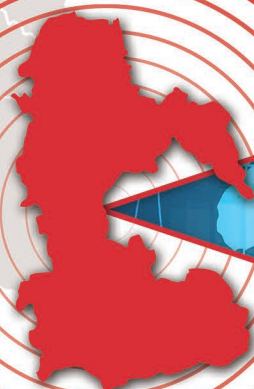


年度報告
ANNUAL REPORT
2020



泸州银行股份有限公司
LUZHOU BANK CO., LTD.

泸州银行股份有限公司*
Luzhou Bank Co., Ltd.*

(於中華人民共和國註冊成立的股份有限公司)
(A joint stock company incorporated in the People's Republic of China with limited liability)
股份代號：1983 Stock Code: 1983

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

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Corporate Overview

I. CORPORATE PROFILE

- (i) Legal Names
 - 1. Legal Chinese name: 泸州银行股份有限公司
(Abbreviation in Chinese: 泸州银行)
 - 2. Legal English name: LUZHOU BANK CO., LTD.
(Abbreviation in English: LUZHOU BANK)
- (ii) Registered Capital: RMB2,264,793,385
- (iii) Legal Representative: Mr. YOU Jiang
- (iv) Authorized Representatives: Mr. LIU Shirong, Ms. SO Shuk Yi Betty
- (v) Joint Company Secretaries: Mr. LIU Shirong, Ms. SO Shuk Yi Betty
- (vi) Listing place of H shares: The Stock Exchange of Hong Kong Limited
- (vii) Abbreviated Stock Name and Stock Code: LUZHOU BANK (1983.HK)
- (viii) Registered Address: Building 1, No. 18, Section 3, Jiucheng Avenue, Jiangyang District, Luzhou, Sichuan Province, the PRC
- (ix) Principal Place of Business in Hong Kong: 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong
- (x) Contact Address:
Building 1, No. 18 Section 3 Jiucheng Avenue, Jiangyang District, Luzhou, Sichuan Province, the PRC
Post Code: 646000
Website: www.lzccb.cn
- (xi) Address for Inspection of this Annual Report: Office of the Board of Directors of the Bank
- (xii) Auditor
 - International: *PricewaterhouseCoopers*
Address: 22/F, Prince's Building, Central, Hong Kong
 - Domestic: *PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership)*
Address: 11/F, PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai, PRC
- (xiii) PRC Legal Advisor: JunHe LLP, Shanghai Office
- (xiv) Hong Kong Legal Advisor: King & Wood Mallesons
- (xv) H Share Registrar and Transfer Office: Computershare Hong Kong Investor Services Limited
- (xvi) Registration Date: September 15, 1997

Corporate Overview

- (xvii) Registration Authority: Luzhou City Administration for Market Regulation in Sichuan Province, the PRC
- (xviii) Unified Social Credit Code: 91510500708926271U
- (xix) Financial License Institution Number: B0210H251050001
- (xx) Customer Service and Complaints Hotline: 0830-96830
- (xxi) Tel: 0830-2362606
- (xxii) Fax: 0830-3100625
- (xxiii) E-mail: ir@lzccb.cn

II. CORPORATE INFORMATION

Headquartered in Luzhou, the PRC, Luzhou Bank was established on September 15, 1997 as approved by the PBoC. The Bank has the Chengdu Branch and 28 sub-branches. As at the end of the Reporting Period, our total assets amounted to RMB118,886 million; our total customer loans amounted to RMB59,624 million, and our total customer deposits amounted to RMB85,223 million.

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

III. MAJOR HONORS ACHIEVED IN 2020

“Outstanding Service Enterprise in Sichuan Province” granted by the CPC Sichuan Provincial Committee and the People’s Government of Sichuan Province in June 2020.

“Top Ten Intelligent Risk Control Innovation Award (十佳智能風控創新獎)” awarded in the selection organized by the Banker magazine, Institute of Finance & Banking and the Wealth Management Research Center of the Chinese Academy of Social Sciences, and the China Center for Internet Economy Research of the Central University of Finance and Economics in September 2020.

The “Most Regionally Competitive Urban Commercial Bank (最具區域競爭力城商行)” granted by the Banker magazine in September 2020.

The “Best Smart Bank Award (最佳智能銀行獎)” granted in the “2020 Golden Award List of China Electronic Banking (2020中國電子銀行金獎榜)” in December 2020.

“Pioneering Bank of Social Responsibility 2020 (2020年度社會責任先鋒銀行)” rated by the 18th China’s Financial Annual Champion Awards in December 2020.

Accounting Data and Financial Indicators Summary

Unit: RMB'000

Item	2020	2019	Year-on-year change	2018	2017	2016
Operating results			change (%)			
Net interest income	2,756,442	2,718,125	1.41	1,772,398	1,574,335	1,155,636
Net fee and commission income	5,085	5,085	0.00	1,868	(1,890)	495
Operating income	3,154,720	2,806,631	12.40	1,934,088	1,679,956	1,306,982
Operating expenses	(1,176,666)	(1,036,331)	13.54	(686,928)	(543,168)	(437,427)
Expected credit losses	(1,242,241)	(944,739)	31.49	(396,810)	(324,846)	(155,669)
Profit before income tax	740,250	829,648	(10.78)	853,990	814,486	716,800
Net profit	576,074	633,912	(9.12)	658,307	618,703	542,084
Net profit attributable to shareholders of the Bank	576,074	633,912	(9.12)	658,307	618,703	542,084
Per share (RMB)			change			
Net assets per share attributable to our shareholders ⁽¹⁾	3.20	3.04	0.16	2.92	2.65	2.77
Basic earnings per share ⁽²⁾	0.25	0.28	(0.03)	0.40	0.38	0.35
Diluted earnings per share	0.25	0.28	(0.03)	0.40	0.38	0.35
Scale indicators (RMB' 000)			change (%)			
Total assets	118,886,259	91,680,621	29.67	82,549,815	70,879,436	53,280,661
Of which: net customer loans ⁽³⁾	57,585,311	43,298,734	33.00	30,486,354	18,833,833	14,159,076
Total liabilities	109,937,310	84,791,112	29.66	76,183,029	66,543,721	49,273,247
Of which: customer deposits	85,223,104	61,436,960	38.72	52,385,604	42,145,297	31,018,756
Share capital	2,264,793	2,264,793	0.00	2,182,933	1,637,193	1,448,844
Equity attributable to our shareholders of the Bank	8,948,949	6,889,509	29.89	6,366,786	4,335,715	4,007,414
Total equity	8,948,949	6,889,509	29.89	6,366,786	4,335,715	4,007,414
Profitability indicators (%)			change			
Return on average total assets ⁽⁴⁾	0.55	0.73	(0.18)	0.86	1.00	1.27
Return on average equity ⁽⁵⁾	7.11	9.47	(2.36)	14.66	14.83	14.87
Net interest spread ⁽⁶⁾	2.75	2.85	(0.10)	2.43	2.55	3.19
Net interest margin ⁽⁷⁾	2.78	3.08	(0.30)	2.53	2.65	3.24
Net fee and commission income to operating income ⁽⁸⁾	0.16	0.18	(0.02)	0.10	(0.11)	0.04
Cost-to-income ratio ⁽⁹⁾	36.09	35.95	0.14	34.54	31.89	31.46
Asset quality indicators (%)			change			
NPL ratio	1.83	0.94	0.89	0.80	0.99	0.53
Allowance coverage ratio	187.43	349.78	(162.35)	319.36	294.49	486.63
Allowance to gross loan ratio	3.43	3.28	0.15	2.54	2.93	2.58

Accounting Data and Financial Indicators Summary

Item	2020	2019	Year-on-year change	2018	2017	2016
Capital adequacy indicators (%)			change			
Core tier-one capital adequacy ratio ⁽¹⁰⁾	8.11	9.31	(1.20)	10.69	10.40	12.68
Tier-one capital adequacy ratio ⁽¹⁰⁾	10.01	9.31	0.70	10.69	10.40	12.68
Capital adequacy ratio ⁽¹⁰⁾	13.87	12.09	1.78	13.29	13.69	13.62
Other indicators (%)			change			
Liquidity ratio	83.02	83.72	(0.70)	73.40	48.42	44.99

Notes:

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

Chairman's Statement

2020 was a year of extraordinary hardships. The abrupt COVID-19 outbreak caused every walk of life to shut down for a time. Amid such demanding test, the management and all employees united to overcome the difficulties under the leadership of our Board of Directors who enjoyed great support by shareholders and thus all our operations progressed at a stable pace.

In 2020, we worked hard on capital replenishment. We became the first bank to issue undated capital bonds in western China with RMB1.7 billion of undated capital bonds issued. We also issued RMB1.5 billion of tier-2 capital bonds. The capital adequacy ratio was up from 12.09% at the beginning of the year to 13.87%, which indicated an improvement in our capital strength. The 360 million H shares placement initiative was approved by the China Banking and Insurance Regulatory Commission Sichuan Office and the China Securities Regulatory Commission.

In 2020, we propelled cross-region development. We officially launched Jinjiang sub-branch, the second sub-branch in Chengdu municipality. We registered stable progress in preparing to open Meishan branch, Jintang sub-branch, Qingyang sub-branch and Jinniu sub-branch, of which Meishan sub-branch was officially launched on January 27, 2021. Meanwhile, we were approved to set up one branch in Suining municipality, and in Chengdu municipality, we were approved to open one sub-branch in each of Wuhou District, Pidu District, Shuangliu District and Xinjin county. We have so far had 12 post-launched and pre-launched branches and sub-branches outside Luzhou municipality, which will serve as an efficient network covering the Chengdu Plain Economic Zone with Chengdu as the core. The Bank was honoured "The Most Regionally Competitive Urban Commercial Bank" whose assets valued below RMB100 billion in terms of 2020 competitiveness evaluation among commercial banks in China.

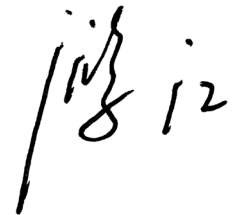


Chairman's Statement

In 2020, we optimized the governance system holistically. In the final year of our 13th Five-Year Plan, the Bank's assets exceeded RMB100 billion successfully, with multiple goals overfulfilled. Aiming higher and farther, we planned ahead and implemented special reforms in September 2020 to upgrade the business and management systems across the board, and strived to build an excellent banking talent team, cultivate a good corporate culture with proven development history, and thus preparing us for ranking among top-notch banks in China. While increasingly addressing NPLs, we optimized a risk prevention and control system and organization structure, set up the credit review and approval department separately, established loan origination center. We established a talent standard system and a talent review system with our characteristics, in a bid to further optimize the talent management system and motivate the employees to work with entrepreneurship, hence a more competitive bank we will be.

In 2020, we focused on building up our technological capabilities. The "Huawei 2020 Fintech Summit for Small and Medium-sized Banks" was jointly held by us and Huawei Technologies Co., Ltd. Leaders and experts from over 50 banks and technology companies of China gathered in Luzhou municipality to discuss the digital transformation of small and medium-sized banks together. We stepped up technology empowerment and rolled out the video banking "Xiaoluyunting (小瀘雲廳)" which provides 14 services such as password loss reporting and risk evaluation of wealth management which can be handled remotely. We were selected as "2020 Innovative Channel Construction – Exemplar Bank" by City Commercial Banks Clearing Co., LTD.

Long and arduous as the journey ahead may be, we will deliver our commitment. The year 2021 is the prologue of our 14th Five-Year Plan, during which the Board will, together with all staff, continue to solidify our developmental foundation and improve our operating quality and efficiency with honest work and problem-solving, so as to deliver satisfactory results to our investors and our communities.



Chairman
YOU Jiang

President's Statement

In 2020, under the wise leadership of the Board, the operation management of the Bank led all the cadres and staff to actively adapt to the change of the operating environment, did their best to cope with the impact of the pandemic and prevent and control risks, and strived to complete all the goals and tasks to achieve healthy and steady development.

The overall size of the Bank rose sharply in 2020. As of the end of 2020, the total assets of the Bank amounted to RMB118,886 million, representing a year-on-year increase of 29.67%; our total balance of deposits amounted to RMB85,223 million, representing a year-on-year increase of 38.72%; our total balance of loans reached RMB59,624 million, representing a year-on-year increase of 33.21%. The growth rate of the three indicators stayed ahead of the city commercial banks in Sichuan Province and even the national listed banks. Affected by the epidemic and risky loans in large amounts, the total net profit of the Bank in 2020 declined, but it still stayed ahead of the city commercial banks of the same size. With the disposal of non-performing assets and the transformation of retail business, the liability cost of the Bank will be further reduced and its profitability will be further improved.

In 2020, the Bank continued to promote business innovation. We formally established foreign exchange business and provided diversified domestic and foreign currency comprehensive financial services for customers. We opened 141 foreign exchange accounts for the customers and absorbed RMB150 million deposit. We actively promoted the netting transformation of wealth management product, and successfully sold the “Golden Fragrans Blooming in March”. The balance of wealth management products increased by 55% year on year, and the number of investors in wealth management products nearly doubled year on year. The number of individual customers increased by 173,000 in the whole year.

In 2020, the Bank has actively done well in risk prevention and control, a total of RMB371 million of non-performing assets were disposed during the year, RMB138 million were recovered in cash and RMB233 million were written off, with a year-on-year increase of 54.3%. We established a compulsory notarization for the execution of petty loan to further improve the efficiency of risk prevention and disposal. We strengthened the prevention and control of reputational risks, liquidity risks and other major risks, and there were no signs of risks affecting the stability of the Bank throughout the year.

President's Statement

In 2020, the Bank actively strengthened the team building, established systems for talent standard and implemented the talent review system, comprehensively and accurately understood of the present situation of the talent team of the Bank, and formed 18 talent sequences by lines and positions, implemented double promotion channel of "Management personnel" and "professional staff", further promoted marketization, profession and rejuvenation of the talent team building. We recruited 189 outstanding talents during the year. The staff with undergraduate degree or above accounted for 80% in the Bank. The personnel structure was further optimized. 49 outstanding management personnel were promoted throughout the year. The overall quality of the management team has been further improved. We organized 129 trainings of various kinds and the number of participants was 7,707.

There is a long way to go, and you can cover the long distance only when you are determined to start and go. 2021 marks the start of the national "14th Five-year Plan". Adhering to the overall strategies and objectives determined by the Board, the Bank's operation management will proactively seize the opportunities of "Chengdu-Chongqing Economic Circle" construction, a new wave of the western development drive and other important strategic opportunities, concentrate mind and power, take practical actions and make concerted efforts, so as to promote the high-quality development of the Bank.



A handwritten signature in black ink, consisting of stylized Chinese characters for '徐先忠' (XU Xianzhong).

President
XU Xianzhong

Management Discussion and Analysis

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

1 ENVIRONMENT AND PROSPECT

In 2020, the COVID-19 epidemic swept across the world. The global economy slipped into deep recession with the sharply shrinking international trade and turbulent financial markets. The Chinese government maintained strategic focus, made accurate judgement on situations and made well-planned deployment with decisiveness. It took a series of effective measures to achieve a GDP of over RMB100 trillion for the first time, representing a year-on-year increase of 2.3%, making the country become the only major economy with positive growth in the world. Looking forward to 2021, although the world economic and trade environment will be largely unstable and uncertain, and the economic development environment in China is facing profound and complex changes, the development of China will still be in a period of important strategic opportunities. China has significant advantages in the system of socialism with Chinese characteristics, and also has a complete industrial system and a solid material and technological foundation, with the super large-scale market advantage and domestic demand potential, huge human capital and human resources, continuous reform and opening dividends, and rich macro-control experience and tools. As a result, the economy seeks progress while maintaining stability and the development trend of long-term good prospects does and will not change.

Sichuan Province is an important part of China's economy, with its population resources ranking the fourth and total economic output ranking the sixth in the country. In recent years, its economy has developed rapidly, and its economic growth rate has always been in the forefront of all provinces (autonomous regions and municipalities) across the country. During the "13th Five-Year Plan" period, the compound growth rate of regional production was 10.05%, with 1.97 percentage points higher than that of the whole country. In October 2020, the Political Bureau of the CPC Central Committee convened a meeting to deliberate on the Outline of the Construction Plan for the Chengdu-Chongqing Double City Economic Circle. The meeting emphasized that the Chengdu-Chongqing Double-City Economic Circle should be turned into an important growth pole and a new power source to drive the high-quality development across the country. From "Chengdu-Chongqing Economic Zone" to "Chengdu-Chongqing Urban Agglomeration", and then to "Chengdu-Chongqing Double City Economic Circle", this is the highest-level, most influential and most valuable national positioning after Chengdu-Chongqing region being identified as the national central cities in 2016. Such positioning provided access point and integrating point for Chengdu and Sichuan to acquire national policy support at home and gather high-quality elements and resources from abroad, enabling Sichuan-Chongqing to undertake a new mission in the new era. Following the pressing of the "accelerator button" in the Chengdu-Chongqing Double-City Economic Circle, the interaction between the adjacent areas of Sichuan and Chongqing is frequent and exchanges and cooperation are increasingly escalating. As an important city in the southern part of the Chengdu-Chongqing Double-City Economic Circle, Luzhou is embracing new major development opportunities.

Leveraging on the accelerated construction of the "Chengdu-Chongqing Double-City Economic Circle", and in combination with the advantages of resources and location of Sichuan Province and Luzhou City, the Bank's various businesses grew steadily in 2020, with its total assets exceeding RMB100 billion, maintaining a relatively high growth rate in operating income. Looking forward to 2021, the Bank will actively seize various favorable opportunities, accelerate the establishment of approved branches in the province, continue to deepen internal reforms and strengthen risk management, striving to build itself into a first-class listed bank in China.

At the end of 2019, the COVID-19 epidemic broke out suddenly, and various industries were temporarily shut down, and the banking industry was unable to stand alone. In response to the epidemic, the state introduced a large number of fiscal and monetary policies in 2020 to increase capital supply, solve the financing problems of the real economy, and require financial institutions to lower interest rates to give benefits to the real economy and help the economy recover quickly. In the case of relatively abundant market liquidity, the asset business of the Bank decreased slightly in 2020, and in response to the call of the state, the Bank provided moderate support measures such as deferred repayment of principal and interest to some customers who severely affected by the epidemic, leading to a decrease in the net profit of the Bank in 2020. Meanwhile, due to the delayed financial impact of the epidemic, the Bank's asset quality may be slightly affected when the national support policy withdraws in the future. However, with the improvement of the epidemic prevention and control situation in China and the rapid recovery of economy, as well as the acceleration in construction of branches of the Bank and strengthening of talent team building, various businesses of the Bank will continue to grow rapidly and the profitability will be further improved.

Management Discussion and Analysis

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

2 DEVELOPMENT STRATEGIES

In 2021, we will continue to take the sophisticated team, stellar performance, competitive salary, and first-class reputation as the basic operation guidelines, highlighting high-quality development, increase support for the real economy, actively integrate into the construction of the Chengdu-Chongqing twin city economic circle, and strengthen scientific and technological support and innovation-oriented development. We will continue to optimize the liability structure, implement risk prevention and control, adhere to compliance operations, and strive to achieve sustained and sound development in the service of economic and social development.

3 ANALYSIS OF STATEMENTS OF PROFITS

3.1 Financial results highlights

Unit: RMB'000

Item	2020	2019
Net interest income	2,756,442	2,718,125
Net fee and commission income	5,085	5,085
Net gains on trading activities, net gains on financial investments and other operating income	393,193	83,421
Operating expenses	(1,176,666)	(1,036,331)
Expected credit losses	(1,242,241)	(944,739)
Share of profits of associates	4,437	4,087
Profit before income tax	740,250	829,648
Income tax expenses	(164,176)	(195,736)
Net profit	576,074	633,912
Of which: net profit attributable to shareholders of the Bank	576,074	633,912

In 2020, the Bank's profit before income tax amounted to RMB740 million, representing a decrease of RMB89 million or 10.78% as compared to the previous year, and the net profit amounted to RMB576 million, representing a decrease of RMB58 million or 9.12% as compared to the previous year. The following table sets forth the impacts of changes in the Bank's major profit or loss items on profit before income tax for the year 2020.

Unit: RMB'000

Item	Amount
Profit before income tax in 2019	829,648
Changes in 2020	
Changes in net interest income	38,317
Changes in net fee and commission income	0
Changes in net gains on trading activities, net gains on financial investments and other operating income	309,772
Changes in operating expenses	(140,335)
Changes in expected credit losses	(297,502)
Changes in share of profits of an associate	350
Profit before income tax in 2020	740,250

Management Discussion and Analysis

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

3.2 Operating income

In 2020, the Bank's operating income amounted to RMB3,155 million, representing an increase of RMB348 million or 12.40% as compared to the previous year, of which net interest income accounted for 87.38%, representing a decrease of 9.47 percentage points as compared to the previous year. Net non-interest income amounted to RMB398 million, accounting for 12.62%. The following table sets forth the year-on-year comparison of the components of the Bank's operating income in the past five years.

Item	<i>Unit: %</i>				
	2020	2019	2018	2017	2016
Net interest income	87.38	96.85	91.64	93.71	88.42
Net fee and commission income	0.16	0.18	0.10	(0.11)	0.04
Net gains on trading activities, net gains on financial investments and other operating income	12.46	2.97	8.26	6.40	11.54
Total	100.00	100.00	100.00	100.00	100.00

3.3 Net interest income

In 2020, the Bank's net interest income amounted to RMB2,756 million, representing an increase of RMB38 million or 1.41% as compared to the previous year, mainly due to the increase of the business scale but part of the net interest income was offset by the decline in the level of net interest margin. The following table sets forth the average balance, interest income/expense and average yield/cost rate of the assets and liabilities of the Bank for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities are daily average balances.

Item	<i>Unit: RMB'000</i>					
	Average balance	2020 Interest income/ expense (audited)	Average yield/cost rate	Average balance	2019 Interest income/ expense (audited)	Average yield/cost rate
Interest-earning assets						
Customer loans	53,699,227	3,829,135	7.13%	40,065,316	2,997,655	7.48%
Investments ⁽¹⁾	30,476,285	1,991,383	6.53%	33,908,836	2,152,470	6.35%
Amounts due from banks and other financial institutions ⁽²⁾	7,232,679	141,449	1.96%	6,355,532	153,622	2.42%
Balances with central bank	7,851,959	99,973	1.27%	7,874,166	108,310	1.38%
Total	99,260,150	6,061,940	6.11%	88,203,850	5,412,057	6.14%

Management Discussion and Analysis

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

Item	Average balance	2020 Interest income/expense (audited)	Average yield/cost rate	Average balance	2019 Interest income/expense (audited)	Average yield/cost rate
Interest-bearing liabilities						
Customer deposits	74,690,218	2,429,874	3.25%	58,683,373	1,812,834	3.09%
Amounts due to banks and other financial institutions ⁽³⁾	5,350,406	181,743	3.40%	5,654,144	219,108	3.88%
Debt securities issued	17,352,344	667,554	3.85%	16,625,808	634,203	3.81%
Others	1,147,619	26,327	2.29%	921,898	27,787	3.01%
Total	98,540,587	3,305,498	3.35%	81,885,223	2,693,932	3.29%
Net interest income	-	2,756,442	-	-	2,718,125	-
Net interest spread	-	-	2.75%	-	-	2.85%
Net interest margin	-	-	2.78%	-	-	3.08%

Notes:

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

Management Discussion and Analysis

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

In 2020, the average balance of interest-earning assets was RMB99,260 million, representing an increase of RMB11,056 million or 12.53% as compared to the previous year, mainly due to an increase in the volume of loans and advances to customers. Net interest margin was 2.78%, representing a decrease of 0.30 percentage point as compared to the previous year; and net interest spread was 2.75%, representing a decrease of 0.10 percentage point as compared to the previous year, mainly because the increase of interest income from interest-earning assets of the Bank was less than that of interest expense on interest-bearing liabilities.

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

Unit: RMB'000

Item	2020 vs. 2019		Net increase (decrease)
	Due to volume	Due to interest rate	
Assets			
Customer loans	972,194	(140,714)	831,480
Investments	(224,290)	63,203	(161,087)
Amounts due from banks and other financial institutions	17,154	(29,327)	(12,173)
Balances with central bank	(283)	(8,054)	(8,337)
Changes in interest income	764,775	(114,892)	649,883
Liabilities			
Customer deposits	520,746	96,294	617,040
Amounts due to banks and other financial institutions	(10,317)	(27,048)	(37,365)
Debt securities issued	27,950	5,401	33,351
Others	5,178	(6,638)	(1,460)
Changes in interest expense	543,557	68,009	611,566
Changes in net interest income	221,218	(182,901)	38,317

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

3.4 Interest income

In 2020, the Bank's interest income amounted to RMB6,062 million, representing an increase of RMB650 million or 12.01% as compared to the previous year, mainly due to an increase in the volume of interest-earning assets. The interest income from customer loans and investments constituted the major part of the interest income of the Bank.

Interest income from customer loans

In 2020, the Bank's interest income from customer loans amounted to RMB3,829 million, representing an increase of RMB831 million or 27.74% as compared to the previous year. The following table sets forth the average balance, interest income and average yield of each component of the customer loans of the Bank for the periods indicated.

Unit: RMB' 000

Item	2020			2019		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	47,019,672	3,439,969	7.32%	34,222,453	2,639,422	7.71%
Personal loans	6,679,555	389,166	5.83%	5,842,863	358,233	6.13%
Total customer loans	53,699,227	3,829,135	7.13%	40,065,316	2,997,655	7.48%

Interest income from investments

In 2020, the Bank's interest income from investments amounted to RMB1,991 million, representing a decrease of RMB161 million or 7.48% as compared to the previous year, mainly due to a decrease in the average balance of investment assets, but part of the interest income was offset by the increase in the average yield.

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

In 2020, the Bank's interest income from financial assets held under resale agreements, due from other banks and financial institutions amounted to RMB141 million, representing a decrease of RMB12 million or 7.92% as compared to the previous year, mainly due to a decrease in the average yield of deposits and placements with banks and other financial institutions.

Interest income from balances with central bank

In 2020, the Bank's interest income from balances with central bank amounted to RMB100 million, representing a decrease of RMB8 million or 7.70% as compared to the previous year, mainly due to the decrease in the average balance and average yield of balances with central bank as a result of lowered statutory deposit reserves ratio and interest rate on excess deposit reserves with the People's Bank of China ("PBoC").

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3.5 Interest expense

In 2020, the Bank's interest expense amounted to RMB3,305 million, representing an increase of RMB612 million or 22.70% as compared to the previous year, mainly due to an increase in the volume of interest-bearing liabilities. Interest expenses on customer deposits and debt securities issued constituted the major part of the interest expense of the Bank.

Interest expense on customer deposits

In 2020, the Bank's interest expense on customer deposits amounted to RMB2,430 million, representing an increase of RMB617 million or 34.04% as compared to the previous year. The following table sets forth the average balance, interest expense and average cost of each component of the Bank's customer deposits for the periods indicated.

Unit: RMB' 000

Item	Average balance	2020 Interest expense	Average cost	Average balance	2019 Interest expense	Average cost
Corporate deposits						
Demand	30,737,027	689,072	2.24%	24,487,246	474,368	1.94%
Time	7,530,236	179,526	2.38%	7,014,246	171,991	2.45%
Subtotal	38,267,263	868,598	2.27%	31,501,493	646,359	2.05%
Personal deposits						
Demand	4,226,022	41,232	1.95%	2,978,474	15,260	0.51%
Time	32,196,933	1,520,044	4.72%	24,203,406	1,151,215	4.76%
Subtotal	36,422,955	1,561,276	4.29%	27,181,880	1,166,475	4.29%
Total customer deposits	74,690,218	2,429,874	3.25%	58,683,373	1,812,834	3.09%

Interest expense on amounts due to banks and other financial institutions

In 2020, the Bank's interest expense on amounts due to banks and other financial institutions amounted to RMB182 million, representing a decrease of RMB37 million or 17.05% as compared to the previous year, mainly due to decreases in the amounts due to banks and other financial institutions and average cost.

Interest expense on debt securities issued

In 2020, the Bank's interest expense on debt securities issued amounted to RMB668 million, representing an increase of RMB33 million or 5.26% as compared to the previous year, mainly due to increases in the volume of debt securities issued and average cost.

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3.6 Net non-interest income

In 2020, the Bank's net non-interest income amounted to RMB398 million, representing an increase of RMB310 million or 350.00% as compared to the previous year. The net fee and commission income as a percentage of operating income was 0.16%, representing a decrease of 0.02 percentage point as compared to the previous year. The following table sets forth the major components of the Bank's net non-interest income for the periods indicated.

Item	Unit: RMB'000	
	2020	2019
Fee and commission income	11,246	10,557
Less: fee and commission expense	(6,161)	(5,472)
Net fee and commission income	5,085	5,085
Net gains on trading activities, net gains on financial investments and other operating income	393,193	83,421
Total net non-interest income	398,278	88,506

3.7 Net fee and commission income

In 2020, the Bank's net fee and commission income amounted to RMB5.085 million which is flat to the previous year.

Item	Unit: RMB'000	
	2020	2019
Fee and commission income		
Commission income from settlement services	1,687	2,229
Commission income from bank card services	1,882	2,277
Commission income from agency services	1,247	968
Commission income from guarantees and credit commitments	3,416	4,223
Commission income from wealth management agency service	2,149	–
Commission income from investment banking services	817	693
Other commission income	48	167
Total	11,246	10,557
Fee and commission expenses	(6,161)	(5,472)
Net fee and commission income	5,085	5,085

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

In 2020, the Bank's commission income from settlement services amounted to RMB1.687 million representing a decrease of RMB0.542 million or 24.32% as compared to the previous year. Commission income from bank card services amounted to RMB1.882 million, representing a decrease of RMB0.395 million or 17.35% as compared to the previous year. Commission income from agency services amounted to RMB1.247 million, representing an increase of RMB0.279 million or 28.82% as compared to the previous year. Commission income from guarantees and credit commitments amounted to RMB3.416 million, representing a decrease of RMB0.807 million or 19.11% as compared to the previous year. Commission income from wealth management agency services amounted to RMB2.149 million, representing an increase of RMB2.149 million as compared to the previous year, mainly because the fee income from non-principal protected wealth management products issued has been recognized. Commission income from investment banking services amounted to RMB0.817 million, representing an increase of RMB0.124 million or 17.89% as compared to the previous year. Other commission income amounted to RMB0.048 million, representing a decrease of RMB0.119 million or 71.26% as compared to the previous year.

3.8 Net gains on trading activities, net gains on financial investments and other operating income

In 2020, the Bank's net gains on trading activities, net gains on financial investments and other operating income amounted to a total gain of RMB393 million, representing an increase of RMB310 million or 371.34% as compared to the previous year. Among which, net gains on trading activities increased by RMB224 million as compared to the previous year. Net gains on financial investments increased by RMB60 million as compared to the previous year, mainly due to a significant increase in the volume of held-for-trading financial assets. The following table sets forth the major components of the Bank's net gains on trading activities, net gains on financial investments and other operating income for the periods indicated.

Unit: RMB'000

Item	2020	2019
Net gains on trading activities	248,104	24,101
Net gains on financial investments	117,061	56,904
Other operating income	28,028	2,416
Total	393,193	83,421

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3.9 Operating expenses

In 2020, the Bank's operating expenses amounted to RMB1,177 million, representing an increase of RMB140 million or 13.54% as compared to the previous year, and the cost-to-income ratio was 36.09%, representing an increase of 0.14 percentage point as compared to the previous year. Among which, depreciation and amortization increased by RMB52 million or 42.44% as compared to the previous year, mainly due to an increase of fixed assets such as business rooms of new branches and corresponding office facilities. Tax and surcharges increased by RMB11 million or 38.33% as compared to the previous year. The following table sets forth the major components of the Bank's operating expenses for the periods indicated.

Unit: RMB'000

Item	2020	2019
Staff costs (including directors' and supervisors' emoluments (allowance inclusive))	644,912	595,549
Business and administrative expenses	258,469	229,146
Depreciation and amortization	175,895	123,489
Rental fees	444	870
Professional service fees	33,986	32,224
Tax and surcharges	38,022	27,487
Auditors' remuneration	2,840	2,800
Expenditures on public welfare donations	5,464	7,889
Other non-operating expenses	2,112	1,861
Others	14,522	15,016
Total	1,176,666	1,036,331

3.10 Expected credit losses

In 2020, the Bank's expected credit losses amounted to RMB1,242 million, representing an increase of RMB298 million or 31.49% as compared to the previous year. The following table sets forth the major components of the Bank's expected credit losses for the periods indicated.

Unit: RMB'000

Item	2020	2019
ECL for customer loans at amortised cost	726,921	796,889
ECL for customer loans – FVOCI	51,056	13,454
ECL for financial investments – credit related financial assets	185,445	(27,206)
ECL for other financial investments	277,387	91,588
ECL for guarantee commitments	(930)	(3,418)
Other impairment losses	2,362	73,432
Total	1,242,241	944,739

Expected credit losses on loans constituted the largest part of impairment losses on assets. In 2020, the expected credit losses on loans (including discounted bills) amounted to RMB778 million, representing a decrease of RMB32 million or 3.99% as compared to the previous year.

Management Discussion and Analysis

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4 ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF FINANCIAL POSITION

4.1 Assets

As of the end of 2020, the Bank's total assets amounted to RMB118,886 million, representing an increase of RMB27,206 million or 29.67% as compared to the end of the previous year, mainly due to the increase of the Bank's customer loans. The following table sets forth the components of the Bank's total assets as of the dates indicated.

Unit: RMB'000

Item	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Total customer loans	59,623,716	50.15	44,758,718	48.82
ECL allowance on loans at amortized cost	(2,038,405)	(1.71)	(1,459,984)	(1.59)
Net customer loans	57,585,311	48.44	43,298,734	47.23
Cash and balances with central bank	10,490,071	8.82	9,401,511	10.25
Financial assets held under resale agreements, due from other banks and financial institutions	4,961,948	4.17	3,284,840	3.58
Financial investments – credit related financial assets	3,709,265	3.12	4,186,800	4.57
Financial investments – fair value through profit or loss	16,483,953	13.87	1,860,243	2.03
Financial investments – fair value through other comprehensive income	8,100,931	6.81	5,755,246	6.28
Financial investments – amortized cost	15,670,828	13.18	22,499,936	24.54
Investments in associates	45,175	0.04	40,738	0.04
Property, plant and equipment	804,894	0.68	744,552	0.81
Deferred income tax assets	628,037	0.53	386,436	0.43
Other assets	405,846	0.34	221,585	0.24
Total assets	118,886,259	100.00	91,680,621	100.00

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

Customer loans

As of the end of 2020, the total customer loans amounted to RMB59,624 million, representing an increase of RMB14,865 million or 33.21% as compared to the end of the previous year; net customer loans amounted to RMB57,585 million, representing an increase of RMB14,287 million or 33.00% as compared to the end of the previous year. The following table sets forth the customer loans of the Bank by product type as of the dates indicated.

Unit: RMB'000

Item	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Corporate loans	46,850,100	78.58	36,902,397	82.45
Discounted bills	4,778,348	8.01	1,499,648	3.35
Personal loans	7,724,429	12.96	6,175,779	13.80
Accrued interest	270,839	0.45	180,894	0.40
Total customer loans	59,623,716	100.00	44,758,718	100.00
Less: ECL allowance on loans at amortized cost	(2,038,405)	/	(1,459,984)	/
Net customer loans	57,585,311	/	43,298,734	/

Corporate loans

As of the end of 2020, the Bank's total corporate loans amounted to RMB46,850 million, representing an increase of RMB9,948 million or 26.96% as compared to the end of the previous year, accounting for 78.58% of the total customer loans, representing a decrease of 3.87 percentage points as compared to the end of the previous year.

Discounted bills

As of the end of 2020, the Bank's total discounted bills amounted to RMB4,778 million, representing an increase of RMB3,279 million or 218.63% as compared to the end of the previous year, accounting for 8.01% of the total customer loans, representing an increase of 4.66 percentage points as compared to the end of the previous year. The increase in the Bank's total discounted bills was primarily due to the Bank's increased holding of discounted bills to balance its credit asset structure, taking into account market competition and its loan balance.

Personal loans

As of the end of 2020, the Bank's personal loans amounted to RMB7,724 million, representing an increase of RMB1,549 million or 25.08% as compared to the end of the previous year, accounting for 12.96% of the total customer loans, representing a decrease of 0.84 percentage point as compared to the end of the previous year. The continual increase in the Bank's personal loans was primarily due to the Bank's successful development and marketing of its personal loan business, in particular personal business loans. However, due to a greater percentage of growth in the corporate loan business, the percentage of personal loans experienced a decrease.

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Investments

As of the end of 2020, the carrying value of the Bank's investments amounted to RMB43,965 million, representing an increase of RMB9,663 million or 28.17% as compared to the end of the previous year. The following table sets forth the components of the Bank's investment portfolio as of the dates indicated.

Unit: RMB'000

Item	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Financial investments – credit related financial assets	3,709,265	8.44	4,186,800	12.21
Financial investments – fair value through profit or loss	16,483,953	37.49	1,860,243	5.42
Financial investments – fair value through other comprehensive income	8,100,931	18.43	5,755,246	16.78
Financial investments – amortized cost	15,670,828	35.64	22,499,936	65.59
Total	43,964,977	100.00	34,302,225	100.00

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Financial investments – credit related financial assets

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

Unit: RMB'000

Item	December 31, 2020	December 31, 2019
Financial investments – credit related financial assets		
– Trust plans	3,896,600	3,712,600
– Asset management plans	–	525,000
ECL allowance	(246,649)	(61,204)
Accrued interest	59,314	10,404
Total	3,709,265	4,186,800

Financial investments – fair value through profit or loss

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

Unit: RMB'000

Item	December 31, 2020	December 31, 2019
Financial investments – fair value through profit or loss		
– Listed outside Hong Kong	6,179,494	1,218,540
– Unlisted	10,304,459	641,703
Total	16,483,953	1,860,243

Financial investments – fair value through other comprehensive income

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

Unit: RMB'000

Item	December 31, 2020	December 31, 2019
Financial investments – FVOCI		
– Listed outside Hong Kong	4,370,987	3,360,526
– Unlisted	3,544,857	2,277,936
Subtotal	7,915,844	5,638,462
Accrued interest	185,087	116,784
Total	8,100,931	5,755,246

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Financial investments – amortized cost

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

Unit: RMB'000

	December 31, 2020	December 31, 2019
Financial investments – amortized cost		
– Listed outside Hong Kong	689,931	986,320
– Unlisted	15,200,901	21,453,695
Subtotal	15,890,832	22,440,015
Interest receivable	254,938	358,328
Minus: expected credit impairment provision	(474,942)	(298,407)
Total	15,670,828	22,499,936

4.2 Liabilities

As of the end of 2020, the Bank's total liabilities amounted to RMB109,937 million, representing an increase of RMB25,146 million or 29.66% as compared to the end of the previous year, mainly due to the stable increase in deposits from customers. The following table sets forth the components of the Bank's total liabilities as of the dates indicated.

Unit: RMB'000

Item	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Customer deposits	85,223,104	77.52	61,436,960	72.45
Due to banks and other financial institutions	4,830,366	4.39	3,949,580	4.66
Borrowings from central bank	2,371,331	2.16	540,760	0.64
Tax payable	324,365	0.29	191,408	0.23
Debt securities issued	16,598,490	15.10	18,225,596	21.49
Other liabilities	589,654	0.54	446,808	0.53
Total liabilities	109,937,310	100.00	84,791,112	100.00

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Customer deposits

As of the end of 2020, the Bank's total customer deposits amounted to RMB85,223 million, representing an increase of RMB23,786 million or 38.72% as compared to the end of the previous year, accounting for 77.52% of the Bank's total liabilities, being the Bank's primary source of funding. The following table sets forth the components of the Bank's deposits from customers by product type and customer type as of the dates indicated.

Unit: RMB'000

Item	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Corporate deposits	42,323,455	49.66	29,811,957	48.52
Demand deposits	34,774,888	40.80	23,266,641	37.87
Time deposits	7,548,567	8.86	6,545,316	10.65
Personal deposits	41,781,191	49.03	30,812,483	50.15
Demand deposits	6,316,539	7.41	3,286,002	5.35
Time deposits	35,464,652	41.62	27,526,481	44.80
Accrued interest payable	1,118,458	1.31	812,520	1.33
Total deposits from customers	85,223,104	100.00	61,436,960	100.00

As of the end of 2020, the Bank's corporate demand deposits accounted for 40.80% of total deposits from customers, representing an increase of 2.93 percentage points as compared to the end of the previous year. Among those deposits, corporate demand deposits accounted for 82.16% of corporate deposits, representing an increase of 4.12 percentage points as compared to the end of the previous year; and personal demand deposits accounted for 15.12% of personal deposits, representing an increase of 4.46 percentage points as compared to the end of the previous year.

Due to other banks and financial institutions

As of the end of 2020, the Bank's deposits from banks and other financial institutions amounted to RMB4,830 million, representing an increase of RMB881 million or 22.30% as compared to the end of the previous year.

