

CZBANK 浙商银行

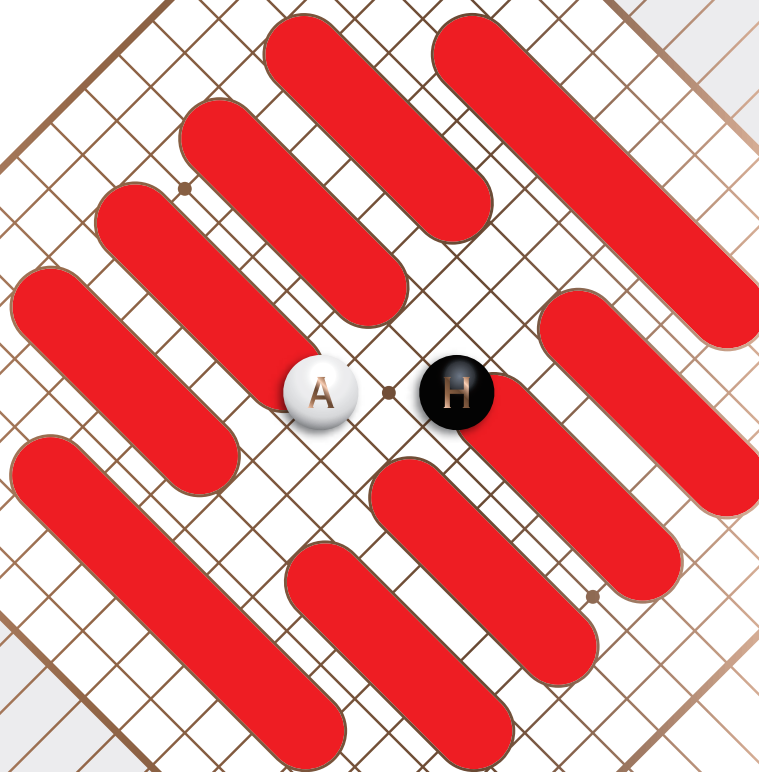
(A joint-stock company incorporated in the People's Republic of China with limited liability)

A Share Stock Code : 601916

H Share Stock Code : 2016

Stock Code of Preference Shares : 4610

Annual Report | 2019



Important Notice

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Company warrant that the contents in this report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will take legal responsibilities for such contents on a joint and several basis.

The eighth meeting of the fifth session of the Board of the Company, held on March 27, 2020, approved the Annual Report of China Zheshang Bank Co., Ltd. for 2019 and its Summary. The Company has 16 Directors, among which 16 Directors attended the meeting in person, which was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company. 9 Supervisors of the Company attended the meeting.

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers (both being auditors of the Company) have audited the 2019 annual financial report of the Company prepared in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards, and have issued standard unqualified audited reports, respectively.

Unless otherwise illustrated in this report, the currency for any amount herein is RMB. Certain amounts and percentage numbers in this report have been rounded. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

This report is prepared in Chinese and English, respectively, and the Chinese version shall prevail in the event of any discrepancy between the two versions.

The Board of the Company has proposed to declare a cash dividend of RMB2.40 per 10 shares (tax inclusive) for 2019, payable in RMB to holders of A Shares and in HK dollars to holders of H Shares. The above proposal on dividend distribution is subject to consideration and approval at the 2019 annual general meeting of the Company.

Shen Renkang (Chairman of the Bank), Xu Renyan (President of the Bank), Liu Long (Principal in charge of Finance) and Jing Feng (Director of the Financial Department) warrant that the financial report in the annual report is true, accurate and complete.

Significant Risk Warning

Please refer to the section headed "Management Discussion and Analysis – Risk Management" of this report for information about major risks faced and measures to be taken by the Company.

The forward-looking statements about matters like future plans of the Company in this report do not constitute substantive commitments of the Company to the investors, and the investors and related persons shall maintain sufficient risk awareness in this regard, and shall understand the difference among plans, forecasts and commitments.

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Definitions

“Company”, “Bank”, “our Bank”, “China Zheshang Bank” or “CZBank”:	China Zheshang Bank Co., Ltd.
“CBIRC”:	China Banking and Insurance Regulatory Commission
“CSRC”:	China Securities Regulatory Commission
“Hong Kong Stock Exchange”:	The Stock Exchange of Hong Kong Limited
“SFO”:	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Hong Kong Listing Rules”:	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”:	The Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to Hong Kong Listing Rules
“Zheyin Financial Leasing”:	Zhejiang Zheyin Financial Leasing Co., Ltd., a holding subsidiary of the Company, in which the Company holds 51% of equity interest
“Group”:	the Company and its subsidiary

Company Profile

- Company name in Chinese:** 浙商银行股份有限公司 (Abbreviation in Chinese: 浙商银行)
Company name in English: CHINA ZHESHANG BANK CO., LTD.
(Abbreviation in English: CZBANK)
- Legal Representative:** Shen Renkang
- Registered address:** No. 1788, Hongning Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC
Postcode: 311200
Principal office address: No. 288, Qingchun Road, Hangzhou, Zhejiang Province, the PRC
Postcode: 310006
E-mail: ir@czbank.com
Website: www.czbank.com
Customer service hotline: 95527
Tel for investor relations management: 86-571-88268966
Fax: 86-571-87659826
- Principal place of business in Hong Kong:** 15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong
- Authorized representatives:** Xu Renyan, Liu Long
- Secretary to the Board and company secretary:** Liu Long
Representative of securities affairs: Chen Sheng
- A Shares**
Stock exchange where the securities are listed: Shanghai Stock Exchange
Stock abbreviation: CZBANK
Stock code: 601916
H Shares
Stock exchange where the securities are listed: Hong Kong Stock Exchange
Stock abbreviation: CZBANK
Stock code: 2016
Offshore Preference Shares
Stock exchange where the securities are listed: Hong Kong Stock Exchange
Stock abbreviation: CZB 17USDPREF
Stock code: 4610

Company Profile

8. **Share registrar:**
A Shares: China Securities Depository and Clearing Corporation Limited Shanghai Branch
- H Shares:** Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong
9. **Legal advisers:**
As to Mainland PRC Laws: Zhejiang T&C Law Firm
As to Hong Kong Laws: Freshfields Bruckhaus Deringer
10. **Accounting firms engaged by the Company:**
Domestic auditor: PricewaterhouseCoopers Zhong Tian LLP
Office address: 11/F, PricewaterhouseCoopers Center,
Link Square 2, No. 202 Hubin Road, Shanghai
Signing certificated accountants: Zhu Yu, Zhai Qing
- International auditor:** PricewaterhouseCoopers
Office address: 22/F, Prince's Building, Central, Hong Kong
11. **Newspapers and websites designated for information disclosure:**
Mainland China: China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Website of the Shanghai Stock Exchange (www.sse.com.cn)
Website of the Company (www.czbank.com)
- Hong Kong:** Website of the Hong Kong Stock Exchange (www.hkex.com.hk)
Website of the Company (www.czbank.com)
- Place for inspection of the annual report:** Office of the Board of the Company
(No. 288, Qingchun Road, Hangzhou, Zhejiang Province, the PRC)
12. **Sponsor institution for A Shares:**
Name of the institution: CITIC Securities Co., Ltd.
Office address: North Tower, Excellence Times Plaza II, No. 8 Zhong Xin San Road, Futian District, Shenzhen, Guangdong Province
Name of the undersigned sponsor representatives: Cheng Yue, Zhan Hongliang
The period of continuous supervision and guidance: November 26, 2019 to December 31, 2021
13. **Other information about the Company:** Uniform social credit code: 91330000761336668H
Financial institution license serial number: B0010H133010001
Registration date: July 26, 2004

