorised for issue by the board of directors on 26 March 2020.

Tang Yiping
Authorized Representative

Tang Yiping
President

Hou Xiuping
Chief Financial Officer

(Company chop)

44 SUBSEQUENT EVENTS

(a) Description of profit distribution

The profit appropriation of the Bank was proposed in accordance with the resolution of the board of directors meeting as disclosed in Note 33(a).

(b) The assessment of the impact of the coronavirus disease 2019

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020, the prevention and control of the COVID-19 has been going on throughout the country. The Group will earnestly implement the requirements of the Notice on Further Strengthening Financial Support for Prevention and Control of COVID-19, which was issued by the PBC, the Ministry of Finance, the CBIRC, China Securities Regulatory Commission and State Administration of Foreign Exchange, and strengthen financial support for the epidemic prevention and control.

The COVID-19 has certain impacts on the business operation and overall economy in some areas or industries, including in Hubei Province. This may affect the quality or the yields of the credit assets and investment assets of the Group in a degree, and the degree of the impact depends on the situation of the epidemic preventive measures, the duration of the epidemic and the implementation of regulatory policies.

The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purpose only.

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplementary financial information as follows:

1 LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

(a) Liquidity coverage ratio

	31 December 2019	**Average for the year ended 31 December 2019**
Liquidity coverage ratio (RMB and foreign currency)	**252.85%**	**240.44%**

	31 December 2018	Average for the year ended 31 December 2018
Liquidity coverage ratio (RMB and foreign currency)	226.64%	149.85%

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks (Trial), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

(b) Leverage Ratio

	31 December 2019	31 December 2018
Leverage Ratio	**7.16%**	6.49%

Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks issued by the former CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

(c) Net Stable Funding Ratio

	31 December 2019	30 September 2019	31 December 2018
Net Stable Funding Ratio	**137.19%**	137.15%	130.45%

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio 100% is required.

The above liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.

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

2 CURRENCY CONCENTRATIONS

	31 December 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	**48,481**	**147,605**	**208**	**196,294**
Spot liabilities	**(35,892)**	**(17,822)**	**(219)**	**(53,933)**
Net position	**12,589**	**129,783**	**(11)**	**142,361**

	31 December 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	35,931	54	128	36,113
Spot liabilities	(35,310)	(56)	(138)	(35,504)
Net position	621	(2)	(10)	609

The Group has no structural position at the reporting periods.

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with the central bank, amounts due from banks and other financial institutions.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	31 December 2019		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	**147,524**	**–**	**147,524**
Europe	**148**	**–**	**148**
Total	**147,672**	**–**	**147,672**

	31 December 2018		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	27	–	27
Europe	67	–	67
Total	94	–	94

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

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

	31 December 2019	31 December 2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	**812,558**	271,999
– between 6 months and 1 year (inclusive)	**239,211**	561,715
– between 1 year and 3 years (inclusive)	**596,809**	827,400
– over 3 years	**458,785**	150,873
Total	**2,107,363**	1,811,987
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	**0.70%**	0.27%
– between 6 months and 1 year (inclusive)	**0.21%**	0.55%
– between 1 year and 3 years (inclusive)	**0.52%**	0.81%
– over 3 years	**0.40%**	0.15%
Total	**1.83%**	1.78%

List of Branches

As at December 31, 2019, the details of the branches of the Bank are as follows:

No.	Institution name	Institution address	Note
1	Head office	No. 59 Changfeng Street, Xiaodian District, Taiyuan, Shanxi Province	4 sub-branches directly administered by the head office and 84 outlets under its jurisdiction
2	Lvliang Branch	Intersection of Changzhi Road and Longfeng Street, Lishi District, Lvliang, Shanxi Province	7 outlets under its jurisdiction
3	Yuncheng Branch	No. 989 Pu'an Street, Yanhu District, Yuncheng, Shanxi Province	6 outlets under its jurisdiction
4	Linfen Branch	Block B, Guangqi Fortune Center, Hefen Road, Linfen, Shanxi Province	9 outlets under its jurisdiction
5	Shuozhou Branch	North side of Zhenhua East Street, Shuozhou Economic Development Zone, Shanxi Province	10 outlets under its jurisdiction
6	Datong Branch	No. 46, Weidu Avenue, Datong, Shanxi Province	10 outlets under its jurisdiction
7	Changzhi Branch	No. 288 Chengdong Road, Changzhi, Shanxi Province	9 outlets under its jurisdiction
8	Xinzhou Branch	Yiren Commercial Complex, Jianshe South Road, Xinfu District, Xinzhou, Shanxi Province	11 outlets under its jurisdiction
9	Jincheng Branch	1/F – 2/F, Zizhulin Building, Fengtai West Street, Jincheng, Shanxi Province	4 outlets under its jurisdiction
10	Jinzhong Branch	No. 678, Anning Street, Yuci District, Jinzhong, Shanxi Province	7 outlets under its jurisdiction
11	Yangquan Branch	1/F – 5/F, Commercial Building, Wanlong International Phase I, Nanda East Street, Yangquan, Shanxi Province	2 outlets under its jurisdiction

晋商银行
Jinshang Bank