Debt securities issued

As of the end of 2020, the Bank's bonds payable amounted to RMB16,598 million, representing a decrease of RMB1,627 million or 8.93% as compared to the end of the previous year.

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4.3 Equity attributable to shareholders

As of the end of 2020, the Bank's equity attributable to shareholders amounted to RMB8,949 million, representing an increase of RMB2,059 million or 29.89% as compared to the end of the previous year.

Item	<i>Unit: RMB'000</i>	
	December 31, 2020	December 31, 2019
Share capital	2,264,793	2,264,793
Other equity instrument	1,696,824	–
Capital surplus	2,239,314	2,239,314
Other reserves	1,750,824	1,441,641
Retained earnings	997,194	943,761
Total equity attributable to shareholders	8,948,949	6,889,509

5 OTHER FINANCIAL INFORMATION

5.1 Analysis of off-balance sheet items

The Bank's off-balance sheet items include credit commitments, operating lease commitments and capital commitments. Credit commitments are the most principal components and as of the end of the Reporting Period, the balance of credit commitments amounted to RMB3,901 million.

5.2 Overdue and outstanding debts

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

5.3 Assets pledged

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

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6 ANALYSIS OF LOAN QUALITY

During the Reporting Period, the Bank continued to strengthen its dynamic monitoring on changes in credit asset quality, further implemented various regulatory policies and continuously improved risk mitigation capacities. As a result, the scale of credit assets has maintained a relatively rapid growth. Due to the complex and changing economic environment, certain companies have struggled with operating difficulties; and coupling with onslaught of the outbreak of COVID-19 in 2020 have exacerbated the operating pressure of these companies resulting they cannot repay their loans on schedule. As a result, our NPL ratio has increased. As at the end of the Reporting Period, the Bank's total loans amounted to RMB59,624 million, representing an increase of 33.21% as compared to the end of the previous year, total NPLs amounted to RMB1,088 million, representing an increase of RMB671 million as compared to the end of the previous year, and the NPL ratio was 1.83%, representing an increase of 0.89 percentage point as compared to the end of the previous year.

Distribution of Loans by Five-Category Classification

Unit: RMB'000

Item	2020 December 31,		2019 December 31,	
	Amount	% of total	Amount	% of total
Normal loans	57,471,797	96.83	42,528,501	95.40
Special mention loans	793,514	1.34	1,631,919	3.66
Substandard loans	1,048,660	1.77	217,320	0.49
Doubtful loans	38,605	0.06	200,084	0.45
Loss loans	301	0.00	–	–
Total principals of customer loans	59,352,877	100.00	44,577,824	100.00
Total NPLs	1,087,566	1.83	417,404	0.94

Pursuant to the regulatory requirements on risk-based classification of loans, the Bank has adopted five-category classification to manage the quality of loans. NPLs include loans classified as substandard, doubtful and loss. As at the end of the Reporting Period, the percentage of substandard loans increased by 1.28 percentage points to 1.77% as compared to the previous year, the percentage of doubtful loans decreased by 0.39 percentage point to 0.06% as compared to the previous year, and the increased amount of loss loans were personal unsecured loans.

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Distribution of Loans and NPLs by Industry

Unit: RMB' 000

Item	December 31, 2020				December 31, 2019			
	Amount of loans	% of total	Amount of NPLs	NPL ratio%	Amount of loans	% of total	Amount of NPLs	NPL ratio%
Corporate loans	46,850,100	78.94	1,013,350	2.16	36,902,397	82.79	373,746	1.01
Leasing and business services	18,232,413	30.72	-	-	14,023,090	31.46	-	-
Construction	8,649,466	14.57	53,800	0.62	7,544,089	16.92	6,400	0.08
Wholesale and retail	3,274,977	5.52	150,460	4.59	2,940,201	6.60	21,647	0.74
Manufacturing	2,753,852	4.64	563,073	20.45	2,795,517	6.27	255,630	9.14
Real estate	6,883,760	11.60	145,610	2.12	6,003,260	13.47	-	-
Accommodation and catering	967,016	1.63	39,738	4.11	517,428	1.16	-	-
Education	1,277,300	2.15	-	-	946,100	2.12	-	-
Water, environment and public utilities	1,825,815	3.08	-	-	858,719	1.93	-	-
Transportation, warehousing and express services	213,019	0.36	25,669	12.05	250,339	0.56	25,669	10.25
Others	2,772,482	4.67	35,000	1.26	1,023,654	2.30	64,400	6.29
Discounted bills	4,778,348	8.05	-	-	1,499,648	3.36	-	-
Retail loans	7,724,429	13.01	74,216	0.96	6,175,779	13.85	43,658	0.71
Total principals of customer loans	59,352,877	100.00	1,087,566	1.83	44,577,824	100.00	417,404	0.94
Accrued Interest	270,839				180,894			
Total customer loans	59,623,716				44,758,718			

Note: Non-performing loan ratio of an industry is calculated by dividing the balance of non-performing loans of the industry by the balance of loans granted to the industry.

In 2020, the Bank actively adjusted its credit structure, regarded serving the real economy as its own responsibility, focused on supporting private enterprises, SMEs, agriculture-related economy, people's livelihood projects and other areas, proactively optimized the allocation of risk-bearing assets, and reduced its assets in areas with prudent and prohibited entry requirements. Affected by the complex and volatile macroeconomics and the company's own operations, some companies in the manufacturing industry segment of the Bank have encountered difficulties in their operations. At the same time, the impact of the outbreak of COVID-19 in 2020 has also made the operations of these companies more difficult. As a result, the balance and the ratio of the NPL of Manufacturing have increased, which accounted for 55.57% of the total non-performing corporate loans.

Management Discussion and Analysis

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

Distribution of Loans and NPLs by Product Type

Unit: RMB' 000

Item	December 31, 2020				December 31, 2019			
	Amount of loans	% of total	Amount of NPLs	NPL ratio%	Amount of loans	% of total	Amount of NPLs	NPL ratio%
Corporate loans	46,850,100	78.94	1,013,350	2.16	36,902,397	82.79	373,746	1.01
Working capital loans	26,672,147	44.94	379,929	1.42	16,190,046	36.33	285,616	1.76
Fixed asset loans	20,177,953	34.00	633,421	3.14	20,712,351	46.46	88,130	0.43
Others	-	-	-	-	-	-	-	-
Discounted bills	4,778,348	8.05	-	-	1,499,648	3.36	-	-
Retail loans	7,724,429	13.01	74,216	0.96	6,175,779	13.85	43,658	0.71
Individual housing loans	2,118,017	3.56	31,292	1.48	1,968,716	4.42	19,257	0.98
Personal business loans	4,516,094	7.61	40,183	0.89	3,441,444	7.72	22,257	0.65
Personal consumption loans	1,090,318	1.84	2,741	0.25	765,619	1.72	2,144	0.29
Others	-	-	-	-	-	-	-	-
Total customer loans	59,352,877	100.00	1,087,566	1.83	44,577,824	100.00	417,404	0.94

In face of the background of the constantly advancing supply-side reform and strengthening support for the real economy, the Bank actively addressed the changes of demand for effective credits while adhering to the principle of prudent extension. As at the end of the Reporting Period, the proportion of corporate loans decreased by 3.85 percentage points to 78.94% as a result of rapid growth of bill business. The Bank steadily developed its retail loan business by actively innovating retail business products and expanding retail business channels. As at the end of the Reporting Period, the balance of retail loans increased by RMB1,548 million as compared to that at the beginning of the year, representing a growth rate that is slightly lower than the total amount of customer loans, and the proportion of retail loans decreased by 0.84 percentage point to 13.01% as compared to that at the end of the previous year. Although the Bank constantly strengthened credit risk prevention and disposing NPLs, and the complex and changing macroeconomics, the outbreak of COVID-19 and the companies' own operations, some small and medium-sized enterprises, business owners, and individual industrial and commercial households' Poor management and failure to repay the principal and interest on schedule, resulting in increases in the NPL ratios of corporate loans and retail loans of the Bank. The NPL ratio of corporate loans increased by 1.15 percentage points to 2.16% as compared to that at the end of the previous year; the NPL ratio of retail loans increased by 0.25 percentage point to 0.96% as compared to the end of the previous year.

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

Distribution of Loans and NPLs by Geographical Region

Unit: RMB' 000

Region	December 31, 2020				December 31, 2019			
	Amount of loans	% of total	Amount of NPLs	NPL ratio%	Amount of loans	% of total	Amount of NPLs	NPL ratio%
Luzhou	48,100,929	81.04	1,064,131	2.21	39,967,975	89.66	415,703	1.04
Outside Luzhou	11,251,948	18.96	23,435	0.21	4,609,849	10.34	1,701	0.04
Total customer loans	59,352,877	100.00	1,087,566	1.83	44,577,824	100.00	417,404	0.94

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

Distribution of Loans and NPLs by Collateral

Unit: RMB' 000

Item	December 31, 2020				December 31, 2019			
	Amount of loans	% of total	Amount of NPLs	NPL ratio%	Amount of loans	% of total	Amount of NPLs	NPL ratio%
Unsecured loan	5,757,772	9.70	28,450	0.49	3,572,538	8.01	4,127	0.12
Guaranteed loans	25,007,860	42.14	814,507	3.26	18,298,585	41.05	343,482	1.88
Collateralized loans	18,056,487	30.42	240,561	1.33	15,610,001	35.02	66,505	0.43
Pledged loans	10,530,758	17.74	4,048	0.04	7,096,700	15.92	3,290	0.05
Total customer loans	59,352,877	100.00	1,087,566	1.83	44,577,824	100.00	417,404	0.94

In response to the call of stabilizing enterprises and guaranteeing employment of the People's Bank of China following the outbreak of the COVID-19 in 2020, we made our contributions to the recovery of local real economy by deferring repayment of principal and interest and issuing credit loans to enterprises that are affected by the epidemic. The proportion of credit loans of the Bank reached 9.70%.

Management Discussion and Analysis

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

Loans to Our Ten Largest Single Borrowers

Unit: RMB' 000

Name of borrowers	Industry	Amount of loans as at the end of the Reporting Period	% of net capital base	% of total loans
A	Leasing and business services	850,000	6.85	1.43
B	Real estate	850,000	6.85	1.43
C	Leasing and business services	794,000	6.40	1.34
D	Leasing and business services	712,500	5.75	1.20
E	Leasing and business services	700,000	5.65	1.18
F	Real estate	668,000	5.39	1.13
G	Real estate	630,000	5.08	1.06
H	Real estate	600,000	4.84	1.01
I	Administration of water conservancy, environment and public facilities	590,000	4.76	0.99
J	Manufacturing	563,073	4.54	0.95
Total		6,957,573	56.11	11.72

As at the end of the Reporting Period, the total loans of the ten largest single borrowers of the Bank amounted to RMB6,958 million, accounting for 56.11% of the Bank's net capital base and 11.72% of the Bank's total loans. The loan balance of the largest single borrower was RMB850 million, accounting for 6.85% of the Bank's net capital base.

Distribution of Loans by Period Overdue

Unit: RMB' 000

Period overdue	December 31, 2020		December 31, 2019	
	Amount	% of total loans	Amount	% of total loans
Overdue for up to 3 months (inclusive)	552,904	0.93	358,512	0.80
Overdue for over 3 months up to 1 year (inclusive)	358,048	0.60	271,078	0.61
Overdue for over 1 year up to 3 years (inclusive)	235,452	0.40	30,376	0.07
Overdue for over 3 years	1,322	0.00	343	0.00
Total overdue loans	1,147,726	1.93	660,309	1.48
Total customer loans	59,352,877	100.00	44,577,824	100.00

As at the end of the Reporting Period, the Bank's overdue loans amounted to RMB1,148 million, representing an increase of RMB488 million as compared to the end of the previous year. The percentage of overdue loans in the Bank's total loans was 1.93%, representing an increase of 0.45 percentage point as compared to the end of the previous year. Among them, loans overdue for up to 3 months (inclusive) amounted to RMB553 million, accounting for 48.17% of overdue loans. The Bank has adopted a stricter classification criterion, under which loans whose principal or interest has been overdue for over 1 day (inclusive) would be deemed as overdue loans.

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

Foreclosed Assets and Provision for Impairment Allowance

As at the end of the Reporting Period, the Bank's total foreclosed assets amounted to RMB48,300 thousand with provision for impairment allowance of RMB15,855 thousand, and the net foreclosed assets amounted to RMB32,445 thousand.

Changes in the Expected Credit Losses of Loans

Starting from January 1, 2018, under the requirements of IFRS 9, we classify our customer loans using a "three-stage" model: (1) Stage 1 (Normal Credit Quality) refers to customer loans that have not had a significant increase in credit risk and expected credit losses in the next 12 months will be recognized; (2) Stage 2 (Significant Increase in Credit Risk) refers to customer loans that have had a significant increase in credit risk and for which the expected credit losses lifetime will be recognized; (3) Stage 3 (Credit-impaired) refers to customer loans that have objective evidence of impairment and for which the expected credit losses lifetime will be recognized.

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

Item	2020	2019
Balance at the beginning of the year	1,459,984	792,833
Provision/reversal for the year	726,921	796,889
Written-off for the year	(234,496)	(151,610)
Recoveries of loans written-off in the previous year	61,609	16,470
Unwind of discount	24,387	5,402
Balance at the end of the year	2,038,405	1,459,984

As at the end of the Reporting Period, the Bank's balance of expected credit loss for loans amounted to RMB2,038 million, representing an increase of RMB578 million or 39.62% as compared to the end of the previous year; the allowance coverage ratio of NPLs amounted to 187.43%, representing a decrease of 162.35 percentage points as compared to the end of the previous year; the allowance to loan ratio amounted to 3.43%, representing an increase of 0.15 percentage point as compared to the end of the previous year.

Corresponding Measures Taken against Non-performing Assets

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

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

Management Discussion and Analysis

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Credit Extension to Group Customers and Risk Management

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

Discount Loans Representing over 20% (Inclusive) of the Total Loans as at the end of the Reporting Period

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

7 ANALYSIS OF CAPITAL ADEQUACY RATIOS

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

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

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

Management Discussion and Analysis

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

	<i>Unit: RMB'000</i>	
	December 31, 2020	December 31, 2019
Total capital before deductions	12,399,788	8,932,089
Of which: Core tier-one capital	7,252,125	6,889,509
Additional tier-one capital	1,696,824	–
Tier-two capital	3,450,839	2,042,580
 Total net capital	 12,399,788	 8,891,351
 Net core tier-one capital	 7,252,125	 6,848,771
Net additional tier-one capital	1,696,824	–
Net tier-one capital	8,948,949	6,848,771
 Total risk-weighted assets	 89,382,809	 73,539,932
 Core tier-one capital adequacy ratio	 8.11%	 9.31%
Tier-one capital adequacy ratio	10.01%	9.31%
Capital adequacy ratio⁽¹⁾	13.87%	12.09%

At the end of the Reporting Period, the Bank had a capital adequacy ratio of 13.87%, representing an increase of 1.78 percentage points as compared to the end of the previous year, which was 3.37 percentage points higher than the regulatory requirement; and a tier-one capital adequacy ratio of 10.01%, representing an increase of 0.70 percentage point as compared to the end of the previous year, which was 1.51 percentage points higher than the regulatory requirement and a core tier-one capital adequacy ratio of 8.11%, representing a decrease of 1.20 percentage points as compared to the end of the previous year, which was 0.61 percentage point higher than the regulatory requirement. The change in our capital adequacy ratio during the Reporting Period was primarily due to our successful issuance of undated capital bonds of RMB1.7 billion and the issuance of tier-two capital bonds of RMB1.5 billion, which resulted in an increase in net capital of RMB3.508 billion with a growth rate of net capital higher than that of risk-weighted assets, and accordingly the capital adequacy ratio was higher as compared to the beginning of the year. Thus, our capital adequacy ratio at each tier was higher than regulatory standards.

Note:

(1) Capital adequacy ratio = total net capital/total risk-weighted assets.

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8 RISK MANAGEMENT

Credit risk

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

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

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

1. Optimizing credit structure adjustment by adhering to the guidance of government policies. To actively respond to the national economic development strategy, focusing on the national direction of industrial structure adjustment, keeping up with the regional economic development strategy, further scientific digging of and reasonably allocating our credit resources and promoting a sustainable and healthy development of our credit business, the Bank has formulated the Guidelines for Credit Extension of Luzhou Bank Co., Ltd in 2021 (《泸州银行股份有限公司2021年信贷投向指引》) and is committed to the overall credit extension strategy of "credit extension optimization, services innovation, legal compliance, controllable risk, selective support and efficiency improvement".

Management Discussion and Analysis

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

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

Operational risk

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

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

As the top decision-making body of our operational risk management, our Board bears the ultimate responsibility for monitoring the effectiveness of operational risk management, works out operational risk management strategies and general policies that are consistent with our strategic objectives and applicable to the Bank, and regularly reviews the operational risk reports submitted by our senior management to fully understand our overall operational risk management and the effectiveness of major operational risk events handled by our senior management. Our Board of Supervisors is responsible for supervising the performance of duties by our Board and senior management on operational risk management and providing relevant supervision opinions. Our senior management is responsible for implementing the operational risk management strategies, overall policy and system approved by our Board, formulating, reviewing periodically and supervising the implementation of policies, procedures and operating regulations of the operational risk management, and adopting corresponding risk control measures to comprehensively prevent and control operational risks. The Bank has set up Operational Risk Management Committee which responsible for operational risk prevention and control across the Bank. During the reporting period, the Bank constantly improved the prevention and control system of operational risk, gradually accomplished the operational risk prevention and control work structure of the case prevention prospect, the stage-gate ante-displacement and methods of case prevention, and improved the long-term mechanism of prevention and control of case and operational risk. We intensified operational risk management mainly in the following aspects.

1. Reinforce internal control level. We optimized the system, process and standards, strengthened special inspections and risk assessment of key businesses, and guarded against the potential dangers during operation based on the analysis of key indicators of risk control and early warnings.
2. Promote the publicity of compliance culture. We carried out publicity, training and competitions, adhered to the guidance of culture, launched on-site inspection and off-site monitoring, strengthened the implementation of institutional mechanisms, and deepened the concept of compliance.
3. Strengthen the management and control of employee behavior. We implemented daily check, work shift, compulsory vacation, observed the abnormal behavior of employees, especially reinforced staff management in the special period, actively dealt with COVID-19 epidemic prevention and control, and effectively guarded against operational risks of employees.

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4. Optimize the operational risk system. We adjusted the model, index and performance, improved the hard control capability of the system, effectively combined the “technologic risk prevention” with “artificial risk prevention”, and gave full play to the role of risk control during the process.
5. Raise the level of risk control in science and technology. We paid close attention to operation and maintenance, contingency plans and outsourcing business, consolidated business continuity management, carried out disaster preparedness drills, ensured the safe operation of the system, deepened the hierarchical management of outsourcing business, and strictly abided by the bottom line of “never outsource safety responsibilities and never lower safety standards”.

Market risk

Market risk refers to the risk of any loss in our on-balance-sheet and off-balance-sheet activities caused by any adverse change in market prices (interest rates, exchange rates, stock prices and commodity prices). The market risks we face mainly include interest rate risk and exchange rate risk. Our market risk management aims at controlling market risks at an acceptable and reasonable range and achieving continuous and healthy development of various businesses.

Our organizational system for market risk management is jointly constituted by the Board and its committees, the Board of Supervisors, senior management and its Centralized Risk Management Committee and Market Risk Management Committee, Risk Management Department, Internal Audit Department, Assets and Liabilities Management Department, International Business Department, Financial Markets Department, each business department and branches of head office. The Board assumes ultimate responsibility for market risk management. The senior management assumes implementation responsibility of market risk management and is responsible for organizing bank-wide market risk management. The Market Risk Management Committee under the senior management is the Bank’s deliberation and decision-making body for market risk management and is responsible for deliberating on major market risk management issues. Each department carries out its work in accordance with the division of responsibilities.

We formulated the operation-suiting basic system of market risk and bank book interest rate risk appetite according to the Guidelines on Market Risk Management of Commercial Banks (《商業銀行市場風險管理指引》), Guidelines for the Internal Control of Commercial Banks (《商業銀行內部控制指引》) and Guidelines of Bank Book Interest Rate Risk Management of Commercial Banks (商業銀行銀行賬簿利率風險管理指引), revised the basic system for market risk and bank book interest rate risk management, set up market risk and bank book interest rate risk limit indicators, and conducted classification management on transaction accounts and bank accounts. We optimized market risk management system and continued to improve risk management efficiency through such measures as authorization, credit extension, limit, inspection and report.

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1. Interest rate risk analysis

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

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

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

2. Interest rate sensitivity analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. The following table sets forth, as at December 31, 2020 and 2019, the results of our interest rate sensitivity analysis based on our assets and liabilities at the same dates.

Unit: RMB' 000

	Expected changes of net interest income	
	December 31, 2020	December 31, 2019
+ 100 basis point parallel move in all yield curves	(175,679)	11,699
- 100 basis point parallel move in all yield curves	175,679	(11,699)

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

Unit: RMB' 000

	Other comprehensive income	
	December 31, 2020	December 31, 2019
+ 100 basis point parallel move in all yield curves	(213,359)	(126,702)
- 100 basis point parallel move in all yield curves	265,033	135,798

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3. Exchange rate sensitivity analysis

Exchange rate risk is the risk of adverse movements of exchange rate resulting in losses on the foreign currency exposure, which is due to the currency structure's imbalance between foreign currency assets and liabilities. Currently, our exchange rate risk arises primarily from the temporary risk of conversion of proceeds from overseas H Share offering due to exchange rate fluctuations, and the percentage of such capital is low, therefore, the adverse effect of exchange rate risk has been kept under our control. The following table sets forth, as at December 31, 2020 and 2019, the results of our exchange rate sensitivity analysis based on our assets and liabilities at the same dates.

Unit: RMB' 000

	Expected changes of profit/(loss) before tax	
	December 31, 2020	December 31, 2019
1% increase in foreign exchange rate against RMB	7,744	8,009
1% decrease in foreign exchange rate against RMB	(7,744)	(8,009)

Liquidity Risk Management and Analysis

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

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

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

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

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

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

In 2020, while paying close attention to changes in macro finance and economy, we continuously enhanced fine management of liquidity risk. During the Reporting Period, we intensified liquidity risk management mainly in the following aspects:

1. We continuously optimized liquidity risk management and improved the system for liquidity risk management.
2. We intensified our efforts in marketing of deposits, particularly the marketing of personal savings and stable deposits from quality small and medium-sized customers, to promote the growth of various deposits and gradually improve the overall stability of our liabilities.
3. We paid close attention to financial and economic situations at home and abroad and changes of market liquidity, and made prudent and reasonable judgement to timely adjust our assets and liabilities management strategies; continuously and dynamically monitored various indicators and limits management of liquidity risk through the information system for liquidity risk management and made fund arrangements in advance to ensure sufficient provisions and controllable liquidity risks.
4. We continuously optimized asset-liability structure by constantly intensifying the bidirectional management of assets and liabilities, improving the stability of liabilities through multiple channels, rationally arranging for asset issuance and avoiding centralized maturity of liabilities.
5. We designed several stress scenarios and conducted periodic liquidity risk-related stress testing in strict accordance with relevant provisions under the Administrative Measures on Liquidity Risk Management of Commercial Banks 《商業銀行流動性風險管理辦法》 issued by China Banking and Insurance Regulatory Commission, various macro and micro factors which could affect our liquidity and features, scale, nature, complexity and risk profile of our business.

As of the end of the Reporting Period, we witnessed a liquidity ratio of 83.02%, 58.02 percentage points higher than relevant regulatory requirements; a high-quality liquidity asset adequacy ratio of 143.07%, 43.07 percentage points higher than relevant regulatory requirements; and a liquidity matching ratio of 136.21%, 36.21 percentage points higher than relevant regulatory requirements, which reflected that our major liquidity indicators were much higher than regulatory requirements.

Management Discussion and Analysis

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

Information technology risk management

Information technology risks represents operational risk, legal risk, reputational risk and other types of risks caused by natural factors, human factors, technical loopholes and management failure arising from the process of using information technology in commercial banks.

The Bank has established comprehensive information technology risk management system in accordance with Guidelines on the Information Technology Risk Management of Commercial Banks, Regulatory Guidelines for on the Business Continuity of Commercial Banks, Regulatory Guidelines for Information Technology Outsourcing Risk of Banking Institutions and the Measures for the Commissioning and Change of Important Information Systems of Banking Institutions and prevented major information technology risk events through technical and management measures, so as to ensure the smooth operation of the information system, and support rapid development of business. As of the end of the Reporting Period, there were no major information technology risk events.

The information technology risk management organization system of the Bank consists of the Board of Directors, senior management, Information technology management committee, Information technology risk management committee, System development department, IT department, IT innovation center, Operation management department, Risk management department, Internal audit department and information technology personnel at the level of branch and sub-branch. The Board of Directors assumes the ultimate responsibility for information technology risk management and reviews information technology risk management preferences, limits, and overall risk profile, etc. The senior management is responsible for organizing the Bank's information technology risk management, and the Risk management department is responsible for taking the lead in conducting specific work. The Information technology management committee is responsible for reviewing major issues, such as the construction of information technology projects and the annual information technology work plan. The Information technology risk management committee is responsible for reviewing major issues concerning information technology risks, such as risk assessment reports and risk profile reports.

Management Discussion and Analysis

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

The Information technology risks of the Bank mainly include network security risk, business continuity risk and outsourcing risk. The network security risk is mainly reflected in the threat of hackers and viruses on the security of the internet information system and client applications. The business continuity risk is mainly reflected in the highly reliance of business on information systems, and the information technology system becomes increasing complexity while customers' requirements for service levels are constantly rising. The outsourcing risk is mainly reflected in the highly reliance of the construction and continuous upgrading of information systems on outsourcing company, and thus there may be sensitive information leakage, unstable quality of development and testing, and abnormal service termination of outsourcers. The Bank mainly adopted the following measures to cope with the aforementioned risks.

- 1 We strictly divided the network area with logical separation between the Internet information system and the internal system, and established the information security in-depth defense system through various technical measures; we regularly carried out system penetration testing and vulnerability scanning to guard against potential threats in time; we organized attack and defense drills to improve the practical security protection experience and skills of staff, and introduced third-party security services to assist to improve safety protection capability.
- 2 We established the business continuity management system to identify important business and important information system, and clarify business and system operation interruption recovery targets, and made business continuity plan and contingency plans; we continuously promoted the construction of business continuity resources, and equipped with capabilities for dealing with site-level and city-level disasters preparedness through high availability technology and the construction of disaster preparedness center.
- 3 We strengthened the outsourcing management, ensured data security through desensitization and other technical measures formulated outsourcing contingency plans, and carried out outsourcing invalid drills and risk assessment of important outsourcers to improve outsourcing emergency response capabilities; we improved the percentage of labor outsourcing mode to reduce direct reliance on outsourcers; we signed outsourcing service level agreement, introduced third-party testing institutions to help to conduct project testing, and specified requirements for project deliverables to control project quality.

Management Discussion and Analysis

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

9 SEGMENT REPORTING

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

Unit: RMB' 000

Item	2020		2019	
	Segment profit before income tax	Ratio %	Segment profit before income tax	Ratio %
Corporate banking	228,865	30.92	288,983	34.83
Retail banking	182,366	24.64	204,683	24.67
Financial markets	302,489	40.86	331,029	39.90
Others	26,530	3.58	4,953	0.60
Total	740,250	100.00	829,648	100.00

Unit: RMB' 000

Item	2020		2019	
	Segment operating income	Ratio %	Segment operating income	Ratio %
Corporate banking	1,708,043	54.14	1,541,351	54.92
Retail banking	362,084	11.48	341,702	12.17
Financial markets	1,056,517	33.49	920,995	32.82
Others	28,076	0.89	2,583	0.09
Total	3,154,720	100.00	2,806,631	100.00

Management Discussion and Analysis

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

10 BUSINESS REVIEW

Corporate banking business

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

Corporate loans

As at the end of the Reporting Period, the balance of our corporate loans amounted to RMB46,850 million, representing an increase of 26.96% as compared to the beginning of the year. In particular, our loans to medium to large enterprises amounted to RMB13,334 million, accounting for 28.46% of our total corporate loans as of the same date, our loans to small and micro enterprises amounted to RMB33,368 million, accounting for 71.22% of our total corporate loans as of the same date, our other corporate loans amounted to RMB148 million, accounting for 0.32% of our total corporate loans as of the same date. The majority of our corporate loan customers are enterprises incorporated or otherwise having their primary operations in Sichuan Province, in particular Luzhou. Corporate loans have been the largest component of our loan portfolio.

Bill discounting

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

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

As at the end of the Reporting Period, our discounted bills amounted to RMB4,778 million.

Corporate deposits

As at the end of the Reporting Period, the balance of our corporate customer deposits amounted to RMB42,323 million, accounting for 49.66% of the total deposit balance. We offer our corporate customers RMB time and demand deposits. The RMB time deposits we offered to corporate customers have maturities ranging from three months to five years. We also offer negotiated deposit products that have customized interest rates and maturities and other terms. Besides, we provide call deposit products, which have higher interest rates than demand deposits and reserve certain flexibility of demand deposits (customers may send a notice in advance to draw the deposits). Our corporate deposit customers primarily include government agencies such as financial, transportation and social security institutions, public institutions, state-owned enterprises and large private corporations.

Management Discussion and Analysis

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

Corporate products

For financing needs of corporate customers, we innovated many customized products to meet customers' different financing needs.

We have rolled out "Tian Tian Dai" featuring one-time credit extension, recycling and a favorable treatment of interest-free repayment in the first seven days during each extension, with its customers can realize instant withdrawal and repayment within 24-hours through our short message services (SMS), so as to maximize the efficiency of capital use; "Shui Jin Dai", an unsecured product which takes the average amount of the total tax paid during the latest two years as its main basis of credit extension; "Piao Bao Tong", which is designed for discounting the electronic commercial acceptance bills issued by the core enterprises to their upstream and downstream enterprises; "Piao e Dai", with the value-added tax invoicing amount as the main basis, as well as "Shui e Dai", a credit loan product that take tax payment as the main basis for credit extension and are used to meet the short-term production and operation capital needs of small and micro enterprises and other products, to enable customers to enjoy efficient and convenient financing services by giving full play to the agile decision-making advantage of the local legal-person institution.

Corporate banking customer base

At the end of the Reporting Period, we had a total of 21,385 corporate banking customers, representing an increase of 5,674 or 36.11% year-on-year. The rapid growth of our corporate banking business is underpinned by our strong customer base. By studying the specific financial needs of corporate banking customers, we have launched a broad range of products and services with specific features targeting selected groups of customers, meanwhile, we have also established a special customer relationship management system, which allows us to closely track our customers' and their partners' business transactions with our Bank, enabling us to offer customized financial services for them.

Financial services of micro and small enterprises

We have earnestly implemented the requirements of the Central Committee of the Communist Party of China and the State Council on coordinating the prevention and control of the COVID-19 epidemic and economic and social development, and have done a good job in the stability on the six fronts (namely, employment, financial sector, foreign trade, foreign and domestic investments, and market expectations) and security in the six areas (namely, employment, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments) by innovating products, streamlining procedures, reducing fees and profits, and deepening the assessment. At the end of the Reporting Period, our loan balance to micro and small enterprises amounted to RMB40,017 million. The number of micro and small customers was 7,135. The balance of our inclusive finance loans to micro and small enterprises amounted to RMB7,838 million. The number of micro and small customers was 6,977, with a weighted average loan interest rate of 7.03%.

Management Discussion and Analysis

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

In order to better meet the financing requirements of micro and small enterprises, we accelerate the construction of Huirongtong Small Micro Loan Center targeted to specialized institutions for small and micro enterprises, enhance the application of internet fintech. Meanwhile, we fully leveraged the PBOC's policies and instruments such as relending to support development of micro and small enterprises, rediscounting and on-lending loans to intensify the financing supports for micro and small enterprises.

Retail banking business:

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

As of December 31, 2020, we had 947,400 retail banking customers, representing an increase of 173,000 or 22.34% as compared to the end of 2019, and with total deposits of RMB41,780 million and total loans of RMB6,176 million.

We classify our retail customers into basic customers (with deposits balance of less than RMB500,000), value customers (with deposits balance of RMB500,000 (inclusive) to RMB1,000,000), high-end customers (with deposits balance of RMB1,000,000 (inclusive) to RMB3,000,000), and high-net-worth customers (with deposits balance exceeding RMB3,000,000). As of December 31, 2020, we had 4,589 high-end customers, representing an increase of 1,553 or 51.15% as compared to 2019, and 726 high-net-worth customers, representing an increase of 315 or 76.64% as compared to 2019.

Retail deposits

The balance of retail deposits was RMB41.780 million, representing an increase of RMB10,968 million or 35.60% as compared to 2019. Of which, the large certificates of deposit business increased RMB375 million as compared to 2019.

Retail loans

We provide our retail customers with personal business loans, personal consumption loans as well as personal residential and commercial mortgage loans. As of December 31, 2020, the total retail loans were RMB7,724 million, representing a net increase of RMB1,548 million or 25.06% as compared to the previous year.

Bank cards

As of December 31, 2020, the number of accumulated cards issued to retail banking customers was 1,142,300. Of which, the stock of cards was 964,000, representing an increase of 155,200 or 19.19% as compared to 2019.

Management Discussion and Analysis

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

Wealth management

We provide our customers with Jin Gui Hua series and Zhi Zun Dao series wealth management products based on their risk and return appetites. Our wealth management funds are mainly invested in assets such as debt securities and money market instruments.

In 2020, the total amount of the wealth management products sold by us was RMB3,052 million. As of December 31, 2020, we had 11,315 customers for our wealth management products, of which 11,311 are retail customers and 4 are institution customers, with a balance on current products of RMB2,994 million and yields on wealth management products ranging from 4.0% to 4.8%.

Precious metal services

We provide our retail customers with precious metal products and services. We commenced sales agency service for precious metal from October 2018. As of December 31, 2020, our agency sales of precious metal amounted to RMB1,191,900, representing an increase of RMB460,400 or 62.94% as compared to the end of 2019.

Financial market business

In 2020, in the face of complex changes in the macro environment, market and regulatory environment, we fully analyzed the macroeconomic and financial regulatory situation, implemented a series of regulatory requirements to prevent and control financial risks and develop steadily.

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

Money market transactions business

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

1. *Interbank deposits*

At the end of the Reporting Period, the balance of deposits from banks and other financial institutions was RMB980 million, representing a year-on-year decrease of RMB470 million or 32.41%, of which the balance of time deposits from banks was RMB865 million, representing a year-on-year decrease of 36.63%, and the balances of demand deposits from banks and settlement accounts were RMB115 million, representing a year-on-year increase of 35.29%. The balance of deposits with other banks was RMB1,098 million, representing a year-on-year increase of RMB186 million or 20.39%, of which the balance of time deposits with other banks was RMB300 million, representing a year-on-year decrease of 62.45%. The balances of demand deposits with other banks and settlement accounts were RMB798 million, representing a year-on-year increase of 606.19%, mainly because the year-on-year base of interbank deposit is small, while the changeable scope is larger when adjusts according to the business demand.

Management Discussion and Analysis

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

2. *Interbank lending*

At the end of the Reporting Period, the balance of our interbank placement was RMB3,790 million, representing a year-on-year increase of RMB1,327 million or 53.88%; the balance of interbank lending was RMB213 million, representing a year-on-year increase of RMB100 million or 88.50%. The main reasons were: first, in 2020, the liquidity was generally easy, and we received certain placements and lending from interbank, with an increased transaction amount as compared with the beginning of the year; second, the interbank lending base was small at the end of last year, resulting in a significant year-on-year increase.

3. *Bond repurchase*

At the end of the Reporting Period, there was no balance of our positive buy-back, representing no change as compared to the same period of previous year; the balance of counter buy-back was RMB3,663 million, representing a year-on-year increase of RMB1,391 million or 61.22%, mainly because our basic deposits grew well and available funds increased, which led to an increase in business financing of counter buy-back during the Reporting Period.

4. *Bill rediscount*

At the end of the Reporting Period, we held RMB1,463 millions of rediscounted bills, representing a year-on-year increase of RMB594 million or 68.35%, mainly due to the general small size of rediscounting bills, while we increased certain rediscounted bills according to the business needs this year.

5. *Issuance of interbank certificates of deposit*

At the end of the Reporting Period, the balance of our interbank certificates of deposit was RMB14,035 million, representing a year-on-year decrease of RMB3,142 million or 18.29%, mainly because our basic deposits grew well this year, resulting in a corresponding decrease in the issuance of interbank certificates of deposit.

Management Discussion and Analysis

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

Investment business

1. *Bond investment*

In 2020, the sudden outbreak and global spread of COVID-19, and the subsequent anti-epidemic blockade policies dramatically changed the upward trend of the global economic cycle since 2019, and successively caused a cliff-like decline in the economy of the world in the first half of the year, with unprecedented speed and range. Subsequently, with the support of the super-large fiscal and monetary policies of major economies in the world, including Europe and the United States, the risk asset rates represented by the stock market of major economies in the world became stable and then rose rapidly. Combined with the expectation on economic restart, many countries even continuously reached record highs. In the second half of the year, optimism brought by the invention of COVID-19 vaccine led to an overall increase in risk assets, which was well ahead of the actual performance of the global economy. Though China was the first country where COVID-19 outbreaked, it was the first recovering from the epidemic due to its timely, firm and proper control measures, and quickly returned to normal production and living order. In addition, it benefited from the sharp increase in overseas demand, including medical and household demand, and stabilized and expanded the global market share, thus becoming the only country with positive growth in the world's major economies. In this process, the domestic monetary policy also changed rapidly for two times. The substantial easing after the outbreak of the epidemic and the rapid return to normal after the stability of the situation both occurred within a few months. The domestic bond market also experienced a sharp change from surge to crash, far beyond the mainstream market expectations. The performance of members in domestic bond market was generally flop in 2020, however, we achieved returns far beyond the average level of the market by grasping the main line of situation changes calmly and objectively to adjust the strategy rapidly, such as building up positions quickly at the beginning of the year while reducing holdings decisively after the economy resumed normal, and adopting a defensive strategy in the second half of the year.

As at the end of the Reporting Period, we adjusted the total amount and structure of bond investment according to the bond market conditions and our needs of asset allocation. At the end of the Reporting Period, our bond investment amounted to RMB23,839 million, representing a year-on-year increase of RMB9,364 million or 64.69%, among which, the balance of treasury bonds was RMB1,899 million, representing a year-on-year increase of RMB540 million or 39.74%; the balance of policy financial bonds was RMB4,012 million, representing a year-on-year decrease of RMB39 million or 0.96%; and the balance of debt securities issued by local governments was RMB1,103 million, representing a year-on-year decrease of RMB19 million or 1.69%; the balance of credit bonds was RMB15,517 million, representing a year-on-year increase of RMB8,073 million or 108.45%; the balance of debt securities issued by commercial banks was RMB1,308 million, representing a year-on-year increase of RMB809 million or 162.12%.

Management Discussion and Analysis

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

2. *SPV investment*

During the Reporting Period, we actively promoted business diversification, deepened cooperation with interbank organizations, revitalized existing assets, and made a good use of incremental investment. At the end of the Reporting Period, our SPV investment was RMB19,122 million, including RMB1,966 million for public offering monetary funds and others, RMB6,441 million for trust plans, RMB4,615 million for asset management plans and RMB6,100 million for non-principal protected wealth management. Our SPV investment decreased by RMB375 million or 1.92% year on year, showing a slight decrease amid stability, mainly due to our increased investments in public offering monetary funds, new investment in non-principal protected wealth management with stable returns and controllable risks, and recovered certain asset management plans and trust plans on a stock basis in this year.

Protection of the Rights of Financial Consumers

During the Reporting Period, we closely followed the new developments in regulation in our work on consumer rights protection. Starting with the basic work, we optimized organizational structure, reinforced our awareness of responsibility, gave full play to the legal entity's institutional advantages, improved the financial service capability by focusing on product and service design, supplemented by promotional and educational campaigns for the public and internal inspection, and comprehensively improved the overall level of our work on consumer rights protection.

1. **Establishing full-time organizations and strengthening organizational leadership**

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

Management Discussion and Analysis

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

2. Improving institutional system and consolidating management foundation

We combed the consumer rights protection system, established and improved a consumer rights protection system matching with our organizational structure and business development. During the Reporting Period, we organized and revised 15 systems related to consumer rights protection to provide system guarantee for the effective development of our work on consumer rights protection.

3. Highlighting brand reputation and popularizing public education

Adhering to the concept of “customer-orientated” and “service-creating value”, we provide “standardized, rigorous, honest and reliable” financial services to consumers to protect their rights. During the Reporting Period, we organized and carried out a series of more than 50 activities, such as “3.15 Financial Consumer Rights Day”, “Publicity on Deposit Insurance”, “Publicity on Prevention of Epidemic-related Telecommunication Fraud”, “Specialized Publicity on Prevention of Illegal Fund Raising” and “Publicity on Financial Knowledge Popularization Month” etc., to enhance consumers’ risk awareness.