Corporate Overview

As one of the twelve nationwide joint-stock commercial banks, the Bank officially commenced business on August 18, 2004, with its head office in Hangzhou, Zhejiang Province. CZBank was listed on the Hong Kong Stock Exchange with the stock code of “2016.HK” on March 30, 2016 and listed on the Shanghai Stock Exchange with the stock code of “601916” on November 26, 2019, being the 13th “A+H” listed bank in China.

Since its opening, CZBank has always gained a toehold in Zhejiang and steadily developed its businesses nationwide, according to the requirements specified by General Secretary Xi Jinping when he served Zhejiang. It has developed into a high-quality commercial bank with a solid foundation, strong profitability, rapid growth and prudent risk control.

Facing on the new economic scene, and with new trend of Internet information technology development and new requirements for customer value creation, CZBank has set “two most” overall goal and the platform-based service strategy, and insisted on the five operation principles of “serving the real economy, innovative transformation, compliant operation, risk prevention and dissolution, quality and efficiency improvement”, so as to construct a platform-based service bank and provide customers with comprehensive financial services which are open, efficient, flexible, shared and extremely simple.

As at the end of the reporting period, CZBank has established 260 branch outlets in 19 provinces and municipalities directly under the Central Government and the Hong Kong Special Administrative Region, effectively covering the Yangtze River Delta, the Bohai Rim, the Pearl River Delta and certain areas in the Midwestern China.

In 2019, CZBank’s operating income and net profit attributable to shareholders of the Bank were RMB46.447 billion and RMB12.925 billion respectively, representing an increase of 19.03% and 12.48% over the same period of last year. As at the end of the reporting period, the total assets were RMB1.80 trillion, representing an increase of 9.36% compared with that at the end of last year, and total loans and advances to customers were RMB1.03 trillion, representing an increase of 19.06%; the total liabilities were RMB1.67 trillion, representing an increase of 8.32% compared with that at the end of last year, and balance of customer deposits were RMB1.14 trillion, representing an increase of 17.33%; the non-performing loan ratio was 1.37% and allowance to non-performing loans was 220.80%, maintaining robust asset quality; the capital adequacy ratio was 14.24%, and the core tier-one capital adequacy ratio was 9.64%. In the “Top 1000 World Banks 2019” ranking by The Banker Magazine of the U.K., it was ranked 107th in terms of tier-one capital and 98th in terms of total assets. China Chengxin International Credit Rating Co., Ltd. assigned to CZBank, an AAA corporate credit rating, the highest rating in financial institution rating.

For more details, please refer to sections headed Chairman’s Statement and President’s Statement.

Development Strategies and Core Competitiveness

(I) Vision

To provide high-quality and efficient financial services to the society, and build CZBank into a first-class commercial bank.

(II) Overall Goal

Overall Objective of “Two Most”: The most competitive nationwide joint-stock commercial bank and Zhejiang’s most important financial platform.

“The Most Competitive Nationwide Joint-stock Commercial Bank” means the objective to become a first-class joint-stock bank that can provide target customers with professional services, possess distinct competitive advantages in terms of innovation, risk control, service provision in the market and value creation, reach the scale matching the identity of a national joint-stock commercial bank, and provide support for sustainable development of professionalism.

“Zhejiang’s Most Important Financial Platform” means the objective to become a representative financial group in Zhejiang featured by comprehensive functions, distinctive services, solid performance and sound reputation, stand at the forefront of the industry in terms of technological application, model innovation and efficient services and become a strategic partner of governments at all levels, financial institutions, core enterprises and a large number of strategic partners in Zhejiang.

(III) Strategic Positioning

Guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, to enhance our digital, platform-based and professional capabilities, comprehensively implement the platform-based service strategy and focus on development of new growth momentum.

Platform-based service strategy: Guided by the “two most” overall goal, to incorporate platform-based elements, innovate the application of financial technology and build a strong platform-based service system; based on platform-based service, to drive innovation and development, expand customer base and business, optimize process and risk control, improve performance and management, enhance features and advantages, construct a platform-based service bank and continue to promote high-quality development.

(IV) Guiding Principle

To thoroughly implement the spirit of the 19th CPC National Congress, carry out new development concept, insist on the five operation principles of serving the real economy, innovative transformation, compliant operation, risk prevention and dissolution, quality and efficiency improvement; adopt the performance and risk control-oriented approach, abandon the obsession with scale, extensive operation and loose management, transform development mode, reduce consumption, increase revenue and save expenditure; establish platform-based thinking, redefine business model and operating management, incorporate differentiated management concept, improve lean management level; and strive to achieve high-quality, beneficial and sustainable development by balancing assets and capital, taking into account both quality and benefits as well as taking into consideration both cost and efficiency.

Development Strategies and Core Competitiveness

(V) Core Competitiveness

Rapid and sustainable growth capability. Benefitting from its strategic national layout, efficient operation and management and the strong development base in Zhejiang province, the Company has developed itself into a fast-growing national joint-stock commercial bank with strong base, high profitability, high-speed growth and improved risk control system. Both the economic efficiency and scale of the Company grow in a rapid and sustainable manner, indicating a broad prospect in the medium to long term.

Pragmatic and innovative brand culture. Adhering to its corporate culture of “Flexible Innovation, Pragmatic Cooperation, Customer Oriented and Humanity Care”, the Company has established its brand value of “activating the vitality of financial ecosystem” and the “holistic, agile and vibrant” brand feature to create a lively brand image as a “post-2000s bank” and is committed to fulfilling its social responsibility and collaborating with customers to create values.

Distinctive corporate businesses. With a focus on the demand for corporate liquidity management and making full use of the internet, big data, blockchain and other new technologies, the Company has launched various platforms, such as the pooled financing (池化融資), Yiqiyin (易企銀) and chain of accounts receivable (應收款鏈), and, on the basis of which, realized a series of business model innovation, thus making an open, equal and efficient “self-financing” platform available for the enterprises. All the above constitutes a distinctive competitive edge of the Company in the market.

Leading professional services for the small and micro enterprises. As a pioneer in the small and micro enterprise business in the industry, the Company is committed to giving support to the development of the real economy and identifying opportunities therefrom for its own development. It has formed various distinctive advantages in the aspect of mechanism, product, process, and risk control. Meanwhile, the Company utilizes the internet technology and thinking actively, including the application of mobile operation instruments and online procedures, to improve the effectiveness of its services. The professional service ability of the Company has been highly recognized by the customers in the market.