4. Enhancing the sense of responsibility and improving the level of consumer protection

We strictly abide by national laws and regulations, actively adapt to adjustments in regulatory policies, and implement relevant industry standards and operating guidelines. During the Reporting Period, we deeply rooted the concept of consumer protection in product design, services, pricing management, agreement formulation, examination and approval, marketing and publicity, etc., to achieve whole-process, full-coverage and all-round management of consumer rights protection.

Changes in Share Capital and Information on Shareholders

I. CHANGES IN SHARE CAPITAL

In 2020, the Bank's share capital remains unchanged.

II. STATEMENT OF SHAREHOLDING STRUCTURE

Unit: Share, %

	December 31, 2019		Increase (decrease) during the Reporting Period	December 31, 2020	
	Quantity	Percentage		Quantity	Percentage
Total share capital	2,264,793,385	100.00%	-	2,264,793,385	100.00%
Domestic Shares held by legal person	1,593,116,644	70.34%	-	1,593,116,644	70.34%
Domestic Shares held by natural person	44,076,741	1.95%	-	44,076,741	1.95%
H Shares	627,600,000	27.71%	-	627,600,000	27.71%

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

On November 24, 2020 (after trading hours), the Bank entered into the subscription agreement with Chengdu Dongfang Guangyi Investment Co., Ltd, pursuant to which Chengdu Dongfang Guangyi Investment Co., Ltd conditionally agreed to purchase, and the Bank conditionally agreed to allot and issue 180,000,000 H Shares. As at the date of this annual report, the above subscription matter has not been fulfilled due to all the prerequisites under the subscription agreement have not been fulfilled or waived. During the Reporting Period, no listed securities of the Bank has been purchased, sold or redeemed by the Bank.

IV. DETAILS OF SHAREHOLDERS

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

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

Unit: Share

No.	Name of Shareholders	Class of shares	Number of Shares held at the end of the period	Shareholding percentage	Number of Shares pledged	Number of Shares frozen
1	Luzhou Laojiao Group Co., Ltd. (瀘州老窖集團有限責任公司)	Domestic Shares	325,440,000	14.37%	-	-
2	Sichuan Jiale Enterprise Group Co., Ltd. (四川省佳樂企業集團有限公司)	Domestic Shares	271,200,000	11.97%	-	-
3	Luzhou Xinfu Mining Industry Group Co., Ltd. (瀘州鑫福礦業集團有限公司)	Domestic Shares	271,200,000	11.97%	-	271,200,000
4	Luzhou Municipal Finance Bureau	Domestic Shares	161,544,800	7.13%	-	-
5	Luzhou State-owned Assets Operation Co., Ltd. (瀘州國有資產經營有限公司)	Domestic Shares	144,640,000	6.39%	-	-
6	Luzhou Xinglu Jutai Real Estate Co., Ltd. (瀘州興瀘居泰房地產有限公司)	Domestic Shares	91,715,862	4.05%	-	-

Changes in Share Capital and Information on Shareholders

No.	Name of Shareholders	Class of shares	Number of Shares held at the end of the period	Shareholding percentage	Number of Shares pledged	Number of Shares frozen
7	Chengdu Modern Agricultural Development Investment Co., Ltd. (成都市現代農業發展投資有限公司)	Domestic Shares	81,043,600	3.58%	-	-
8	Luzhou Industrial Investment Group Co., Ltd. (瀘州市工業投資集團有限公司)	Domestic Shares	73,462,268	3.24%	-	-
9	Luzhou Xinglu Investment Group Co., Ltd. (瀘州市興瀘投資集團有限公司)	Domestic Shares	40,549,462	1.79%	-	-
10	Luzhou Laojiao Co., Ltd. (瀘州老窖股份有限公司)	Domestic Shares	36,160,000	1.60%	-	-

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

To the knowledge of the Directors or chief executive of the Bank, as at December 31, 2020, interests and short positions of the following persons (other than the Directors, Supervisors and chief executives of the Bank) had or were deemed to have in the Shares and underlying Shares of the Bank which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Nature of interest	Class of Shares	Long position/short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of issued Shares in the Bank	Approximate % of the relevant class of Shares in the Bank
Luzhou Laojiao Group Co., Ltd. (瀘州老窖集團有限責任公司) ⁽¹⁾	Beneficial owner Interest in controlled corporation	Domestic Shares	Long Position	325,440,000	-	15.97%	22.09%
		Domestic Shares	Long Position	36,160,000	-		
Sichuan Jiale Enterprise Group Co., Ltd. (四川省佳樂企業集團有限公司) ⁽²⁾	Beneficial owner Interest in controlled corporation	Domestic Shares	Long Position	271,200,000	-	12.29%	17.01%
		Domestic Shares	Long Position	7,232,000	-		
JIANG Xiaoying (姜曉英) ⁽²⁾	Interest in spouse	Domestic Shares	Long Position	278,432,000	-	12.29%	17.01%
Luzhou Xinfu Mining Industry Group Co., Ltd. (瀘州鑫福礦業集團有限公司)	Beneficial owner	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
		Domestic Shares	Long Position	271,200,000	-		
Sichuan Xinfu Industrial Group Co., Ltd. (四川鑫福產業集團有限公司) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
LAI Dafu (賴大福) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
GE Xiuqiong (葛修瓊) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
Luzhou Industrial Investment Group Co., Ltd. (瀘州市工業投資集團有限公司) ⁽⁴⁾	Beneficial owner Interest in controlled corporation	Domestic Shares	Long Position	73,462,268	-	9.63%	13.32%
		Domestic Shares	Long Position	144,640,000	-		
				218,102,268			

Changes in Share Capital and Information on Shareholders

Name of Shareholder	Nature of interest	Class of Shares	Long position/short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of issued Shares in the Bank	Approximate % of the relevant class of Shares in the Bank
Luzhou Xinglu Investment Group Co., Ltd. (瀘州市興瀘投資集團有限公司) ⁽⁵⁾	Beneficial owner Interest in controlled corporation	Domestic Shares Domestic Shares	Long Position Long Position	40,549,462 154,128,384	- -		
				194,677,846		8.60%	11.89%
Chengdu Dongfang Guangyi Investment Co., Ltd. (成都東方廣益投資有限公司) ⁽⁶⁾	Beneficial owner	H Shares	Long Position	180,000,000		7.95%	28.68%
Luzhou Municipal Finance Bureau (瀘州市財政局)	Beneficial owner	Domestic Shares	Long Position	161,544,800	-	7.13%	9.87%
Luzhou State-owned Assets Operation Co., Ltd. (瀘州國有資產經營有限公司)	Beneficial owner	Domestic Shares	Long Position	144,640,000	-	6.39%	8.83%
OTX ADVISORY HOLDINGS, INC. ⁽⁷⁾	Beneficial owner	H Shares	Long Position	113,060,000	-	4.99%	18.01%
LUO Zhipeng (羅志鵬) ⁽⁷⁾	Interest in controlled corporation	H Shares	Long Position	113,060,000	-	4.99%	18.01%
Wudaokou Capital Limited (五道口資本有限公司) ⁽⁸⁾	Beneficial owner	H Shares	Long Position	112,011,000	-	4.95%	17.85%
ZHOU Min (周敏) ⁽⁸⁾	Interest in controlled corporation	H Shares	Long Position	112,011,000	-	4.95%	17.85%
JNR SPC	Beneficial owner	H Shares	Long Position	111,291,000	-	4.91%	17.73%
JNR Capital ⁽⁹⁾	Beneficial owner	H Shares	Long Position	111,291,000	-	4.91%	17.73%
ZHENG Zhicheng (鄭志誠) ⁽⁹⁾	Interest in controlled corporation	H Shares	Long Position	111,291,000	-	4.91%	17.73%
Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. (瀘州市基礎建設投資有限公司) ⁽¹⁰⁾	Beneficial owner Interest in controlled corporation	Domestic Shares Domestic Shares	Long Position Long Position	15,006,400 91,715,862	- -		
				106,722,262		4.71%	6.52%
Luzhou Xinglu Jutai Real Estate Co., Ltd. (瀘州興瀘居泰房地產有限公司)	Beneficial owner	Domestic Shares	Long Position	91,715,862	-	4.05%	5.60%
Luzhou Chengnan Construction Investment Co., Ltd. (瀘州市城南建設投資有限公司) ⁽¹⁰⁾	Interest in controlled corporation	Domestic Shares	Long Position	91,715,862	-	4.05%	5.60%
China Development Fund Co., Ltd. (國開發展基金有限公司) ⁽¹⁰⁾	Interest in controlled corporation	Domestic Shares	Long Position	91,715,862	-	4.05%	5.60%
Luzhou High-tech Investment Group Co., Ltd. (瀘州市高新投資集團有限公司)	Beneficial owner	H Shares	Long Position	100,000,000	-	4.42%	15.93%
Luzhou Liquor Investment Co., Ltd. (瀘州酒業投資有限公司)	Beneficial owner	H Shares	Long Position	60,000,000	-	2.65%	9.56%

Changes in Share Capital and Information on Shareholders

Notes:

- (1) Luzhou Laojiao Group Co., Ltd. is wholly-owned by Luzhou State-owned Assets Supervision and Administration Commission (瀘州市國有資產監督管理委員會). Luzhou Laojiao Group Co., Ltd. directly held 325,440,000 Domestic Shares and indirectly held 36,160,000 Domestic Shares through its controlled company Luzhou Laojiao Co., Ltd. (瀘州老窖股份有限公司). By virtue of the SFO, Luzhou Laojiao Group Co. Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Laojiao Co., Ltd.
- (2) Mr. XIONG Guoming (熊國銘) and Ms. JIANG Xiaoying held 80% and 20% equity interest in Sichuan Jiale Enterprise Group Co., Ltd., respectively. Sichuan Jiale Enterprise Group Co., Ltd. directly held 271,200,000 Domestic Shares and indirectly held 7,232,000 Domestic Shares through its indirectly owned subsidiary, Sichuan Luzhou Jiale Real Estate Co., Ltd. (四川省瀘州市佳樂房地產有限責任公司). Luzhou Yijia Real Estate Development Co., Ltd. (瀘州益佳房地產開發有限公司) had approximately 92.68% equity interest in Sichuan Luzhou Jiale Real Estate Co., Ltd., and Sichuan Jiale Enterprise Group Co., Ltd. had approximately 70.44% equity interest in Luzhou Yijia Real Estate Development Co., Ltd. By virtue of the SFO, Sichuan Jiale Enterprise Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Sichuan Luzhou Jiale Real Estate Co., Ltd. Mr. XIONG Guoming is deemed to be interested in the Domestic Shares held by Sichuan Jiale Enterprise Group Co., Ltd. and Sichuan Luzhou Jiale Real Estate Co., Ltd. for the purpose of the SFO. Ms. JIANG Xiaoying is the spouse of Mr. XIONG Guoming and is deemed to be interested in the Domestic Shares held by Mr. XIONG Guoming under the SFO.
- (3) Mr. LAI Dafu and Ms. GE Xiuqiong held 60% and 40% equity interest in Sichuan Xinfu Industrial Group Co., Ltd., respectively. Sichuan Xinfu Industrial Group Co., Ltd. held 92% equity interest in Luzhou Xinfu Mining Industry Group Co., Ltd. By virtue of the SFO, each of Mr. LAI Dafu, Ms. GE Xiuqiong and Sichuan Xinfu Industrial Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Xinfu Mining Industry Group Co., Ltd.
- (4) Luzhou Industrial Investment Group Co., Ltd. directly held 73,462,268 Domestic Shares and indirectly held 144,640,000 Domestic Shares through its wholly-owned subsidiary, Luzhou State-owned Assets Operation Co., Ltd. By virtue of the SFO, Luzhou Industrial Investment Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou State-owned Assets Operation Co., Ltd.
- (5) Luzhou Xinglu Investment Group Co., Ltd. directly held 40,549,462 Domestic Shares and (i) indirectly held 91,715,862 Domestic Shares through its controlled corporation Luzhou Xinglu Jutai Real Estate Co., Ltd., in which Luzhou Chengnan Construction Investment Co., Ltd. and Luzhou Xinglu Investment Group Co., Ltd. had 47% and 53% equity interest, respectively. Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. had approximately 50.82% equity interest in Luzhou Chengnan Construction Investment Co., Ltd., and Luzhou Xinglu Investment Group Co., Ltd. had approximately 55.11% equity interest in Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.; (ii) indirectly held 36,160,000 Domestic Shares through its controlled corporation Luzhou Laojiao Co., Ltd., in which Luzhou Xinglu Investment Group Co., Ltd. had approximately 24.99% equity interest. Luzhou Laojiao Group Co., Ltd. and Luzhou Xinglu Investment Group Co., Ltd. entered into an agreement on action in concert valid from December 31, 2015 to June 1, 2021 in respect of their respective equity in Luzhou Laojiao Co., Ltd.; (iii) indirectly held 11,246,122 Domestic Shares through its controlled corporation Luzhou Xinglu Financing Guarantee Group Co., Ltd. (瀘州市興瀘融資擔保集團有限公司), in which Luzhou Xinglu Investment Group Co., Ltd. had approximately 37.26% equity interest; and (iv) indirectly held 15,006,400 Domestic Shares through its controlled corporation Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. By virtue of the SFO, Luzhou Xinglu Investment Group Co., Ltd. is deemed to be interested in Domestic Shares held by Luzhou Xinglu Jutai Real Estate Co., Ltd., Luzhou Laojiao Co., Ltd., Luzhou Xinglu Financing Guarantee Group Co., Ltd. and Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.

Changes in Share Capital and Information on Shareholders

- (6) On November 24, 2020, a subscription agreement entered into between Chengdu Dongfang Guangyi Investment Co., Ltd. and LUZHOU BANK CO., LTD., pursuant to which Chengdu Dongfang Guangyi Investment Limited conditionally subscribed 180,000,000 H shares of LUZHOU BANK CO., LTD., and its settlement is subject to prerequisite conditions or exemptions.
- (7) OTX ADVISORY HOLDINGS, INC. is wholly-owned by LUO Zhipeng. By virtue of the SFO, LUO Zhipeng is deemed to be interested in the H Shares held by OTX ADVISORY HOLDINGS, INC.
- (8) Wudaokou Capital Limited is wholly-owned by ZHOU Min (周敏). By virtue of the SFO, ZHOU Min (周敏) is deemed to be interested in the H Shares held by Wudaokou Capital Limited.
- (9) JNR SPC is wholly-owned by JNR Capital, which is held as to approximately 66.67% equity interest by ZHENG Zhicheng (鄭志誠). By virtue of the SFO, both JNR Capital and ZHENG Zhicheng (鄭志誠) are deemed to be interested in the H Shares held by JNR SPC.
- (10) Luzhou Xinglu Jutai Real Estate Co., Ltd. is held as to 53% equity interest by Luzhou Xinglu Investment Group Co., Ltd. and as to 47% equity interest by Luzhou Chengnan Construction Investment Co., Ltd., in which Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. and China Development Fund Co., Ltd. held approximately 50.82% and 41.18% equity interest, respectively. By virtue of the SFO, each of Luzhou Xinglu Investment Group Co., Ltd., Luzhou Fundamental Infrastructure Construction Investment Co., Ltd., China Development Fund Co., Ltd. and Luzhou Chengnan Construction Investment Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Xinglu Jutai Real Estate Co., Ltd.

Save as disclosed above, to the knowledge of the Directors, the Bank is not aware of any other person (other than a Director, Supervisor and chief executive of the Bank) having any interests or short positions in the Shares or underlying Shares of the Bank as at December 31, 2020 which are required to be recorded in the register pursuant to section 336 of the SFO.

(III) Substantial Shareholders of the Bank

For information about the substantial Shareholders⁽¹⁾ of the Bank, please refer to the Related party relationships and Related party transactions under Note 39 to the Financial Statements of this annual report.

Note:

- (1) According to the Interim Measures for the Equity Management of Commercial Banks of CBIRC (CBRC Order 2018 No. 1), substantial shareholders of a commercial bank refer to shareholders who hold or control 5% or above shares or voting right of the commercial bank, or who hold less than 5% of total capital or total shares of the commercial bank but have significant impacts on the operation and management of the commercial bank. The significant impacts mentioned above include but are not limited to dispatching directors, supervisors or senior executives to a commercial bank.

Changes in Share Capital and Information on Shareholders

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

As of December 31, 2020, based on the information available to the Bank and as far as our Directors are aware, the interests and short positions of our Directors, Supervisors and chief executives in the Shares, underlying Shares and debentures of our Bank or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register of interests kept by the Bank pursuant to section 352 of the SFO, or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were set out as follows:

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

Note:

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

Save as disclosed above, as at December 31, 2020, none of our Directors, Supervisors and chief executive had any interests or short positions in the Shares, underlying Shares or debentures of our Bank or any associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register kept by the Bank pursuant to section 352 of the SFO or which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

Directors, Supervisors, Senior Management and Employees

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Directors

Name	Gender	Age	Time of joining our Bank	Position	Time of taking the position as Director
YOU Jiang (游江)	Male	47	July 2014	Executive Director and chairman of the Board of Directors	August 28, 2014
XU Xianzhong (徐先忠)	Male	51	August 2010	Executive Director and president	April 29, 2011
LIU Shirong (劉仕榮)	Male	54	October 1997	Executive Director, vice president (responsible for executive work of the Bank) and secretary of the Board	February 22, 2010
PAN Lina (潘麗娜)	Female	37	May 2019	Non-executive Director	December 31, 2019
XIONG Guoming (熊國銘)	Male	58	February 2010	Non-executive Director	February 22, 2010
LIU Qi (劉奇)	Male	36	November 2017	Non-executive Director	November 29, 2017
DAI Zhiwei (代志偉)	Male	52	December 2015	Non-executive Director	December 10, 2015
LIU Anyuan (劉安媛)	Female	39	May 2019	Non-executive Director	December 31, 2019
GU Mingan (辜明安)	Male	55	March 2016	Independent non-executive Director	March 18, 2016
HUANG Yongqing (黃永慶)	Male	59	November 2017	Independent non-executive Director	November 7, 2017
YE Changqing (葉長青)	Male	50	May 2018	Independent non-executive Director	May 30, 2018
TANG Baoqi (唐保祺)	Male	61	May 2018	Independent non-executive Director	May 30, 2018
ZHONG Jin (鐘錦)	Male	60	May 2020	Independent non-executive Director	November 30, 2020

Notes:

1. Mr. JIANG Bo (江波) resigned as a non-executive Director of the Bank on July 13, 2020 due to work adjustments.
2. Mr. ZHONG Jin (鐘錦) was elected as an independent non-executive Director of our Bank at the Shareholders' general meeting on May 26, 2020. The appointment of Mr. ZHONG Jin (鐘錦) as an independent non-executive Director became effective upon obtaining the approval of independent director qualification from CBIRC Sichuan Office on November 30, 2020.

Directors, Supervisors, Senior Management and Employees

(II) Supervisors

Name	Gender	Age	Time of taking our Bank	Position	Time of joining the position as Supervisor
YUAN Shihong (袁世泓)	Female	50	November 2015	Chairwoman of the Board of Supervisors	January 26, 2016
DUAN Xuebin (段學彬)	Male	55	January 2016	External Supervisor and chairman of the nomination committee under the Board of Supervisors	January 26, 2016
Guo Bing (郭兵)	Male	51	May 2019	External Supervisor and the chairman of the audit and supervision committee under the Board of Supervisors	May 28, 2019
LIU Yongli (劉永麗)	Female	50	July 2002	Employee representative Supervisor and independent approver of the credit approval department	January 26, 2016
CHEN Yong (陳勇)	Male	48	July 2002	Employee representative Supervisor, the general manager of the administration department	January 26, 2016

Directors, Supervisors, Senior Management and Employees

(III) Senior Management

Name	Gender	Age	Time of joining our Bank	Position	Time of taking the position
XU Xianzhong (徐先忠)	Male	51	August 2010	Executive Director and president	August 4, 2011
LIU Shirong (劉仕榮)	Male	54	October 1997	Executive Director, vice president (responsible for executive work of the Bank) and secretary of the Board	May 27, 2016 (vice president, and responsible for executive work of the Bank since September 2, 2019); December 31, 2012 (secretary of the Board)
XIA Yilun (夏義倫)	Female	53	November 2008	Vice president	December 31, 2008
XUE Xiaoqin (薛曉芹), whose former name was XUE Defang (薛德芳)	Female	52	October 1997	Vice president	May 27, 2016
WU Ji (吳極)	Male	47	April 2016	Vice president	August 10, 2020
CHENG Anhua (成安華)	Male	50	September 1998	Vice president and chief information officer	July 24, 2017 (vice president); December 24, 2015 (chief information officer)
YANG Bing (楊冰), whose former name was YANG Bin (楊斌)	Male	45	April 2016	Vice president	April 8, 2016
TONG Qiang (童強)	Male	46	October 2015	Vice president	May 28, 2019
AI Yong (艾勇)	Male	48	September 1997	Assistant to president	December 28, 2012
HU Jia (胡嘉)	Male	41	November 2015	Assistant to president and president of the key customers business department	August 23, 2018 (assistant to president); January 18, 2020 (president of the key customers business department)

Directors, Supervisors, Senior Management and Employees

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in Directors

1. Mr. JIANG Bo resigned as a non-executive Director of the Bank on July 13, 2020 due to work adjustments.
2. Mr. ZHONG Jin was elected as an independent non-executive Director of the Bank at the Shareholders' general meeting on May 26, 2020. The appointment of Mr. ZHONG Jin as an independent non-executive Director became effective upon obtaining the approval of independent director qualification from CBIRC Sichuan Office on November 30, 2020.

2. Changes in Supervisors

There was no change in the Supervisors during the Reporting Period.

3. Changes in Senior Management

During the Reporting Period, the Bank received the Approval by China Banking and Insurance Regulatory Commission Sichuan Office of the Qualification of WU Ji for Appointment as the Vice President of Luzhou Bank Co., Ltd. on August 10, 2020.

Directors, Supervisors, Senior Management and Employees

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Directors

Executive Director YOU Jiang (游江)

Mr. YOU Jiang (游江), aged 47, has been a Director since August 2014 and the chairman of the Board of Directors since December 2014. Mr. You is also a member of each of the development and strategy committee, the nomination and remuneration committee and the risk management committee of our Bank.

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

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

Directors, Supervisors, Senior Management and Employees

Executive Director XU Xianzhong (徐先忠)

Mr. XU Xianzhong (徐先忠), aged 51, has been a Director since April 2011 and the president of our Bank since August 2011. Mr. Xu is a member of the consumer rights protection committee of our Bank.

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

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

Executive director LIU Shirong (劉仕榮)

Mr. LIU Shirong (劉仕榮), aged 54, has been a Director since February 2010, the secretary to the Board of Directors since December 2012 and the vice president of our Bank since May 2016 (responsible for executive work of the Bank since September 2019). Mr. Liu is also a member of each of the related party (connected) transactions control committee and the risk management committee of our Bank.

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

Directors, Supervisors, Senior Management and Employees

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

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

Non-executive Director PAN Lina (潘麗娜)

Ms. PAN Lina (潘麗娜), aged 37, appointed as non-executive Director on May 28, 2019. Her appointment has come into effect on December 31, 2019. She is mainly responsible for providing strategic advice on the corporate developments and making recommendations on major operational and managerial decisions of our Bank. Ms. Pan is also the chairperson of the development and strategy committee and a member of the audit committee of our Bank.

Ms. Pan has been working at Luzhou Laojiao Group Co., Ltd. since November 2015. She served as the CEO of Luzhou Laojiao Group's food industry promotion project group (瀘州老窖集團食品產業推進項目組) since April 2020, and the CEO of the group party of Luzhou Laojiao Group's COSCO strategic cooperation project group (瀘州老窖集團中遠戰略合作項目組) from January to April 2020, and served as assistant to president, director of the group office, general manager of the planning and publicity center, and member of the party committee of Luzhou Laojiao Group Co., Ltd. from November 2015 to December 2019. In addition, Ms. Pan worked at Luzhou Laojiao Industrial Investment Co., Ltd. (瀘州老窖實業投資有限公司) from January 2016 to May 2017. She used to serve as general manager, party branch secretary, and deputy secretary of the Hejiang County Party Committee. Prior to this, Ms. Pan worked at Luzhou Liquor Concentrated Development Zone Co., Ltd. (瀘州酒業集中發展區有限公司) from September 2010 to January 2016. Her last position was general manager and party branch secretary. Ms. Pan served as the deputy director of the party committee office and company office of Luzhou Laojiao Co., Ltd. from August 2009 to September 2010, and served as the secretary of the president of Guangzhou Textile Industry and Trade Enterprise Group, the secretary of the League branch and the officer of the Youth League Committee from July 2006 to August 2009.

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

Directors, Supervisors, Senior Management and Employees

Non-executive Director XIONG Guoming (熊國銘)

Mr. XIONG Guoming (熊國銘), aged 58, has been a Director since February 2010. He is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank. Mr. Xiong is also the chairperson of the risk management committee and a member of each of the development and strategy committee and the nomination and remuneration committee of our Bank.

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

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

Directors, Supervisors, Senior Management and Employees

Non-executive Director LIU Qi (劉奇)

Mr LIU Qi (劉奇), aged 36, has been a Director since November 2017. He is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank. Mr. Liu is also a member of each of the development and strategy committee and the consumer rights protection committee.

Ms. Liu has been a deputy general manager of Luzhou Industrial Investment Group since June 2017. He has taken a temporary position as a deputy secretary of the Communist Youth League in Luzhou since May 2020. He has been a chairman of Luzhou Industrial Investment & Financing Guarantee Co., Ltd. (瀘州工投融資擔保有限公司) and a director of Sichuan Lutianhua Co., Ltd. (四川瀘天化股份有限公司) in April 2019; a director of Luzhou Developing Machinery Co., Ltd. (瀘州發展機械有限公司) since July 2018; a director of Luzhou Development Cellulose New Materials Co., Ltd. (瀘州發展纖維素新材料有限公司) in March 2018; an executive director and general manager of Luzhou Industrial Investment Leasing Co., Ltd. (瀘州工投租賃有限公司), a director and general manager of Luzhou Industrial Investment & Financing Guarantee Co., Ltd. from November 2017 to April 2019; a director of Southwest Medical and Health Industry Investment Co., Ltd. (西南醫療健康產業投資有限公司) from April 2017 to April 2019 and a director of Luzhou Culture and Tourism Investment Group Co., Ltd. (瀘州市文化旅遊發展投資集團有限公司) from September 2016 to April 2019. Mr. Liu served as a director of Luzhou Hejiang Industrial Investment Co., Ltd. (瀘州合江工業投資有限公司) from April 2016 to May 2017. Mr. Liu also held a number of other positions in Luzhou Industrial Investment Group, including the head of the office of the board of directors from June 2015 to November 2017 and the assistant to general manager from May 2016 to November 2017. Mr. Liu served as the principal of Luzhou Section Reforming Leading Group of Sichuan Chemical Engineering Holding Group Co., Ltd. (四川化工控股集團瀘州板塊改革工作領導小組辦公室) from May 2014 to April 2015. Prior to that, he worked at the People's Government of Lu County (瀘縣人民政府) as a staff member of the office secretary section (辦公室秘書科科員) from August 2011 to December 2011, a deputy section chief (副科長) of the office secretary section from December 2011 to August 2012, the head (主任) of the supervision and inspection office (督察室) from August 2012 to April 2015 and a deputy office director (辦公室副主任) from July 2013 to April 2015. Mr. Liu served as a staff member, a deputy head (副主任) and organization personnel cadre (組織人事幹事) of Luxian Niutan Town CPC and People's Government Office (瀘縣牛灘鎮黨政辦公室) from July 2008 to August 2011.

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

Directors, Supervisors, Senior Management and Employees

Non-executive Director DAI Zhiwei (代志偉)

Mr. DAI Zhiwei (代志偉), aged 52, has been a Director since December 2015. He is mainly responsible for providing strategic advice on the corporate developments and making recommendations on major operational and managerial decisions of our Bank. Mr. Dai is also a member of the development and strategy committee of our Bank.

Mr. Dai has been a chairman and legal representative of Xinglu Investment Group since December 2020. He has served as a chairman and legal representative of Luzhou Chengnan Construction Investment Co., Ltd. (瀘州市城南建設投資有限責任公司) and a chairman and legal representative of Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. (瀘州市基礎建設投資有限公司) since February 2021. He has been a director of Xinglu Investment Group from March 2015 to December 2020 and a general manager of Xinglu Investment Group from April 2015 to December 2020. He served as a director and general manager of Luzhou Chengnan Construction Investment Co., Ltd. and general manager of Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. from June 2015 to January 2021. He has been a director of Sichuan Xuda Railway Co., Ltd. (四川敘大鐵路有限責任公司) from September 2016 to October 2019, a director of Sichuan South Express Highway Co., Ltd. (四川南方高速公路股份有限公司) from July 2016 to September 2019. He has been a director of Sichuan Yusheng Wine Industry Investment Management Co., Ltd. (四川宇晟酒業投資管理有限公司) since August 2015. Mr. Dai served as a member of the standing committee of the CPC and a deputy district chief (副區長) of Naxi district of Luzhou from May 2012 to February 2014 and a deputy secretary (副書記) of CPC committee of Naxi district of Luzhou from February 2014 to March 2015. Mr. Dai worked as a deputy county chief (副縣長) of Hejiang county from November 2007 to May 2012 and a member of the standing committee of the CPC of Hejiang county from October 2011 to May 2012. He worked as the head (主任) of Luzhou Agriculture Development Office (瀘州市農業發展辦公室) from July 2007 to November 2007. Mr. Dai worked at the Agriculture Section of Luzhou Municipal Finance Bureau (瀘州市財政局農業科) as a senior staff member (副主任科員) and then a principal staff member (主任科員) from August 1998 to June 2002, a deputy section chief (副科長) from June 2002 to May 2004 and then the section chief (科長) from May 2004 to July 2007. Mr. Dai worked as a senior staff member (副主任科員) of Luzhou State-owned Assets Bureau (瀘州市國資局) from August 1994 to July 1998. He worked as a staff and then a staff of the Three Investigation Office (三查辦) of Luzhou Municipal Finance Bureau from August 1990 to August 1994.

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

Directors, Supervisors, Senior Management and Employees

Non-executive Director LIU Anyuan (劉安媛)

Ms. LIU Anyuan, aged 39, was appointed as a non-executive Director on May 28, 2019. Her appointment has come into effect on December 31, 2019. She is mainly responsible for providing strategic advice on the corporate developments and making recommendations on major operational and managerial decisions of our Bank. Ms. Liu is also a member of each of the audit committee and consumer rights protection committee of the Bank.

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

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

Independent Non-executive Director GU Mingan (辜明安)

Mr. GU Mingan (辜明安), aged 55, has been an independent non-executive Director since March 2016. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Gu is also the chairperson of the related party (connected) transactions control committee of our Bank and a member of each of the nomination and remuneration committee and the audit committee of our Bank.

Mr. Gu has been a lecturer in Southwestern University of Finance and Economics (西南財經大學) since 1999 and was promoted to an associate professor in 2002 and then a professor in 2008. Mr. Gu has been an independent director of Sunway Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603333) since December 2020. He served as an independent non-executive director of Luzhou Xinglu Water (Group) Co., Ltd. (a company listed on the Stock Exchange, stock code: 2281) since March 2017. He served as an independent director of Sichuan Troy Information Technology Co., Ltd. (四川創意信息技術股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 300366) since January 2016, and an independent director of Chengdu Hi-Tech Development Co., Ltd. (成都高新發展股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000628) since September 2015. Mr. Gu served as an independent director of Sichuan Guoxin Liancheng Asset Management Co., Ltd. (四川省國新聯程資產管理有限公司) (formerly known as Chengdu Guoxin Liancheng Asset Management Co., Ltd. (成都市國新聯程資產管理有限公司)) from September 2017 to September 2018. He served as an independent director of Sichuan Longchang Rural Commercial Bank Co., Ltd. (四川隆昌農村商業銀行股份有限公司) from March 2016 to May 2019. Mr. Gu served as an independent director of Zhejiang Renzhi Co., Ltd. (浙江仁智股份有限公司), a company listed on the Shenzhen Stock Exchange from September 2014 to September 2017. Prior to joining Southwestern University of Finance and Economics (西南財經大學), Mr. Gu worked at Sichuan Light Chemical Industry College (四川輕化工學院) (currently known as Sichuan Light Chemical Industry University (四川輕化工大學)) from July 1993 to July 1999 and worked at Chenguang Chemical Research Institute of Chemical Industry Ministry (化工部晨光化工研究院) (currently known as Zhonghao Chenguang Chemical Research Institute Co., Ltd. (中昊晨光化工研究院有限公司)) from July 1989 to July 1993.

Directors, Supervisors, Senior Management and Employees

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

Independent Non-executive Director HUANG Yongqing (黃永慶)

Mr. HUANG Yongqing (黃永慶), aged 59, has been an independent non-executive Director since November 2017. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Huang is also the chairperson of the consumer rights protection committee and a member of the related party (connected) transactions control committee of our Bank.

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

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

Directors, Supervisors, Senior Management and Employees

Independent Non-executive Director YE Changqing (葉長青)

Mr. YE Changqing (葉長青), aged 50, was appointed as our independent non-executive Director on May 30, 2018. His appointment has come into effect on December 17, 2018. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Ye is also the chairperson of the audit committee and a member of each of the related party (connected) transactions control committee and the risk management committee of our Bank.

Mr. Ye has been an independent non-executive director of Hygeia Healthcare (a company listed on the Hong Kong Stock Exchange, stock code: 6078) since September 2019. Mr. Ye has been an independent non-executive director of Ascentage Pharma (a company listed on the Hong Kong Stock Exchange, stock code: 6855) since June 2019. Mr. Ye has been an independent non-executive director of Jinxin Fertility (a company listed on the Hong Kong Stock Exchange, stock code: 1951) since June 2019. Mr. Ye has been an independent director of Niu Technologies (a company listed on the NASDAQ Stock Exchange, stock code: NIU) since October 2018. Mr. Ye has been an independent director of Baozun Inc. (a company listed on the NASDAQ Stock Exchange, stock code: BZUN) since May 2016. Mr. Ye also served as a consultant for CITIC PE Advisors (Hong Kong) Limited (中信產業投資基金(香港)顧問有限公司) from January 2016 to December 2016. Mr. Ye worked at CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金管理有限公司) from February 2011 to December 2015 and was a managing director (董事總經理), the chief financial officer and a member of the investment committee when he left. Mr. Ye worked at PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) (普華永道中天會計師事務所(特殊普通合夥)) from April 1993 to January 2011 and was a partner (合夥人) of the Advisory Services, the leader (主管) of the Advisory Services of Shanghai office and the leader (主管) of the Transaction Services of Shanghai office when he left.

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

Independent Non-executive Director TANG Baoqi (唐保祺)

Mr. TANG Baoqi (唐保祺), aged 61, was appointed as our independent non-executive Director on May 30, 2018. His appointment has come into effect on December 17, 2018. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Tang is also the chairperson of the nomination and remuneration committee and a member of the audit committee of our Bank.

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

Directors, Supervisors, Senior Management and Employees

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

Independent non-executive Directors ZHONG Jin (鐘錦)

Mr. ZHONG Jin (鐘錦), aged 60, was appointed as our independent non-executive Director on May 26, 2020. His appointment has come into effect on November 30, 2020. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Zhong is also a member of the nomination and remuneration committee and the related party (connected) transactions control committee of our Bank.

Mr. Zhong has been approved by China CINDA Asset Management Co., Ltd. (中國信達資產管理股份有限公司) (formerly known as China CINDA Asset Management Corporation (中國信達資產管理公司)) (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 01359; preference share stock code: 04607) to resign his position since July 2020. Prior to this, Mr. ZHONG served as a counsel (巡視員) of China CINDA Asset Management Co., Ltd. since June 2019 and the chairman and secretary of the CPC Committee (黨委書記) of China CINDA (Hong Kong) Holdings Company Limited from October 2014 to May 2019, and served as the managing director and a member of the CPC Committee (黨委委員) of Well Kent International Investment Company Limited (now known as China CINDA (Hong Kong) Holdings Company Limited) from March 2011 to October 2014. From February 2005 to February 2011, he served as the director and secretary of the CPC Committee (主任、黨委書記) of the Chengdu Office of China CINDA Asset Management Co., Ltd., and from February 2002 to February 2005, he served as the deputy director (副主任) of the Guiyang Office of China CINDA Asset Management Co., Ltd. From February 1985 to February 2002, he successively served as a loan officer (信貸員) of the Sichuan Branch of China Construction Bank Co., Ltd. (CCB), deputy division head and vice president (副科長及副行長) of the Directly-affiliated Branch (直屬支行) of the Sichuan Branch of CCB, vice president and president (副行長及行長) of the Railway Sub-branch (鐵道支行) of the Sichuan Branch of CCB, president and the general manager of International Business Department (行長兼國際業務部總經理) of the Minjiang Sub-branch (岷江支行) of Sichuan Branch of CCB, and director (處長) of Information Statistics Division (信息統計處) of the Sichuan Branch of CCB, and he also served as a teacher at East China Jiaotong University from February 1982 to February 1985.

Mr. Zhong obtained a doctoral degree in finance from Southwestern University of Finance and Economics (西南財經大學) in Chengdu, the PRC in June 2006. Mr. Zhong was certified as a senior economist by the Sichuan Branch of CCB in March 1994.

Directors, Supervisors, Senior Management and Employees

2. Supervisors

Ms. YUAN Shihong (袁世泓), aged 50, has been a Supervisor and the chairwoman of the Board of Supervisors since January 2016. She is primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank, convening and presiding over the meetings of the Board of Supervisors, organizing the performance of duties of the Board of Supervisors, signing the report of the Board of Supervisors and other important documents, reporting to the Shareholders' general meeting on behalf of the Board of Supervisors and other duties prescribed by laws, regulations and the Articles of Association or authorized by the Board of Supervisors.

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

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

Mr. DUAN Xuebin (段學彬), aged 55, has been an external Supervisor and the chairman of the nomination committee under the Board of Supervisors since January 2016. He is primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank, convening and presiding over the meetings of the nomination committee of the Board of Supervisors, and organizing the performance of duties of the nomination committee of the Board of Supervisors.

Directors, Supervisors, Senior Management and Employees

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

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

Mr. GUO Bing (郭兵), aged 51, has been an external Supervisor and the chairman of the audit and supervision committee under the Board of Supervisors since May 2019. He is primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank, convening and presiding over the meetings of the audit and supervision committee of the Board of Supervisors, organizing the performance of duties of the audit and supervision committee of the Board of Supervisors and organizing audit work within the work scope of the Board of Supervisors. Mr. Guo is a head of Sichuan Liguang Law Firm (四川理光律師事務所) and joined the firm in August 1996. Mr. Guo worked at the Sichuan Petroleum Administration Logging Company (四川石油管理局測井公司) as an engineer from July 1991 to May 2000. Mr. Guo worked at Luzhou Foreign-related Law Firm (瀘州涉外律師事務所) as a part-time job from August 1996 to May 2000 and served as a full-time lawyer from May 2000 to May 2005. Mr. Guo worked at Sichuan Liguang Law Firm (四川理光律師事務所) as a deputy head from May 2005 to January 2009 and as a head since January 2009.

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

Directors, Supervisors, Senior Management and Employees

Ms. LIU Yongli (劉永麗), aged 50, has been an employee representative Supervisor since January 2016, and the independent approver of the credit approval department of our Bank since May 2020. She is primarily responsible for supervising the performance of duties by the Directors and senior management of our Bank.

Ms. Liu has been a supervisor of Luzhou Industrial Investment Group since March 2015. Ms. Liu joined our Bank in July 2002 and served as the principal accountant (主辦會計) of Zhongshan sub-branch (忠山支行) of our Bank from July 2002 to December 2003, the head (科長) of the financial accounting and technology department (財會科技部) from January 2004 to December 2004, the head (科長) of the operation management department (運行管理部) from January 2005 to February 2008, a vice president of Xiaoshi sub-branch (小市支行) from February 2008 to November 2010, the head of the risk management department from November 2010 to November 2011, the general manager of the internal control and compliance department and the head of the internal audit department from November 2011 to June 2012, the general manager of the risk management department from June 2012 to February 2013, the general manager of the credit business department from February 2013 to October 2015 and the general manager of the internal control and compliance department (security department) of our Bank from October 2015 to June 2018 and the general manager of the risk management department of our Bank from June 2018 to May 2020. Prior to joining our Bank, Ms. Liu held several positions in human resources, labor relation, planning, credit, statistics and accounting at Hejiang sub-branch of China Construction Bank Corporation (中國建設銀行股份有限公司合江支行) from August 1991 to July 2002. She held positions in savings and post-savings supervision at Gulin sub-branch of China Construction Bank Corporation (中國建設銀行股份有限公司古蔺支行) from September 1988 to July 1991.

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

Mr. CHEN Yong (陳勇), aged 48, has been an employee representative Supervisor since January 2016, and the general manager of the administration department (綜合管理部) of our Bank since December 2019. He is primarily responsible for supervising the performance of duties by the Directors and senior management of our Bank.

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

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

Directors, Supervisors, Senior Management and Employees

3. Members of Senior Management

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

Ms. XIA Yilun (夏義倫), aged 53, obtained her undergraduate degree in finance from Sichuan Radio and TV University (四川廣播電視大學). a senior international finance manager and interbank currency market trader.

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

Ms. XUE Xiaoqin (薛曉芹), aged 52, obtained a master’s degree of business administration from The Open University of Hong Kong, is a senior international financial manager, and an intermediate economist.

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

Directors, Supervisors, Senior Management and Employees

Mr. WU Ji (吳極), aged 47, graduated from the Correspondence Institute of the Party School of Sichuan CPC Committee (中國共產黨四川省委員會黨校函授學院), majoring in economics.

Mr. Wu has been a vice president of our Bank since August 2020. Mr. Wu joined our Bank in April 2016 and served as a party organization member and the secretary of the branch of the CPC General Committee of the Bank from April 2016 to December 2016, a member of the Interim CPC Committee and the secretary of the branch of the CPC General Committee of the Bank from January 2017 to September 2017, a member of the CPC Committee and the secretary of the Discipline Inspection Committee of the Bank from September 2017 to August 2020, during which period he served as the chairman of Luxian Yuantong Rural Bank Co., Ltd. since July 2018. Prior to joining our Bank, Mr. Wu worked at the City Reception Office of the Luzhou Municipal Government Office Administration and served as a deputy director-general (副局長) from August 2015 to April 2016. From December 2010 to August 2015, Mr. Wu worked at Gulin County government and served as a Standing Committee Member of the Gulin County CPC Committee (中共古蔺縣委) and a deputy mayor of the county government (responsible for executive work of the county government) from July 2013 to August 2015, a Standing Committee Member of the Gulin County CPC Committee (中共古蔺縣委), the department head (部長) of the Organization Department, a deputy director of the County Editorial Committee (縣編委會), the secretary of the Work Committee of the Department under the CPC Committee of the county (縣直機關工委) and the headmaster of the county's Party School of the CPC Committee from December 2010 to July 2013. From July 1997 to December 2010, he worked at the Organization Department of the Luzhou CPC Committee (中共瀘州市委組織部) and held various positions. Mr. Wu served as a member of the ministry and commission (部委委員) of the Organization Department of the Luzhou CPC Committee (中共瀘州市委組織部) and the division director (處長) of the second division of cadre (幹部二處) from February 2008 to December 2010. He worked as the division director of the second division of cadre of the Organization Department of the Luzhou CPC Committee from February 2007 to February 2008 and the division director of the cadre supervision division (幹部監督處) of the Organization Department of the Luzhou CPC Committee from January 2005 to February 2007. From November 2003 to January 2005, he acted as a senior staff member and a principal staff member (副主任、主任科員) of the office of Organization Department of the Luzhou CPC Committee. He served as the deputy division director (副處長) of the organization division of Organization Department of the Luzhou CPC Committee from September 2001 to November 2003, during which period he served as the deputy department head (副部長) of the Organization Department of the Hejiang County CPC Committee (合江縣委) from April 2002 to April 2003 and worked as the principal staff member since December 2002. Mr. Wu worked at the organization division of the Organization Department of the Luzhou CPC Committee from August 1998 to September 2001, during which period he acted as a senior staff member since August 1999. Prior to that, Mr. Wu served as a staff member and clerk of the office of the Organization Department of the Luzhou CPC Committee from January 1998 to August 1998 and from July 1997 to January 1998, separately. He served as the assistant to the mayor of Luobu Township, Xuyong County (deputy section level) from July 1995 to July 1997.

Directors, Supervisors, Senior Management and Employees

Mr. CHENG Anhua (成安華), aged 50, obtained a master's degree in engineering from Sichuan University (四川大學), and is a certified internal auditor, certified information systems auditor, and senior information system project manager.

Mr. Cheng has been a vice president of our Bank since July 2017 and the chief information officer of our Bank since December 2015. Mr. Cheng joined our Bank in September 1998 and successively acted as the application system administrator of the technology division (科技處) from September 1998 to December 2003, a vice head (副部長) of the financial accounting department (財務會計部) from January 2004 to December 2005, a vice head (副部長) of the financial accounting and technology department (財會科技部) from January 2006 to December 2006, a vice head (副部長) and then the head (部長) of the technology department (科技部) (a former department of our Bank) from January 2007 to November 2011, the general manager of the IT department (信息科技部) from November 2011 to February 2014, the general manager of the internal control and compliance department and the general manager of the security department from February 2014 to July 2015, and the candidate for the chief information officer from August 2015 to December 2015. Prior to joining our Bank, Mr. Cheng served as a sales person, sales system management and development maintainer and sales planner at Changjiang Hydraulic Parts Factory (currently known as Sichuan Changjiang Hydraulic Parts Co., Ltd. (四川長江液壓件有限責任公司)) from July 1992 to September 1998.

Mr. YANG Bing (楊冰), aged 45, obtained a bachelor's degree in economics from Southwestern University of Finance and Economics (西南財經大學), and is an interbank lending market trader.

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

Mr. TONG Qiang(童強), aged 46, obtained a master's degree in business administration from Southwestern University of Finance and Economics (西南財經大學), and is an intermediate economist.

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

Directors, Supervisors, Senior Management and Employees

Mr. Ai Yong (艾勇), aged 48, graduated from the Correspondence Institute of the Party School of Sichuan Provincial Committee of the CPC (中國共產黨四川省委員會黨校函授學院), majoring in law. He is an accountant and senior international finance manager.

Mr. Ai has been the assistant to president of our Bank since December 2012. Mr. Ai joined our Bank in September 1997 and successively acted as a deputy director (副主任) (presiding over work) of the business department from September 1997 to March 1999, the deputy division chief of the supervision and audit division (稽核監察處) from April 1999 to July 1999, a deputy director (副主任) of the clearing center from July 1999 to December 1999, a deputy division chief of the finance and accounting division (財務會計處) from December 1999 to December 2001, the division chief of the assets preservation division (資產保全處) from January 2002 to December 2003, the president of Zhongshan sub-branch (忠山支行) from January 2004 to December 2004, the president of Jiangyang sub-branch (江陽支行) from January 2005 to October 2010, the head of the business department from October 2010 to October 2011, and the general manager of the products management department from November 2011 to November 2012. Mr. Ai also worked as the general manager of the small and micro customers department of our Bank from February 2014 to January 2015. Prior to that, Mr. Ai served as a deputy head of the business department of Luzhou Zhongshan Urban Credit Cooperative (瀘州市忠山城市信用社) (one of the predecessors of our Bank) from January 1996 to September 1997. Mr. Ai served as an accounting staff at No. 3 engineering division of China No. 5 Metallurgy Construction No. 3 Engineering Company (中國第五冶金建設第三工程公司) from July 1992 to December 1995.

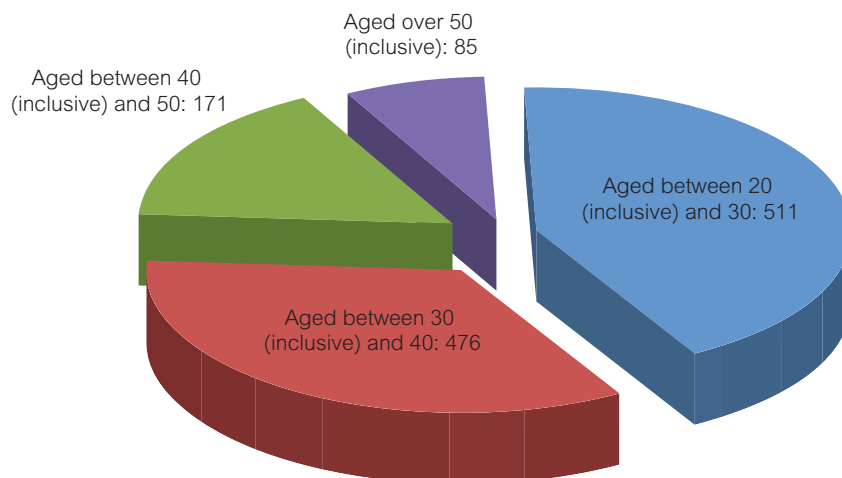
Mr. HU Jia (胡嘉), aged 41, obtained a master's degree in business administration from Southwestern University of Finance and Economics (西南財經大學).

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

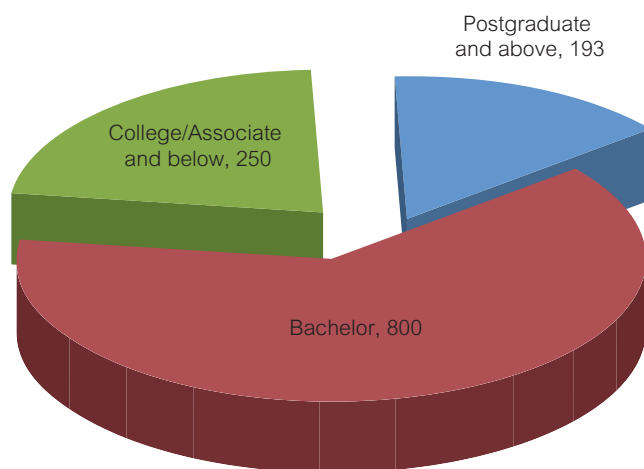
Directors, Supervisors, Senior Management and Employees

IV. DETAILS OF EMPLOYEES

As at the end of the Reporting Period, the Bank had 1,243 employees (including dispatched workers) in total, with an average age of 32.93. Of them, 511 employees aged between 20 (inclusive) and 30, accounting for 41.11%; 476 employees aged between 30 (inclusive) and 40, accounting for 38.29%; 171 employees aged between 40 (inclusive) and 50, accounting for 13.76%; and 85 employees aged over 50 (inclusive), accounting for 6.84%.



By educational background, the Bank had 193 employees with postgraduate degrees and above (including 3 doctoral candidates), accounting for 15.53%; 800 employees with bachelor's degrees, accounting for 64.36%; 250 employees with college/associate degrees and below, accounting for 20.11%.



Proportion of sci-tech talents:

There is a total of 129 sci-tech talents, accounting for 10.38% of the Bank.

Directors, Supervisors, Senior Management and Employees

V. TRAINING FOR EMPLOYEES

Centering on the business development and combining the actual demand, the Bank forms the training plan, optimizes the training system and changes the training modes to continually enhance the training efficiency and provide strong talent support to the forward long-term development according to the annual development strategy. During the Reporting Period, the Bank enhanced the efficiency of using multimedia learning tools organized its employees to participate in international and domestic authoritative tests for certificates and conducted marketing skill training for client managers, special line trainings of risk and internal control as well as trainings for new campus-recruited employees. The total number of various internal and external training activities of the Bank reached approximately 130 and the number of participants reached approximately 7,700.

Corporate Governance Report

I. ORGANIZATIONAL STRUCTURE FOR CORPORATE GOVERNANCE



Corporate Governance Report

Corporate Governance Structure

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

Shareholders' general meeting

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

- determining the operation strategies and investment plans of the Bank;
- electing and replacing non-employee representative Directors and Supervisors and determining the remuneration of Directors and Supervisors;
- reviewing and approving the reports of the Board of Directors and the Board of Supervisors;
- reviewing and approving the annual financial budget plans and final accounting plans;
- reviewing and approving the profit distribution plans and loss recovery plans;
- determining the increase or decrease in the registered capital of the Bank;
- determining the issuance of bonds or other securities and the listing of the Bank;
- determining the merger, spin-offs, dissolution and liquidation or change of corporate form of the Bank;
- amending the Articles of Association;
- reviewing and approving the Board of Supervisors' evaluation on Directors, the mutual evaluation reports of independent non-executive Directors, the evaluation on Supervisors by the Board of Supervisors and the mutual evaluation reports of external Supervisors;
- listening to the report of the Board of Directors on the investigation opinions of the financial regulatory authorities on the Bank and reviewing the implementation of rectification measures;
- reviewing and approving the share incentive plans;
- reviewing and approving the proposals by Shareholders individually or in aggregate holding 3% or more of the Shares;
- reviewing and approving the terms of reference of each of the Shareholders' general meeting, the Board of Directors and the Board of Supervisors;
- reviewing and approving matters, such as the equity investment of the Bank, the Bank's guarantee business, such as external guarantee and letter of guarantee, the Bank's investment in fixed assets, the disposal and write-off of non-performing assets, and the pledge of assets;
- reviewing and approving the persons who should be recommended by our Bank and other matters (excluding equity investment) of controlled companies and associates of the Bank;

Corporate Governance Report

- reviewing and approving the change of raised capital;
- resolving on the appointment, dismissal or non-reappointment of accounting firms of the Bank;
- reviewing and approving other matters which should be submitted to the Shareholders' general meeting for consideration in accordance with relevant laws, administrative regulations, rules, the Listing Rules, the requirements of securities regulatory authorities where the securities of our Bank are listed, the Articles of Association and other internal requirements.

Board of directors

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

- convening the Shareholders' general meeting and reporting to the Shareholders' general meeting;
- implementing the resolutions of the Shareholders' general meeting;
- determining our Bank's operation plans, investment program and the business development strategies;
- formulating the annual financial budget plans, final accounting plans, risk capital allocation plans, profit distribution plans and loss recovery plans;
- formulating the plans for increase or decrease in registered capital, issuance of bonds or other securities and listing of the Bank;
- formulating the plans for major acquisition, acquisition of our Bank's shares or merger, spin-offs, dissolution and change of corporate form of our Bank;
- determining matters in respect of the business operation, external investment, acquisition or sale of assets, external guarantee, pledge of assets, entrusting others to manage the Bank's assets, financial leasing, related party transactions and disposal of non-performing assets within the authorization of the Shareholders' general meeting;
- appointing or dismissing the president, vice presidents, secretary to the Board of Directors and other senior management in accordance with the nomination of the chairman of the Board of Directors and determining the senior managers' remuneration, reward and punishment;
- formulating basic management system and determining our Bank's detailed rules in relation to business procedures proposed by the senior management;
- formulating the proposed amendments to the Articles of Association;
- being responsible for the information disclosure of our Bank and the completeness and accuracy of the Bank's accounting and financial statements;
- formulating the Directors' remuneration and allowances standards program;

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- listening to the report of the president of our Bank and supervising the president's work;
- determining the risk management and internal control policies of our Bank;
- supervising the work performance of the Bank's senior management and deliberate senior management's evaluation on the Bank's president, vice president, chief financial officer and other senior managers and the reports of evaluation by the Bank's senior managers on each other; and organizing the evaluation on Directors and evaluation by independent non-executive Directors on each other and reporting relevant evaluation results to the Board of Supervisors;
- periodically evaluating and consummating the corporate governance of the Bank;
- nominating the Directors' candidates for next session;
- applying to the courts for bankruptcy on behalf of our Bank within the authorization of the Shareholders' general meeting.

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

- developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- reviewing the Company's compliance with the Corporate Governance Code and disclosures in the Corporate Governance Report.

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

Board of Supervisors

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

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Senior Management

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

II. OVERVIEW OF CORPORATE GOVERNANCE

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

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

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

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

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Since Mr. ZHOU Kai, a proposed independent non-executive Director for the seventh session of the Board passed away, the appointment did not come into effect and the Bank has 4 independent non-executive Directors. Therefore, the Bank failed to fully comply with the requirements of Rule 3.10A, Rule 3.25 and Code Provision A.5.1, namely the requirement that the independent non-executive Directors shall represent at least one-third of the Board and the requirement regarding the composition of the nomination and remuneration committee, for details please see the announcement of the Bank dated December 31, 2019. The Bank also issued an announcement dated March 26, 2020, in relation to, among other things, the proposed appointment of Mr ZHONG Jin as independent non-executive Director and as a member of the nomination and remuneration committee of the Bank by the Board has been considered and approved by the shareholders of the Bank at the 2019 Annual General Meeting. The Bank issued an announcement dated July 13, 2020, in relation to, the resignation of Mr. JIANG Bo as non-executive Director and the member of risk management committee under the Board of the Bank. After the resignation of Mr. JIANG, the Board was comprised of 12 Directors, four of which are independent non-executive Directors, hence, the Bank has complied with the requirements of Rule 3.10A of the Listing Rules. On November 30, 2020, the Bank received the Approval of the qualification of appointing Mr. ZHONG Jin as an independent director issued by CBIRC Sichuan Office, with effect from November 30, 2020. Since the same day, Mr. ZHONG Jin was appointed as a member of the related party (connected) transactions control committee and the nomination and remuneration committee under the seventh session of the Board. Following the appointment of Mr. ZHONG Jin as a Director being effective, the nomination and remuneration committee comprises five directors, including three independent non-executive directors. Accordingly, the Bank has complied with Rule 3.25 of the Listing Rules and Article A.5.1 of the Code provisions in relation to the composition of the nomination and remuneration Committee. Save as disclosed above, we have strictly complied with the principles and code provisions as well as some of the recommended best practices set out in the Code during the Reporting Period. We are committed to maintaining a high standard of corporate governance.

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

III. GENERAL MEETING

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

(1) 2019 Annual General Meeting

On May 26, 2020, the Bank held the 2019 annual general meeting, at which the Shareholders approved eleven resolutions after deliberation: To consider and approve the 2019 Annual Report of Luzhou Bank Co, Ltd.; To consider and approve the 2019 Work Report of the Board of Directors of Luzhou Bank Co, Ltd.; To consider and approve the 2019 Work Report of the Board of Supervisors of Luzhou Bank Co, Ltd.; To consider and approve the 2019 Evaluation Report on the Performance of Duties by the Directors, Supervisors and Senior Management of Luzhou Bank Co, Ltd.; To consider and approve the Final Financial Accounts of Luzhou Bank Co, Ltd. for 2019; To consider and approve the Profit Distribution Plan of Luzhou Bank Co, Ltd. for 2019; To consider and approve the Report on Related Party Transactions of Luzhou Bank Co, Ltd. for 2019; To consider and approve the 2020 Financial Budget Plan of Luzhou Bank Co, Ltd.; To consider and approve the 2020 Fixed Assets Investment Plan of Luzhou Bank Co, Ltd.; To consider and approve the 2020 Engagement of Domestic and Foreign Auditors and Authorization to the Board to Determine Their Remuneration of Luzhou Bank Co, Ltd.; To consider and approve the Election of Mr. ZHONG Jin as an Independent Non-executive Director for the Seventh Session of Board of Directors of Luzhou Bank Co, Ltd. and Approve His Remuneration.

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(2) 2020 First Extraordinary General Meeting

On March 26, 2020, the Bank held the 2020 first extraordinary general meeting, the 2020 first class meeting of domestic shares and the 2020 first class meeting of H shares. After the deliberation of the Shareholders, the following 3 resolutions were approved: to Consider and Individually Approve Each of the Following Items of the Proposal on the Issue of New H Shares by the Bank under Specific Mandate; to Authorize the Board and Authorized Person(s) to Implement the New H Share Issue; to Consider and Approve Amendments to Certain Articles in Relation to the Issue of New H Shares in the Articles of Association of the Bank.

(3) 2020 Second Extraordinary General Meeting

On December 15, 2020, the Bank held the 2020 second extraordinary general meeting, at which the Shareholders approved the following 3 resolutions after deliberation: to Approve the Write-Off of the Non-Performing Loans for Each of Two Separate Loans with A Principal Amount of over RMB10 Million by the Bank; to Authorize the Board of Directors, and May Delegate the Authority to the Chairman of the Bank, at Its Discretion, to Handle the Management Matters During the Duration of the Capital Bonds in Accordance with Regulations and Approval Requirements Issued by Relevant Regulatory Authorities; to Approve the Public Transfer of the Creditor's Rights of Certain Non-Performing Debts of the Bank with A Total Amount Exceeding 10% of the Bank's Latest (the Year of 2019) Audited Net Asset, and with Total Estimated Losses Exceeding RMB10 Million.

IV. BOARD

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

In 2020, the Board strictly implemented the resolutions passed at the general meeting of the Bank and earnestly executed various proposals considered and approved at the general meeting.

(II) Board Composition

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

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

(III) Board Diversity Policy

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

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

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

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

(IV) Change of Board Members

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

(V) Chairman and President

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

(VI) Operation of the Board

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

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

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

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

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

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(VII) Duties of the Board

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

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

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

(VIII) Board Meetings

During the Reporting Period, we convened 14 Board meetings in total (including meetings by means of communications), including eight onsite meetings and six meetings by means of communications, during which we primarily considered and approved 61 proposals including annual operation plans, fixed asset investment plans, financial budget plans, profit distribution plans and, proposal of issuing new H shares and rules and measures of the risk management.

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

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

Directors	Board	Audit committee	Development and strategy committee	Nomination and remuneration committee	Related party (connected) transactions control committee	Risk management committee	Consumer rights protection committee	General meeting
YOU Jiang	14/0/14	-	2/0/2	5/0/5	-	3/0/3	-	3/0/3
XU Xianzhong	14/0/14	-	-	-	-	-	1/0/1	3/0/3
LIU Shirong	14/0/14	-	-	-	22/0/22	3/0/3	-	3/0/3
PAN Lina	13/1/14	4/0/4	2/0/2	-	-	-	-	3/0/3
XIONG Guoming	13/1/14	-	2/0/2	5/0/5	-	3/0/3	-	2/0/3
LIU Qi	13/1/14	-	2/0/2	-	-	-	1/0/1	3/0/3
DAI Zhiwei	12/2/14	-	2/0/2	-	-	-	-	3/0/3
LIU Anyuan	14/0/14	4/0/4	-	-	-	-	1/0/1	3/0/3
JIANG Bo ¹	7/0/7	-	-	-	-	2/0/2	-	2/0/2
GU Mingan	14/0/14	4/0/4	-	5/0/5	22/0/22	-	-	3/0/3
HUANG Yongqing	14/0/14	-	-	-	22/0/22	-	1/0/1	3/0/3
YE Changqing	14/0/14	4/0/4	-	-	22/0/22	3/0/3	-	3/0/3
TANG Baoqi	14/0/14	4/0/4	-	5/0/5	-	-	-	3/0/3
ZHONG Jin ²	1/0/1	-	-	0/0/0	3/0/3	-	-	1/0/1

Notes:

1. Mr. JIANG Bo has resigned his position as a non-executive Director due to work transfer on July 13, 2020.
2. Mr. ZHONG Jin has been elected as non-executive Directors of the Bank at the Shareholders' General Meeting on May 26, 2020. The appointment of Mr. ZHONG Jin as an independent non-executive Director has become effective after receiving the approval of his qualification of appointment as independent Director from CBIRC Sichuan Office on November 30, 2020.

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

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(IX) Continuous Professional Development Plan of Directors

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

During the Reporting Period, all of our Directors participated in the training for directors' liabilities (including general and specific legal liabilities, connected transactions liabilities, information disclosure liabilities, corporate governance liabilities, the new environment, society and governance (ESG) guidelines of the Hong Kong Stock Exchange, policies and systems concerning green credit), actively studied policy documents issued by the Financial Reporting Council of Hong Kong and the Hong Kong Institute of Directors, fully grasped the information required for performing duties and positively perform relevant duties. Mr. LIU Shirong systematically studied contents mainly on the current financial situation, financial risks and financial policies by participating in policy training meetings such as the Seminar on the Latest Regulatory Laws and Regulations on IPO in Hong Kong – Regulatory Priorities and Popular Issues, Analysis of the Monetary and Credit Situation in Sichuan Province, the First Financial Joint Meeting of Urban Commercial Banks in 2020, the Currency and Credit Work of the Luzhou Central sub-branch of the People's Bank of China (中國人民銀行瀘州市中心支行) in 2020, and the Exchange Forum of Banking and Financial Institutions of Luzhou Financial Work Bureau (瀘州市金融工作局).

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

During the Reporting Period, we have five independent non-executive Directors (Mr. ZHONG Jin was appointed as an independent non-executive director at the general meeting dated May 26, 2020, and became effective upon obtaining the approval of independent director qualification from CBIRC Sichuan Office on November 30, 2020), the number and proportion of our independent non-executive Directors as well as the composition of the nomination and remuneration committee have complied with the relevant regulations of the Listing Rules of the Hong Kong Stock Exchange. Independent non-executive Directors serve as chairpersons of our audit committee, nomination and remuneration committee, related party (connected) transactions control committee and consumer rights protection committee. During the Reporting Period, independent non-executive Directors took an active part in the meetings of the Board and its special committees where they played their due roles by making proposals, and kept effective communication with the Bank by multiple ways such as participating in field studies, special surveys and trainings.

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

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(XI) Directors' Duties for Preparing Financial Statements

Directors of the Bank acknowledged their responsibilities for preparation of the financial statements of the Bank for the year ended December 31, 2020.

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

In preparation of the financial statements for the year ended December 31, 2020, Directors have adopted and implemented applicable accounting policies and have made prudent and reasonable judgements.

(XII) Special Committees under the Board of Directors

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

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

1. Audit committee

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

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

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

In 2020, the audit committee held four meetings in total, during which it reviewed and approved twelve proposals including the fixed asset investment plans, financial budget plans and audit work plans for 2020; final financial accounts report, annual report, annual results announcement and analysis report of risk profile for 2019; and interim report and interim results announcement for 2020.

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During the Reporting Period, the Audit Committee had several meetings and communications with the external auditors in the absence of executive Directors and senior management. On March 26, 2020 and August 26, 2020, the Audit Committee reviewed the audited financial statements for the year ended December 31, 2019 and the unaudited interim financial statements for the six months ended June 30, 2020 prepared in accordance with the accounting principles and policies of the Bank. It also reviewed the internal control system and the effectiveness of the Bank's internal audit function by periodically hearing the internal audit work report of our internal audit department.

2. Development and strategy committee

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

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

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

In 2020, the strategy and development committee held 2 meetings in total, during which it reviewed and approved the proposals of the annual operating report of 2019 and the operating plan of 2020.

3. Nomination and remuneration committee

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

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

Nomination duties

- making recommendations on the size and composition of the Board in accordance with the business activities, asset size and equity structure of the Bank;
- conducting study on the criteria and procedures for selecting Directors and senior managers and making recommendations to the Board;
- identifying qualified individuals as Directors and selecting or making recommendations to the Board on selection of individuals nominated for directorships;

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- assessing the independence of independent non-executive Directors;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the president of the Bank; and
- conducting preliminary examination of qualifications of candidates for directorships and senior management positions, and making recommendations to the Board.

Remuneration and appraisal duties

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

In 2020, the nomination and remuneration committee held five meetings in total, during which it considered and approved seven proposals mainly involving such issues as the Proposal of Reviewing the Independent Director Candidates of the Seventh Session of the Board of Directors, 2019 Performance Evaluation Report of Directors, 2020 Remuneration Management Measures and Performance Evaluation Management Measures of Luzhou Bank Co., Ltd., and adjustment on members of related party transactions control committee and nomination and remuneration committee of the Seventh Session of the Board of Directors, etc.

Corporate Governance Report

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

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

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

Corporate Governance Report

4. Related party (connected) transactions control committee

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

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

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

In 2020, the related party (connected) transactions control committee held 22 meetings in total, during which it considered and approved 25 proposals, in particular, updated List of Related Parties, reviewed the Annual Related Party Transactions Report and 2020 Material Related Party Transactions, etc.

5. Risk management committee

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

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

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

Corporate Governance Report

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

In 2020, the risk management committee held 3 meetings in total, during which it reviewed and approved 5 proposals of 2019 Annual Risk Analysis Report, risk appetite, market risk management measures, bank book interest rate risk management measures and emergency plans for liquidity risk.

6. Consumer rights protection committee

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

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

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

In 2020, the consumer rights protection committee held one meeting, during which it reviewed and approved two proposals mainly involving such issues as 2019 Annual Report on Consumer Rights Protection Work and 2020 Consumer Rights Protection Program.

Corporate Governance Report

V. BOARD OF SUPERVISORS

(I) Composition of the Board of Supervisors

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

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

(II) Duties of the Board of Supervisors

The duties of the Board of Supervisors mainly include:

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

Corporate Governance Report

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

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

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

During the Reporting Period, the Board of Supervisors organized and conducted evaluation on the performance of duties by our Board of Directors, Directors, senior management and its members and our Supervisors in 2019 and reported to regulatory authorities.

(IV) Meetings of the Board of Supervisors

During the Reporting Period, the Board of Supervisors convened 10 meetings in total, including 8 onsite meetings and 2 meetings by means of communications, during which it considered and approved 31 resolutions, and listened to 13 reports. The contents for consideration include our operation plans, financial budget and final accounts, fixed assets investment plans, profit distribution and evaluation on the performance of duties by Directors, Supervisors and senior management. During the Reporting Period, our Board of Supervisors had no objection to all supervisory issues.

Corporate Governance Report

(V) Special Committees under the Board of Supervisors

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

1. Nomination committee

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

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

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

In 2020, the nomination committee under the Board of Supervisors convened 3 meetings, during which it considered and approved 3 proposals.

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2. Audit and supervision committee

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

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

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

In 2020, the audit and supervision committee under the Board of Supervisors convened 4 meetings, during which it considered and approved 4 proposals.

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VI. SENIOR MANAGEMENT

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

- (I) to take charge of the business operation and management of the Bank, to organize the implementation of the resolutions of the Board and to report the work to the chairman and the Board;
- (II) to draft annual business plans and investment proposals;
- (III) to draft the Bank's basic management system;
- (IV) to formulate the Bank's specific regulations;
- (V) to make suggestions on the plans for establishment of internal management structure of the Bank and establishment and withdrawal of branches of the Bank;
- (VI) to make suggestions on the Board's appointment or dismissal of vice president and other senior managers of the Bank;
- (VII) to make suggestions on the management personnel other than those to be engaged or dismissed by the Board;
- (VIII) to make suggestions on the plans authorizing senior managers and persons in charge of internal functional departments and branches to conduct operational activities;
- (IX) to make suggestions on the salaries, benefits and reward or punishment of the Bank's staff other than the senior managers decided by the Board; as well as the appointment and dismissal of the Bank's staff other than the senior managers decided by the Board;
- (X) to propose to convene a provisional Board meeting;
- (XI) to adopt emergency measures when any material emergency (such as a run on the Bank) arises and promptly report them to the competent administrative authorities of the State, the Board of Directors and the Board of Supervisors;
- (XII) to report the fulfilment of duties and evaluation of the senior management of the Bank to the Board of Directors and the Board of Supervisors, and to organize members of the senior management of the Bank to report their fulfilment of duties to the Board of Directors and the Board of Supervisors;

Corporate Governance Report

(XIII) other powers and rights conferred by the articles of association of the Bank or by the Board.

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

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

VII. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

VIII. RELATIONSHIP BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

IX. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

For the year ended December 31, 2020 and up to the date of this annual report, the Bank has made no amendment to the Articles.

X. JOINT COMPANY SECRETARIES

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

XI. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The Bank engaged PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) as the auditor of the Bank's 2020 financial statements prepared in accordance with China Accounting Standards for Business Enterprises and PricewaterhouseCoopers as the auditor of the Bank's 2020 financial statements prepared in accordance with International Financial Reporting Standards. For the year ended December 31, 2020, the Bank had emoluments of RMB2.84 million to PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers for the annual audit services. During the Reporting Period, the Bank also had interim audit expense of RMB880,000 and other non-audit service expense of RMB850,000 paid/payable.

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XII. RISK MANAGEMENT, INTERNAL CONTROL AND INSIDE INFORMATION MANAGEMENT

The Board has reviewed the risk management and internal control system for the year ended December 31, 2020 to ensure its effectiveness and sufficiency. Such review shall be conducted on an annual basis. The Board is of the view that the risk management and internal control system of the Bank for the year ended December 31, 2020 is effective and adequate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate Governance Report

XIII. SHAREHOLDERS' RIGHTS

(I) Convening of Extraordinary General Meetings

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

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

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

(II) Proposals to Shareholders' General Meetings

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

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

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

Corporate Governance Report

(III) Enquires from Shareholders

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

Computershare Hong Kong Investor Services Limited

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

Tel.: +852-2862-8555

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

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

The Bank's Office of the Board of Directors

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

Tel.: +86-830-2362606

Fax: +86-830-3100625

Post code: 646000

(IV) Management of Investor Relations

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

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

Tel.: +86-830-2362606

Fax: +86-830-3100625

E-mail: ir@lzccb.cn

(V) Information Disclosure

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

Corporate Governance Report

XIV. REMUNERATION MANAGEMENT

(I) Remuneration System

In 2020, we continued to adhere to the performance-oriented guidance and implement a market-oriented performance appraisal mechanism based on post salaries and performance-based remuneration, and further strengthened market-oriented appraisal efforts to boost the supervision and inspection of the market-oriented performance appraisal of marketing institutions. As the performance-based remuneration of our staff is determined by their work performance, we continued to give full play to the incentive and guiding role of remuneration that goes against the “waiting, reliance and demanding” behaviours of staffs, decrease mediocre and lazy staffs, mobilize working enthusiasm and activity of staffs, and improve the overall efficiency of the enterprise. The Bank paid “Five Social Insurances and One Housing Fund” (“五險一金”) for employees in accordance with the relevant laws. In addition, the Bank purchased supplementary medical insurance for its employees, and established enterprise annuity plan to provide employees with a relatively complete security system which has effectively improved employees’ sense of belonging and strengthened corporate cohesion. The Bank strictly implements the relevant requirements for supervision of remuneration payment, and implements deferred payment for middle and senior executives as well as employees having great effect on risks.

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

Please refer to Note 11 to the financial statements of this annual report for the total amount of the remuneration of Directors and Supervisors during the Reporting Period. For the year ended December 31, 2020, no emolument was paid by the Bank to any of the Directors, Supervisors or the five highest paid individuals (including Directors, Supervisors and employees) as an inducement to join or upon joining the Bank or as compensation for loss of office.

Remuneration paid to the senior management⁽¹⁾ (excluding the Directors and Supervisors) by bands for the year ended December 31, 2020 is set out below⁽²⁾:

	Number of employees	% of total
0 to RMB1,500,000	8	80%
Over RMB1,500,000	2	20%

Notes:

- (1) As of December 31, 2020, two of the Bank’s senior management members were concurrently the Directors, namely Mr. XU Xianzhong and Mr. LIU Shirong, respectively. For the details of the remuneration of Mr. XU Xianzhong and Mr. LIU Shirong, please refer to Note 11 of the financial statements of this annual report.
- (2) In accordance with regulations authorised by relevant authorities in the PRC, the compensation package for certain senior management personnel for 2020 has not been finalized, and the disclosed amount is just the amount paid in current period, including the remuneration of the previous year deferred to the current year.

Corporate Governance Report

XV. DIVIDEND POLICY

The Bank may distribute dividends in the following forms:

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

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

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

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

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

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

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

Directors' Report

The Board hereby presents the Directors' report and audited financial statements of the Bank for the year ended December 31, 2020.

I. BUSINESS REVIEW

(I) Business Review

We are the only city commercial bank headquartered in Luzhou. We offer various banking services and relevant financial services. Our principal business lines include corporate banking, retail banking and financial markets. The information on business review of the Bank for the year ended December 31, 2020 is set out in "Management Discussion and Analysis" of this annual report.

(II) Relationship with Customers and Employees

For further information of the employees and employment policies of the Bank, please refer to the sections headed "Directors, Supervisors, Senior Management and Employees" and "Corporate Governance Report" above as well as the 2020 Environmental, Social and Governance Report published by the Bank on the websites of the Hong Kong Stock Exchange and the Bank in due course.

(III) Environmental Policy and Performance

For information of the environmental policies and performance of the Bank during the Reporting Period, please refer to the 2020 Environmental, Social and Governance Report published by the Bank on the websites of the Hong Kong Stock Exchange and the Bank in due course.

(IV) Permitted Indemnity Provisions

Pursuant to Article A.1.8 of the Code provisions, the Bank should purchase appropriate insurance covering potential legal proceedings against the Directors of the Bank. To comply with the Code provisions, the Bank had purchased appropriate liability insurance for the Directors to provide indemnity for the liabilities incurred in the corporate activities for the year ended December 31, 2020.

(V) Equity-linked Agreements

During the year ended December 31, 2020, the Bank did not enter into any equity-linked agreements.

Directors' Report

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

During the year ended December 31, 2020, the Bank did not issue any new H shares.

III. PROFITS AND DIVIDENDS

(I) Dividends

Our revenue for the year ended December 31, 2020 and our financial position on the same date are set out in the “Statement of Comprehensive Income” and “Statement of Financial Position” in the report.

The Bank has no plan to distribute final dividends for the year ended December 31, 2020.

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

Item	2017	2018	2019
Cash dividend (tax inclusive, in millions of RMB)	196.46	339.72	294.42
Proportion of annual profit (%)	31.75	51.60	46.45

(II) Capitalization Issue Plan

Our Board of Directors has proposed to issue two new Shares for every 10 Shares by way of conversion of capital reserve. Such capitalization issue plan will be proposed at the Shareholders' annual general meeting and domestic and H Shareholders' class meetings for consideration.

If the plan is approved at the 2020 annual general meeting, the 2021 first domestic Shareholders' class meeting and the 2021 first H Shareholders' class meeting, the Bank will issue new Shares to holders of domestic Shares and holders of H Shares whose names appear on the register of members of our Bank as at Tuesday, August 3, 2021. The actual number of Shares issued and the total number of share capital of the Bank after the completion of the capitalization issue will be determined according to the total number of share capital registered on the equity registration date. The registration of transfers of domestic Shares and H Shares will be closed from Thursday, July 29, 2021 to Tuesday, August 3, 2021 (both days inclusive). In order to be entitled to the converted share capital, holders of H Shares of the Bank who have not registered the related transfer documents are required to lodge the transfer documents accompanied by the relevant share certificates with our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 4:30 p.m. on Wednesday, July 28, 2021.

Our Board of Directors has proposed to complete the capitalization issue on or before Tuesday, August 31, 2021. If there is any change to the proposed conversion, an announcement regarding such change will be published.

According to the relevant provisions of the PRC tax laws and regulations, the capitalization of capital reserve from share premium shall not be subject to any income tax under the laws of the PRC. As a result, there will be no levy of PRC taxation in respect of the capitalization issue.

Directors' Report

IV. RESERVE

Details of changes in the Bank's reserves available for distribution to Shareholders for the year ended December 31, 2020 are set out in the Statement of Changes in Equity.

V. SUMMARY OF FINANCIAL INFORMATION

A summary of the Bank's operating results, assets and liabilities for the entire year ended December 31, 2020 is set out in the Accounting Data and Financial Indicators Summary of this annual report.

VI. DONATION

The Bank's charitable and other donations totalled RMB5.435 million for the year ended December 31, 2020.

VII. PROPERTY AND EQUIPMENT

Details of changes in the property and equipment of the Bank for the year ended December 31, 2020 are set out in note 25 to the financial statements of this annual report.

VIII. RETIREMENT BENEFITS

Details of the retirement benefits provided to employees by the Bank are set out in note 10 to the financial statements of this annual report under Operating Expenses.

IX. PRE-EMPTIVE RIGHTS

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

X. MAJOR CUSTOMERS

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

XI. SHARE CAPITAL

Details of the movement in share capital of the Bank during the Reporting Period are set out in note 30 Share Capital and Capital Surplus to the financial statements of this annual report.

XII. TOP TEN HOLDERS OF DOMESTIC SHARES AND SHAREHOLDINGS

The top ten holders of Domestic Shares of the Bank and their shareholdings as at the end of 2020 are set out in Changes in Share Capital and Information on Shareholders of this annual report.

Directors' Report

XIII. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

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

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

XVI. ARRANGEMENTS TO PURCHASE SHARES OR DEBT SECURITIES

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

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

The Bank did not enter into any significant transaction, arrangement or contract where Directors and/or Supervisors (or connected entity of Directors and/or Supervisors) directly or indirectly held material interests for the year ended December 31, 2020.

XVIII. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

XIX. MANAGEMENT CONTRACT

For the year ended December 31, 2020, there was no management and administrative contract in respect of all or any of the material activities being entered into by or existed in the Bank (other than service contracts entered into with Directors, Supervisors and Senior Management of the Bank).

Directors' Report

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

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

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

XXI. CONNECTED TRANSACTIONS

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

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

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

XXII. REMUNERATION POLICIES

In 2020, our Bank continued to adhere to the performance-based guidance, implemented a market-based performance appraisal mechanism, in which the performance-based remuneration of employees is determined individually on merits on the basis of their salary of posts, and further increased market-based appraisal efforts to strengthen the supervision and examination on market-based performance appraisal of marketing agencies. By insisting on closely connecting employees' performance-based remuneration with their work performance, our Bank gave a continual play to the incentive and guiding effects of remuneration, eliminated the "waiting, reliance and demanding" behaviors of employees, reduced mediocrities and lazy employees, mobilized the working passion and enthusiasm of employees, and improved the overall efficiency of the enterprise. The Bank has maintained various social insurances and supplementary medical insurance and provident fund, and established enterprise annuity plan in accordance with the relevant laws to provide a comprehensive security system for its employees. In respect of payment of remuneration, the Bank has strictly complied with relevant regulatory requirements and deferred payment for middle and senior management and employees holding positions with material impact on risks.

Directors' Report

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

XXIII. PUBLIC FLOAT

Based on information that is publicly available to the Bank and to the knowledge of the Directors, as at the date of this report, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange.