Improving business system. Focusing on the improvement of its differentiated competitiveness, the Company is engaged in investment banking, asset custodian, financial market, capital market, financial institutions and asset management business. The iterative innovation in financial products and patterns of service and the combined use of various financial instruments enable the Company to provide a comprehensive and sustainable one-stop solution to financial services and continuously improve its profitability and space in a diversified manner.

Development Strategies and Core Competitiveness

Financial technology with distinctive edges. Sticking to the use of financial technology and implementing technology-driven transformation, the Company has actively worked on the construction of information technology infrastructure, system structure, technology platform, application system and management mechanism adaptive to the effective development of the Company and taken the lead in exploring the deepened integration of the cutting-edge technologies, such as block chain, artificial intelligence, biometric identification, NLSR, cloud computation and big data, with banking business. Gradually, it has established itself into a leading innovative brand in the financial technology industry.

Prudent and healthy risk management. The Company always maintains a prudent and healthy risk appetite. It intensifies vertical management, implements a distinctive risk controller dispatch system and keeps improving the risk management system, the unified credit management system and the credit risk limit framework system of the Company. The quality of the Company's assets is placed at a relatively higher level among all the national joint-stock commercial banks.

Scientific and reasonable talent bank. The Company strengthens the build-up of its cadre team. The management of the Company has extraordinary strategic vision and business management capability, as well as extensive experience in business operation, financial management, risk control and information technology. It promotes a differentiated talent development model and keeps focusing on the development of its young employees. The employees of the Company are young, energetic, highly-educated with strong professional competence.

Stable and diversified capital replenishment. The Company completed its capital operating plan in three steps: private placement, IPO of H Shares and IPO of A Shares. The formation of the "A+H" dual channel helps the Company establish a stable and dynamic market-oriented capital replenishment system sustainable in a long term, which drives the business development and strategy implementation of the Company in an effective manner.



◇ On November 26, 2019, the Bank was successfully listed on the domestic A-share market. The completion of construction of dual "A+H" capital channels marks a new journey for the Bank.



Honors and Awards

APR 2019

Special Liquidity Contribution
Award in the Auction Market in
2018 Organization with the Greatest
Growth Potential in the Inquiry
Market in 2018 Innovation Product
Contribution Award in the Inquiry
Market in 2018
Shanghai Gold Exchange

MAY 2019

A'DESIGN AWARD Visual
Design Silver Award for "Brand
Revamp" Project
*Italy A'DESIGN AWARD Design
Award*

JUL 2019

107th (in terms of tier-one
capital) and 98th (in terms of
total assets) in the "Top 1000
World Banks" ranking
*The Banker Magazine of
the U.K.*

JUL 2019

Best Inclusive Financial
Performance Award
China Banking Association

JUL 2019

Most Competitive Asset
Management Bank
21st Century Business Herald

JUL 2019

2019 Tianji Award of Bond
Underwriting Bank, Tianji
Award of Banking Investment
Business of Universal Banks
and Junding Award for Bank
Asset Management
Brand in China
Securities Times

Honors and Awards

AUG 2019

First Prize of Advanced Units in Supporting Zhejiang Economic and Social Development, Outstanding Unit in Supporting Private Enterprises and Small and Micro Enterprises Development and Outstanding Unit in Reform and Innovation
The People's Government of Zhejiang Province

SEP 2019

Top 500 Asia Brand Top Ten
Asia Innovative Brand in 2019
The 14th Asia Brand Ceremony

SEP 2019

2019 China Financial Technology Innovation Competition "Bronze Award for Innovative Application"
China Financial Certification Authority

SEP 2019

The Most Distinctive Mobile Banking
Sina Finance

OCT 2019

Outstanding Transformation Award
SSON (The Shared Services and Outsourcing Network)

Honors and Awards

OCT 2019

“2019 Best Investment Institutions of
Foreign Currency Bonds in Asia”
The Asset Magazine

OCT 2019

Poverty Alleviation Financial
Institution Rankings “Pioneer
Institution of Targeted
Poverty Alleviation”
China.org.cn

NOV 2019

Outstanding Corporate
Banking in 2019
21st Century Business Herald

NOV 2019

Most Satisfactory Bank among Private
Enterprises
*The People's Bank of China Hangzhou
Central Sub-branch*

DEC 2019

CGMA 2019 China Award “Best Shared
Service Center of the Year”
*CGMA (Chartered Global
Management Accountant)*

DEC 2019

Technology Innovation Bank of
the Year
hexun.com

Honors and Awards



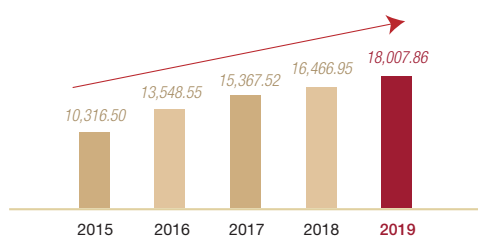
Financial Summary

(The financial data and indicators set forth in this annual report are prepared in accordance with IFRSs, are consolidated data of the Bank and its subsidiaries and presented in RMB, unless otherwise specified)

Steadily growing business scale and steadily improved operating results

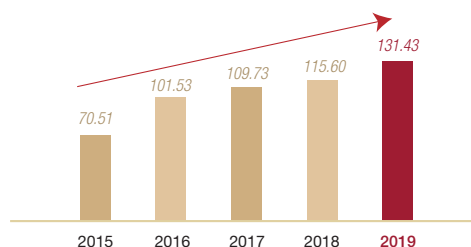
Total assets

In 100 millions of RMB
A CAGR of 14.94% from 2015 to 2019



Net profits

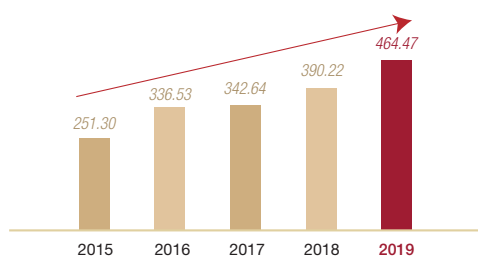
In 100 millions of RMB
A CAGR of 16.85% from 2015 to 2019



Continuously increased operating income and optimization of non-interest income structure