XXIV. AUDITORS

The Bank re-appointed PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) as the auditor of the Bank's 2020 financial statements prepared in accordance with China Accounting Standards for Business Enterprises and PricewaterhouseCoopers as the auditor of the Bank's 2020 financial statements prepared in accordance with International Financial Reporting Standards.

The Bank's financial report for the year 2020 prepared in accordance with International Financial Reporting Standards had been audited by PricewaterhouseCoopers, who had issued an audit report with unqualified opinions.

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

XXV. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2020, the Bank complied with the "comply or explain" provisions set forth in the Environmental, Social and Governance Reporting Guide. For details, please refer to the 2020 Environmental, Social and Governance Report of the Bank to be published in accordance with the Hong Kong Listing Rules.

XXVI. MAJOR RISKS AND UNCERTAINTIES

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

XXVII. FUTURE DEVELOPMENT OF BUSINESS

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

Directors' Report

XXVIII. MATERIAL INVESTMENT OR ASSETS ACQUISITION PLAN

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

XXIX. KEY FINANCIAL PERFORMANCE INDICATORS

As of December 31, 2020, as indicated in the information prepared according to IFRS, the total assets of the Bank amounted to RMB118,886 million, representing a year-on-year increase of 29.67%; the total customer loans amounted to RMB59,624 million, representing a year-on-year increase of 33.21%; the NPL ratio was 1.83%; the total customer deposits amounted to RMB85,223 million, representing a year-on-year increase of 38.72%; the operating income of the Bank amounted to RMB3,155 million, representing a year-on-year increase of 12.40%; the net profit of the Bank amounted to RMB576 million, representing a year-on-year decrease of 9.12%. As of December 31, 2020, the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio of the Bank were 13.87%, 10.01% and 8.11%, respectively.

XXX. COMPLIANCE WITH LAWS AND REGULATIONS

The Board pays close attention to the policies and regulations in relation to compliance with laws and regulatory requirements. As of December 31, 2020, to the best knowledge of the Board, the Bank has complied with applicable laws and regulations in all material respects which could materially affect the Bank.

XXXI. SUBSEQUENT EVENTS

Successful completion of the public auction for the disposal of the creditor's rights of certain non-performing debts

As disclosed in the announcements of the Bank dated January 11, 2021 and January 12, 2021, the Bank completed the public auction on January 8, 2021. China Orient Asset Management Co., Ltd. Zhejiang Branch ("Orient Asset") won the bid on the creditor's rights of non-performing debts of Luzhou China Seagrain and Oil Industry Co., Ltd. and Luzhou Runhua Logistics Co., Ltd. at the agreed price of RMB500 million. As of the base date (November 22, 2020), the outstanding balance of the principal, interest and default penalty under the loan agreements the Bank is entitled to and to be transferred to Orient Asset pursuant to the Creditor's Rights Transfer Agreement was a total of RMB807 million. The Bank entered into the Creditor's Rights Transfer Agreement with Orient Asset on January 12, 2021. The above creditor's rights transfer was also approved by the Shareholders of the Bank at the 2020 second extraordinary general meeting.

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

By order of the Board
YOU Jiang
Chairman

Luzhou, China
March 25, 2021

Report of the Board of Supervisors

I. BASIC INFORMATION OF THE BOARD OF SUPERVISORS

Changes in personnel: During the Reporting Period, there was no change in the Board of Supervisors and its Nomination Committee and Audit and Supervision Committee.

As of December 31, 2020, the Bank had 5 Supervisors in total, including 2 employee representative Supervisors, 1 shareholder representative Supervisor and 2 external Supervisors. Each of the Nomination Committee and Audit and Supervision Committee of the Board of Supervisors consists of 3 members, with Mr. DUAN Xuebin and Mr. GUO Bing being the chairperson, respectively.

Enhancement of self-construction: 5 Supervisors thoroughly studied new regulatory policies and documents to lay a good foundation for better supervision and performance of duties.

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

II. MEETINGS OF THE BOARD OF SUPERVISORS

Meetings of the Board of Supervisors: During the Reporting Period, the Board of Supervisors has convened 10 meetings in total, considered and approved 31 resolutions including our operation plans, financial budget and final accounts, profit distribution, fixed assets investment plans, performance evaluation of Directors, Supervisors and senior management, etc.

Meetings of the committees: During the Reporting Period, the Nomination Committee of the Board of Supervisors convened 3 meetings in total and considered 3 resolutions primarily in relation to the proposal of the nomination of Mr. ZHONG Jin as an independent Director of Luzhou Bank Co, Ltd., the performance evaluation report of Directors, Supervisors and senior management in 2019, and the remuneration assessment measures of the management personnel.

During the Reporting Period, the Audit and Supervision Committee of the Board of Supervisors held 4 meetings and considered 4 resolutions primarily in relation to the 2020 audit work plan, 2020 work plan of the Board of Supervisors, special inspection work plan for internal control management, special inspection work plan for financial management.

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

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

Supervisors	Board of Supervisors	Nomination committee	Audit and Supervision committee
YUAN Shihong	10/0/10	3/0/3	4/0/4
DUAN Xuebin	10/0/10	3/0/3	–
GUO Bing	9/1/10	–	4/0/4
LIU Yongli	9/1/10	–	4/0/4
CHEN Yong	10/0/10	3/0/3	–

Report of the Board of Supervisors

III. MAJOR WORK

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

Performance supervision: The Board of Supervisors conducted performance of duties and departure audits on senior management as well as supervision and evaluation on the performance of duties of Directors, Supervisors and senior management. The Board of Supervisors also supervised the performance of duties of senior management by listening to the operation, risk analysis, evaluation of internal capital adequacy ratio and other work reports of the Bank.

Financial supervision: The Board of Supervisors conducted special inspections on financial management, and made recommendations in respect of improving the quality and efficiency of formulation of financial management system, strengthening the consciousness of financial internal control management and enhancing the supervision of financial management in the form of reminder letters. The Board of Supervisors also conducted supervision by reviewing the financial budget and final account report, profit distribution proposal, fixed assets investment plan and other resolutions.

Risk management supervision: The Board of Supervisors enhanced the supervision of comprehensive risk management by conducting daily meeting supervision and special inspections. The Board of Supervisors also conducted the research on credit risk management and control, and made recommendations in respect of strengthening the review of legal risks in credit examination, improving the quality and efficiency of post-loan management and building a stable and efficient credit team in the form of communication letters. The Board of Supervisors also delegated representatives to attend important meetings of senior management such as independent review meeting, risk management meeting and Centralized procurement management committee, and made supervision recommendations on risk management.

Internal control supervision: The Board of Supervisors conducted special inspections on internal control management, and made recommendations in respect of strengthening the internal control daily supervision, strengthening the assessment and evaluation of internal control, strengthening the system construction of the Bank on internal control and strengthening the key internal control in the form of reminder letters. The Board of Supervisors also convened the joint meeting of the chairwoman of the Board of Supervisors to listen to the internal control and management work of relevant departments on a quarterly basis and made recommendations on continuously strengthening quality and efficiency of internal control and management.

Report of the Board of Supervisors

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

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

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

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

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

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

Important Events

IMPLEMENTATION OF DIVIDENDS DISTRIBUTION

Upon approval of the Shareholders of the Bank, the Bank distributed final dividends in cash for 2019 on July 23, 2020 of RMB0.13 per share (tax inclusive) and RMB294.42 million (tax inclusive) in aggregate to the shareholders whose names appeared on the register of members of the Bank as of June 8, 2020. The Bank did not declare any interim dividend for 2020.

MATERIAL LITIGATIONS AND ARBITRATIONS

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

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

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

MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

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

MAJOR CAPITAL OPERATION

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

Independent Auditor's Report

To the Shareholders of Luzhou Bank Co., Ltd.

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

OPINION

What we have audited

The financial statements of Luzhou Bank Co., Ltd. (the "Bank") set out on pages 129 to 248, which comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Measurement of expected credit losses (“ECL”) for customer loans, credit related financial assets and financial investments measured at amortised cost</i></p>	<p>We understood, evaluated and tested the internal controls relating to ECL for customer loans, credit related financial assets and financial investments measured at amortised cost, primarily including:</p> <ol style="list-style-type: none"> <li data-bbox="810 993 1447 1084">(1) Management over ECL models, including the selection, approval and application of modelling methodology; <li data-bbox="810 1123 1447 1343">(2) Internal controls relating to significant management judgments and assumptions, including the assess and approval of portfolio segmentation, model selections, parameters estimation, significant increase in credit risk, or of defaults or credit-impaired, and review and approval of forward-looking adjustments; <li data-bbox="810 1381 1447 1435">(3) Internal controls over the accuracy and completeness of key inputs used by the models; <li data-bbox="810 1474 1447 1632">(4) Internal controls relating to estimated future cash flows and calculations of present values of such cash flows for corporate loans and financial investments measured at amortised cost in stage 3.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Measurement of expected credit losses (“ECL”) for customer loans, credit related financial assets and financial investments measured at amortised cost</i> (continued)</p>	
<p>The Bank assesses whether the credit risk of customer loans, credit related financial assets and financial investments measured at amortised cost have increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their ECL. For corporate loans and financial investments measured at amortised cost classified into stages 1 and 2, all personal loans and credit related financial assets, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans and financial investments measured at amortised cost in stage 3, management assesses loss allowance by estimating the discounted cash flows from the corporate loans and financial investments measured at amortised cost.</p>	
<p>The models of ECL involves significant management judgments and assumptions, primarily including:</p>	
<ol style="list-style-type: none"> (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters; (2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred; (3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings. 	<p>The substantive procedures we performed, primarily including:</p> <ol style="list-style-type: none"> (1) According to the risk characteristics of assets, we evaluated the segmentation of business operations. We assessed the appropriateness of the modelling methodologies adopted for ECL measurement by comparing with the industry practice. We also examined the model measurement on selected samples, to test whether or not the models reflect the modelling methodologies documented by the management. (2) We have examined the accuracy of data inputs for the ECL models, covering (i) examination of supporting information on a sample basis, including contractual information, such as maturity dates, and other financial and non-financial information, such as the borrower's historical and reporting date information, which have been agreed with the underlying data used to generate probability of default; (ii) assessment of the reasonableness of the loss given default using historical data; and (iii) examination of borrowing contracts and assessment of the reasonableness of exposure at default and discounting rates. In addition, we have performed back-testing on the actual default rates against the expected default rates of the previous year and assessed the impact of back-testing on the models. (3) We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the Bank's identification of significant increase in credit risk, defaults and credit-impaired loans.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Measurement of expected credit losses (“ECL”) for customer loans, credit related financial assets and financial investments measured at amortised cost</i> (continued)</p>	<p>The substantive procedures we performed, primarily including: (continued)</p> <p>(4) For forward-looking measurements, we assessed management's selection of economic indicators and their analysis of co-relation with the performance of the credit risk portfolios by using statistical techniques. We further tested the reasonableness of the prediction of economic indicators by comparing with available external expert estimates. In addition, we performed sensitivity analysis of economic scenarios and weightings.</p> <p>(5) For corporate loans and financial investments measured at amortised cost in stage 3, we examined, on a sample basis, forecasted future cash flows prepared by the Bank based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance.</p> <p>Based on our procedures performed, we considered that the models, key parameters, significant judgements and assumptions adopted in the ECL measurement together with the measurement results were considered acceptable.</p>

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all of the information included in the annual report other than the financial statements and our auditor's report thereon.

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

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

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

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

Independent Auditor's Report

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

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current 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 Mr. Leung Kwok Wai, Jimmy.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2021

Statement of Comprehensive Income

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

	Note	Year ended 31 December	
		2020	2019
Interest income		6,061,940	5,412,057
Interest expenses		(3,305,498)	(2,693,932)
Net interest income	5	2,756,442	2,718,125
Fee and commission income		11,246	10,557
Fee and commission expenses		(6,161)	(5,472)
Net fee and commission income	6	5,085	5,085
Net gains on trading activities	7	248,104	24,101
Net gains on financial investments	8	117,061	56,904
Other operating income	9	28,028	2,416
Operating income		3,154,720	2,806,631
Operating expenses	10	(1,176,666)	(1,036,331)
Expected credit losses	12	(1,242,241)	(944,739)
Operating profit		735,813	825,561
Share of profit of an associate	22	4,437	4,087
Profit before income tax		740,250	829,648
Income tax expenses	13	(164,176)	(195,736)
Net profit attributable to shareholders of the Bank		576,074	633,912
Other comprehensive income/(losses)			
Items that may be reclassified subsequently to profit or loss:			
Fair value change of financial assets at fair value through other comprehensive income		(58,210)	(17,348)
Expected credit losses of financial assets at fair value through other comprehensive income		166,163	19,747
Less: Related income tax impact		(26,988)	(600)
Subtotal	37	80,965	1,799
Total comprehensive income attributable to shareholders of the Bank		657,039	635,711
Earnings per share for profit attributable to shareholders of the Bank (expressed in RMB per share)			
– basic and diluted	14	0.25	0.28

The accompanying notes form a part of these financial statements.

Statement of Financial Position

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

	Note	As at 31 December	
		2020	2019
ASSETS			
Cash and balances with central bank	15	10,490,071	9,401,511
Financial assets held under resale agreements, due from other banks and financial institutions	16	4,961,948	3,284,840
Customer loans	17	57,585,311	43,298,734
Financial investments – credit related financial assets	18	3,709,265	4,186,800
Financial investments – fair value through profit or loss	19	16,483,953	1,860,243
Financial investments – fair value through other comprehensive income	20	8,100,931	5,755,246
Financial investments – amortised cost	21	15,670,828	22,499,936
Investment in an associate	22	45,175	40,738
Property, plant and equipment	23	804,894	744,552
Deferred income tax assets	24	628,037	386,436
Other assets	25	405,846	221,585
Total assets		118,886,259	91,680,621
LIABILITIES			
Borrowings from central bank		2,371,331	540,760
Due to other banks and financial institutions	26	4,830,366	3,949,580
Customer deposits	27	85,223,104	61,436,960
Debt securities issued	28	16,598,490	18,225,596
Current tax liabilities		324,365	191,408
Other liabilities	29	589,654	446,808
Total liabilities		109,937,310	84,791,112
EQUITY			
Equity attributable to shareholders of the Bank			
Share capital	30	2,264,793	2,264,793
Other equity instruments	31	1,696,824	–
Capital surplus	30	2,239,314	2,239,314
Other reserves	32	1,750,824	1,441,641
Retained earnings		997,194	943,761
Total equity		8,948,949	6,889,509
Total liabilities and equity		118,886,259	91,680,621

The accompanying notes form a part of these financial statements.

Chairman and Executive Director:
You Jiang

Executive Director and President:
Xu Xianzhong

Statement of Changes in Equity

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

	Equity attributable to shareholders of the Bank								
	Share capital (Note 30)	Other equity instruments (Note 31)	Capital surplus (Note 30)	Other reserves			Subtotal	Retained earnings	Total
				Surplus reserve (Note 32)	General reserve (Note 32)	Revaluation reserve (Note 32)			
Balance at 31 December 2019	2,264,793	-	2,239,314	399,731	977,442	64,468	1,441,641	943,761	6,889,509
Net profit for the year	-	-	-	-	-	-	-	576,074	576,074
Changes recognised in other comprehensive income	-	-	-	-	-	80,965	80,965	-	80,965
Total comprehensive income	-	-	-	-	-	80,965	80,965	576,074	657,039
Capital contributions by other equity instruments holders (Note 31)	-	1,696,824	-	-	-	-	-	-	1,696,824
Transfer to surplus reserve	-	-	-	57,607	-	-	57,607	(57,607)	-
Transfer to general reserve	-	-	-	-	170,611	-	170,611	(170,611)	-
Cash dividends (Note 33)	-	-	-	-	-	-	-	(294,423)	(294,423)
Balance at 31 December 2020	2,264,793	1,696,824	2,239,314	457,338	1,148,053	145,433	1,750,824	997,194	8,948,949

	Equity attributable to shareholders of the Bank								
	Share capital (Note 30)	Capital surplus (Note 30)	Surplus reserve (Note 32)	Other reserves			Subtotal	Retained earnings	Total
				General reserve (Note 32)	Revaluation reserve (Note 32)				
Balance at 1 January 2019	2,182,933	2,094,444	336,340	847,549	62,669	-	1,246,558	842,851	6,366,786
Net profit for the year	-	-	-	-	-	-	-	633,912	633,912
Changes recognised in other comprehensive income	-	-	-	-	-	1,799	1,799	-	1,799
Total comprehensive income	-	-	-	-	-	1,799	1,799	633,912	635,711
Issue of shares	81,860	144,870	-	-	-	-	-	-	226,730
Transfer to surplus reserve	-	-	63,391	-	-	-	63,391	(63,391)	-
Transfer to general reserve	-	-	-	129,893	-	-	129,893	(129,893)	-
Cash dividends (Note 33)	-	-	-	-	-	-	-	(339,718)	(339,718)
Balance at 31 December 2019	2,264,793	2,239,314	399,731	977,442	64,468	-	1,441,641	943,761	6,889,509

Statement of Cash Flows

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

	Note	Year ended 31 December	
		2020	2019
Cash flows from operating activities:			
Profit before income tax		740,250	829,648
Adjustments:			
Depreciation and amortisation		176,133	123,773
Expected credit losses on customer loans		726,921	796,889
Expected credit losses on other assets		515,320	147,850
Net (gains)/losses on disposal of long-term assets		(1,010)	10,347
Net gains arising from derecognition of financial investments		(418,726)	(65,637)
Changes in fair value of financial assets at fair value through profit or loss		53,561	(7,652)
Interest income from financial investments		(2,107,920)	(2,243,787)
Interest expenses on debt securities		667,554	634,203
Net increase in operating assets:			
Net (increase)/decrease in balances with central bank		(1,055,842)	1,149,835
Net (increase)/decrease in financial assets held under resale agreements, due from banks and other financial institutions		(1,390,073)	2,491,150
Net increase in customer loans		(14,775,053)	(13,412,298)
Net increase in other operating assets		(7,722,777)	(639,271)
Net increase in operating liabilities:			
Net increase/(decrease) in balances due to central bank		1,831,331	(325,000)
Net increase/(decrease) in financial assets sold under repurchase agreements, due to banks and other financial institutions		857,030	(4,660,763)
Net increase in customer deposits		23,480,206	8,715,646
Net increase in other operating liabilities		492,685	2,072,306
Income tax paid		(319,828)	(400,433)
Net cash generated from/(used in) operating activities		1,749,762	(4,783,194)

Statement of Cash Flows

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

	Note	Year ended 31 December	
		2020	2019
Cash flows from investing activities:			
Proceeds from disposal of property, plant and equipment, and other long-term assets		506	–
Purchase of property, plant and equipment, and other long-term assets		(280,200)	(238,758)
Interest income arising from financial investment securities		2,547,944	2,718,900
Purchase of investment securities		(39,465,528)	(24,091,000)
Proceeds from sale and redemption of financial investments		36,687,427	23,007,726
Net cash (used in)/generated from investing activities		(509,851)	1,396,868
Cash flows from financing activities:			
Proceeds from issuance of shares		–	230,998
Proceeds from issuance of debt securities		17,728,948	24,220,000
Repayment of debt securities upon maturity		(19,370,884)	(19,794,898)
Interest paid on debt securities		(667,554)	(634,203)
Dividends paid to shareholders		(258,003)	(298,237)
Proceeds from issuance of other equity instruments		1,696,824	–
Others paid for financing activities		–	(4,268)
Net cash (used in)/generated from financing activities		(870,669)	3,719,392
Impact of exchange rate fluctuation on cash and cash equivalents		(54,354)	17,666
Net increase in cash and cash equivalents		314,888	350,732
Cash and cash equivalents at the beginning of the year		5,275,477	4,924,745
Cash and cash equivalents at the end of the year	38	5,590,365	5,275,477

Notes to the Financial Statements

For the year ended December 31, 2020

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

1 GENERAL INFORMATION

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

On 8 May 1998, the Sichuan Branch of the People's Bank of China approved the renaming of the Bank from "Luzhou City United Bank (瀘州城市合作銀行)" to "Luzhou City Commercial Bank Co., Ltd. (瀘州市商業銀行股份有限公司)". On 4 June 2019, in accordance with the approval of the Sichuan Supervisory Bureau of China Banking and Insurance Regulatory Commission ("CBIRC") and the approval of Luzhou City Market Supervision and Administration Bureau, the Bank was formally renamed to "Luzhou Bank Co., Ltd. (瀘州銀行股份有限公司)". The Bank issued 545,740,000 shares (H shares) to foreign investors on 17 December 2018, and listed on the main board of Stock Exchange of Hong Kong on 17 December 2018. On 31 December 2020, the total share capital of the Bank is RMB2,264,793,385, with a par value of RMB1 per share.

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

The financial statements are approved by the Board of Directors of the Bank on 25 March 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS

The Bank has adopted the following new or amendments to the International Financial Reporting Standards (“IFRSs”):

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Revised Conceptual Framework for Financial Reporting	Conceptual Framework for Financial Reporting
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS 16	COVID-19-related Rent Concessions

Amendments to IAS 1 and IAS 8

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

Amendments to IFRS 3

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

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

Revised Conceptual Framework for Financial Reporting

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

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

Revised Conceptual Framework for Financial Reporting (continued)

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

Amendments to IFRS 9, IAS 39 and IFRS 7

The IASB has published Phase 1 amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform as a first reaction to the potential effects the Interest Rate Benchmark Reform (“IBOR”) could have on financial reporting. The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.

Amendments to IFRS 16

The IASB has published *COVID-19-related Rent Concessions (Amendment to IFRS 16)*. Its key amendments include:

- Lessees were provided an exemption from assessing a rent concession related to COVID-19 is a lease modification.
- Lessees applying the exemption need to account for rent concessions as if they were not lease modification.
- Lessees that apply the exemption need to disclose that fact.
- Lessees need to apply the exemption retrospectively as required by IAS 8 without restatement of comparative amount for prior period.

The adoption of the new IFRSs and amendments to IFRSs above does not have a material impact on the Bank’s operating results, financial position or other comprehensive income.

Notes to the Financial Statements

For the year ended December 31, 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

		Effective for annual period commencing on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16	Phase 2 Interest Rate Benchmark Reform	1 January 2021
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
IFRS 17 and its amendments	Insurance Contracts	1 January 2023
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRS Standards 2018-2020	1 January 2022

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

2.2 Associates

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

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

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial assets

Initial recognition and measurement

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

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

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

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial assets (continued)

Measurement methods

Amortization cost and effective interest rate

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

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

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

Interest income

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

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial assets (continued)

Measurement methods (continued)

Classification and subsequent measurement

The Bank classifies its financial assets in the following measurement categories:

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

(i) *Business model*

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial assets (continued)

Debt instruments (continued)

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

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial assets (continued)

Equity instruments

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

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

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

Impairment of financial assets

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

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial assets (continued)

Modification of loan contracts

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced, such as a profit sharing/equity-based return that substantially affects the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in;
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial assets (continued)

Derecognition other than on a modification of contract

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

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

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

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

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

2.4 Financial liabilities

Classification and subsequent measurement

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

- Financial liabilities at fair value through profit or loss: This classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial liabilities (continued)

Classification and subsequent measurement (Continued)

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability.
- Financial guarantee contracts and loan commitments.

Derecognition

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

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

Financial guarantee contracts

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

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

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

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial liabilities (continued)

Financial guarantee contracts (continued)

The Bank recorded the expected credit loss of loan commitments and financial guarantee contracts in provisions. However, if an instrument contains both loans and unused commitments, and the Bank cannot separate the expected credit loss from the part of the loan and the uncommitted part of the commitment, the impairment loss is included in the expected credit loss of the loan, unless the expected credit loss is more than the total amount of the loan, the loss is reported in provisions.

2.5 Fee and commission income

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

2.6 Dividend income

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

2.7 Resale and repurchase agreements

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

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

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

2.8 Property, plant and equipment

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

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

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

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment (continued)

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

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

Type of assets	Estimated useful lives	Estimated residual value rates	Depreciation rate
Buildings	20 years	5.00%	4.75%
Motor vehicles	5 years	5.00%	19.00%
Electronic equipment	3 years	5.00%	31.67%
Office equipment	5 years	5.00%	19.00%

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

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

2.9 Foreclosed assets

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Investment properties

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

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

Type of assets	Estimated useful lives (years)	Estimated residual value rate	Depreciation rate
Buildings	20 Years	5.00%	4.75%

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

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

2.11 Impairment of non-financial assets

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

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Leases

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

(a) The Bank as lessee

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

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

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

(b) The Bank as lessor

Finance lease is a lease that in substance transfers almost all risks and rewards related to the ownership of the leased asset. Other leases are operating leases. The Bank has no finance leases.

Operating Lease

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

2.13 Cash and cash equivalents

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

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Foreign currency translation

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

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

2.15 Provisions

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

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

2.16 Current and deferred income taxes

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

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

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

The temporary differences primarily arise from expected credit loss allowance for customer loans, expected credit loss allowance for financial investments, and unrealized gain/loss of financial investments – fair value through profit or loss and financial investments – fair value through other comprehensive income.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences and unused tax losses can be utilised. Deferred income tax liabilities are the amounts of income tax payable in respect of taxable temporary differences, which are measured at the amount expected to be paid to the tax authorities in the future.

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Current and deferred income taxes (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Share capital

Share capital comprises ordinary shares issued.

2.18 Dividend

Dividends on ordinary shares are recognized in the period in which they are declared and approved by the Bank's shareholders.

2.19 Government subsidies

Government subsidies are recognized when they are able to meet the conditions attached to government grants and can be received. In connection with assets related government subsidies, the Bank recognised its initial value as deferred income at fair value and allocated it equally to the relevant assets during its useful life. The government subsidy used to compensate the relevant expenses of the Bank shall be included in the current profits and losses during the period of confirming the relevant expenses.

2.20 Employee benefits

Employee benefits refer to the rewards that the Bank offers to its employees for the services they provided or the compensation that is given to dissolve their labour relations. During the accounting period of employees providing services, the Bank will recognize the salary as liabilities and increase the cost of capital or period cost.

(a) Basic Pension Insurance

According to the relevant laws and regulations of China, the employees of the Bank have joined the basic social endowment insurance organized by the local labour and social security departments. The Bank has paid the endowment premium to the local social endowment insurance agencies according to the base and proportion in the local requirements for social basic endowment insurance. The social basic endowment insurance mentioned above is accrued to the profit and loss of the current period according to the principle of accrual basis. The labour and social security bureaus will pay the basic social pension benefits to those retired employees.

(b) Enterprise Annuity

Since 2016, apart from the basic social pension insurance, the employees of the Bank have also voluntarily participated in the enterprise annuity plan established by the Bank in accordance with the relevant national policies in relation to the enterprise annuity system. The Bank contributes a certain portion of the employees' gross salaries of the previous year to the annuity plan. Expenses with respect to the contribution borne by the Bank are recognized in current profit or loss. The contributions the Bank contributes to the enterprise annuity plan are recognized as expenses when incurred, and will not be deducted by forfeited contributions of employees who left the plan before the contributions are fully attributed.

Notes to the Financial Statements

For the year ended December 31, 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognized as a provision.

2.22 Trusteeship

Financial information does not include the assets generated when the Bank acts as trustee (e.g. agent, trustee, manager or agent), together with the commitment to return such assets to customers.

The Bank grants entrusted loans on behalf of third-party lenders. The Bank (acting as an agent) grants loans to borrowers at the direction of third-party lenders who provide funds for such loans. The Bank has contracted with such third-party lenders to manage such loans and receipts on their behalf. Third-party lenders determine the lending requirements of entrusted loans and all their terms, including their purpose, amount, interest rate and repayment period. The Bank collects commissions on entrusted loan business (prorated confirmation during service delivery). The risk of loan loss shall be borne by the third party lenders.

2.23 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Bank with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial statements for the component is available to the Bank. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment.

Intra-segment revenue and costs are eliminated. Income and expenses directly associated with each segment are included in determining segment performance.

The classification of reporting segments are based on the operating segments, and the assets and expenses shared by all the segments are allocated according to their scales.

The Bank has the following segments: Corporate Banking, Retail Banking, Financial Markets and Others.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT

Overview

The Bank's business activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Managing risks are core to the financial business, and operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is the highest authority for the Bank's overall risk management. It examines and approves strategy and measures of risk management and monitors risk management and internal control system. It assesses overall risk based on monitoring information and the risk report of senior management. The Risk Management Committee is responsible for approving risk management policies for the Bank. The senior management of the Bank is responsible for overall risk management and internal control, formulating and implementing risk management policies and procedures. In addition, the internal audit department is responsible for independent review of risk management and control environment.

The Bank is subject to a number of financial risks, primarily including credit risk, interest risk, operation risk and liquidity risk.

3.1 Credit risk

The Bank is exposed to credit risk, which is the risk that a customer or counterparty will be unable to or unwilling to meet its obligations under a contract. Changes in the economy or those in credit quality of a particular industry segment or concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk increases when the counterparties are in the similar geographical or industry segments. Credit exposures arise principally from customer loans, debt securities and due from banks and other financial institutions. There are also credit risk exposures in off-balance sheet financial arrangements such as loan commitments, guarantees, acceptances and letters of credit.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.1 Credit risk measurement

(a) *Credit business*

The Bank measures and manages the quality of its credit assets in accordance with the CBIRC's Guidelines of Risk Classification of Loans and Guidelines of Risk Classification of Micro Enterprises loans (Trial Implementation). The classification of loans is based on the borrowers' repayment ability, payment history, willing of repayment, guarantee of loans, legal responsibility and loan administration. The Guidelines of Risk Classification of Loans require financial institutions to classify their credit assets into five categories, namely pass, special mention, substandard, doubtful and loss, of which the last three categories are non-performing loans. The Bank monitors the overdue status of its loans to retail customers in managing credit risk.

The core definitions of credit asset classifications in 'Loan Risk Classifications Guiding Principles' are as follows:

Pass: The borrower can fulfil the contracts, and there is insufficient reason to suspect that the principal and interest of loans cannot be repaid in full on time.

Special mention: The borrower has the ability to make current payments, but there may be some potential issues that could have adverse impact on the future payments.

Substandard: The borrower's repayment ability has been impaired and their normal income cannot repay the loan principal plus interest in full. Even with execution of guarantee, there may be certain level of loss.

Doubtful: The borrower cannot repay the principal plus the interest in full. Even with the execution of guarantee, there will be a significant loss.

Loss: After taking consideration of all possible recovery actions or all necessary legal proceedings, the future outcome of recovery is likely to be little or no recovery.

Risk management department coordinates the classification of loans. The classification of loans is performed quarterly and adjusted timely. Risk management department summarises the reclassification information justified by related department quarterly and reports to risk management committee for approval. The classification of loans is monitored through credit management system.

(b) *Financial market business*

The Bank manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the external credit rating of the banks and financial institutions. The head office monitors and reviews the credit risk of loans to banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties. For debt securities and other financial market business, the Bank manages the credit risk exposures by setting limits to the external credit ratings of its investments.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies

(a) *Credit business*

The Bank takes the same credit risk management control procedure for on and off-balance sheet risk exposures. The risk control procedure of the Bank's credit risk includes the following: credit policy stipulating, pre-credit investigation, risk assessment, collateral assessment, examination and approval of credit loans, draw-down, post-loan management, management on non-performing loans, due-diligence on non-performing loans.

The Bank has established a mechanism of risk warning for credit business, mainly including single customer credit authorisation risk and systematic risk. Unified credit authorisation management is implemented for key customers. Once the maximum exposure of a single customer is determined, the customer's exposure limit should not exceed its credit limit in the Bank at any time before it achieved new credit limit.

The Bank takes action to strengthen controls over credit risk in relation to group customer and related party customer. The Bank places limits in relation to key group customers to control credit risk. The committee of related party transactions is set up under the Board to manage controls on related party transaction.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is taking collateral, which is common practice.

Except for few customers with excellent quality, the Bank requires the borrowers provide collateral for loans. The type of collateral mainly includes collateral, pledge and guarantee. The Bank employs property appraisal companies with certificates to evaluate the collateral. The detailed collateral type and amount is determined by credit risk of counterparty or customers.

The Bank employs a range of asset evaluation companies to value the collaterals. The Bank generally accepts assets whose value are clear as collaterals, such as deposit receipt and real estate.

(b) *Financial market business*

Financial Interbank Department centralises control over financial market business with hierarchical authorisation from department heads to the president for different business types such as sale, distribution, trade and repurchase of debt securities.

The Bank invests in debt securities with hierarchical authorisation under the guidelines of asset and liability committee. The Bank sets stop-loss point based on analysis of trend of macroeconomic situation and monetary policy. The Bank places limits for interbank borrowing and lending. The Bank manages the credit risk exposures of interbank borrowing and lending strictly within the limit of regulation and credit authorisation.

The debt securities traders regularly review and monitor the changes of market interest and report the market value of debt securities to Financial Interbank Department and Assets Liabilities Department. If there is any violation of interest rate in the market or any significant credit risk encountered to debtors, the business department responsible for security investment will ask for holding extraordinary asset and liability management meeting to conclude an emergency plan. The debt trader will react according to the plan.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Collateral and guarantee

The Bank has a range of policies and practices intended to mitigate credit risk. The most useful practice is to accept collaterals. The Bank implements guidelines on the acceptability of specific classes of collateral. The maximum loan-to-value ratio is determined by the credit business department. The follow-up management of the collateral is carried out by the related business management department. The principal types of collateral for corporate loans and personal loans are as follows:

Type of Collateral	Maximum loan-to-value ratio
Collaterals	
Residential and Commercial properties	60%
Land use rights for commercial, residential and comprehensive use	50%
Land use rights for industrial use	40%
Plants, workshops and factories or office and warehouse in non-urban area	40%
Forestry, trees and woodland usage rights	40%
Construction in progress	50%
Pledges	
Security deposits and certificates of deposit (including electronic certificates of deposits) issued by the Bank	100%
Certificates of deposit issued by other banks	90%
Treasury bonds, bank cheques and bank acceptance bills	90%
Commercial acceptance bills	80%
Debt securities issued by corporations with rating of AA or above	50%
Shares and equities	50%
Warehouse receipts and bills of lading	50%
Receivables	50%
Property right from intellectual properties rights including patents and copyrights	30%

Mortgage loans to retail customers are generally collateralised by residential properties. Other loans are collateralised according to the nature of the loan.

For loans guaranteed by a third party guarantor, the Bank will assess the guarantor's credit rating, financial condition, credit history and ability to meet obligations.

Collateral held as security for financial assets other than customer loans is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Details of collateral accepted and which the Bank is obligated to return are disclosed in Note 36.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses

In accordance with IFRS 9, the Bank classified the financial instruments into three stages. Stage 1 includes performing financial instruments that are “not credit-impaired on initial recognition”. 12-month expected credit losses (“ECL”) are recognized and calculated for those financial instruments in stage 1. Stage 2 includes financial instruments that have had significant increase in credit risk since initial recognition and stage 3 includes credit-impaired financial assets. ECL for the entire life cycle are recognized for those financial instruments in stage 2 and stage 3.

3 stage classification

According to IFRS 9, 3-stage classification criteria need to be clearly specified. For financial instruments, that are “not credit-impaired on initial recognition” will be classified in stage 1 and calculate the 12-month ECL. If “a significant increase in credit risk” is identified, the financial instrument will be moved to stage 2 and calculate the lifetime ECL. If the financial instrument is credit-impaired, the financial instrument will be moved to stage 3. The detailed classification criteria has been set up, and take into consideration of overdue days, etc.

The stages are transferable. For example, when the credit risk of financial instruments classified in stage 1 significantly increase, they will be transferred to stage 2.

(1) *Financial assets with significant increase in credit risk*

When triggering one or more of the following quantitative or qualitative criteria, the Bank considers that the credit risk of financial instruments has increased significantly.

Quantitative criteria

- The principal or interest of the contract is overdue for more than 30 days, but less than 90 days.
- The debtor’s external credit rating (bond rating or issuer rating) is lower than BBB-.

Qualitative criteria

- The economic, technological or legal environment in which the debtor is situated will change at the present time or in the near future, thereby adversely affecting the debtor.
- The debtor violated the terms of the contract, such as overdue payment of interest or principal or default.

After the outbreak of the epidemic of COVID-19, the Bank provided extended and rescue programs for existing customers affected by the COVID-19 in accordance with government regulations. For customers who applied for loan extensions and rescue programs, the Bank carefully evaluated their repayment ability and provided deferred interest repayment or adjustment of repayment plans to the customers who meet the standards, while at the same time assessed whether such customers’ credit risk has increased significantly.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

3 stage classification (continued)

(2) Definition of default and loss incurred

When a financial instrument meets one or more of the following conditions, the Bank considers the financial asset as being defaulted, and the criteria are consistent with the definition of the loss incurred.

Quantitative criteria

- The principal or interest of the contract is overdue for more than 90 days.
- The debtor's external credit rating (bond rating or issuer rating) has deteriorated.

Qualitative criteria

- The debtor is likely to go bankrupt or carry out other financial restructuring.
- The issuer of financial instruments assets held by the Bank has serious financial difficulties.
- The Bank has made concessions to the debtor in financial difficulty for economic or legal reasons.
- The market of related financial instruments is deserted due to the debtor's financial difficulty.

The above criteria apply to all financial instruments of the Bank; the definition of default is consistently applied to the calculation of expected credit losses of the Bank, including probability of default (PD), exposure at default (EAD) and loss given default (LGD) modeling.

When a financial instrument does not meet any definition of default for six consecutive months, the Bank no longer regards it as an asset in default (reversal). According to the relevant analysis, the Bank has considered the possibility that the financial instruments will be in default again from the reversal under various circumstances, and decided to adopt the six-month observation period.

(3) Measurement of expected credit loss: explanation of parameters, assumptions and estimation techniques

Depending on whether there is a significant increase in credit risk and whether the assets have been impaired, the Bank will measure the loss provision for different assets by expected credit losses for 12 months or entire life of the asset. Expected credit loss is the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD) after term adjustment and discount. Related definitions are as follows:

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

3 stage classification (continued)

(3) *Measurement of expected credit loss: explanation of parameters, assumptions and estimation techniques (continued)*

Probability of default (PD) refers to the possibility that the borrower will not be able to fulfil his obligations in the next 12 months or throughout the remaining period of existence. The Bank builds the migration matrix based on historical data to calculate the 12-month probability of default, and derives the default probability of the entire duration from the 12-month probability of default through the Markov chain model.

Loss given default (LGD) is the percentage of risk exposure loss at the time of default. The default loss rate varies depending on the type of counterparty and the availability of collateral or other credit support.

Exposure at default (EAD) refers to the amount that the Bank should pay when the default occurs in the next 12 months or throughout the remaining life. The Bank's exposure at default is determined by the expected repayment arrangements, and different types of products will vary. For installments and one-time repayments, the Bank determines the exposure at default according to the repayment plan stipulated in the contract.

The Bank determines the expected credit losses by forecasting the probability of default, loss given default and exposure at default of single debt. The Bank multiplies the three items and adjusts their duration (if there is no early repayment or breach of contract). This approach can effectively calculate the expected credit losses for future periods, and then discount the results of each period to the report date and add up. The discount rate used in the calculation of expected credit loss is the real interest rate or its approximate value.

(4) *Establishment of impairment model*

The Bank has established macro-economic forecast model, along with adjustments from external economic experts. The Bank conducts forecasts regularly and establishes three possible economic scenarios, optimistic, basic and pessimistic. Basic scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better and worse than basic scenario respectively.

The impairment model is established through a top down approach. The Bank has developed several corporate and retail impairment models, including regression models for different macro-economic indicators such as Macro-economic Climate Index and National Housing Climate Index etc. and use MERTON formula and historical default information to make 'forward looking' adjustments to probability of default to achieve "forward-looking" calculation of provision.

For asset portfolios that regression model cannot be established, for example, customers' default rate is extremely low or assets without an appropriate internal rating method, the Bank mainly applies expected loss rate from similar portfolios which regression model have been established so as to increase coverage range of existing impairment models.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

3 stage classification (continued)

(4) *Establishment of impairment model (continued)*

(1) *Forwarding-looking information included in ECL model*

The assessment of significant increases in credit risk and the calculation of expected credit losses involve forward-looking information. The Bank identifies the key economic indicators affecting the credit risk and expected credit loss of each asset portfolio, through historical data analysis.

Scope	
Macro-economic Climate Index	Corporate loans, discounted bills, retail loans, financial investments - credit related financial assets, off-balance sheet business
National Housing Climate Index	Retail loans

These economic indicators and their impact on PD, EAD and LGD depend on different financial instruments, which involved expert judgments. The Bank annually makes forecasts on these economic indicators (“basic economic scenarios”) and provides the best estimation of the economics for the next two years. The Bank believes that the economic indicators from two years later to the end of the maturity of financial instruments tend to maintain average or average growth for a long time in the following period through the mean regression method. The Bank finds the relationship between these economic indicators and their impact of historical changes on PD, EAD and LGD.