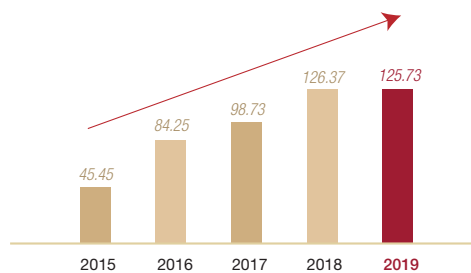
Operating income

In 100 millions of RMB
A CAGR of 16.60% from 2015 to 2019



Net non-interest income

In 100 millions of RMB
A CAGR of 28.97% from 2015 to 2019

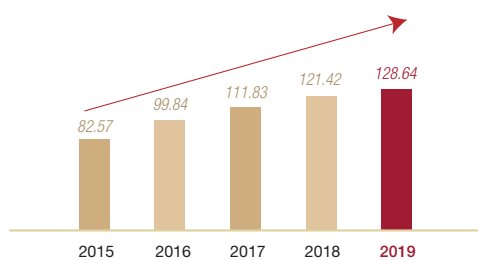


Financial Summary

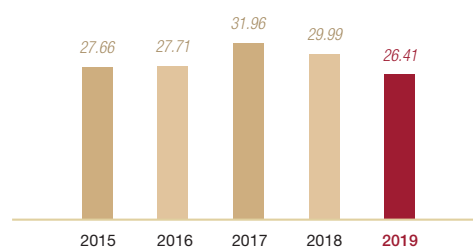
Decelerated growth in operating expenses and decrease in cost-to-income ratio

Operating expenses

In 100 millions of RMB
A CAGR of 11.72% from 2015 to 2019

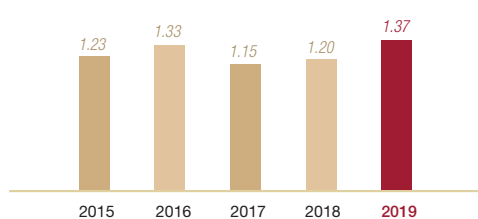


Cost-to-income ratio (%)

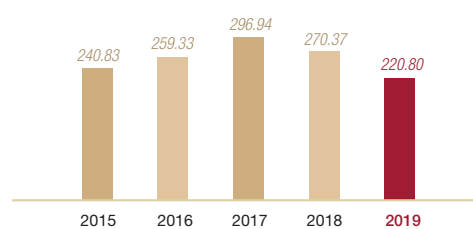


Prudent allowance for impairment and solid asset quality

Non-performing loan ratio (%)



Allowance to non-performing loans (%)



Financial Summary

Financial Data

Key Financial Data and Indicators

	2019	2018	2017	2016	2015
Operating results (RMB'000)					
Operating income	46,447,109	39,022,476	34,264,149	33,653,342	25,130,385
Profit before income tax	14,680,413	13,850,501	13,706,758	13,391,559	9,380,412
Net profit attributable to shareholders of the Bank	12,924,764	11,490,416	10,949,749	10,153,148	7,050,690
Scale indicators (at the end of the reporting period, RMB'000)					
Total assets	1,800,785,867	1,646,694,744	1,536,752,102	1,354,854,519	1,031,650,386
Total loans and advances to customers	1,030,171,014	865,232,669	672,878,934	459,493,053	345,422,861
Total liabilities	1,672,758,198	1,544,246,207	1,447,064,348	1,287,379,141	981,993,322
Customer deposits	1,143,740,603	974,770,403	860,619,457	736,243,698	516,026,296
Equity attributable to shareholders of the Bank	126,246,411	100,885,498	88,194,636	67,475,378	49,657,064
Per share (RMB)					
Net assets per share at the end of the period ⁽¹⁾	5.23	4.59	4.08	3.76	3.42
Basic earnings per share ⁽²⁾	0.64	0.61	0.57	0.59	0.54
Diluted earnings per share	0.64	0.61	0.57	0.59	0.54
Profitability indicators (%)					
Return on average total assets ⁽³⁾	0.76	0.73	0.76	0.85	0.83
Return on average equity ⁽⁴⁾	12.21	14.17	14.64	17.34	17.03
Net interest margin	2.34	1.93	1.81	2.07	2.31
Net interest spread	2.08	1.76	1.62	1.89	2.12
Net non-interest income to operating income	27.07	32.38	28.81	25.03	18.08
Cost-to-income ratio ⁽⁵⁾	26.41	29.99	31.96	27.71	27.66
Asset quality indicators (%)					
Non-performing loan ratio ⁽⁶⁾	1.37	1.20	1.15	1.33	1.23
Allowance to non-performing loans ⁽⁷⁾	220.80	270.37	296.94	259.33	240.83
Allowance to total loans ⁽⁸⁾	3.03	3.25	3.43	3.44	2.95
Capital adequacy indicators (%)					
Core tier-one capital adequacy ratio	9.64	8.38	8.29	9.28	9.35
Tier-one capital adequacy ratio	10.94	9.83	9.96	9.28	9.35
Capital adequacy ratio	14.24	13.38	12.21	11.79	11.04

Financial Summary

Notes:

- (1) Net assets per share at the end of the period = (equity attributable to shareholders of the Bank minus other equity instruments) divided by the total number of ordinary shares at the end of the period.
- (2) Basic earnings per share = Net profit attributable to shareholders of ordinary shares of the Bank (excluding net profit attributable to shareholders of preference shares of the Bank for the year) divided by weighted average number of ordinary shares outstanding.
- (3) Return on average total assets = Net profit divided by the average balance of total assets at the beginning and at the end of the period.
- (4) Return on average equity = Net profit attributable to shareholders of ordinary shares of the Bank (excluding net profit attributable to shareholders of preference shares the Bank for the year) divided by average balance of equity attributable to shareholders of ordinary shares of the Bank at the beginning and at the end of the period (excluding other equity instruments).
- (5) Cost-to-income ratio = Operating expenses (excluding taxes and surcharges) divided by operating income.
- (6) Non-performing loan ratio = Balance of non-performing loans divided by total loans and advances to customers.
- (7) Allowance to non-performing loans = Expected credit loss allowance for loans divided by balance of non-performing loans. There is no difference between the indicator for the Group and the Bank, while the regulatory requirements specify that a legal person's allowance to non-performing loans shall not be less than 140%.
- (8) Allowance to total loans = Expected credit loss allowance for loans divided by total loans and advances to customers. There is no difference between the indicator for the Group and the Bank, while the regulatory requirements specify that a legal person's allowance to total loans shall not be less than 2.1%.



Mr. Shen Renkang
Chairman

Chairman's Statement

From our tireless efforts made to cultivate seeds that were wisely sown early in advance, 2019 was the year of harvest as we proudly reaped a bounty of fruitful results. Over the past year, with the support of investors and all walks of society, CZBank has always maintained its strategic determination, strengthened its judgment on the macro situation, calmly responded to complicated circumstances, and focused on high-quality development. Regardless ups and downs, our great efforts were rewarded with satisfactory results.

In the past year, we held fast to our direction of high-quality development, and made new breakthroughs in innovation, transformation and development. Guided by the "two most" overall goal, we have fully carried out the new development philosophy, thoroughly implemented the platform-based service strategy, and strengthened financial technology innovation and business model innovation, which led to continuous improvement of our customer acquisition capabilities and distinctive competitiveness. As at the end of the year, the Group's total assets reached RMB1.80 trillion, our operating income for the whole year amounted to RMB46.447 billion, our net profit attributable to shareholders of the Bank amounted to RMB12.925 billion, representing an increase of 9.36%, 19.03% and 12.48%, respectively showing steady improvement of development quality and efficiency. The proportion of total loans and advances to customers in total assets increased to 57.21% and the proportion of customer deposits in total liabilities increased to 68.37%, representing continuous improvement of the assets and liabilities structure. By continuously reducing inefficient and ineffective assets and comprehensively strengthening cost control, our cost-to-income ratio for the whole year decreased by 3.58 percentage points year-on-year, and the rate of resource utilization improved significantly. We continued to optimize the customer base and structure to secure more physical customers, with increasingly effective customer acquisition on the platform.

In the past year, we held fast to our stable compliance and operation objective, and achieved new improvement in our corporate governance. We focused on the key issues, rationalized the governance mechanism and strengthened lean management. The role of effective management in supporting development has become increasingly apparent. We have improved our corporate governance system in an orderly manner, and transformed the domestic and foreign regulatory requirements into our internal governance rules in a timely manner, resulting in a more smooth corporate governance structure. We have successfully listed on the Shanghai Stock Exchange to build an "A + H" dual capital replenishment channel, laying a solid foundation for future business development. We continued to improve the risk management system and mechanism, optimized the structure of giving-credit customers and businesses, adequately provided for assets impairment and strengthened risk mitigation and disposal. As at the end of the year, our non-performing loan ratio was 1.37%, allowance to non-performing loans was 220.80%, and allowance to total loans was 3.03%, representing continuously better assets quality and risk mitigation capabilities. We have fully implemented the "five strict (五個從嚴)" basic internal control compliance management requirements and carried out the three-year special action of "Protection with Internal Control and Safeguarding with Compliance", aiming to continuously improve systematic and technological management, and continue to maintain major cases and major operational risks at "zero" level, with steady progress of regulatory evaluation.

In the past year, we held fast to our objective of serving the real economy, and reached a new level in serving the economy and society. We proactively responded to the decision-making and deployment of governments of higher levels and regulatory authorities, vigorously promoted our financial supply-side structural reform, facilitated smooth financing with innovative models and differentiated services, and achieved our high-quality development while enhancing quality and efficiency of serving the real economy. As at the end of the year, the number of customers using our platform-based services amounted to 38,500, which reduced approximately 20% of total financing for enterprises as compared to traditional financing models, helping them to reduce leverage and costs and increase efficiency. We fully promoted financial services for small and micro enterprises, small and micro enterprise loans under inclusive finance accounted for 16.8%, over-fulfilling the annual increment objectives of "two increases and two controls". We proactively made innovative use of various investment banking products and tools to support private enterprises to expand direct financing channels, with private enterprise bond financing support tools volume ranking first in the interbank market. We also spared no effort in assisting private enterprises that have encountered temporary difficulties, deeply fulfilled green finance, explored establishment of a long-term mechanism for financial targeted poverty alleviation, and effectively performed our corporate social responsibility.

The river always flows and the world is always new. Development is an eternal topic. Footprints are needed even though there are miracles on the development road. At present, with continuous acceleration of domestic economic transformation and upgrading and deepening of the supply-side structural reform, new momentum plays a clearer supporting role in the economic development. Together with sudden outbreak of COVID-19 epidemic, adjusting structure, stabilizing leverage and maintaining growth have become the principal line of the economic work for next stage. Opportunities and challenges as well as dreams and glories co-exist in the powerful current of changing times. With a mission in mind, we stay true to our originality, and are full of confidence in the present and full of hope for the future. 2020 is the closing year of the "Third five-Year" plan of CZBank, and is also the opening year of fully implementing the platform-based service strategy. We will put forth effort to implement the platform-based service strategy, enhance the quality and efficiency of serving the real economy, strengthen the risk management capabilities, improve lean management level, establish a dynamic organizational system, and continue to maintain high-quality development trend, thus creating greater value for all parties of the society and opening a new chapter for the financial market in China!

In 2020, we will march ahead regardless of difficulties!

沈仁康

Shen Renkang
Chairman



Mr. Xu Renyan
President

President's Statement

Great accomplishments require ambitions and tireless efforts. In 2019, in the face of the complicated economic and financial situations, CZBank has implemented the new development philosophy, focused on the "two most" overall goal, insisted on the five operation principles of "serving the real economy, innovative transformation, compliant operation, risk prevention and dissolution, quality and efficiency improvement", fully implemented the requirements of "promoting innovation, adjusting structure, stabilizing development, strengthening management, mitigating risks, and improving the quality and efficiency", established and implemented platform-based service strategy, accelerated innovation, transformation and development, comprehensively completed annual operation plan, and thus achieved excellent results.

Our operating performance improved steadily, and we completed the listing of A Shares. In this year, our Bank's business scale increased steadily, and the scale of deposits and loans reached "trillion" level. We adhered to the orientation of serving the real economy with continuous optimization of business structure, and made further efforts to reduce consumption, increase revenue and save expenditure with continuous improvement of operating efficiency. We maintained steady assets quality in general, kept the allowance to non-performing loans at a relatively high level, completed the listing of A Shares to realize "A + H" dual capital channel. Our capital adequacy ratio was significantly improved, and all of our regulatory indicators met the standards.

We accelerated innovation and transformation, and continuously strengthen our distinctive advantages. In this year, with new trend of Internet information technology development and new requirements for customer value creation, our Bank strengthened the research and development and innovative application of blockchain technology, redefined banking and services, created a second development curve and fostered new growth momentum. For corporate business, we continued to maintain our leading edge of platform-based services, innovated industry solutions, built enterprise self-finance platform, constructed supply chain, industrial chain, value chain and ecosystem, and achieved mutually beneficial and synergy development between enterprises and our Bank. For small enterprise business, we continued to improve our platform-based service capabilities, and assisted small and micro enterprises in obtaining multiple loans easily and rapidly. The proportion of inclusive loans of small enterprises continued to rank among the top in the industry with leading assets quality. For retail business, we proactively explored platform-based transformation, and promoted the integration of our "e-banking" comprehensive financial service platform with such industrial application scenarios as Internet platform, consumption by instalment, healthcare, home decoration and tourism, so as to create a new ecology of retail financial services with increasingly apparent features and advantages. For investment banking business, we accelerated establishment of platform-based service channels and vigorously promoted blockchain receivable assets turnover, with continuous improvement of the product creation and bond underwriting capabilities, as well as increasingly expanded direct financing channels for enterprises. For international business, we innovated application of a platform-based service model to further strengthen our liquidity service capabilities integrating local and foreign currency as well as domestic and foreign trade, and continuously expand our market influence. For financial market business, we continued to improve our market position, and made effective breakthroughs for a number of major business qualifications. For custodian business, we strengthened promotion of matching business and maintained rapid growth of custodian income. For inter-bank business, we realized operating system restructuring by returning to the origin, deepening transformation and serving business development strategy and operational requirements across the Bank. For asset management business, we improved our product system with gradual improvement of system and mechanism that meet the requirements of the new asset management regulations.