The Bank sets other possible scenarios and scenario weightings according to external data. Based on the analysis for each major portfolio and the number of scenarios, the Bank keeps their non-linear characteristics. The Bank reassesses the number and characteristics of scenarios annually. On 31 December 2020, the Bank’s three scenarios (basic, optimistic and pessimistic) can properly reflect the non-linear characteristics of each portfolio. The Bank determines scenario weightings through statistical analysis and expert credit judgment, and also considers the possible range of outcomes represented by scenarios. The Bank recognizes the ECL both for 12-month and life time with the classification of stage1, stage 2 and stage 3 of financial instruments. The Bank measures the ECL with weighted ECL for 12-month (Stage 1) and weighted ECL for life time (Stage 2 and Stage 3), which is calculated by multiplying the ECL under each scenario by their weightings respectively, rather than by weighting the parameters. On 31 December 2020, the weightings allocated to each economic scenario were 60% for basic, 10% for optimism and 30% for pessimism (31 December 2019: the weightings allocated to each economic scenario were 60% for basic, 10% for optimism and 30% for pessimism).

Similar to other economic predictions, there is highly inherent uncertainty to the prediction and estimation of probability. Therefore, the actual results may significantly differ from the prediction. The Bank believes that these predictions reflect the best estimation of possible outcomes, and the chosen scenarios can represent possible scenarios appropriately.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

3 stage classification (continued)

(4) Establishment of impairment model (continued)

(2) Hypothesis on Economic Indicators

On 31 December 2020, the important assumptions used for ECL are listed below. The three scenarios of basic, optimism and pessimism apply to all combinations.

	2021	2022
Macro-economic Climate Index	98.31-96.43	99.01-95.66
National Housing Climate Index	100.31-98.74	101.09-99.72

(3) Sensitivity Analysis

Important assumptions affecting the ECL allowance are as follows:

Retail loans	i. Macro-economic Climate Index: Impact on the contractual repayment capacity of non-mortgage borrowers;
	ii. National Housing Climate Index: Impact on the contractual repayment capacity of mortgage borrowers;
Corporate loans	i. Macro-economic Climate Index: Impact on the performance and the contractual repayment capacity of the borrowers;
Financial investments – credit related financial assets	i. Macro-economic Climate Index: Impact on the performance and the contractual repayment capacity of the underlying borrowers;

On 31 December 2020, assuming that the economic indicators used by the Bank have changed reasonably, the expected credit losses will change as follows:

Retail loans

		Macro-economic Climate Index		
		Down 0.1%	No change	Up 0.1%
National Housing Climate Index	Down 1%	3,194	1,662	154
	No change	1,532	–	(1,508)
	Up 1%	163	(1,369)	(2,878)

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

3 stage classification (continued)

(4) Establishment of impairment model (continued)

(3) Sensitivity Analysis (continued)

Corporate loans

	Change	Amount
Macro-economic	Up 0.1%	(12,593)
Climate Index	Down 0.1%	12,758

Financial investments – credit related financial assets

	Change	Amount
Macro-economic	Up 0.1%	(803)
Climate Index	Down 0.1%	815

3.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements:

	As at 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Assets				
Balances with central bank	10,410,431	-	-	10,410,431
Financial assets held under resale agreements, due from other banks and financial institutions	4,961,948	-	-	4,961,948
Customer loans	56,502,571	419,528	663,212	57,585,311
Financial investments- credit related financial assets	3,211,844	497,421	-	3,709,265
Financial investments – fair value through profit or loss	16,483,953	-	-	16,483,953
Financial investments – fair value through other comprehensive income	8,100,931	-	-	8,100,931
Financial investments – amortised cost	15,347,948	244,553	78,327	15,670,828
Other financial assets	186,540	-	-	186,540
Subtotal	115,206,166	1,161,502	741,539	117,109,207
Off balance sheet guarantees and commitments	3,885,869	-	-	3,885,869

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)

	As at 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Assets				
Balances with central bank	9,324,826	–	–	9,324,826
Financial assets held under resale agreements, due from other banks and financial institutions	3,284,840	–	–	3,284,840
Customer loans	41,962,199	1,144,756	191,779	43,298,734
Financial investments- credit related financial assets	4,144,954	41,846	–	4,186,800
Financial investments – fair value through profit or loss	1,860,243	–	–	1,860,243
Financial investments – fair value through other comprehensive income	5,755,246	–	–	5,755,246
Financial investments – amortised cost	22,335,811	164,125	–	22,499,936
Other financial assets	32,718	–	–	32,718
Subtotal	88,700,837	1,350,727	191,779	90,243,343
Off balance sheet guarantees and commitments	1,828,589	–	–	1,828,589

The above table represents the maximum credit risk exposure to the Bank at 31 December 2020 and 2019, without taking account of any related collateral or other credit enhancements. For on-balance sheet assets, the exposures above are based on net carrying amounts as reported in the statement of financial position.

As shown above, as at 31 December 2020, the total on-balance sheet exposure which were derived from customer loans and financial investments were 86.75% (31 December 2019: 85.99%).

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans

Customer loans are summarised as follows:

	As at 31 December 2020			
	Corporate loans	Personal loans	Discounted bills	Total
Stage 1	45,176,538	7,516,912	4,778,348	57,471,798
Stage 2	390,212	133,301	–	523,513
Stage 3	1,283,350	74,216	–	1,357,566
Total	46,850,100	7,724,429	4,778,348	59,352,877
Accrued Interest	222,309	48,530	–	270,839
Less: ECL allowance	(1,857,286)	(181,119)	–	(2,038,405)
Net amount	45,215,123	7,591,840	4,778,348	57,585,311

	As at 31 December 2019			
	Corporate loans	Personal loans	Discounted bills	Total
Stage 1	35,010,431	6,018,422	1,499,648	42,528,501
Stage 2	1,518,220	113,699	–	1,631,919
Stage 3	373,746	43,658	–	417,404
Total	36,902,397	6,175,779	1,499,648	44,577,824
Accrued Interest	142,320	38,574	–	180,894
Less: ECL allowance	(1,389,389)	(70,595)	–	(1,459,984)
Net amount	35,655,328	6,143,758	1,499,648	43,298,734

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(a) Stage-3 loans

As at 31 December 2020	Collateralised loans				Non-collateralised loans		
	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets (Stage 3)							
Customer loans							
– Corporate loans	199,410	(152,846)	46,564	65,688	1,083,940	(549,958)	533,982
– Retail loans	45,199	(26,538)	18,661	35,992	29,017	(21,462)	7,555
Total	244,609	(179,384)	65,225	101,680	1,112,957	(571,420)	541,537

As at 31 December 2019	Collateralised loans				Non-collateralised loans		
	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets (Stage 3)							
Customer loans							
– Corporate loans	30,647	(14,232)	16,415	27,711	343,099	(202,100)	140,999
– Retail loans	35,857	(15,674)	20,183	29,982	7,801	(3,631)	4,170
Total	66,504	(29,906)	36,598	57,693	350,900	(205,731)	145,169

The amount of the fair value of the collaterals are limited to the credit risk exposure of each loan and advance payment secured.

The fair value of collaterals is estimated based on the latest available external valuations, the realization experience of the current collaterals and the market conditions.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(b) Restructured customer loans

Restructuring activities include approved debt repayment plans, modification and deferral of payments. Following restructuring, deferred customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue to be made. These policies are under regular review. Restructuring is most commonly applied to term loans, in particular mid-term and long-term loans.

	As at 31 December	
	2020	2019
Restructured customer loans	390,145	127,432

(c) Overdue customer loans by security and overdue date

	As at 31 December 2020				
	Overdue up to 90 days	Overdue 90 days – 1 year	Overdue 1 – 3 years	Overdue over 3 years	Total
Guaranteed loans	419,479	305,523	36,174	–	761,176
Collateralised loans	110,404	30,385	193,473	1,251	335,513
Unsecured loans	11,018	21,792	5,805	71	38,686
Pledged loans	12,003	348	–	–	12,351
Total	552,904	358,048	235,452	1,322	1,147,726

	As at 31 December 2019				
	Overdue up to 90 days	Overdue 90 days – 1 year	Overdue 1 – 3 years	Overdue over 3 years	Total
Guaranteed loans	102,829	224,228	25,825	–	352,882
Collateralised loans	245,741	42,986	4,372	260	293,359
Unsecured loans	5,252	3,864	179	83	9,378
Pledged loans	4,690	–	–	–	4,690
Total	358,512	271,078	30,376	343	660,309

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(d) Industry analysis

Concentration risks analysis for customer loans(gross) by industry sectors:

	As at 31 December			
	2020		2019	
	Amount	%	Amount	%
Corporate loans				
Leasing and commercial services	18,232,413	30.58	14,023,090	31.33
Construction	8,649,466	14.51	7,544,089	16.86
Real estate	6,883,760	11.55	6,003,260	13.41
Wholesale and retail trade	3,274,977	5.49	2,940,201	6.57
Manufacturing	2,753,852	4.62	2,795,517	6.25
Administration of water conservancy, environment and public facilities	1,825,815	3.06	858,719	1.92
Education	1,277,300	2.14	946,100	2.11
Accommodation and catering	967,016	1.62	517,428	1.16
Health and social work	837,250	1.40	150,300	0.34
Information transmission, software and information technology services	600,130	1.01	41,280	0.09
Agriculture, forestry, animal husbandry and fishery	522,102	0.88	221,774	0.50
Electricity, heat, gas and water production and supply	276,300	0.46	235,000	0.53
Transportation, warehousing and express service	213,019	0.36	250,339	0.56
Financial	198,000	0.33	–	–
Culture, sports and entertainment	110,900	0.19	120,600	0.27
Scientific research and technology services	105,500	0.18	104,300	0.23
Household services, repairs and other services	80,000	0.13	83,900	0.19
Mining	42,300	0.07	66,500	0.15
Total corporate loans	46,850,100	78.58	36,902,397	82.47
Personal business loans	4,516,094	7.58	3,441,444	7.69
Residential mortgage loans	2,118,017	3.55	1,968,716	4.40
Personal consumption loans	1,090,318	1.83	765,619	1.71
Total personal loans	7,724,429	12.96	6,175,779	13.80
Discounted bills	4,778,348	8.01	1,499,648	3.33
Accrued Interest	270,839	0.45	180,894	0.40
Total customer loans excluding ECL allowance	59,623,716	100.00	44,758,718	100.00

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(e) *Type of collateral analysis*

Analysis for customer loans (gross) by type of collateral:

	As at 31 December	
	2020	2019
Guaranteed loans	25,007,860	18,298,585
Collateralised loans	18,056,487	15,610,001
Pledged loans	10,530,758	7,096,700
Unsecured loans	5,757,772	3,572,538
Accrued interest	270,839	180,894
Total	59,623,716	44,758,718

3.1.7 Investment securities

As at 31 December 2020 and 2019, RMB securities are rated by major domestic rating agencies.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

The rating results of investment securities are as follows:

As at 31 December 2020	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortised cost	Financial investment – credit related financial assets	Total
RMB securities					
AAA	1,167,545	149,567	759,918	–	2,077,030
AA- to AA+	2,814,860	1,503,748	121,973	–	4,440,581
Unrated ^(a)	12,488,498	6,262,529	15,008,941	3,896,600	37,656,568
Less: expected credit impairment provision	–	–	(474,942)	(246,649)	(721,591)
Accrued Interest	–	185,087	254,938	59,314	499,339
Total	16,470,903	8,100,931	15,670,828	3,709,265	43,951,927

(a) Unrated securities

As at 31 December 2020	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortised cost	Financial investment – credit related financial assets	Total
Local government bonds	–	–	1,083,261	–	1,083,261
Government bonds	–	841,541	1,041,338	–	1,882,879
Policy bank bonds	–	765,853	3,144,223	–	3,910,076
Certificates of deposit	–	972,261	–	–	972,261
Private placement notes	848,172	688,924	780,000	–	2,317,096
Funds	1,934,772	–	–	–	1,934,772
Joint-investment projects	30,051	–	–	–	30,051
Wealth management products purchased from financial institutions	6,104,208	–	–	–	6,104,208
Industry funds (Senior tranche)	–	–	400,000	–	400,000
Privately raised company bonds	3,571,295	2,993,950	7,474,119	–	14,039,364
Trust plans	–	–	1,086,000	3,896,600	4,982,600
Total	12,488,498	6,262,529	15,008,941	3,896,600	37,656,568

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

As at 31 December 2019	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortised cost	Financial investment – credit related financial assets	Total
RMB securities					
AAA	233,921	613,659	479,906	–	1,327,486
AA- to AA+	622,157	646,332	139,939	–	1,408,428
Unrated ^(a)	988,540	4,378,471	21,820,170	4,237,600	31,424,781
Less: expected credit impairment provision	–	–	(298,407)	(61,204)	(359,611)
Accrued Interest	–	116,784	358,328	10,404	485,516
Total	1,844,618	5,755,246	22,499,936	4,186,800	34,286,600

(a) Unrated securities

As at 31 December 2019	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortised cost	Financial investment – credit related financial assets	Total
Local government bonds	–	–	1,101,208	–	1,101,208
Government bonds	–	263,995	1,080,872	–	1,344,867
Policy bank bonds	–	756,394	3,192,725	–	3,949,119
Certificates of deposit	–	498,650	–	–	498,650
Private placement notes	–	380,182	780,000	–	1,160,182
Super short-term commercial paper	–	19,996	–	–	19,996
Funds	610,707	–	–	–	610,707
Joint-investment projects	30,000	–	–	–	30,000
Industry funds(Senior tranche)	–	–	5,756,330	–	5,756,330
Privately raised company bonds	347,833	2,459,254	9,309,035	–	12,116,122
Trust plans	–	–	600,000	3,712,600	4,312,600
Asset management plans	–	–	–	525,000	525,000
Total	988,540	4,378,471	21,820,170	4,237,600	31,424,781

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

Financial investments – amortised cost are summarised as follows:

	As at 31 December	
	2020	2019
Stage 1	15,290,832	22,190,015
Stage 2	350,000	250,000
Stage 3	250,000	–
Less: ECL allowance	(474,942)	(298,407)
Add: Accrued interest	254,938	358,328
Net amount	15,670,828	22,499,936

Financial investments – credit related financial assets are summarised as follows:

	As at 31 December	
	2020	2019
Stage 1	3,258,250	4,187,600
Stage 2	638,350	50,000
Less: ECL allowance	(246,649)	(61,204)
Add: Accrued interest	59,314	10,404
Net amount	3,709,265	4,186,800

Concentration risks analysis for financial investments – credit related financial assets by industry sectors:

	As at 31 December			
	2020		2019	
	Amount	%	Amount	%
Financial investments – credit related financial assets				
Leasing and commercial services	1,764,350	44.60	2,225,350	52.24
Agriculture, forestry, animal husbandry and fishery	1,000,000	25.28	–	–
Construction	616,000	15.57	1,082,000	25.40
Real estate	310,000	7.84	636,500	14.94
Administration of water conservancy, environment and public facilities	206,250	5.21	243,750	5.72
Manufacturing	–	–	50,000	1.17
Accrued interest	59,314	1.50	10,404	0.53
Total	3,955,914	100.00	4,248,004	100.00

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For the year ended December 31, 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.8 Foreclosed assets

	As at 31 December	
	2020	2019
Business properties	48,300	50,490
Provision for foreclosed assets	(15,855)	(19,461)
Total	32,445	31,029

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Bank does not generally occupy foreclosed properties for its business use. Foreclosed assets are classified in the statement of financial position as other assets.

3.1.9 Concentration risk analysis for financial assets with credit risk exposure

The Bank mainly conducts business in Mainland China, hence the geographical risk is primarily concentrated in Mainland China.

3.2 Market risk

3.2.1 Overview

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates and prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are monitored by risk management department and asset and liability management department. Regular reports are submitted to the Board of Directors and head of each business unit.

In accordance with the requirements of the CBIRC, the Bank categorises its business into either the trading book or the banking book. The trading book consists of positions in financial instruments held either with trading intent or in order to economically hedge other elements of the trading book or the banking book. The banking book consists of the financial instruments purchased with excess funds and other financial instruments that are not captured in trading book.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.2 Interest rate risk

The Bank's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the People's Bank of China ("PBOC"). On 20 July 2013, PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. PBOC cancelled the upper limit of the benchmark interest rates for deposits on 24 October 2015 and established RMB Loan Prime Rate (LPR) for loan as a pricing benchmark of new loan in 2019. The Bank conducts most of its domestic deposit businesses at benchmark interest rates for deposits and conducts most of its domestic loan businesses at LPR published by PBOC. By using the gap analysis system, the Bank regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Bank, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates and adjusts the repricing term structure of interest rate based on allocation strategy of assets and liabilities. Consequently, the Bank is less vulnerable to interest rate risk.

During the reporting period, the Bank closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Bank, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

The tables below summarise the Bank's exposures to interest rate risks and present the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

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For the year ended December 31, 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.2 Interest rate risk (continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2020							
Assets							
Cash and balances with central bank	10,486,165	-	-	-	-	3,906	10,490,071
Financial assets held under resale agreements, due from other banks and financial institutions	4,760,729	-	199,995	-	-	1,224	4,961,948
Financial investments at fair value through profit or loss	-	-	509,749	6,772,931	946,859	8,254,414	16,483,953
Financial investments – fair value through other comprehensive income	298,143	537,922	914,022	5,352,368	813,389	185,087	8,100,931
Customer loans	4,796,108	10,096,169	25,656,507	14,923,153	1,842,535	270,839	57,585,311
Financial investments – credit related financial assets	-	-	526,008	1,426,575	1,697,368	59,314	3,709,265
Financial investments – amortised cost	99,999	211,197	3,144,015	8,611,699	3,348,980	254,938	15,670,828
Other financial assets	134,989	6,324	35,706	9,242	-	279	186,540
Total financial assets	20,576,133	10,851,612	30,986,002	37,095,968	8,649,131	9,030,001	117,188,847
Liabilities							
Due to central bank	-	42,600	1,847,101	-	-	481,630	2,371,331
Due to other banks and financial institutions	565,326	1,215,000	2,490,000	500,000	-	60,040	4,830,366
Customer deposits	42,676,424	3,314,153	7,946,278	30,144,897	22,894	1,118,458	85,223,104
Debt securities issued	957,939	4,793,532	8,283,819	-	2,500,000	63,200	16,598,490
Other financial liabilities	7,781	-	178,176	45,946	-	23,342	255,245
Total financial liabilities	44,207,470	9,365,285	20,745,374	30,690,843	2,522,894	1,746,670	109,278,536
Total interest sensitivity gap	(23,631,337)	1,486,327	10,240,628	6,405,125	6,126,237	7,283,331	7,910,311

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For the year ended December 31, 2020
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3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.2 Interest rate risk (continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2019							
Assets							
Cash and balances with central bank	9,398,543	-	-	-	-	2,968	9,401,511
Financial assets held under resale agreements, due from other banks and financial institutions	3,184,072	99,940	-	-	-	828	3,284,840
Financial investments at fair value through profit or loss	-	-	-	1,189,706	-	670,537	1,860,243
Financial investments – fair value through other comprehensive income	518,645	-	-	4,716,782	403,035	116,784	5,755,246
Customer loans	11,316,919	15,170,347	10,350,407	5,552,762	727,405	180,894	43,298,734
Financial investments – credit related financial assets	478,933	295,993	624,935	1,215,793	1,560,742	10,404	4,186,800
Financial investments – amortised cost	147,978	52,795	2,383,346	15,272,010	4,285,479	358,328	22,499,936
Other financial assets	15,397	4,020	10,024	3,277	-	-	32,718
Total financial assets	25,060,487	15,623,095	13,368,712	27,950,330	6,976,661	1,340,743	90,320,028
Liabilities							
Due to central bank	-	-	540,000	-	-	760	540,760
Due to other banks and financial institutions	440,296	300,000	2,173,000	1,000,000	-	36,284	3,949,580
Customer deposits	27,333,440	2,598,626	5,533,165	25,159,209	-	812,520	61,436,960
Debt securities issued	868,602	3,835,701	12,472,923	-	1,000,000	48,370	18,225,596
Other financial liabilities	4,078	-	118,779	42,901	-	12,234	177,992
Total financial liabilities	28,646,416	6,734,327	20,837,867	26,202,110	1,000,000	910,168	84,330,888
Total interest sensitivity gap	(3,585,929)	8,888,768	(7,469,155)	1,748,220	5,976,661	430,575	5,989,140

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For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.3 Sensitivity tests

Interest rate sensitivity test

The result of the interest rate sensitivity tests set out in the table below is based on the following assumptions: yield curves move parallel to the change of interest rate; the assets and liabilities portfolio has a static structure of interest rate; all positions are held and renewed after maturity. However, the Bank has not considered the following: changes after the balance sheet date; the impact of interest rate fluctuations on the customers' behaviors; the complicated relationship between complex structured products and interest rate fluctuations; the impact of interest rate fluctuations on market prices; the impact of interest rate fluctuations on off-balance sheet products; and the impact of risk management.

On the basis of the above gap analysis on the interest rate, the Bank implemented sensitivity test to analyse the sensitivity of the Bank's net interest income against change in interest rate. The table below illustrates the analysis of potential pre-tax impact on the Bank's net interest income at 31 December 2020 and 2019 on the assumption of a 100 basis point parallel move of the yield curves on each balance sheet date.

	Expected changes of net interest income	
	As at 31 December	
	2020	2019
+ 100 basis point parallel move in all yield curves	(175,679)	11,699
- 100 basis point parallel move in all yield curves	175,679	(11,699)

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

	Change of other comprehensive income	
	As at 31 December	
	2020	2019
+ 100 basis point parallel move in all yield curves	(213,359)	(126,702)
- 100 basis point parallel move in all yield curves	265,033	135,798

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For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.4 Foreign exchange risk

The main place of business of the Bank is located in China, and the main business is settled in RMB. However, the Bank's foreign currency assets and liabilities and forward foreign exchange transactions still have exchange rate risks. Exchange rate risk arises from adverse exchange rate movements.

The Bank's main principle of controlling exchange rate risks is to match assets and liabilities in different currencies as much as possible and to control exchange rate risks within the limits set by the Bank. The Bank sets risk tolerance limits in accordance with the guiding principles of the risk management committee, relevant regulatory requirements and the assessment of the current environment by the management, and minimises the currency mismatch of assets and liabilities by reasonably arranging the sources of foreign currency funds and using them. The Bank shall set strict position limits, risk limits and stop-loss limits for its foreign exchange exposure arising from its trading business.

The following table summarises the distribution of the Bank's exchange rate exposure at the end of the year, and the book value of each foreign currency asset and liability has been converted into RMB amount.

	RMB	HKD	USD	Total
As at 31 December 2020				
Assets				
Cash and balances with central bank	10,490,058	–	13	10,490,071
Financial assets held under resale agreements, due from other banks and financial institutions	4,242,785	2,089	717,074	4,961,948
Customer loans (Including discounted bills)	57,585,311	–	–	57,585,311
Financial investments – fair value through profit or loss	16,483,953	–	–	16,483,953
Financial investments – fair value through other comprehensive income	8,100,931	–	–	8,100,931
Financial investments – amortised cost	15,670,828	–	–	15,670,828
Financial investments – credit related financial assets	3,709,265	–	–	3,709,265
Other financial assets	130,030	–	56,510	186,540
Total assets	116,413,161	2,089	773,597	117,188,847
Liabilities				
Due to central bank	(2,371,331)	–	–	(2,371,331)
Due to other banks and financial institutions	(4,830,366)	–	–	(4,830,366)
Customer deposits	(85,221,797)	–	(1,307)	(85,223,104)
Debt securities issued	(16,598,490)	–	–	(16,598,490)
Other financial liabilities	(255,245)	–	–	(255,245)
Total liabilities	(109,277,229)	–	(1,307)	(109,278,536)
Total exchange rate sensitivity gap	7,135,932	2,089	772,290	7,910,311
Financial guarantee and credit commitments	3,901,452	–	–	3,901,452

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.4 Foreign exchange risk (continued)

	RMB	HKD	USD	Total
As at 31 December 2019				
Assets				
Cash and balances with central bank	9,401,511	-	-	9,401,511
Financial assets held under resale agreements, due from other banks and financial institutions	2,483,898	14,305	786,637	3,284,840
Customer loans (Including discounted bills)	43,298,734	-	-	43,298,734
Financial investments – fair value through profit or loss	1,860,243	-	-	1,860,243
Financial investments – fair value through other comprehensive income	5,755,246	-	-	5,755,246
Financial investments – amortised cost	22,499,936	-	-	22,499,936
Financial investments – credit related financial assets	4,186,800	-	-	4,186,800
Other financial assets	32,718	-	-	32,718
Total assets	89,519,086	14,305	786,637	90,320,028
Liabilities				
Due to central bank	(540,760)	-	-	(540,760)
Due to other banks and financial institutions	(3,949,580)	-	-	(3,949,580)
Customer deposits	(61,436,960)	-	-	(61,436,960)
Debt securities issued	(18,225,596)	-	-	(18,225,596)
Other financial liabilities	(177,992)	-	-	(177,992)
Total liabilities	(84,330,888)	-	-	(84,330,888)
Total exchange rate sensitivity gap	5,188,198	14,305	786,637	5,989,140
Financial guarantee and credit commitments	1,845,102	-	-	1,845,102

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For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.4 Foreign exchange risk (continued)

Exchange rate sensitivity test

Following table shows the impact on pre-tax profit when foreign exchange rate changes by 1% against RMB exchange rate:

	Anticipated change in pre-tax profit/(loss)	
	31 December 2020	31 December 2019
Up 1%	7,744	8,009
Down 1%	(7,744)	(8,009)

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that the Bank cannot get sufficient funds in time with reasonable cost and unable to meet its payment obligations associated with its financial liabilities when they fall due or to meet immediate fund needs. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. The Bank's objective in liquidity management is to ensure the availability of adequate funding to meet its needs to fund deposits withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Bank is exposed to daily calls on its available cash resources from current deposits, matured deposits, loan draw downs, guarantees and cash deposit hold as collateral. The Board of Directors set the minimum proportion of funds to be made available to meet such calls and the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. As at 31 December 2020, 7.00% (31 December 2019: 8.50%) of the Bank's total RMB-denominated deposits must be deposited with the PBOC.

3.3.2 Liquidity risk management process

The Board of Directors and the liquidity risk management committee formulate the policies, strategies, procedures, limits and contingency plans relate to the overall management of liquidity risk according to risk preference. The assets and liabilities management department cooperates with other business department to form a well-organised, fully functional liquidity risk management system.

The Bank proactively applies new technology to enhance the involvement of IT in liquidity risk management. The system monitors the liquidity index and exposure, which form a mechanism in regular, automatic liquidity risk assessment, and arrange the Banking processes according to current liquidity exposure. The Bank actively modifies the assets and liabilities maturity structure, while taking control of the limit of the liquidity risk positively by carrying out performance assessment. The Bank pays constant attention to its liquidity risk management process, enhances and improves liquidity risk related policy timely, eventually achieve its goal in liquidity risk management.

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For the year ended December 31, 2020
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3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the undiscounted cash flows of the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the balance sheet date.

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Overdue	Total
As at 31 December 2020									
Liabilities									
Due to central bank	-	-	43,411	2,370,041	-	-	-	-	2,413,452
Due to other banks and financial institutions	115,583	465,860	1,250,262	2,600,925	527,000	-	-	-	4,959,630
Customer deposits	41,134,462	1,718,739	3,611,227	9,029,108	34,072,354	28,389	-	-	89,594,279
Debt securities issued	-	997,785	5,040,538	8,782,954	643,000	2,978,000	-	-	18,442,277
Other financial liabilities	23,342	7,781	-	178,176	45,946	-	-	-	255,245
Total financial liabilities	41,273,387	3,190,165	9,945,438	22,961,204	35,288,300	3,006,389	-	-	115,664,883
Assets									
Cash and balances with central bank	4,576,635	-	-	-	-	-	5,913,436	-	10,490,071
Financial assets held under resale agreements, due from other banks and financial institutions	798,230	3,965,997	-	208,854	-	-	-	-	4,973,081
Financial investments – fair value through profit or loss	-	12,300	8,045,900	1,121,733	8,579,069	1,100,050	13,050	-	18,872,102
Financial investments – FVOCI	-	348,675	542,254	1,328,930	6,723,884	1,207,111	-	-	10,150,854
Customer loans	-	3,031,571	3,859,050	17,756,969	30,239,839	19,214,488	-	301,574	74,403,491
Financial investments – credit related financial assets	-	-	73,719	741,213	2,261,258	1,856,347	-	-	4,932,537
Financial investments – amortised cost	-	151,961	385,122	3,921,427	10,359,867	4,207,065	-	-	19,025,442
Other financial assets	279	134,989	6,324	35,706	9,242	-	-	-	186,540
Total financial assets	5,375,144	7,645,493	12,912,369	25,114,832	58,173,159	27,585,061	5,926,486	301,574	143,034,118
Net positions	(35,898,243)	4,455,328	2,966,931	2,153,628	22,884,859	24,578,672	5,926,486	301,574	27,369,235

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3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk (continued)

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Overdue	Total
As at 31 December 2019									
Liabilities									
Due to central bank	-	-	-	554,861	-	-	-	-	554,861
Due to other banks and financial institutions	85,687	360,772	303,710	2,250,256	1,076,192	4,076,617	-	-	-
Customer deposits	26,578,737	864,346	2,675,322	6,282,018	28,652,413	-	-	-	65,052,836
Debt securities issued	-	870,000	3,860,000	12,780,000	-	1,000,000	-	-	18,510,000
Other financial liabilities	12,234	4,078	-	118,779	42,901	-	-	-	177,992
Total financial liabilities	26,676,658	2,099,196	6,839,032	21,985,914	29,771,506	1,000,000	-	-	88,372,306
Assets									
Cash and balances with central bank	4,263,643	-	-	-	-	-	5,137,868	-	9,401,511
Financial assets held under resale agreements, due from other banks and financial institutions	127,596	3,059,651	101,386	-	-	-	-	-	3,288,633
Financial investments – fair value through profit or loss	-	-	610,707	30,000	1,614,335	-	15,625	-	2,270,667
Financial investments – FVOCI	-	520,520	14,019	332,107	5,582,761	473,840	-	-	6,923,247
Customer loans	-	3,335,003	2,445,787	9,649,256	21,358,366	22,086,277	-	138,818	59,013,507
Financial investments – credit related financial assets	-	481,440	299,060	685,041	1,529,028	2,321,985	-	-	5,316,554
Financial investments – amortised cost	-	193,380	121,408	2,755,058	17,926,839	6,716,014	-	-	27,712,699
Other financial assets	2,724	12,673	4,020	10,024	3,277	-	-	-	32,718
Total financial assets	4,393,963	7,602,667	3,596,387	13,461,486	48,014,606	31,598,116	5,153,493	138,818	113,959,536
Net positions	(22,282,695)	5,503,471	(3,242,645)	(8,524,428)	18,243,100	30,598,116	5,153,493	138,818	25,587,230

Assets available to meet all of the liabilities include cash, balances with central bank, items in the course of collection and treasury; due from other banks and financial institutions; and customer loans. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, certain debt securities have been pledged for liabilities. The Bank would also be able to meet unexpected net cash outflows by selling securities, using credit commitments from other financial institutions, early termination of borrowings from other financial institutions and repurchase agreements and using the mandatory reserve deposits upon the PBOC's approval.

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3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.4 Maturity analysis

The table below analyses the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Overdue	Total
As at 31 December 2020									
Assets									
Cash and balances with central bank	4,576,635	-	-	-	-	-	5,913,436	-	10,490,071
Financial assets held under resale agreements, due from other banks and financial institutions	798,230	3,963,297	-	200,421	-	-	-	-	4,961,948
Financial investments – fair value through profit or loss	-	12,030	8,044,516	694,567	6,772,931	946,859	13,050	-	16,483,953
Financial investments – FVOCI	-	345,634	540,074	1,049,466	5,352,368	813,389	-	-	8,100,931
Customer loans	-	2,833,563	3,615,189	16,140,079	24,351,217	10,343,689	-	301,574	57,585,311
Financial investments – credit related financial assets	-	-	-	527,348	1,429,431	1,752,486	-	-	3,709,265
Financial investments – amortised cost	-	143,373	266,567	3,237,862	8,704,705	3,318,321	-	-	15,670,828
Other financial assets	279	134,989	6,324	35,706	9,242	-	-	-	186,540
Total financial assets	5,375,144	7,432,886	12,472,670	21,885,449	46,619,894	17,174,744	5,926,486	301,574	117,188,847
Liabilities									
Due to central bank	-	-	42,455	2,328,876	-	-	-	-	2,371,331
Due to other banks and financial institutions	115,583	465,366	1,243,351	2,505,653	500,413	-	-	-	4,830,366
Customer deposits	41,133,046	1,612,400	3,396,836	8,167,160	30,890,499	23,163	-	-	85,223,104
Debt securities issued	-	957,938	4,842,030	8,298,522	-	2,500,000	-	-	16,598,490
Other financial liabilities	23,342	7,781	-	178,176	45,946	-	-	-	255,245
Total financial liabilities	41,271,971	3,043,485	9,524,672	21,478,387	31,436,858	2,523,163	-	-	109,278,536
Net liquidity gap	(35,896,827)	4,389,401	2,947,998	407,062	15,183,036	14,651,581	5,926,486	301,574	7,910,311

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3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.4 Maturity analysis (continued)

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Overdue	Total
As at 31 December 2019									
Assets									
Cash and balances with central bank	4,263,643	-	-	-	-	-	5,137,868	-	9,401,511
Financial assets held under resale agreements, due from other banks and financial institutions	127,596	3,057,272	99,972	-	-	-	-	-	3,284,840
Financial investments – fair value through profit or loss	-	-	610,707	30,000	1,203,911	-	15,625	-	1,860,243
Financial investments – FVOCI	-	518,681	9,049	107,699	4,716,782	403,035	-	-	5,755,246
Customer loans	-	3,106,543	2,250,322	8,883,611	16,868,619	12,050,821	-	138,818	43,298,734
Financial investments – credit related financial assets	-	479,791	296,793	626,746	1,219,337	1,564,133	-	-	4,186,800
Financial investments – amortised cost	-	191,362	108,785	2,442,795	15,457,586	4,299,408	-	-	22,499,936
Other financial assets	2,724	12,673	4,020	10,024	3,277	-	-	-	32,718
Total financial assets	4,393,963	7,366,322	3,379,648	12,100,875	39,469,512	18,317,397	5,153,493	138,818	90,320,028
Liabilities									
Due to central bank	-	-	-	540,760	-	-	-	-	540,760
Due to other banks and financial institutions	85,687	380,266	301,555	2,180,911	1,001,161	-	-	-	3,949,580
Customer deposits	27,365,163	780,797	2,598,626	5,533,165	25,159,209	-	-	-	61,436,960
Debt securities issued	-	868,602	3,884,071	12,472,923	-	1,000,000	-	-	18,225,596
Other financial liabilities	12,234	4,078	-	118,779	42,901	-	-	-	177,992
Total financial liabilities	27,463,084	2,033,743	6,784,252	20,846,538	26,203,271	1,000,000	-	-	84,330,888
Net liquidity gap	(23,069,121)	5,332,579	(3,404,604)	(8,745,663)	13,266,241	17,317,397	5,153,493	138,818	5,989,140

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.5 Off-balance-sheet items

The table below lists the off-balance-sheet statement items of the Bank according to their remaining term to maturity, and also includes the future minimum lease payments under non-cancellable operating leases where the Bank are the lessees. The financial commitments are listed by the earliest maturity date in its notional principal.

As at 31 December 2020	Within 1 year	1-5 years	Over 5 years	Total
Acceptances	3,548,104	–	–	3,548,104
Guarantees	188,158	165,190	–	353,348
Capital expenditure commitments	66,129	48,929	–	115,058
Total	3,802,391	214,119	–	4,016,510

As at 31 December 2019	Within 1 year	1-5 years	Over 5 years	Total
Acceptances	955,805	–	–	955,805
Guarantees	3,871	885,426	–	889,297
Capital expenditure commitments	28,440	62,763	–	91,203
Total	988,116	948,189	–	1,936,305

The Bank has no irrevocable loan commitments.

3.4 Fair values of financial assets and liabilities

(a) Financial instruments not measured at fair value

Financial assets and liabilities that are not measured at fair value in consolidated financial position mainly include: balances with central bank, due from other banks and financial institutions, customer loans, credit related financial assets, financial investments-amortised cost, due to other banks and financial institutions, customer deposits, debt securities issued. Except for the following financial assets and financial liabilities, the carrying amounts of financial assets and liabilities that are not measured at fair value are quite small from the fair value.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities (continued)

(a) Financial instruments not measured at fair value (continued)

The table below summarises the financial assets and liabilities that have difference between carrying amounts (include accrued interest) and fair value as at 31 December 2020 and 2019.

	Book value	As at 31 December 2020			
		Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– amortised cost	15,670,828	–	7,388,233	8,423,786	15,812,019
Financial investments					
– credit related financial assets	3,709,265	–	–	3,900,523	3,900,523
Financial liabilities					
Debt securities issued	16,598,490	–	16,543,246	–	16,543,246

	Book value	As at 31 December 2019			
		Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– amortised cost	22,499,936	–	7,569,536	15,224,835	22,794,371
Financial investments					
– credit related financial assets	4,186,800	–	–	4,225,093	4,225,093
Financial liabilities					
Debt securities issued	18,225,596	–	18,271,313	–	18,271,313

Financial investments – credit related financial assets

The fair value for financial investments – credit related financial assets is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

Financial investments – amortised cost

The fair value for financial investments – amortised cost (excluding bonds) is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

The fair value for bonds measured at amortised cost are based on market prices or broker/dealer price quotations. Where the information is not available, fair value is estimated using quoted market prices for securities with similar credit risk, maturity and yield characteristics.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities (continued)

(a) Financial instruments not measured at fair value (continued)

Debt securities issued

The fair value of fixed interest bearing debt securities issued is calculated using a discounted cash flow model which is based on a current yield curve appropriate for the remaining term to maturity.

Other than above, the carrying values of those financial assets and liabilities not presented at their fair value on the consolidated statement of financial position are a reasonable approximation of their fair values. Those financial assets and liabilities include balances with central bank, due from other banks and financial institutions, customer loans, due to other banks and financial institutions, customer deposits, etc. Fair value is measured using a discounted future cash flow model.

(b) Fair value hierarchy

IFRS 7 specifies the levels of valuation techniques that based on the inputs of valuation techniques that are observable or not. The observable inputs reflect the market data obtained from independent sources. These two inputs lead to the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities, debt instruments in house (e.g. Hong Kong Stock Exchange).
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly or indirectly. This level includes the debt instruments dealing in the interbank market. For example, the input parameters of bond yield curves and counterparty credit risk from China bond information website and Bloomberg.
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs). This level includes equity instruments and structural financial instruments.

The Bank determines the fair value of the financial instruments by valuation techniques when it is difficult to obtain quotations from the open market.

The main parameters of valuation techniques used in financial instruments includes the price of the bond, interest rate, exchange rate, stock and equity price, volatility level, correlation, prepayment rates, and the credits spreads of counterparty. All of these parameters can be observed and obtained from the open market.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

The measurement of the fair value of wealth management products purchased from financial institutions, joint-investment projects and unlisted equity (private equity) held by the Bank adopts unobservable parameters that may have significant impact on the valuations. Thus, the Bank would better classify these financial instruments to the third level. Management has assessed the influence of macroeconomic factors, the valuation by external appraiser, loss coverage, and many other parameters, so as to examine the correlation between the fair value of third level financial instruments and the above parameters. The Bank has established an internal control system to supervise the exposure of the financial instrument above.

Fair values of assets and liabilities are as below.

As at 31 December 2020	Level 1	Level 2	Level 3	Total
Customer loans – discounted bills	–	–	4,778,348	4,778,348
Financial investments – fair value through profit or loss	1,946,826	8,401,872	6,135,255	16,483,953
Financial investments – FVOCI	–	8,100,931	–	8,100,931
Total	1,946,826	16,502,803	10,913,603	29,363,232

As at 31 December 2019	Level 1	Level 2	Level 3	Total
Customer loans – discounted bills	–	–	1,499,648	1,499,648
Financial investments – fair value through profit or loss	1,829,247	–	30,996	1,860,243
Financial investments – FVOCI	–	5,755,246	–	5,755,246
Total	1,829,247	5,755,246	1,530,644	9,115,137

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Movement of Level-3 valuation methodology

	Financial investments – fair value through profit or loss	Customer loans – discounted bills
Balance at 1 January 2020	30,996	1,499,648
Total gains or losses – Current profit and loss	4,259	–
Additions	12,400,000	4,778,348
Disposals and settlement	(6,300,000)	(1,499,648)
Balance at 31 December 2020	6,135,255	4,778,348
Total gains for the year included in profit and loss for financial assets held as at 31 December 2020	30,503	–
	Financial investments – fair value through profit or loss	Customer loan – discounted bills
Balance at 1 January 2019	30,996	644,907
Additions	–	1,499,648
Disposals and settlement	–	(644,907)
Balance at 31 December 2019	30,996	1,499,648
Total gains for the year included in profit and loss for financial assets held as at 31 December 2019	–	–

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Movement of Level-3 valuation methodology (continued)

Quantitative information about the significant unobservable inputs used in the fair value measurement of Level 3 for the year ended 31 December 2020 and 31 December 2019 presented as follows:

As at 31 December 2020	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range of discount rate/Net assets value
Financial investments – fair value through profit or loss				
– Wealth management products purchased from financial institutions	6,104,208	Discounted cash flow analysis	Risk-adjusted discount rate	1.80%-3.58%
– Joint-investment projects	30,051	Net assets analysis	Net assets	1.0017
Customer loans – discounted bills	4,778,348	Discounted cash flow analysis	Risk-adjusted discount rate	0.97%-10.91%

As at 31 December 2019	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range of discount rate/Net assets value
Financial investments – fair value through profit or loss				
– Joint-investment projects	30,000	Net assets analysis	Net assets	1.0000
Customer loans – discounted bills	1,499,648	Discounted cash flow analysis	Risk-adjusted discount rate	1.59%-9.98%

As at 31 December 2020, unlisted equity investments using recent transaction prices without adjustment amounted to RMB996 thousand (As at 31 December 2019: RMB996 thousand).