We continued to strengthen the risk management, and intensively promoted compliance operations. In this year, our Bank established a unified and centralized comprehensive risk management system, continued to improve the credit policy system and established a "basic policy + special policy" model; implemented differentiated credit authorization management and improved the unified credit management mechanism for financial institution customers and group customers; and continued to promote the construction of big data risk control platform with great improvement of timeliness and effectiveness of risk warning. We fully implemented the basic requirements of "five strict (五個從嚴)" internal control compliance management, and improved the three long-term internal control mechanisms, so as to significantly strengthen internal control and compliance management. We realized steady and safe operation throughout the year, with no major operational risk event, major safety accident or case occurring.

We continuously demonstrated our social responsibility, and continually improved our brand image. In this year, our Bank insisted on the organic integration of the performance of the social responsibility with the achievement of commercially sustainable development, served the real economy, enhanced inclusive finance service, practiced the green finance philosophy, helped to overcome difficulties in poverty alleviation, devoted to the public welfare, and strived to make greater contributions to economic, environmental and social harmony. We received considerable recognition from local governments, regulatory authorities and the general public, won the First Prize of "Advanced Units in Supporting Zhejiang Economic and Social Development" for the fourth consecutive year, and were awarded various honors, including the "Best Inclusive Financial Performance Award" by China Banking Association and the "Best Poverty Alleviation Bank" by Financial Times. In the "Top 1000 World Banks 2019" ranking by The Banker Magazine of the U.K., we increased from 100th to 98th in terms of total assets.

Amid the fierce competition, those who strive for the best are the first; among many competitors, those who dare to move forward will win. 2020 is the first year for our Bank to fully implement its platform-based service strategy, and we have seen the success because of the belief in our strategy. Guided by the "two most" overall goal, our Bank will thoroughly implement the new development philosophy, fully implement the platform-based service strategy, insist on the five operation principles, promote platform-based applications, expand distinctive businesses, improve differentiated management, strictly control credit risk, reduce consumption, increase revenue and save expenditure, strengthen internal control compliance, innovate technology applications, create a second development curve, and open a new chapter for high-quality development of CZBank!



Xu Renyan
President

Management Discussion and Analysis

(I) Economic, Financial and Regulatory Environment

During the year of 2019, the world's economies had been suffering from sluggish growth which continued to undergo a period of deep adjustment following the international financial crisis. The rapid evolution of the world's situation became increasingly prominent, and thus the global turmoil sources and risk areas had increased significantly. The developed economies growth was lacked luster, showing signs of "low growth, low inflation, low interest rate". The emerging market economies growth also remained soft with diversified performance. The trade friction has become one of the major factors dragging down the global economy and the global trade growth saw a gradual slowdown.

The PRC economy was still operating within the proper range and maintaining a sustainable and healthy development. In 2019, the gross domestic product (GDP) reached RMB99.09 trillion, representing a year-on-year increase of 6.1%. China has made critical progress in three critical challenges, and continued to deepen the supply-side structural reform. The progress of the key indicators of "13th Five-Year Plan" was also as anticipated. Given that the Chinese economy is at the critical stage for transforming the mode of development, optimizing economic structure and changing growth driver amidst a host of structural, systematic and cyclical problems posing further impacts from "three-period superimposition", the great downward pressure on the economy will still exist. However, the fundamental trend that Chinese economy will continue to move forward in a stable pace in a long-term perspective has not been changed.

Management Discussion and Analysis

In order to strengthen the counter-cyclical adjustment and speed up the structural adjustment via unblocking the transmission mechanism of monetary policy by means of reform, the People's Bank of China has implemented a prudent monetary policy which improved the pricing mechanism for the loan prime rate (LPR) and promoted the reduction of the financing costs from the whole society, so as to create an appropriate monetary and financial environment for "Six Stabilities" and high-quality economic development. In 2019, due to the deepened and continuous reform of the major institutions and major fields in financial industry, the battle to prevent and mitigate financial risks has achieved critical progress.

The banking industry witnessed an overall stability of operation and improved quality and efficiency of serving the real economy. As of the end of the reporting period, the supply of the broad money M2 in China increased by 8.7% on a year-on-year basis, and the social financing scale's stock rose by 10.7% on a year-on-year basis. The assets of financial institutes in local and foreign currencies of the banking industry was RMB290 trillion, increased by 8.1% on a year-on-year basis; the liabilities of financial institutes in local and foreign currencies of the banking industry was RMB265.54 trillion, increased by 7.7% on a year-on-year basis; the balance of loan in local and foreign currencies of financial institutes was RMB158.6 trillion, increased by 11.9% on a year-on-year basis; the balance of deposit in local and foreign currencies of financial institutes was RMB198.2 trillion, increased by 8.6% on year-on-year basis. The loans to private enterprises increased by RMB4.25 trillion and the balance of inclusive small and micro enterprise loans was RMB11.6 trillion. The commercial banks (on a legal person basis) achieved a net profit of RMB2 trillion; the balance of non-performing loans was RMB2.41 trillion with a non-performing loan ratio of 1.86%.

Management Discussion and Analysis

(II) Analysis of Overall Operation Performance

Stable increase of business scale

As at the end of the reporting period, total assets of the Group amounted to RMB1,800.786 billion, representing an increase of RMB154.091 billion or 9.36% as compared to that at the end of last year, of which total loans and advances to customers amounted to RMB1,030.171 billion, representing an increase of RMB164.938 billion or 19.06% as compared to that at the end of last year. Total liabilities amounted to RMB1,672.758 billion, representing an increase of RMB128.512 billion or 8.32% as compared to that at the end of last year, of which customer deposits amounted to RMB1,143.741 billion, representing an increase of RMB168.970 billion or 17.33% as compared to that at the end of last year.

Continued enhancement of operating efficiencies

During the reporting period, operating income of the Group amounted to RMB46.447 billion, representing an increase of RMB7.425 billion or 19.03% as compared to that of last year, of which net interest income amounted to RMB33.874 billion, representing an increase of RMB7.489 billion or 28.38% as compared to that of last year, and net non-interest income amounted to RMB12.573 billion, representing a decrease of RMB64 million or 0.51% as compared to that of last year. Net profit attributable to shareholders of the Bank amounted to RMB12.925 billion, representing an increase of RMB1.434 billion or 12.48% as compared to that of last year.

Maintaining sound asset quality

As at the end of the reporting period, the non-performing loan ratio was 1.37%, representing an increase of 0.17 percentage point as compared to that at the end of last year; allowance to non-performing loan ratio was 220.80%, representing a decrease of 49.57 percentage points as compared to that at the end of last year; the allowance to total loans ratio was 3.03%, representing a decrease of 0.22 percentage point as compared to that at the end of last year.

Enhanced level of capital adequacy ratio

As at the end of the reporting period, the capital adequacy ratio of the Group amounted to 14.24%, representing an increase of 0.86 percentage point as compared with that at the end of last year. The tier-one capital adequacy ratio amounted to 10.94%, representing an increase of 1.11 percentage points as compared with that at the end of last year, and the core tier-one capital adequacy ratio amounted to 9.64%, representing an increase of 1.26 percentage points as compared with that at the end of last year.

Management Discussion and Analysis

(III) Analysis of Financial Statements

1. Analysis of consolidated statement of comprehensive income

In 2019, facing a grim and complicated situation, the Group comprehensively implemented the platform-based service strategy and vigorously promoted transformation and development under the persistent guidance of the overall object of “Two Most”, thereby achieving sound operating performance and continuously extending its market competitiveness and brand influence. In 2019, the Group achieved a net profit attributable to shareholders of the Bank of RMB12.925 billion, increased by 12.48% as compared to that of last year; the return on average total assets was 0.76% and the return on average equity was 12.21%. Operating income was RMB46.447 billion, increased by 19.03% as compared to that of last year, including, among others, net interest income of RMB33.874 billion, increased by 28.38% as compared to that of last year; net non-interest income of RMB12.573 billion, decreased by 0.51% as compared to that of last year. Operating expense was RMB12.864 billion, increased by 5.95% as compared to that of last year; cost-to-income ratio was 26.41%, decreased by 3.58 percentage points as compared to that of last year. Provision for expected credit losses was RMB18.902 billion, increased by 45.07% as compared to that of last year. The income tax expense was RMB1.537 billion, decreased by 32.87% as compared to that of last year.

Changes of the main items in the consolidated statement of comprehensive income

In thousands of RMB, except percentages

Item	2019	2018	Amount of increase	Growth rate(%)
Net interest income	33,874,066	26,385,548	7,488,518	28.38
Net non-interest income	12,573,043	12,636,928	(63,885)	(0.51)
Operating income	46,447,109	39,022,476	7,424,633	19.03
Less: operating expenses	12,864,480	12,142,420	722,060	5.95
Less: expected credit losses	18,902,216	13,029,555	5,872,661	45.07
Profit before income tax	14,680,413	13,850,501	829,912	5.99
Less: income tax expense	1,537,430	2,290,164	(752,734)	(32.87)
Net profit	13,142,983	11,560,337	1,582,646	13.69
Attributable to:				
Shareholders of the Bank	12,924,764	11,490,416	1,434,348	12.48
Non-controlling interests	218,219	69,921	148,298	212.09

Management Discussion and Analysis

(1) Net interest income

In 2019, net interest income was RMB33.874 billion, representing an increase of RMB7.489 billion or 28.38% as compared to that of last year, accounting for 72.93% of operating income; interest income was RMB79.488 billion, representing an increase of RMB7.237 billion or 10.02% as compared to that of last year; interest expense was RMB45.614 billion, representing a decrease of RMB252 million or 0.55% as compared to that of last year. Net interest spread and net interest margin were 2.08% and 2.34%, respectively, representing an increase of 0.32 percentage point and 0.41 percentage point as compared to that of last year, respectively.

Average yields on interest-earning assets and average costs of interest-bearing liabilities

In thousands of RMB, except percentages

Item	2019			2018		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances to customers	956,696,913	55,113,966	5.76	808,483,703	44,026,417	5.45
Investments ⁽¹⁾	446,074,302	20,465,467	4.59	479,582,479	23,770,825	4.96
Due from banks and other financial institutions	106,657,066	2,166,089	2.03	111,022,198	2,675,600	2.41
Balances with central bank ⁽²⁾	116,374,536	1,742,833	1.50	118,255,182	1,778,755	1.50
Total interest-earning assets	1,625,802,817	79,488,355	4.89	1,517,343,562	72,251,597	4.76
Item	Average balance	Interest expenses	Average cost(%)	Average balance	Interest expenses	Average cost(%)
Interest-bearing liabilities						
Customer deposits	1,045,361,152	26,429,021	2.53	896,403,614	19,984,469	2.23
Due to banks and other financial institutions	350,059,746	10,791,835	3.08	418,055,259	16,240,522	3.88
Debt securities issued ⁽³⁾	224,566,104	8,236,921	3.67	216,608,308	9,641,058	4.45
Lease liabilities	3,260,787	156,512	4.80	N/A	N/A	N/A
Total Interest-bearing liabilities	1,623,247,789	45,614,289	2.81	1,531,067,181	45,866,049	3.00
Net interest income		33,874,066			26,385,548	
Net interest spread			2.08			1.76
Net interest margin ⁽⁴⁾			2.34			1.93

Management Discussion and Analysis

Notes:

- (1) The investments include financial assets measured at amortized cost and financial assets at fair value through other comprehensive income.
- (2) Balances with the central bank include mandatory reserve deposits, surplus reserve deposits and foreign exchange reserve of deposits.
- (3) Debt securities issued include issued inter-bank certificates of deposits, financial bond, etc.
- (4) Net interest margin: the income generated from the business of financial assets at fair value through profit or loss was not classified as interest income categorised by accounting item, and its corresponding interest-bearing liabilities and interest expense shall be adjusted accordingly.

Analysis of changes in interest income and interest expense

In thousands of RMB

Item	Comparison between 2019 and 2018		Net increase (decrease) ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Interest-earning assets			
Loans and advances to customers	8,071,030	3,016,519	11,087,549
Investments	(1,660,855)	(1,644,503)	(3,305,358)
Due from banks and other financial institutions	(105,198)	(404,313)	(509,511)
Balances with central bank	(28,288)	(7,634)	(35,922)
Changes in interest income	6,276,689	960,069	7,236,758
Interest-bearing liabilities			
Customer deposits	3,320,867	3,123,685	6,444,552
Due to banks and other financial institutions	(2,641,475)	(2,807,212)	(5,448,687)
Debt securities issued	354,195	(1,758,332)	(1,404,137)
Lease liabilities	156,512	–	156,512
Changes in interest expense	1,190,099	(1,441,859)	(251,760)
Changes in net interest income	5,086,590	2,401,928	7,488,518

Management Discussion and Analysis

Notes:

- (1) Change in volume represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield or average cost for the previous year.
- (2) Change in interest rate represents the average yield or average cost for the year minus the average yield or average cost for the previous year, multiplied by the average balance for the year.
- (3) Net increase or decrease represents interest income or expense for the year minus interest income or expense for the previous year.

(2) Interest income

Interest income from loans and advances to customers

Interest income from loans and advances to customers was RMB55.114 billion, increased by RMB11.088 billion or 25.18% as compared to last year, mainly due to the increase in the size of loans and advances to customers and the rise of yield.

Interest income from loans and advances to customers

In thousands of RMB, except percentages

	2019			2018		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans and advances ⁽¹⁾	722,468,013	39,847,508	5.52	646,170,784	34,292,551	5.31
Personal loans and advances	234,228,900	15,266,458	6.52	162,312,919	9,733,866	6.00
Total loans and advances to customers	956,696,913	55,113,966	5.76	808,483,703	44,026,417	5.45

Notes:

- (1) including discounted bills.

Interest income from investments

Interest income from investments was RMB20.465 billion, decreased by RMB3.305 billion or 13.91% as compared to that of last year, mainly due to optimization of the asset structure and the decrease in the size of investment as well as the decline in interest rate under the influence of market environment.

Interest income from due from banks and other financial institutions

Interest income from due from banks and other financial institutions was RMB2.166 billion, representing a decrease of RMB510 million or 19.04% as compared to that of last year, primarily due to the decreased scale of due from banks and other financial institutions and the decline in interest rate.