3.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- To comply with the capital requirements set by the regulators of the Banking markets where the entities within the Bank operate;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy ratio and the use of regulatory capital are monitored quarterly by the Bank's management with employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis.

Notes to the Financial Statements

For the year ended December 31, 2020

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.5 Capital management (continued)

The Bank calculated the capital adequacy ratio based on the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial) issued by CBRC in June 2012. According to the approach, the Bank calculated the credit risk-weighted assets measurement by the weighted method, market risk-weighted assets measurement by the standard method, and operation risk-weighted assets measurement by the basic indicator method.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial). For systematically important banks, CBIRC requires minimum core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of 8.50%, 9.50% and 11.50% respectively. For non-systematically important banks, CBIRC requires corresponding minimum ratios of 7.50%, 8.50% and 10.50%, respectively. At present, the Bank is fully compliant with these legal and regulatory requirements.

The capital adequacy ratio of 2020 and 2019 under the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial) is as follows:

	As at 31 December	
	2020	2019
Core capital:	12,399,788	8,932,089
Core Tier 1 Capital total	7,252,125	6,889,509
Other Tier 1 Capital total	1,696,824	–
Tier 2 Capital total	3,450,839	2,042,580
Net capital	12,399,788	8,891,351
Total Net Core Tier 1 Capital	7,252,125	6,848,771
Total Net Other Tier 1 Capital	1,696,824	–
Net Tier 1 Capital	8,948,949	6,848,771
Total risk-weighted assets after applying capital base	89,382,809	73,539,932
Core Tier 1 Capital adequacy ratio	8.11%	9.31%
Tier 1 Capital adequacy ratio	10.01%	9.31%
Capital adequacy ratio	13.87%	2.09%

3.6 Fiduciary activities

The Bank provides custody and trustee services to third parties. Those assets that are held in a fiduciary capacity are not included in the financial statements.

	As at 31 December	
	2020	2019
Entrusted loans	3,193,986	3,657,341

Notes to the Financial Statements

For the year ended December 31, 2020

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) ECL allowance of financial assets

The Bank has adopted IFRS 9 on 1 January 2018 to measure and account for financial instruments. For customer loans, credit related financial assets and financial investments measured at amortised cost, the measurement of expected credit losses uses complex models and a large number of assumptions. These models and assumptions relate to future macroeconomic conditions and borrowers' credit behavior (e.g. the probability of default and the corresponding losses).

According to the requirements of accounting standards, the measurement of expected credit losses involves many critical judgements. For example:

Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;

Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;

Selection of economic indicators for forward-looking measurement, and the application of economic scenarios and weightings.

For measurement of the expected credit loss of financial assets, please refer to Note 3.1.4.

b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation models (e.g. discounted cash flow model). To the extent practical, only observable data is used in the discounted cash flow model. However, areas such as credit risks (from both parties of transactions), market volatilities and correlations require the management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

c) Income taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice. Where the final tax outcomes of these matters are different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and business tax in the period during which such a determination is made (Note 13).

Notes to the Financial Statements

For the year ended December 31, 2020

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

d) Consolidation of structured entity

Structured entity, refers that when judging the control side of the entity, the key elements to consider are the contracts which the entities' main activities are based on or the corresponding arrangements rather than the voting rights or similar rights (for example: the voting rights are just associated with administrative matters only).

When the Bank acts as asset manager in a structured entity, the Bank needs to identify whether it controls the entity. There are three considerations: (i) Power to the invested entity; (ii) Exposure to variable remuneration of the invested entity; and (iii) The ability to use the power to influence the amount of remuneration of the invested entity. If there is any indication that the control elements of the above have changed, the Bank will reassess its control over the invested entity. During the evaluation, the Bank considers many factors, such as: the scope of asset manager's decision-making power, rights held by other parties, commission levels as management service provider, and any other arrangements (such as direct investment) which could affect the amount of remuneration.

5 NET INTEREST INCOME

	Year ended 31 December	
	2020	2019
Interest income		
Balances with central bank	99,973	108,310
Financial assets held under resale agreements, due from other banks and financial institutions	141,449	153,622
Customer loans	3,829,135	2,997,655
Financial investments – credit related financial assets	304,017	463,697
Financial investments	1,687,366	1,688,773
Subtotal	6,061,940	5,412,057
Include: interest income generated from impaired financial assets.	21,095	4,397
Interest expenses		
Due to central bank	(23,504)	(25,738)
Due to other banks and financial institutions	(181,743)	(219,108)
Customer deposits	(2,429,874)	(1,812,834)
Debt securities issued	(667,554)	(634,203)
Other interest expense	(2,823)	(2,049)
Subtotal	(3,305,498)	(2,693,932)
Net interest income	2,756,442	2,718,125

Notes to the Financial Statements

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6 NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2020	2019
Fee and commission income		
Commission income from settlement services	1,687	2,229
Commission income from bank card services	1,882	2,277
Commission income from agency services	1,247	968
Commission income from guarantees and credit commitments	3,416	4,223
Commission income from wealth management agency service	2,149	–
Commission income from investment banking services	817	693
Other commission income	48	167
Total	11,246	10,557
Fee and commission expenses	(6,161)	(5,472)
Net fee and commission income	5,085	5,085

7 NET GAINS ON TRADING ACTIVITIES

	Year ended 31 December	
	2020	2019
Debt securities	249,858	12,298
Foreign exchange (losses)/gains	(1,754)	11,803
Total	248,104	24,101

8 NET GAINS ON FINANCIAL INVESTMENTS

	Year ended 31 December	
	2020	2019
Net gains arising from de-recognition of FVOCI	31,181	19,409
Net gains of financial assets at FVPL	85,880	37,495
Total	117,061	56,904

Notes to the Financial Statements

For the year ended December 31, 2020

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9 OTHER OPERATING INCOME

	Year ended 31 December	
	2020	2019
Net gains/(losses) on disposal of foreclosed assets	746	(10,347)
Net gains on disposal of fixed assets	264	–
Incentive and subsidy funds	6,532	5,582
Penalty on early termination of contract	13,521	2,340
Rental income from investment properties	4,014	4,733
Other miscellaneous income (1)	2,951	108
Total	28,028	2,416

(1) Other miscellaneous income mainly includes penalty and confiscatory income

10 OPERATING EXPENSES

	Year ended 31 December	
	2020	2019
Staff costs (including directors and supervisors' emoluments (allowance inclusive)) (1)	644,912	595,549
Business and administrative expenses	258,469	229,146
Professional service fees	33,986	32,224
Auditor's remuneration	2,840	2,800
Rental fees	444	870
Depreciation and amortization	175,895	123,489
Tax and surcharges	38,022	27,487
Expenditures on public welfare donations	5,464	7,889
Other non-operating expenses	2,112	1,861
Other business expenses	14,522	15,016
Total	1,176,666	1,036,331

(1) Staff Costs

	Year ended 31 December	
	2020	2019
Salaries and bonuses	487,974	437,663
Defined contribution plans ^(a)	39,488	50,693
Other social security and benefit costs	35,282	33,708
Housing benefits and subsidies	24,958	21,853
Staff benefits	40,327	32,102
Staff education and labour union expenses	16,883	19,530
Total	644,912	595,549

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For the year ended December 31, 2020

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10 OPERATING EXPENSES (continued)

(1) STAFF COSTS (continued)

(a) Defined contribution plans

The bank's defined contribution plans are mainly basic pension insurance, enterprise annuity and unemployment insurance paid for employees.

Employees who retire after 8 November 2016 can voluntarily participate in an annuity plan set up by the Bank pursuant to related state corporate annuity regulations. The Bank contributes to the annuity plan based on certain percentage of the employees' gross salary of previous year and the contribution is recognised in other comprehensive income as incurred.

The amount recognised in profit or loss is as follows:

	For the year ended 31 December	
	2020	2019
Expenses incurred for retirement benefit	4,473	27,194
Expenses incurred for corporate annuity plan	35,015	23,499
Total	39,488	50,693

The amount payable at the end of the year is as follows:

	As at 31 December	
	2020	2019
Statement of financial position obligations for:		
Expenses incurred for retirement benefit	1,472	408
Expenses incurred for corporate annuity plan	4	1,223
Total	1,476	1,631

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11 DIRECTORS AND SUPERVISORS' EMOLUMENTS (ALLOWANCE INCLUSIVE)

Top five highest paid individuals' remunerations are shown as below:

	Year ended 31 December	
	2020	2019
Salaries, allowance and benefits	5,673	3,258
Discretionary bonuses	16,193	8,309
Contribution to pension schemes	83	66
	21,949	11,633

The range of senior managements and individuals' remuneration is shown as below:

	Number of individuals	
	Year ended 31 December	
	2020	2019
HK\$2,000,001 – HK\$ 2,500,000	–	2
HK\$2,500,001 – HK\$ 3,000,000	–	3
HK\$3,000,001 – HK\$ 3,500,000	–	–
HK\$3,500,001 – HK\$ 4,000,000	–	–
HK\$4,000,001 – HK\$ 4,500,000	1	–
HK\$4,500,001 – HK\$ 5,000,000	1	–
HK\$5,000,001 and above	3	–
	5	5

Five highest paid individuals

For the year ended 31 December 2020, the five highest paid individuals in the Bank are all marketing management, none of them are directors or supervisors (2019: Same).

The Bank does not pay any remuneration to any director, supervisor or five persons with the highest remuneration to compensate them for bonuses or resignations to join or upon joining the Bank.

In accordance with regulations authorised by relevant authorities in the PRC, the compensation package for certain directors and supervisors for the current year have not been finalised. Management of the Bank believes that difference in emoluments will not have significant impact on the financial statements of the Bank for the year ended 31 December 2020. The disclosed amount of remuneration is the amount paid in current year, including the emolument of the previous year deferred to the current year.

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11 DIRECTORS AND SUPERVISORS' EMOLUMENTS (ALLOWANCE INCLUSIVE) (continued)

Details of the directors' and supervisors' emoluments for the year ended 31 December 2020 are as follows:

Name	Fees	Salaries, allowance and benefits	Discretionary bonuses	Contribution to pension schemes	Total
Executive directors					
You Jiang	-	375	760	17	1,152
Xu Xianzhong	-	375	769	17	1,161
Liu Shirong	-	360	710	17	1,087
Non-executive directors					
Gu Ming'an	333	-	-	-	333
Huang Yongqing	330	-	-	-	330
Tang Baoqi	333	-	-	-	333
Ye Changqing	332	-	-	-	332
Xiong Guoming	28	-	-	-	28
Liu Qi	7	-	-	-	7
Dai Zhiwei	6	-	-	-	6
Pan Lina	9	-	-	-	9
Liu Anyuan	10	-	-	-	10
Zhong Jin ⁽¹⁾	21	-	-	-	21
Jiang Bo ⁽¹⁾	-	-	-	-	-
Supervisors					
Yuan Shihong	-	360	716	17	1,093
Chen Yong	-	254	524	17	795
Liu Yongli	-	252	505	17	774
Guo Bing	74	-	-	-	74
Duan Xuebin	88	-	-	-	88
	1,571	1,976	3,984	102	7,633

- (1) At the 2019 annual general meeting of shareholders held on 26 May 2020, Zhong Jin was elected as independent non-executive director of the Bank. The director has been performing his duty since 30 November 2020. Jiang Bo no longer served as non-executive director since July 2020.

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11 DIRECTORS AND SUPERVISORS' EMOLUMENTS (ALLOWANCE INCLUSIVE) (continued)

Details of the directors' and supervisors' emoluments for the year ended 31 December 2019 are as follows:

Name	Fees	Salaries, allowance and benefits	Discretionary bonuses	Contribution to pension schemes	Total
Executive directors					
You Jiang	–	375	783	17	1,175
Xu Xianzhong	–	377	783	17	1,177
Liu Shirong	–	359	705	17	1,081
Non-executive directors					
Gu Ming'an	304	–	–	–	304
Huang Yongqing	302	–	–	–	302
Tang Baoqi	255	–	–	–	255
Ye Changqing	254	–	–	–	254
Liu Xiaoyu ⁽¹⁾	187	–	–	–	187
Xiong Guoming	26	–	–	–	26
Xu Yan ⁽¹⁾	3	–	–	–	3
Liu Qi	7	–	–	–	7
Dai Zhiwei	6	–	–	–	6
Pan Lina ⁽¹⁾	–	–	–	–	–
Liu Anyuan ⁽¹⁾	–	–	–	–	–
Jiang Bo ⁽¹⁾	–	–	–	–	–
Supervisors					
Yuan Shihong	–	362	705	17	1,084
Chen Yong	–	256	517	17	790
Liu Yongli	–	269	537	17	823
Huang Ping ⁽²⁾	68	–	–	–	68
Guo Bing ⁽²⁾	32	–	–	–	32
Duan Xuebin	87	–	–	–	87
	1,531	1,998	4,030	102	7,661

(1) At the 2018 annual general meeting of shareholders held on 28 May 2019, Pan Lina, Liu Anyuan and Jiang Bo were elected as non-executive directors of the Bank. The three directors have been performing their duties since 31 December 2019. Xu Yan no longer served as non-executive director and Liu Xiaoyu no longer served as independent director.

(2) At the 2018 annual general meeting of shareholders held on 28 May 2019, Guo Bing was elected as supervisor. Huang Ping no longer served as supervisor.

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For the year ended December 31, 2020

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

11 DIRECTORS AND SUPERVISORS' EMOLUMENTS (ALLOWANCE INCLUSIVE) (continued)

The remuneration shown above represents remuneration received from the Bank by these directors in their capacity as employees of the Bank.

Emolument waived by directors during each of the years ended 31 December 2020 and 2019:

	Year ended 31 December	
	2020	2019
Xu Yan	-	20
Liu Qi	20	20
Dai Zhiwei	20	20
Jiang Bo	3	-
Total	43	60

No emoluments were paid by the Bank to the directors as an inducement to join the Bank, or as compensation for loss of office during each of the years ended 31 December 2020 and 31 December 2019.

(a) Directors' retirement benefits

There is no retirement benefits paid to the directors during the year ended 31 December 2020 by defined benefit pension plans operated by the Bank. No other retirement benefits were paid to the directors in respect of their other services in connection with the management of the Bank other than those disclosed above (2019: same).

(b) Directors' termination benefits

None of the directors received or will receive any termination benefits during each of the years ended 31 December 2020 and 31 December 2019.

(c) Consideration provided to third parties for making available directors' services

During each of years ended 31 December 2020 and 31 December 2019, the Bank did not pay any consideration to any third parties for making available the services of themselves as directors of the Bank.

(d) Directors' material interests in transactions, arrangements or contracts

In addition to the transactions disclosed in other parts of the notes to past financial information, the directors of the Bank did not directly or indirectly have significant interests in any other major transactions, arrangements and contracts made by the Bank during the end of the performance record period or at any time during the period.

Notes to the Financial Statements

For the year ended December 31, 2020

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

12 EXPECTED CREDIT LOSSES

	Year ended 31 December	
	2020	2019
ECL for customer loans at amortised cost (Note 17(b))	726,921	796,889
ECL for customer loans – FVOCI (Note 17(b))	51,056	13,454
ECL for financial investments – credit related financial assets (Note 18)	185,445	(27,206)
ECL for other financial investments	277,387	91,588
ECL for guarantee commitments	(930)	(3,418)
Other impairment losses (Note 25)	2,362	73,432
Total	1,242,241	944,739

13 INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
Current income tax	432,765	395,901
Deferred income tax (Note 24)	(268,589)	(200,165)
Total	164,176	195,736

Current income tax is calculated the statutory tax rate of 25% based on the taxable income of estimated assessable profit of the Bank for the respective year as stipulated in PRC tax laws.

The difference between the actual income tax charge in the profit or loss and the amounts which would result from applying the enacted tax rate 25% (2019: 25%) to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2020	2019
Profit before income tax	740,250	829,648
Tax calculated at a tax rate of 25%	185,063	207,412
Tax effect arising from non-taxable income (a)	(26,212)	(19,076)
Tax effect of expenses that are not deductible for tax purposes (b)	5,325	7,400
Income tax expense	164,176	195,736

Notes to the Financial Statements

For the year ended December 31, 2020

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13 INCOME TAX EXPENSE (continued)

- (a) The Bank's non-taxable income mainly represents interest income arising from government bonds, local government bonds and investment return on monetary funds, which are non-taxable in accordance with the PRC tax laws.
- (b) The Bank's expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses etc., which exceed the tax deduction limits pursuant to the PRC tax laws.

14 BASIC AND DILUTED EARNINGS PER SHARE

- (a) Basic earnings per share are calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2020	2019
Net profit attributable to shareholders of the Bank (RMB' 000)	576,074	633,912
Weighted average number of ordinary shares issued (' 000)	2,264,793	2,261,654
Basic earnings per share (in RMB)	0.25	0.28

On 14 January 2019, the Bank has completed its over-allotment of 81,860,000 H shares. After this issue, the share capital of the Bank is RMB2,264,793,385, divided into 2,264,793,385 shares of RMB1 each, including 627,600,000 H shares.

The Bank issued non-cumulative perpetual bonds on 18 March 2020 and 11 June 2020 under the terms and conditions as detailed in Note 31.1 Perpetual Bonds. For the purpose of calculating basic earnings per share, distributions on non-cumulative perpetual bonds declared in respect of the period should be deducted from the amounts attributable to shareholders of the Bank. The Bank has not declared any distributions on perpetual bonds for the year ended 31 December 2020.

Please refer to Note 30 about the changes in share capital.

(b) Diluted earnings per share

For the years ended 31 December 2020 and 2019, there was no potential diluted ordinary shares, so the diluted earnings per share was the same as the basic earnings per share.

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For the year ended December 31, 2020

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

15 CASH AND BALANCES WITH CENTRAL BANK

	As at 31 December	
	2020	2019
Cash	79,640	76,685
Mandatory reserve deposits with central bank (a)	5,913,436	5,137,868
Surplus reserve deposits with central bank	4,212,815	4,068,398
Fiscal deposits with central bank	280,274	115,592
Accrued interest	3,906	2,968
Total	10,490,071	9,401,511

- (a) The Bank is required to place mandatory reserve deposits and mandatory reserve for foreign forward exchange with the People's Bank of China ("PBOC"). These mandatory reserves are not available for use in the daily business of the Bank.

As at 31 December 2020 and 31 December 2019, the mandatory reserve deposits rates of the Bank are as follows:

	As at 31 December	
	2020	2019
Mandatory reserve rate for deposits denominated in RMB	7.00%	8.50%

Mandatory reserve deposits with central bank are not available for use by the Bank in its day to day operations.

Surplus reserve deposits are maintained with central bank mainly for liquidity purpose.

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16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS, DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	As at 31 December	
	2020	2019
Securities purchased under resale agreements	3,663,045	2,272,280
Placements with other banks and financial institutions	212,770	113,442
Deposits with other banks and financial institutions	1,097,952	911,896
Less:ECL allowance	(13,043)	(13,606)
Accrued interest	1,224	828
Total	4,961,948	3,284,840

17 CUSTOMER LOANS

(a) Customer loans

	As at 31 December	
	2020	2019
Customer loans at amortised cost		
Corporate loans	46,850,100	36,902,397
Personal loans	7,724,429	6,175,779
Accrued interest	270,839	180,894
Gross amount of loans at amortised cost	54,845,368	43,259,070
Less: ECL allowance	(2,038,405)	(1,459,984)
Net customer loans at amortised cost	52,806,963	41,799,086
Customer loans – FVOCI		
Discounted bills	4,778,348	1,499,648
Net customer loans – FVOCI	4,778,348	1,499,648
Net customer loans	57,585,311	43,298,734

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For the year ended December 31, 2020

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

17 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance

Corporate loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2020	663,570	509,487	216,332	1,389,389
New financial assets originated or purchased	425,379	-	-	425,379
Remeasurement	208,940	68,755	252,331	530,026
Repayments	(250,866)	(22,665)	(49,181)	(322,712)
Written-off	-	-	(219,216)	(219,216)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(4,781)	4,781	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(141)	-	141	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(447,977)	447,977	-
<i>Transfer from Stage 3 to Stage 2</i>	-	-	-	-
<i>Transfer from Stage 2 to Stage 1</i>	3,013	(3,013)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Recoveries of loans written-off in previous years	-	-	32,125	32,125
Unwinding of discount	-	-	22,295	22,295
Loss allowance as at 31 December 2020	1,045,114	109,368	702,804	1,857,286

Personal loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2020	26,068	25,222	19,305	70,595
New financial assets originated or purchased	74,368	-	-	74,368
Remeasurement	11,533	23,738	16,382	51,653
Repayments	(16,321)	(8,387)	(7,085)	(31,793)
Written-off	-	-	(15,280)	(15,280)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(348)	348	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(435)	-	435	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(3,653)	3,653	-
<i>Transfer from Stage 3 to Stage 2</i>	-	601	(601)	-
<i>Transfer from Stage 2 to Stage 1</i>	1,264	(1,264)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	385	-	(385)	-
Recoveries of loans written-off in previous years	-	-	29,484	29,484
Unwinding of discount	-	-	2,092	2,092
Loss allowance as at 31 December 2020	96,514	36,605	48,000	181,119

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For the year ended December 31, 2020

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

17 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance (continued)

Corporate loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2019	517,143	122,222	87,824	727,189
New financial assets originated or purchased	479,966	–	–	479,966
Remeasurement	(35,563)	456,710	223,884	645,031
Repayments	(272,112)	(85,898)	(28,064)	(386,074)
Written-off	–	–	(91,940)	(91,940)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(19,237)	19,237	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(6,627)	–	6,627	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(2,784)	2,784	–
<i>Transfer from Stage 3 to Stage 2</i>	–	–	–	–
<i>Transfer from Stage 2 to Stage 1</i>	–	–	–	–
<i>Transfer from Stage 3 to Stage 1</i>	–	–	–	–
Recoveries of loans written-off in previous years	–	–	10,273	10,273
Unwinding of discount	–	–	4,944	4,944
Loss allowance as at 31 December 2019	663,570	509,487	216,332	1,389,389

Personal loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2019	18,082	16,913	30,649	65,644
New financial assets originated or purchased	13,155	–	–	13,155
Remeasurement	3,146	11,556	50,283	64,985
Repayments	(10,102)	(1,467)	(8,605)	(20,174)
Written-off	–	–	(59,670)	(59,670)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(82)	82	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(83)	–	83	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(1,105)	1,105	–
<i>Transfer from Stage 3 to Stage 2</i>	–	290	(290)	–
<i>Transfer from Stage 2 to Stage 1</i>	1,047	(1,047)	–	–
<i>Transfer from Stage 3 to Stage 1</i>	905	–	(905)	–
Recoveries of loans written-off in previous years	–	–	6,197	6,197
Unwinding of discount	–	–	458	458
Loss allowance as at 31 December 2019	26,068	25,222	19,305	70,595

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17 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance (continued)

Discounted bills	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	21,166	-	-	21,166
Provision for impairment	51,056	-	-	51,056
As at 31 December 2020	72,222	-	-	72,222

Discounted bills	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	7,712	-	-	7,712
Provision for impairment	13,454	-	-	13,454
As at 31 December 2019	21,166	-	-	21,166

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

17 CUSTOMER LOANS (continued)

(c) Movements on gross amount (excluding interest receivable) of customer loans

The following table further illustrates the changes in the gross amounts of the corporate and personal loans portfolios to explain the impact of these changes on the portfolio's ECL.

Corporate loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	35,010,431	1,518,220	373,746	36,902,397
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	<i>(259,860)</i>	<i>259,860</i>	<i>-</i>	<i>-</i>
<i>Transfer from Stage 1 to Stage 3</i>	<i>(9,500)</i>	<i>-</i>	<i>9,500</i>	<i>-</i>
<i>Transfer from Stage 2 to Stage 3</i>	<i>-</i>	<i>(1,231,870)</i>	<i>1,231,870</i>	<i>-</i>
<i>Transfer from Stage 3 to Stage 2</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Transfer from Stage 2 to Stage 1</i>	<i>22,900</i>	<i>(22,900)</i>	<i>-</i>	<i>-</i>
<i>Transfer from Stage 3 to Stage 1</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Derecognition of financial assets of current year	(13,235,917)	(133,098)	(112,550)	(13,481,565)
New financial assets occurred or purchased	23,648,484	-	-	23,648,484
Written-off	-	-	(219,216)	(219,216)
As at 31 December 2020	45,176,538	390,212	1,283,350	46,850,100

Personal loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	6,018,422	113,699	43,658	6,175,779
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	<i>(77,318)</i>	<i>77,318</i>	<i>-</i>	<i>-</i>
<i>Transfer from Stage 1 to Stage 3</i>	<i>(44,208)</i>	<i>-</i>	<i>44,208</i>	<i>-</i>
<i>Transfer from Stage 2 to Stage 3</i>	<i>-</i>	<i>(16,601)</i>	<i>16,601</i>	<i>-</i>
<i>Transfer from Stage 3 to Stage 2</i>	<i>-</i>	<i>1,479</i>	<i>(1,479)</i>	<i>-</i>
<i>Transfer from Stage 2 to Stage 1</i>	<i>7,406</i>	<i>(7,406)</i>	<i>-</i>	<i>-</i>
<i>Transfer from Stage 3 to Stage 1</i>	<i>972</i>	<i>-</i>	<i>(972)</i>	<i>-</i>
Derecognition of financial assets of current year	(2,424,513)	(35,188)	(12,520)	(2,472,221)
New financial assets occurred or purchased	4,036,151	-	-	4,036,151
Written-off	-	-	(15,280)	(15,280)
As at 31 December 2020	7,516,912	133,301	74,216	7,724,429

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17 CUSTOMER LOANS (continued)

(c) Movements on gross amount (excluding interest receivable) of customer loans (continued)

Corporate loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	24,174,699	435,088	174,688	24,784,475
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(1,411,237)	1,411,237	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(336,930)	–	336,930	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(12,000)	12,000	–
<i>Transfer from Stage 3 to Stage 2</i>	–	–	–	–
<i>Transfer from Stage 2 to Stage 1</i>	–	–	–	–
<i>Transfer from Stage 3 to Stage 1</i>	–	–	–	–
Derecognition of financial assets of current year	(12,319,666)	(316,105)	(57,932)	(12,693,703)
New financial assets occurred or purchased	24,903,565	–	–	24,903,565
Written-off	–	–	(91,940)	(91,940)
As at 31 December 2019	35,010,431	1,518,220	373,746	36,902,397
Personal loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	5,572,367	90,211	73,566	5,736,144
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(53,614)	53,614	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(46,854)	–	46,854	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(7,716)	7,716	–
<i>Transfer from Stage 3 to Stage 2</i>	–	2,773	(2,773)	–
<i>Transfer from Stage 2 to Stage 1</i>	6,372	(6,372)	–	–
<i>Transfer from Stage 3 to Stage 1</i>	2,678	–	(2,678)	–
Derecognition of financial assets of current year	(2,097,416)	(18,811)	(19,357)	(2,135,584)
New financial assets occurred or purchased	2,634,889	–	–	2,634,889
Written-off	–	–	(59,670)	(59,670)
As at 31 December 2019	6,018,422	113,699	43,658	6,175,779

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17 CUSTOMER LOANS (continued)

(c) Movements on gross amount (excluding interest receivable) of customer loans (continued)

Discounted bills	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	1,499,648	–	–	1,499,648
New financial assets originated or purchased	4,778,348	–	–	4,778,348
Proceeds received	(1,499,648)	–	–	(1,499,648)
As at 31 December 2020	4,778,348	–	–	4,778,348

Discounted bills	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	644,908	–	–	644,908
New financial assets originated or purchased	1,499,648	–	–	1,499,648
Proceeds received	(644,908)	–	–	(644,908)
As at 31 December 2019	1,499,648	–	–	1,499,648

(d) Loans listed by assessment method for allowance

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Total customer loans	57,471,798	523,513	1,357,566	59,352,877
– Corporate loans	49,954,886	390,212	1,283,350	51,628,448
– Personal loans	7,516,912	133,301	74,216	7,724,429
Less: ECL allowance	(1,141,628)	(145,973)	(750,804)	(2,038,405)
Accrued interest	172,401	41,988	56,450	270,839
Net customer loans	56,502,571	419,528	663,212	57,585,311

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Total customer loans	42,528,501	1,631,919	417,404	44,577,824
– Corporate loans	36,510,079	1,518,220	373,746	38,402,045
– Personal loans	6,018,422	113,699	43,658	6,175,779
Less: ECL allowance	(689,638)	(534,709)	(235,637)	(1,459,984)
Accrued interest	123,336	47,546	10,012	180,894
Net customer loans	41,962,199	1,144,756	191,779	43,298,734

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18 FINANCIAL INVESTMENTS – CREDIT RELATED FINANCIAL ASSETS

The Bank's financial investments – credit related financial assets are corporate loans issued through consolidated structured entities (trust and asset management plans).

	As at 31 December	
	2020	2019
Financial investments – credit related financial assets		
– Trust plans ⁽¹⁾	3,896,600	3,712,600
– Asset management plans ⁽²⁾	–	525,000
Less: ECL allowance	(246,649)	(61,204)
Accrued interest	59,314	10,404
Total	3,709,265	4,186,800

(1) Trust plans

Analysis by type of collateral:

	As at 31 December	
	2020	2019
Guaranteed	2,088,350	1,278,350
Pledged	1,032,250	1,370,750
Collateralised	310,000	561,500
Unsecured	466,000	502,000
Total	3,896,600	3,712,600

(2) Asset management plans

Analysis by type of collateral:

	As at 31 December	
	2020	2019
Collateralised	–	475,000
Guaranteed	–	50,000
Total	–	525,000

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18 FINANCIAL INVESTMENTS – CREDIT RELATED FINANCIAL ASSETS (continued)

The movement of ECL of financial investments – credit related financial assets is as follows:

	Financial investments – credit related financial assets			
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2020	52,933	8,271	–	61,204
New financial assets originated or purchased	17,427	–	–	17,427
Remeasurement	4,995	186,710	–	191,705
Repayments	(15,416)	(8,271)	–	(23,687)
Transfer:				
<i>Transfer from Stage 1 to Stage 2</i>	(6,639)	6,639	–	–
As at 31 December 2020	53,300	193,349	–	246,649

	Financial investments – credit related financial assets			
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2019	88,410	–	–	88,410
New financial assets originated or purchased	24,879	–	–	24,879
Remeasurement	(6,955)	7,102	–	147
Repayments	(52,232)	–	–	(52,232)
Transfer:				
<i>Transfer from Stage 1 to Stage 2</i>	(1,169)	1,169	–	–
As at 31 December 2019	52,933	8,271	–	61,204

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18 FINANCIAL INVESTMENTS – CREDIT RELATED FINANCIAL ASSETS (continued)

The movement on gross amount (excluding interest receivable) of financial investments – credit related financial assets is as follows:

	Financial investments – credit related financial assets			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	4,187,600	50,000	–	4,237,600
New financial assets originated or purchased	1,000,000	–	–	1,000,000
Derecognition of financial assets in the current year	(1,291,000)	(50,000)	–	(1,341,000)
Transfer:				
<i>Transfer from Stage 1 to Stage 2</i>	(638,350)	638,350	–	–
As at 31 December 2020	3,258,250	638,350	–	3,896,600

	Financial investments – credit related financial assets			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	5,896,000	–	–	5,896,000
New financial assets originated or purchased	1,851,500	–	–	1,851,500
Derecognition of financial assets in the current year	(3,509,900)	–	–	(3,509,900)
Transfer:				
<i>Transfer from Stage 1 to Stage 2</i>	(50,000)	50,000	–	–
As at 31 December 2019	4,187,600	50,000	–	4,237,600

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19 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2020	2019
Financial investments – fair value through profit or loss		
– Listed outside Hong Kong	6,179,494	1,218,540
– Unlisted	10,304,459	641,703
Total	16,483,953	1,860,243

Unlisted financial investments measured at fair value through profit or loss are set out below:

	As at 31 December	
	2020	2019
Financial investments – fair value through profit or loss (Unlisted)		
– Wealth management products purchased from financial institutions	6,104,208	–
– Funds	1,934,772	610,707
– Corporate entity bonds	1,906,098	–
– Commercial bank bonds	328,334	–
– Joint-investment projects	30,051	30,000
– Equity investments at fair value	996	996
Total	10,304,459	641,703

The Bank's unlisted bonds are traded in the interbank bond market in Mainland China.

As at 31 December 2020, no trading securities of the Bank were pledged to third parties under repurchase agreements (as at 31 December 2019: nil).

Financial investments measured at fair value through profit or loss by the issuer are set out below:

	As at 31 December	
	2020	2019
Financial investments – fair value through profit or loss		
– Corporate companies	8,073,538	1,203,911
– Commercial banks	6,462,593	30,000
– Fund companies	1,934,772	610,707
– Equity investments at fair value	13,050	15,625
Total	16,483,953	1,860,243

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20 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December	
	2020	2019
Financial investments – FVOCI		
– Listed outside Hong Kong	4,370,987	3,360,526
– Unlisted	3,544,857	2,277,936
Subtotal	7,915,844	5,683,462
Accrued interest	185,087	116,784
Total	8,100,931	5,755,246

Unlisted financial investments measured at fair value through other comprehensive income are set out below:

	As at 31 December	
	2020	2019
Financial investments – FVOCI (unlisted)		
– Corporate entity bonds	1,126,918	758,897
– Commercial bank bonds	972,261	498,650
– Policy bank bonds	765,853	756,394
– Government bonds	679,825	263,995
Total	3,544,857	2,277,936

The Bank's unlisted bonds are traded in the interbank bond market in Mainland China.

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20 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Financial investments measured at fair value through other comprehensive income by the issuer are set out below:

	As at 31 December	
	2020	2019
Financial investments – FVOCI		
– Corporate companies	5,336,189	4,119,423
– Commercial banks	972,261	498,650
– Government	841,541	263,995
– Policy banks	765,853	756,394
Total	7,915,844	5,638,462

The movement of ECL allowance of financial investments – FVOCI is as follows:

	Financial investments – FVOCI			
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2020	12,228	–	–	12,228
New financial assets originated or purchased	94,870	–	–	94,870
Remeasurement	28,387	–	–	28,387
Repayments	(8,150)	–	–	(8,150)
As at 31 December 2020	127,335	–	–	127,335

	Financial investments – FVOCI			
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2019	5,935	–	–	5,935
New financial assets originated or purchased	7,155	–	–	7,155
Remeasurement	382	–	–	382
Repayments	(1,244)	–	–	(1,244)
As at 31 December 2019	12,228	–	–	12,228

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21 FINANCIAL INVESTMENTS – AMORTISED COST

	As at 31 December	
	2020	2019
Financial investments – amortised cost		
– Listed outside Hong Kong	689,931	986,320
– Unlisted	15,200,901	21,453,695
Subtotal	15,890,832	22,440,015
Accrued interest	254,938	358,328
Less: ECL allowance	(474,942)	(298,407)
Total	15,670,828	22,499,936

Unlisted financial investments measured at amortised cost are set out below:

	As at 31 December	
	2020	2019
Financial investments – amortised cost (unlisted)		
– Corporate entity bonds	8,446,079	9,722,560
– Policy bank bonds	3,144,223	3,192,725
– Collective Trust plans	1,086,000	600,000
– Local government bonds	1,083,261	1,101,208
– Government bonds	1,041,338	1,080,872
– Industry funds (Senior tranche)	400,000	5,756,330
Total	15,200,901	21,453,695

Financial investments – amortised cost by the issuer are set out below:

	As at 31 December	
	2020	2019
Financial investments – amortised cost		
– Corporate companies	9,136,010	10,708,880
– Policy banks	3,144,223	3,192,725
– Governments	2,124,599	2,182,080
– Trust companies	1,086,000	600,000
– Fund companies	400,000	5,756,330
Total	15,890,832	22,440,015

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21 FINANCIAL INVESTMENTS – AMORTISED COST (continued)

The movement of ECL allowance of financial investments – amortised cost is as follows:

	Financial investments – amortised cost			
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2020	206,645	91,762	–	298,407
New financial assets originated or purchased	38,830	–	–	38,830
Remeasurement	54,375	101,803	87,287	243,465
Repayments	(119,452)	–	–	(119,452)
Transfer:				
<i>Transfer from Stage 1 to Stage 2</i>	(4,615)	4,615	–	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(91,762)	91,762	–
Unwinding of discount	–	–	13,692	13,692
As at 31 December 2020	175,783	106,418	192,741	474,942

	Financial investments – amortised cost			
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2019	213,163	–	–	213,163
New financial assets originated or purchased	52,743	–	–	52,743
Remeasurement	(23,906)	87,232	–	63,326
Repayments	(30,825)	–	–	(30,825)
Transfer:				
<i>Transfer from Stage 1 to Stage 2</i>	(4,530)	4,530	–	–
As at 31 December 2019	206,645	91,762	–	298,407

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21 FINANCIAL INVESTMENTS – AMORTISED COST (continued)

The movement on gross amount (excluding accrued interest) of financial investments- amortised cost is as follows:

	Financial investments – amortised cost			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	22,190,015	250,000	–	22,440,015
New financial assets originated or purchased	3,001,718	–	–	3,001,718
Derecognition of financial assets in the current year	(9,550,901)	–	–	(9,550,901)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(350,000)	350,000	–	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(250,000)	250,000	–
As at 31 December 2020	15,290,832	350,000	250,000	15,890,832

	Financial investments – amortised cost			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	21,203,832	–	–	21,203,832
New financial assets originated or purchased	3,911,426	–	–	3,911,426
Derecognition of financial assets in the current year	(2,675,243)	–	–	(2,675,243)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(250,000)	250,000	–	–
As at 31 December 2019	22,190,015	250,000	–	22,440,015

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22 INVESTMENT IN AN ASSOCIATE

	As at 31 December	
	2020	2019
Balance at the beginning of the year	40,738	36,651
Share of profit after tax	4,437	4,087
Balance at the end of the year	45,175	40,738

The Bank invested in Luxian Yuantong Rural Bank Co., Ltd. on 8 April 2009. The registered capital of the invested enterprise was RMB30 million, and the Bank invested RMB9 million, accounting for 30%.

Investment in the associate of the Bank are unlisted company equity interest. Assets, liabilities, revenue and profit of the associate are as follows:

	Place of incorporation	Assets	Liabilities	Revenue	Profit	Interest held
31 December 2020						
Luxian Yuantong Rural Bank Co., Ltd. (瀘縣元通村鎮銀行)	PRC	1,163,012	1,012,428	37,876	14,404	30%
31 December 2019						
Luxian Yuantong Rural Bank Co., Ltd. (瀘縣元通村鎮銀行)	PRC	1,012,115	876,320	34,216	13,898	30%

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23 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Electronic equipment	Office equipment	Construction in progress ^(a)	Total
Cost						
As at 1 January 2020	652,811	8,148	117,005	31,602	106,090	915,656
Additions	2,126	4,109	27,400	11,368	194,412	239,415
Transfer in/(out)	-	-	395	157	(552)	-
Less: Disposals in the current year	-	(1,819)	(2,114)	(218)	-	(4,151)
Transfer to amortisation of long-term prepaid expenses	-	-	-	-	(124,155)	(124,155)
As at 31 December 2020	654,937	10,438	142,686	42,909	175,795	1,026,765
Accumulated depreciation						
As at 1 January 2020	(74,005)	(4,761)	(79,943)	(12,395)	-	(171,104)
Depreciation in the current year	(31,059)	(1,117)	(16,862)	(5,638)	-	(54,676)
Disposals	-	1,728	1,976	205	-	3,909
As at 31 December 2020	(105,064)	(4,150)	(94,829)	(17,828)	-	(221,871)
Net book value						
As at 31 December 2020	549,873	6,288	47,857	25,081	175,795	804,894
As at 31 December 2019						
Cost						
As at 1 January 2019	612,349	6,985	96,151	25,210	48,360	789,055
Additions	7,874	1,163	12,596	6,158	144,652	172,443
Transfer in/(out)	32,588	-	8,258	234	(41,080)	-
Transfer to amortisation of long-term prepaid expenses	-	-	-	-	(45,842)	(45,842)
As at 31 December 2019	652,811	8,148	117,005	31,602	106,090	915,656
Accumulated depreciation						
As at 1 January 2019	(43,951)	(3,916)	(57,630)	(8,200)	-	(113,697)
Depreciation in the current year	(30,054)	(845)	(22,313)	(4,195)	-	(57,407)
As at 31 December 2019	(74,005)	(4,761)	(79,943)	(12,395)	-	(171,104)
Net book value						
As at 31 December 2019	578,806	3,387	37,062	19,207	106,090	744,552

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23 PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2020, the net amount of buildings, for which registrations for the property ownership certificates had not been completed, were RMB31,141 thousand (31 December 2019: RMB35,768 thousand). However, directors are of the view that this does not have significant impact on the rights of the Bank to use these assets.

None of the land or property the Bank owned is located in Hong Kong.

(a) Construction in progress:

	As at 31 December	
	2020	2019
Software engineering	41,173	73,750
Business building and decoration projects	107,997	6,499
Others	26,625	25,841
Total	175,795	106,090

24 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25% for the year ended 31 December 2020 and 31 December 2019 for transactions in the PRC.

Movements in the deferred income tax account are as follows:

	As at 31 December	
	2020	2019
Balance at the beginning of the year	386,436	186,871
Income tax expenses (Note 13)	268,589	200,165
Changes in fair value of financial investments at FVOCI	14,553	4,337
Changes in ECL allowance of financial investments at FVOCI	(41,541)	(4,937)
Balance at the end of the year	628,037	386,436

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For the year ended December 31, 2020

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24 DEFERRED INCOME TAXES (continued)

Deferred income tax assets and liabilities are attributable to the following items:

	As at 31 December			
	2020		2019	
	Temporary differences	Deferred income tax assets/(liabilities)	Temporary differences	Deferred income tax assets/(liabilities)
Deferred income tax assets				
Asset impairment allowances	2,215,610	553,903	1,419,266	354,816
Losses on changes in fair value of financial investments at FVPL	55,325	13,831	2,059	515
Losses on changes in fair value of financial investments at FVOCI	5,647	1,412	–	–
Payroll payable	235,565	58,891	176,982	44,246
Subtotal	2,512,147	628,037	1,598,307	399,577
Deferred tax liabilities				
Gains on changes in fair value of financial investments at FVOCI	–	–	(52,564)	(13,141)
Subtotal	–	–	(52,564)	(13,141)
Net deferred income tax assets	2,512,147	628,037	1,545,743	386,436

25 OTHER ASSETS

	As at 31 December	
	2020	2019
Long-term deferred expenses	103,226	72,454
Foreclosed assets ^(a)	48,300	50,490
Less: Impairment allowance ^(b)	(15,855)	(19,461)
Other receivables	100,665	43,192
Right-of-use assets ^(c)	55,089	42,138
Settlement fund ^(e)	31,220	15,472
Prepaid expenses	39,221	13,243
Interest receivable from customer loans	42,610	2,724
Investment properties ^(d)	1,092	1,330
Others	278	3
Total	405,846	221,585

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25 OTHER ASSETS (continued)

(a) Foreclosed assets

	Properties & Plants
As at 1 January 2020	50,490
Additions	17,704
Disposals	(19,894)
As at 31 December 2020	48,300
As at 1 January 2019	152,877
Additions	21,632
Disposals	(124,019)
As at 31 December 2019	50,490

(b) Impairment for foreclosed assets

	Properties & Plants
As at 1 January 2020	19,461
Additions	2,362
Disposals	(5,968)
As at 31 December 2020	15,855
As at 1 January 2019	23,446
Additions	73,432
Disposals	(77,417)
As at 31 December 2019	19,461

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25 OTHER ASSETS (Continued)

(c) Right-of-use assets

	Buildings	Office equipment	Total
Cost			
As at 1 January 2020	57,048	110	57,158
Additions	33,121	–	33,121
Decreases	(10,994)	–	(10,994)
As at 31 December 2020	79,175	110	79,285
Accumulated depreciation			
As at 1 January 2020	(15,009)	(11)	(15,020)
Depreciation in the year	(20,148)	(22)	(20,170)
Decreases	10,994	–	10,994
As at 31 December 2020	(24,163)	(33)	(24,196)
Net book value			
As at 31 December 2020	55,012	77	55,089
	Buildings	Office equipment	Total
Cost			
As at 31 December 2018	–	–	–
Changes in accounting policies	41,234	–	41,234
As at 1 January 2019	41,234	–	41,234
Additions	15,814	110	15,924
As at 31 December 2019	57,048	110	57,158
Accumulated depreciation			
As at 31 December 2018	–	–	–
Changes in accounting policies	–	–	–
As at 1 January 2019	–	–	–
Depreciation in the year	(15,009)	(11)	(15,020)
As at 31 December 2019	(15,009)	(11)	(15,020)
Net book value			
As at 31 December 2019	42,039	99	42,138

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25 OTHER ASSETS (Continued)

(d) Investment properties

	As at 31 December	
	2020	2019
Cost		
Balance at the beginning of the year	11,453	11,453
Disposals	-	-
Balance at the end of the year	11,453	11,453
Accumulated depreciation		
Balance at the beginning of the year	(10,123)	(9,839)
Provision	(238)	(284)
Disposals	-	-
Balance at the end of the year	(10,361)	(10,123)
Net book value		
Balance at the end of the year	1,092	1,330

The analysis of the value of investment properties by remaining leasehold period are as follows:

	As at 31 December	
	2020	2019
Located in the PRC		
Short-term lease (Within 10 years)	997	1,174
Held for operating lease	95	156
Total	1,092	1,330

(e) The settlement funds are balances in the large payment system and UnionPay settlement funds.

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26 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	As at 31 December	
	2020	2019
Deposits from other banks	980,326	1,450,296
Placements from other banks and financial institutions	3,790,000	2,463,000
Accrued interest	60,040	36,284
Total	4,830,366	3,949,580

27 CUSTOMER DEPOSITS

	As at 31 December	
	2020	2019
Corporate demand deposits	34,774,888	23,266,641
Including:		
Pledged deposits held as collateral	1,766,786	1,103,121
Corporate time deposits	7,548,567	6,545,316
Individual demand deposits	6,316,539	3,286,002
Individual time deposits	35,464,652	27,526,481
Accrued interest	1,118,458	812,520
Total	85,223,104	61,436,960

28 DEBT SECURITIES ISSUED

	As at 31 December	
	2020	2019
Interbank certificates of deposit	14,035,290	17,177,226
Fixed rate tier-2-capital debt – 2027 ^(a)	1,000,000	1,000,000
Fixed rate tier-2-capital debt – 2030 ^(b)	1,500,000	–
Accrued interest	63,200	48,370
Total	16,598,490	18,225,596

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28 DEBT SECURITIES ISSUED (continued)

- (a) The Bank issued RMB1 billion tier-2 capital debt in February 2017. The term of these capital debt lasts for 10 years, and the fixed interest rate is 5.50%. The Bank, as an issuer, can choose to redeem the debt in part or for all on 14 February 2022 at the face value. If the capital level of the Bank still meet the requirement of CBIRC regulatory after executing the right of redemption, the Bank can choose to redeem the debt of this term for part or all on the last day of the interest rate year that is set to redeem in advance in this year.
- (b) The Bank issued RMB0.8 billion tier-2 capital debt in September 2020. The term of these capital debt lasts for 10 years, and the fixed interest rate is 5.00%. The Bank, as an issuer, can choose to redeem the debt in part or for all on 29 September 2025 at the face value. If the capital level of the Bank still meet the requirement of CBIRC regulatory after executing the right of redemption, the Bank can choose to redeem the debt of this term for part or all on the last day of the interest rate year that is set to redeem in advance in this year.

The Bank issued RMB0.7 billion tier-2 capital debt in November 2020. The term of these capital debt lasts for 10 years, and the fixed interest rate is 4.80%. The Bank, as an issuer, can choose to redeem the debt in part or for all on 13 November 2025 at the face value. If the capital level of the Bank still meet the requirement of CBIRC regulatory after executing the right of redemption, the Bank can choose to redeem the debt of this term for part or all on the last day of the interest rate year that is set to redeem in advance in this year.

As at 31 December 2020, the Bank did not have any default in debt issued or certificates of deposit, or any other default (as at 31 December 2019: nil).

29 OTHER LIABILITIES

	As at 31 December	
	2020	2019
Employee benefits payable	309,465	250,682
Dividends payable	120,005	83,584
Deferred income	9,353	1,383
Security deposits	5,496	17,161
Advances from customers	7	238
Lease liabilities	51,938	36,466
Provisions	15,583	16,513
Others	77,807	40,781
Total	589,654	446,808

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30 SHARE CAPITAL AND CAPITAL SURPLUS

All shares of the Bank issued are fully paid ordinary shares. The par value per share is RMB1.00. The Bank's number of shares is as follows:

	As at 31 December	
	2020	2019
Number of shares	2,264,793	2,264,793

The movement of share capital is as follows:

	Year ended 31 December	
	2020	2019
Balance at the beginning of the year	2,264,793	2,182,933
Capital increase by shareholders	-	81,860
Balance at the end of the year	2,264,793	2,264,793

Generally, transactions of the following nature are recorded in the capital surplus:

- (a) Share premium arising from the issue of shares at prices in excess of their par value;
- (b) Donations received from shareholders; and
- (c) Any other items required by the PRC regulations to be so treated.

Capital surplus can be utilised for the issuance of bonus shares or for increasing paid-in capital as approved by the shareholders.

As at 31 December 2020 and 2019, the Bank's capital surplus is shown as follow:

	As at 31 December 2019	Additions	As at 31 December 2020
Capital surplus	2,239,314	-	2,239,314

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31 OTHER EQUITY INSTRUMENTS

31.1 Perpetual bonds

31.1.1 Perpetual bonds outstanding at the end of the year

	Issue date	Accounting classification	Original interest rate	Issue price	Amount in shares	In RMB (in thousands)	Maturity
Perpetual bonds in RMB	18 March 2020	Equity	5.80%	RMB100/bond	10,000,000	1,000,000	No fixed maturity date
Perpetual bonds in RMB	11 June 2020	Equity	5.30%	RMB100/bond	7,000,000	700,000	No fixed maturity date
Total						1,700,000	
Less: Issue fees						3,176	
Carrying amount						1,696,824	

31.1.2 Main clauses

With the approval of relevant Chinese regulatory authorities, the Bank issued perpetual bonds in the inter-bank bond market on 18 March 2020 and 11 June 2020, with a total face value of RMB1.7 billion and each face value of RMB100. The interest rate of the perpetual bonds does not contain any interest rate step-up mechanism or any other redemption incentives. The coupon rate is determined by a benchmark rate plus a fixed spread, and it will be adjusted every 5 years, the coupon rate for the first 5 years is respectively 5.80% and 5.30%.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. After five years from the issuance of the perpetual bonds, the Bank may redeem the perpetual bonds in whole or in part on each distribution payment date. Upon the occurrence of Write-down Event, the Bank has the right, subject to the approval of the China Banking and Insurance Regulatory Commission but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds. The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other Additional Tier 1 Capital instruments of the Bank that rank pari passu with the perpetual bonds.

The distributions on the perpetual bonds are non-cumulative, the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. However, the Bank will not distribute income to ordinary shareholders until it decides to start paying full distributions to the bondholders.

The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional Tier-1 Capital of the Bank.

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32 OTHER RESERVES

	Surplus reserve (a)	General reserve (b)	Revaluation reserve of financial assets at FVOCI	Impairment allowances for financial assets at FVOCI	Total
Balance at 31 December 2019	399,731	977,442	39,422	25,046	1,441,641
Other comprehensive income	-	-	(43,658)	124,623	80,965
Addition	57,607	170,611	-	-	228,218
Balance at 31 December 2020	457,338	1,148,053	(4,236)	149,669	1,750,824
Balance at 31 December 2018	336,340	847,549	52,433	10,236	1,246,558
Other comprehensive income	-	-	(13,011)	14,810	1,799
Addition	63,391	129,893	-	-	193,284
Balance at 31 December 2019	399,731	977,442	39,422	25,046	1,441,641

(a) Surplus reserve

In accordance with the “Company Law of the People’s Republic of China” and the Bank’s Articles of Association, 10% of the net distributable profit of the Bank, is required to be transferred to a non-distributable statutory reserve until such time when this reserve represents 50% of the share capital of the Bank. With approval, statutory surplus reserve can be used for making up losses, or increasing the share capital.

(b) General reserve

According to “the notice of the issuance of ‘the management methods for the extraction of non-performing loans of financial corporations’” (CAI No. [2005]49) and “the notice for the questions on bad debt reserve issues” (CAI [2005]90) that took effect on 17 May 2015 and 5 September 2005 respectively, banks are required to set aside general risk reserve from the net profits through profit appropriations. The accrue proportion of the general risk reserve is determined by the Bank considering the factor of its risk exposure, usually no less than the 1% of final balance of risk assets.

The Bank follows “the management methods of financial institutions reserve” (CAIJIN [2012] No. 20) issued by the Ministry of Finance. According to these requirements, the general reserve should not be lower than the 1.5% of the year end risk assets. For financial institutions with difficulty meeting the 1.5% threshold, they can take years to gradually meet this requirement, but principally it should not exceed 5 years.

According to a resolution at the meeting of the Board of Directors dated on 26 March 2020, the Bank appropriated RMB170,611 thousand to the general reserve based on 1.5% of the ending balance of risk assets for the year ended 31 December 2019. The above distribution scheme was approved by the general meeting of shareholders on 26 May 2020.

On 25 March 2021, the Board of Directors of the Bank proposed that 1.5% of the risk assets at the end of 2020 should be accrued for general risk reserve amounted to RMB391,514 thousand. This proposal has yet to be approved at the annual general meeting.

Notes to the Financial Statements

For the year ended December 31, 2020

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

33 DIVIDENDS

	Year ended 31 December	
	2020	2019
Dividend declared during the year	294,423	339,718
Dividend per share (in RMB)	0.13	0.15

Under the PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up prior year's cumulative losses, if any;
- (ii) Allocations to the non-distributable statutory accumulation reserve of 10% of the net profit of the Bank.

In accordance with relevant regulations, after the Bank's initial public offering, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lower of (i) the retained profits determined in accordance with the China Accounting Standards and (ii) the retained profit determined in accordance with IFRS.

According to the "Plan for profit distribution of Luzhou Bank Co., Ltd. in 2019" approved in the annual general meeting for year 2019 on 26 May 2020, the Bank had distributed cash dividends RMB294,423 thousand (including tax) as of 8 June 2020 to its shareholders, which is calculated at RMB0.13 dividend per share.

On 25 March 2021, the Board of Directors proposed the capitalisation of the capital surplus from the issue of shares at premium by issuing shares in a proportion of 2 shares for every 10 shares being held, which will be an additional 452,958,677 shares. The share capital will become RMB2,717,752 thousand after the capitalisation. This proposal has yet to be approved at the annual general meeting.

Notes to the Financial Statements

For the year ended December 31, 2020

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

34 STRUCTURED ENTITIES

(a) Unconsolidated structured entities

(i) Unconsolidated structured entities managed by the Bank

The unconsolidated structure entities managed by the Bank are mainly wealth management products issued and managed by the Bank acting as an agent. Based on the analysis and research on the potential targeted clients, the Bank designs and sells capital investment and management plan to specific targeted clients, and the raised funds are then put into related financial market or invested in related wealth management products according to the product contracts. Gains would be allocated to investors after the Bank gained from investment. The Bank receives corresponding wealth management commission fee income as the asset manager. The Bank has recognised net commission income from asset management service of non-guaranteed wealth management products with the amount of RMB2,149 thousand for the year ended 31 December 2020 (for the year ended 31 December 2019: Nil). The Bank has not provided any liquidity support to the wealth management products for the year (for the year ended 31 December 2019: Nil).

The Bank issues and manages non-guaranteed wealth management products to individual investors. The funds raised from the individual investors are mainly invested in the open market bonds and money market instruments.

The Bank assesses its control on the non-guaranteed wealth management products. The Bank takes a fiduciary role on these wealth management products and has no contractual obligation to repay the principal or interest. The risk exposure of the products is mainly from the fluctuation of the expected return of the bonds market, the performance of trust plans and the performance of targeted asset management plans. The risk of loss is borne by the investors. The Bank earns the net fee and commission income from the products.

As at 31 December 2020, the balance of unconsolidated wealth management products issued and managed by the Bank was RMB3,001,443 thousand (As at 31 December 2019: RMB1,929,193 thousand).

Notes to the Financial Statements

For the year ended December 31, 2020

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

34 STRUCTURED ENTITIES (continued)

(a) Unconsolidated structured entities (continued)

(ii) Unconsolidated structured entities invested by the Bank

In order to make better use of capital for profit, the unconsolidated structured entities invested by the Bank for the year ended 31 December 2020 mainly included the wealth management products, trust schemes and directed asset management plans issued and managed by third parties. The Bank classified the unconsolidated structured entities as financial assets at FVTPL and amortised cost (For the year ended 31 December 2019: same).

The table below lists the book value and maximum loss risk exposure of the assets due to the holdings of profits from unconsolidated structured entities (including accrued interest).

As at 31 December 2020	Book value	Maximum risk exposure
Financial investments – amortised cost	1,073,983	(1,073,983)
Financial investments – fair value through profit or loss	8,069,031	(8,069,031)
Total	9,143,014	(9,143,014)

As at 31 December 2019	Book value	Maximum risk exposure
Financial investments – amortised cost	592,474	(592,474)
Financial investments – fair value through profit or loss	640,707	(640,707)
Total	1,233,181	(1,233,181)

For the years ended 31 December 2020 and 2019, the interest income, net gains on financial investments and fee and commission income from the above unconsolidated structured entities were:

	Year ended 31 December	
	2020	2019
Interest income	75,492	6,198
Net gains on financial investments	79,677	26,690
Fee and commission income	2,149	–
Total	157,318	32,888

For the year ended 31 December 2020, there was no related loss from the above unconsolidated structured entities (For the year ended 31 December 2019: Nil).

For the year ended 31 December 2020, the Bank had not provided any financial or other support to unconsolidated structured entities (For the year ended 31 December 2019: Nil).

Notes to the Financial Statements

For the year ended December 31, 2020
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34 STRUCTURED ENTITIES (continued)

(b) Consolidated structured entities

As at 31 December 2020	Maximum	
	Book value	loss exposure
Financial investments – credit related financial assets	3,709,265	(3,709,265)
Financial investments – measured at amortised cost	5,699,974	(5,699,974)
Total	9,409,239	(9,409,239)

As at 31 December 2019	Maximum	
	Book value	loss exposure
Financial investments – credit related financial assets	4,186,800	(4,186,800)
Financial investments – measured at amortised cost	13,936,458	(13,936,458)
Total	18,123,258	(18,123,258)

The Bank's consolidated subsidiaries are only the Bank's consolidated structured entities including trust plans and asset management plans. The underlying assets are debt investments including loans, industry funds and unlisted corporate bonds. The consolidated structured entities are not registered legal entities in the PRC. There are no incorporation or establishment information of such investments.

The Bank's interest income obtained from the above-mentioned consolidated structured entities are as follows:

	As at 31 December	
	2020	2019
Interest income	1,042,349	1,457,555

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For the year ended December 31, 2020

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

35 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Bank's financial guarantees and credit related commitments which the Bank commits to extend to customers:

	As at 31 December	
	2020	2019
Bank acceptance notes	3,548,104	955,805
Guarantees	353,348	889,297
Total	3,901,452	1,845,102

The credit risk weighted amount refers to the amount calculated in accordance with the formula promulgated by the CBIRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and credit commitments.

Capital expenditure commitments

	As at 31 December	
	2020	2019
Contracted but not provided for:		
– Capital expenditure commitments for buildings	21,623	9,722
– Acquisition of IT system	82,829	74,581
	104,452	84,303
Authorised but not contracted for:		
– Capital expenditure commitments for buildings	16	–
– Acquisition of IT system	10,590	6,900
	10,606	6,900
Total	115,058	91,203

Notes to the Financial Statements

For the year ended December 31, 2020

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35 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Legal proceedings

The Bank has involved as defendants in certain lawsuits arising from its normal business operations. The Bank had no significant outstanding legal claims as at 31 December 2020 (As at 31 December 2019: Nil).

36 COLLATERALS

(a) Assets pledged

The carrying amounts of bonds pledged as collateral under refinance agreements with the PBOC are as follows:

	As at 31 December	
	2020	2019
Bonds	613,000	558,800

As at 31 December 2020 and 2019, the Bank's refinance agreements were due within 12 months.

(b) Collateral accepted

The Bank received debt securities and bills as collateral in connection with the purchase of assets under resale agreements. The Bank has not accepted collateral that can be resold or repledged. The Bank has the obligations to return the collateral at the agreed return date. The fair value of the collateral is RMB3,663,045 thousand as at 31 December 2020 (As at 31 December 2019: RMB2,272,280 thousand). The Bank did not resell or repledge such collateral.

Notes to the Financial Statements

For the year ended December 31, 2020

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

37 OTHER COMPREHENSIVE INCOME/(LOSSES) FOR THE YEAR

	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Year ended 31 December 2020			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net gains on valuation of financial assets measured at FVOCI	(58,210)	14,553	(43,657)
Credit loss provision of financial assets measured at FVOCI	166,163	(41,541)	124,622
Other comprehensive income/(losses) for the year	107,953	(26,988)	80,965

	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Year ended 31 December 2019			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net gains on valuation of financial assets measured at FVOCI	(17,348)	4,337	(13,011)
Credit loss provision of financial assets measured at FVOCI	19,747	(4,937)	14,810
Other comprehensive income/(losses) for the year	2,399	(600)	1,799

38 NOTES TO STATEMENTS OF CASH FLOWS

For the purposes of the statements of cash flow, cash and cash equivalents comprise the following balances with original maturities of less than three months used for the purpose of meeting short-term cash commitments:

	Year ended 31 December	
	2020	2019
Cash and balances with central bank	4,292,455	4,263,643
Financial assets due from other banks and financial institutions	1,297,910	1,011,834
Total	5,590,365	5,275,477

Notes to the Financial Statements

For the year ended December 31, 2020

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39 RELATED PARTY TRANSACTIONS

39.1 Related party relationships

The related parties of the Bank mainly include: the major shareholders as well as the entities controlled by them, the key management personnel (including the Bank's directors and senior management) and their family members who have close relationships with them as well as the entities which are controlled, joint controlled or can be significantly influenced by the Bank's key management personnel or their family members.

As at 31 December 2020 and 31 December 2019, the major shareholders of the Bank is that hold 5% or more of the equity interest in the Bank, or hold less than 5% of the equity interest of the Bank but are able to exercise significant influence over the operation and management of the Bank are as follows:

Name of shareholders	Number of shares held (share '000)	Percentage (%)
Luzhou Laojiao Group Co., Ltd.	325,440	14.37
Luzhou Laojiao Co., Ltd.	36,160	1.60
Sichuan Jiale Enterprise Group Co., Ltd.	271,200	11.97
Sichuan Luzhou Jiale Real Estate Co., Ltd.	7,232	0.32
Luzhou Xinfu Mining Group Co., Ltd.	271,200	11.97
Luzhou Finance Bureau	161,545	7.13
Luzhou Industrial Investment Group Co., Ltd.	73,462	3.24
Luzhou State Owned Assets Management Co., Ltd.	144,640	6.39
Sichuan Lutianhua Co., Ltd.	10,848	0.48
Lutianhua Group Co., Ltd.	202	0.01
Luzhou Xinglu Investment Group Co., Ltd.	40,549	1.79
Luzhou Xinglu Jutai Real Estate Co., Ltd.	91,716	4.05
Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.	15,006	0.66
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	11,246	0.50
Wudaokou Capital Limited	111,989	4.94
Total	1,572,435	69.42

Notes to the Financial Statements

For the year ended December 31, 2020

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

39 RELATED PARTY TRANSACTIONS (continued)

39.1 Related party relationships (continued)

- (a) Luzhou Laojiao Group Co., Ltd. indirectly holds 36,160 thousand domestic shares of the Bank through its holding company Luzhou Laojiao Co., Ltd., accounting for 1.60% of the Bank's equity. The combined shareholding ratio of the two shareholders is 15.97%.
- (b) Sichuan Jiale Enterprise Group Co., Ltd. indirectly holds 7,232 thousand domestic shares of the Bank through its holding company, Sichuan Luzhou Jiale Real Estate Co., Ltd., accounting for 0.32% of the Bank's equity. The combined shareholding ratio of the two shareholders is 12.29%.
- (c) Luzhou Industrial Investment Group Co., Ltd. indirectly holds 155,690 thousand domestic shares of the Bank through its subsidiaries Luzhou State Owned Assets Management Co., Ltd., Sichuan Lutianhua Co., Ltd. and Lutianhua Group Co., Ltd., accounting for 6.88% of the Bank's equity. The combined shareholding ratio of the four shareholders is 10.12%.
- (d) Luzhou Xinglu Investment Group Co., Ltd. indirectly holds 117,968 thousand domestic shares of the Bank through its holding companies Luzhou Xinglu Jutai Real Estate Co., Ltd., Luzhou Fundamental Infrastructure Construction Investment Co., Ltd., and Luzhou Xinglu Financing Guarantee Group Co., Ltd., accounting for 5.21% of the Bank's equity. Besides, Luzhou Laojiao Group Co., Ltd and Luzhou Xinglu Investment Group Co., Ltd. entered into an acting-in-concert agreement (the "Concert Parties Agreement") with respect to their respective shareholdings in Luzhou Laojiao Co., Ltd. By virtue of the Concert Parties Agreement, Luzhou Xinglu Investment Group Co., indirectly holds shares of the Bank through Luzhou Laojiao Co., Ltd. The combined shareholding ratio of the five shareholders (Luzhou Xinglu Investment Group Co., Ltd, Luzhou Xinglu Jutai Real Estate Co., Ltd., Luzhou Infrastructure Investment Co., Ltd., Luzhou Xinglu Finance Guarantee Group Co., Ltd., and Luzhou Laojiao Co.) is 8.60%.

In addition to the above notes, the Bank is not aware that any other shareholders are related or acting in concert.

Notes to the Financial Statements

For the year ended December 31, 2020

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39 RELATED PARTY TRANSACTIONS (continued)

39.2 Related party transactions

Transactions between the Bank and related parties are conducted in accordance with general commercial terms and normal business procedures. The pricing principle is consistent with that of an independent third party transaction. The related party transactions of the Bank are as follows:

(1) Related party customer loans (including discounted bills)

	As at 31 December	
	2020	2019
Major shareholders	396,980	–
Other legal related parties	3,068,750	1,778,936
Key management personnel or their family members	76,007	63,984
Total	3,541,737	1,842,920

(2) Related party loan interest income (including discounted bills)

	Year ended 31 December	
	2020	2019
Major shareholders	8,975	–
Other legal related parties	166,184	142,700
Key management personnel or their family members	3,905	3,233
Total	179,064	145,933

(3) Related party deposits

	As at 31 December	
	2020	2019
Major shareholders	4,558,637	4,506,141
Other legal related parties	769,504	1,067,339
Key management personnel or their family members	471,530	323,917
Total	5,799,671	5,897,397

(4) Related party deposit interest expense

	Year ended 31 December	
	2020	2019
Major shareholders	73,372	126,328
Other legal related parties	19,539	20,256
Key management personnel or their family members	14,516	11,777
Total	107,427	158,361

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For the year ended December 31, 2020

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39 RELATED PARTY TRANSACTIONS (continued)

39.2 Related party transactions (continued)

(5) Related party other receivables

	As at 31 December	
	2020	2019
Major shareholders	70	70
Other legal related parties	669	611
Total	739	681

(6) Related party financial investments – fair value through profit or loss

	As at 31 December	
	2020	2019
Major shareholders	186,656	–
Other legal related parties	185,429	–
Total	372,085	–

(7) Related party net gains on financial investments – fair value through profit or loss

	Year ended 31 December	
	2020	2019
Major shareholders	(11,771)	–
Other legal related parties	9,981	–
Total	(1,790)	–

(8) Related party financial investments – fair value through other comprehensive income

	As at 31 December	
	2020	2019
Major shareholders	193,198	193,590
Other legal related parties	419,374	147,032
Total	612,572	340,622

Notes to the Financial Statements

For the year ended December 31, 2020

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

39 RELATED PARTY TRANSACTIONS (continued)

39.2 Related party transactions (continued)

(9) Related party interest income from financial investments – fair value through other comprehensive income

	Year ended 31 December	
	2020	2019
Major shareholders	17,279	545
Other legal related parties	32,095	1,266
Total	49,374	1,811

(10) Related party fees commission and income

	Year ended 31 December	
	2020	2019
Major shareholders	9	3
Other legal related parties	100	39
Key management personnel or their family members	3	5
Total	112	47

(11) Key management compensation

Key management personnel refers to those who are entitled to plan, direct and control the activities of the Bank. The Bank conducts normal banking transactions with key management personnel in its daily operations.

The remuneration of directors and other key management personnel during the years are as follows:

	Year ended 31 December	
	2020	2019
Remuneration, salary, allowances and benefits	5,609	5,491
Discretionary bonuses	8,469	7,318
Contribution to pension schemes	150	158
Total	14,228	12,967

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For the year ended December 31, 2020

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39 RELATED PARTY TRANSACTIONS (continued)

39.2 Related party transactions (continued)

(12) Balance of loan guarantee from related parties to the Bank

	As at 31 December 2020		
	Corporate loans	Personal loans	Total
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	3,039,455	16,925	3,056,380
Luzhou Xinglu Agricultural Financing Guarantee Co., Ltd.	79,700	–	79,700
Luzhou Jintong Financing Guarantee Co., Ltd.	98,450	51,040	149,490
Luzhou Xingyang Financing Guarantee Co., Ltd.	5,000	–	5,000
Sichuan Hongxin Financing Guarantee Co., Ltd.	250,770	99,900	350,670
Luzhou Industrial Investment and Financing Guarantee Co., Ltd.	409,316	18,950	428,266
Luxian Agriculture and SMEs Financing Guarantee Co., Ltd.	105,515	3,000	108,515
Total	3,988,206	189,815	4,178,021

	As at 31 December 2019		
	Corporate loans	Personal loans	Total
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	2,887,308	23,768	2,911,076
Luzhou Xinglu Agricultural Financing Guarantee Co., Ltd.	99,524	–	99,524
Luzhou Jintong Financing Guarantee Co., Ltd.	96,950	–	96,950
Luzhou Xingyang Financing Guarantee Co., Ltd.	5,000	–	5,000
Sichuan Hongxin Financing Guarantee Co., Ltd.	472,216	132,200	604,416
Luzhou Industrial Investment and Financing Guarantee Co., Ltd.	272,080	20,790	292,870
Total	3,833,078	176,758	4,009,836

For the years ended 31 December 2020 and 2019, the fees for the guarantee services provided by the related parties to the borrowers of the Bank are paid by the borrowers, and the Bank does not pay any fees to the related parties.

Notes to the Financial Statements

For the year ended December 31, 2020

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39 RELATED PARTY TRANSACTIONS (continued)

39.2 Related party transactions (continued)

(13) Property leasing

Sichuan Kangrun Real Estate Co., Ltd., a related party of the Bank, leases two properties located in Chengdu City, Sichuan Province to the Bank. The lease term starts from 1 January 2020 until 31 December 2020, for a period of one year. The total rent is RMB2,519,616.

Yijia Real Estate Co., Ltd., a related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term starts from 1 August 2016 until 31 July 2026, for a period of ten years. The total rent is RMB840,499.

Luzhou Xinglu Jutai Real Estate Co., Ltd., a related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term starts from 1 September 2014 until 31 August 2022, for a period of eight years. The annual rent in the first year was RMB270,600, and the annual rent increase by 5% annually. The total rent is RMB2,584,044.

Luzhou Jiangnan New Area Construction Investment Co., Ltd., a related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term starts from 1 May 2016 until 1 May 2021, for a period of five years. The total rent is RMB864,000 (The subject of the contract was changed to Luzhou Xinglu Asset Management Co., Ltd. on 22 November 2017).

Luzhou Guohua Asset Management Co, Ltd., a related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term starts from 1 May 2020 until 30 April 2023, for a period of three years. The annual rent in the first and second year were RMB888,396 separately, and the annual rent increase by 3% in the third year. The total rent is RMB2,691,840.

These related party transactions are conducted in accordance with general commercial terms and normal business procedures, and their pricing principles are consistent with those of independent third party transactions.

(14) Government related entities

The transactions between the Bank and the government authorities proceed under normal commercial terms and conditions. These transactions mainly include provision of deposits and agency service. The Bank considers that transactions with these entities are activities conducted in the ordinary course of business. The Bank has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities.

(15) Others

The range of interest rates of the above transactions with related parties is listed as follows:

	As at 31 December	
	2020	2019
Customer loans	3.43%-9.00%	3.25%-9.135%
Customer deposits	0.10%-5.50%	0.385%-5.50%
Financial investments – fair value through other comprehensive income	8.00%-8.50%	6.92%-7%
Financial investments – fair value through profit or loss	5.85%-7.00%	N/A

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40 SEGMENT ANALYSIS

The Bank's operating segments are business units which provide different financial products and service and are engaged in different types of financial transactions. As different operating segments face different clients and counterparties supported by specific techniques and market strategies, they operate independently.

The Bank has 4 operating segments: corporate banking, retailing banking, financial markets, and other categories.

Corporate banking mainly provides corporate customers with financial products and services including deposits and loans.

Retailing banking mainly provides individual customers with financial products and services including deposits and loans.

Financial markets mainly performs inter-bank lending and borrowing, bonds investment and re-purchasing activities.

Others are those businesses not included in the above three segments or cannot be allocated with appropriate basis.

Notes to the Financial Statements

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40 SEGMENT ANALYSIS (continued)

	Year ended 31 December 2020				
	Corporate Banking	Retail Banking	Financial Markets	Others	Total
Net interest income/(expense) from external customers	2,529,948	(1,133,511)	1,360,005	-	2,756,442
Inter-segment net interest income/(expense)	(824,449)	1,495,251	(670,802)	-	-
Net interest income	1,705,499	361,740	689,203	-	2,756,442
Net fee and commission income	2,544	344	2,149	48	5,085
Net gains on trading activities	-	-	248,104	-	248,104
Net gains arising from financial investments	-	-	117,061	-	117,061
Other operating income	-	-	-	28,028	28,028
Operating income	1,708,043	362,084	1,056,517	28,076	3,154,720
Operating expense	(609,669)	(85,335)	(475,691)	(5,971)	(1,176,666)
– Depreciation and amortisation	(82,721)	(19,061)	(73,176)	(938)	(175,896)
– Others	(526,948)	(66,274)	(402,515)	(5,033)	(1,000,770)
Impairment losses	(869,509)	(94,383)	(278,337)	(12)	(1,242,241)
Share of profit of an associate	-	-	-	4,437	4,437
Profit before income tax	228,865	182,366	302,489	26,530	740,250
Capital expenditure	54,109	12,468	47,867	614	115,058
As at 31 December 2020					
Segment assets	55,909,827	12,883,238	49,459,068	634,126	118,886,259
Segment liabilities	(42,856,657)	(42,908,980)	(24,166,771)	(4,902)	(109,937,310)

Notes to the Financial Statements

For the year ended December 31, 2020

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

40 SEGMENT ANALYSIS (continued)

	Year ended 31 December 2019				
	Corporate Banking	Retail Banking	Financial Markets	Others	Total
Net interest income/(expense) from external customers	1,991,015	(808,242)	1,535,352	-	2,718,125
Inter-segment net interest income/(expense)	(454,176)	1,149,538	(695,362)	-	-
Net interest income	1,536,839	341,296	839,990	-	2,718,125
Net fee and commission income	4,512	406	-	167	5,085
Net gains on trading activities	-	-	24,101	-	24,101
Net gains arising from financial investments	-	-	56,904	-	56,904
Other operating income	-	-	-	2,416	2,416
Operating income	1,541,351	341,702	920,995	2,583	2,806,631
Operating expense	(495,345)	(74,269)	(465,089)	(1,628)	(1,036,331)
– Depreciation and amortisation	(56,898)	(14,796)	(51,273)	(522)	(123,489)
– Others	(438,447)	(59,473)	(413,816)	(1,106)	(912,842)
Impairment losses	(757,023)	(62,750)	(124,877)	(89)	(944,739)
Share of profit of an associate	-	-	-	4,087	4,087
Profit before income tax	288,983	204,683	331,029	4,953	829,648
Capital expenditure	42,022	10,928	37,867	386	91,203
As at 31 December 2019					
Segment assets	42,242,197	10,985,039	38,065,780	387,605	91,680,621
Segment liabilities	(30,229,136)	(31,565,434)	(22,994,858)	(1,684)	(84,791,112)

There is no high reliance of the Bank to any of the major external customers.

Notes to the Financial Statements

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41 SUBSEQUENT EVENTS

Successful completion of the public auction for the disposal of the creditor's rights of certain non-performing debts

As disclosed in the announcements of the Bank dated 11 January 2021 and 12 January 2021, the Bank completed the public auction on 8 January 2021. China Orient Asset Management Co., Ltd. Zhejiang Branch ("Orient Asset") won the bid on the creditor's rights of non-performing debts of Luzhou China Seagrain and Oil Industry Co., Ltd. and Luzhou Runhua Logistics Co., Ltd. at the agreed price of RMB 500 million. As of the base date (22 November 2020), the outstanding balance of the principal, interest and default penalty under the loan agreements the Bank is entitled to and to be transferred to Orient Asset pursuant to the Creditor's Rights Transfer Agreement was a total of RMB 807 million. The Bank entered into the Creditor's Rights Transfer Agreement with Orient Asset on 12 January 2021. The above creditor's rights transfer was also approved by the Shareholders of the Bank at the 2020 second extraordinary general meeting.

Unaudited Supplementary Financial Information

The information set out below does not form part of the audited financial statements, and is included herein for information purpose only.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

In accordance with the Hong Kong Listing Rules and Banking (Disclosure) Rules, the Bank discloses the unaudited supplementary financial information as follows:

1 LIQUIDITY RATIOS AND LEVERAGE RATIO

(1) Liquidity ratios

	As of December 31, 2016
RMB current assets to RMB current liabilities	44.99%
Foreign currency current assets to foreign currency current liabilities	N/A
	As of December 31, 2017
RMB current assets to RMB current liabilities	48.42%
Foreign currency current assets to foreign currency current liabilities	N/A
	As of December 31, 2018
RMB current assets to RMB current liabilities	73.40%
Foreign currency current assets to foreign currency current liabilities	N/A
	As of December 31, 2019
RMB current assets to RMB current liabilities	83.72%
Foreign currency current assets to foreign currency current liabilities	N/A
	As of December 31, 2020
RMB current assets to RMB current liabilities	83.02%
Foreign currency current assets to foreign currency current liabilities	N/A

Unaudited Supplementary Financial Information

(2) Leverage ratio

	As of December 31,				
	2016	2017	2018	2019	2020
Leverage ratio	6.38%	5.69%	6.88%	6.81%	6.77%

Pursuant to the Leverage Ratio Management of Commercial Banks (Amended) issued by the China Banking Regulatory Commission (the “CBRC”) and was effective since April 1, 2015, a minimum leverage ratio of 4% is required.

The above liquidity ratios and leverage ratio were calculated in accordance with the formulas promulgated by the CBRC, and based on the financial information prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance in the People’s Republic of China.

Definitions

“Articles of Association” or “Articles”	the articles of association of the Bank, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board of Supervisors”	the board of Supervisors of the Bank
“Board” or “Board of Directors”	the board of Directors of our Bank
“CBIRC”	China Banking and Insurance Regulatory Commission
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“China” or “PRC”	the People’s Republic of China, but for the purpose of this report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Bank”, “our Bank”, “we”, “us” or “Luzhou Bank”	Luzhou Bank Co., Ltd. (泸州银行股份有限公司)
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“CBIRC Sichuan Office”	China Banking and Insurance Regulatory Commission Sichuan Office
“Director(s)”	the director(s) of our Bank
“Domestic Shares”	ordinary shares in our share capital with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“Global Offering”	the Hong Kong Public Offering and the International Offering, details are set out in the Prospectus
“HK\$” or “HKD” or “Hong Kong Dollars”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“H Shares”	the overseas listed foreign shares in the ordinary share capital of the Bank with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong Dollars and listed and traded on the Hong Kong Stock Exchange

Definitions

“IAS”	International Accounting Standards and its interpretations
“IFRS”	International Financial Reporting Standards issued by the International Accounting Standards Board
“Listing”	the listing of the H Shares on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“Prospectus”	the prospectus of the Global Offering of the Bank
“Reporting Period”	the full year from January 1, 2020 to December 31, 2020
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	the domestic shares and H shares of the Bank
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed to it under Section 2 of the Companies Ordinance
“Supervisor(s)”	the supervisor(s) of the Bank
“U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency of the U.S.



泸州银行股份有限公司
LUZHOU BANK CO.,LTD.