Management Discussion and Analysis

(3) Interest expenses

Interest expense on customer deposits

Interest expense on customer deposits amounted to RMB26.429 billion, representing an increase of RMB6.445 billion or 32.25% as compared to that of last year, primarily due to the increase in the size of customer deposits and the rise of costs.

Interest expense on customer deposits

In thousands of RMB, except percentages

	2019			2018		
	Average balance	Interest expenses	Average cost (%)	Average balance	Interest expenses	Average cost (%)
Corporate deposits and other deposits⁽¹⁾						
Time	608,024,738	18,800,830	3.09	525,695,495	15,244,360	2.90
Demand	301,028,110	3,277,720	1.09	295,244,759	2,643,632	0.90
Subtotal	909,052,848	22,078,550	2.43	820,940,254	17,887,992	2.18
Personal deposits						
Time	95,099,369	3,682,239	3.87	46,745,139	1,698,806	3.63
Demand	41,208,935	668,232	1.62	28,718,221	397,671	1.38
Subtotal	136,308,304	4,350,471	3.19	75,463,360	2,096,477	2.78
Total	1,045,361,152	26,429,021	2.53	896,403,614	19,984,469	2.23

Notes:

(1) Other deposits include remittance payables, temporary deposits and outward remittance, etc.

Interest expense on due to banks and other financial institutions

Interest expense on due to banks and other financial institutions amounted to RMB10.792 billion, representing a decrease of RMB5.449 billion or 33.55% as compared to that of last year, primarily due to the decrease in deposits from banks and other financial institutions and the decline of cost.

Debt securities issued

Interest expense on debt securities issued amounted to RMB8.237 billion, representing a decrease of RMB1.404 billion or 14.56% as compared to that of last year, primarily due to the decrease in average cost of debt securities issued.

Management Discussion and Analysis

(4) Net non-interest income

Net non-interest income in 2019 amounted to RMB12.573 billion, representing a decrease of RMB64 million or 0.51% as compared to that of last year. Specifically, the net fee and commission income was RMB4.579 billion, representing an increase of RMB327 million as compared to that of last year, while other net non-interest income was RMB7.994 billion, representing a decrease of RMB391 million as compared to that of last year.

Net fee and commission income

In thousands of RMB, except percentages

Item	2019	2018	Amount of increase or decrease	Growth rate (%)
Settlement business	1,490,260	993,718	496,542	49.97
Underwriting service	1,355,905	756,073	599,832	79.34
Credit commitment	651,741	449,926	201,815	44.86
Asset management services	580,672	1,389,652	(808,980)	(58.21)
Custodian and other fiduciary service	539,469	525,285	14,184	2.70
Agency service	199,639	357,807	(158,168)	(44.20)
Others	261,171	357,437	(96,266)	(26.93)
Fee and commission income	5,078,857	4,829,898	248,959	5.15
Less: fee and commission expense	499,875	577,975	(78,100)	(13.51)
Net fee and commission income	4,578,982	4,251,923	327,059	7.69

Fee income from settlement business was RMB1.490 billion, representing an increase of RMB497 million as compared to that of last year, primarily due to the growth of the settlement and clearing business.

Fee income from underwriting service was RMB1.356 billion, representing an increase of RMB600 million as compared to that of last year, primarily due to the increased scale of the bond underwriting business.

Fee income from credit commitment was RMB652 million, representing an increase of RMB202 million as compared to that of last year, primarily due to the increased scale of the loan commitment business.

Fee income from asset management services was RMB581 million, representing a decrease of RMB809 million as compared to that of last year, primarily due to structure adjustment of the asset management business.

Fee income from custodian and other fiduciary service was RMB539 million, representing an increase of RMB14 million as compared to that of last year, primarily due to the increased scale of asset custodian business.

Management Discussion and Analysis

Other net non-interest income

In thousands of RMB, except percentages

Item	2019	2018	Amount of increase or decrease	Growth rate (%)
Net trading gains	6,235,406	7,254,140	(1,018,734)	(14.04)
Net gains on financial investments	1,346,417	608,813	737,604	121.15
Other operating income	412,238	522,052	(109,814)	(21.04)
Total	7,994,061	8,385,005	(390,944)	(4.66)

Other net non-interest income was RMB7.994 billion, representing a decrease of RMB391 million or 4.66% as compared to that of last year.

(5) Operating expenses

In thousands of RMB, except percentages

Item	2019	2018	Amount of increase or decrease	Growth rate (%)
Staff costs	8,242,969	7,152,858	1,090,111	15.24
General and administrative expenses	2,378,491	3,036,909	(658,418)	(21.68)
Tax and surcharges	597,822	437,828	159,994	36.54
Rental expenses	120,791	710,664	(589,873)	(83.00)
Depreciation and amortization	1,418,444	658,661	759,783	115.35
Others	105,963	145,500	(39,537)	(27.17)
Total	12,864,480	12,142,420	722,060	5.95

Operating expenses amounted to RMB12.864 billion, representing an increase of 5.95% as compared to last year, primarily due to our business expansion, the increased number of our outlets and employees.

(6) Expected credit losses

In thousands of RMB, except percentages

Item	2019	2018
Due from banks and other financial institutions	80,444	(1,196)
Loans and advances to customers	7,639,744	9,539,474
Financial assets at fair value through other comprehensive income	(299,694)	440,662
Financial assets measured at amortized cost	8,670,029	2,700,846
Off-balance sheet losses	2,422,259	(1,559)
Finance lease receivables	382,722	300,133
Others	6,712	51,195
Total	18,902,216	13,029,555

Management Discussion and Analysis

(7) Income tax expenses

The income tax expenses were RMB1.537 billion, representing a year-on-year decrease of RMB753 million or 32.87%, and the effective tax rate was 10.47%. For the reconciliation statement of the income tax expenses calculated at statutory tax rate and the actual income tax expenses, please see “Notes to Consolidated Financial Statements – 12 Income Tax Expenses”.

(8) Segment information

Segment operating results by business line

In thousands of RMB, except percentages

Item	2019		2018	
	Amount	Proportion	Amount	Proportion
Corporate banking business	26,785,912	57.67	24,418,275	62.57
Retail banking business	8,537,399	18.38	5,077,518	13.01
Treasury business	9,954,375	21.43	8,674,013	22.23
Other businesses	1,169,423	2.52	852,670	2.19
Total operating income	46,447,109	100.00	39,022,476	100.00

Segment operating results by geographic region

In thousands of RMB, except percentages

Item	2019		2018	
	Amount	Proportion	Amount	Proportion
Yangtze River Delta Region	25,980,075	55.93	21,301,281	54.59
Bohai Rim Region	8,321,158	17.92	7,031,744	18.02
Pearl River Delta Region	3,750,890	8.08	3,706,508	9.50
Midwestern China Region	8,394,986	18.07	6,982,943	17.89
Total operating income	46,447,109	100.00	39,022,476	100.00

2. Analysis on Statement of Financial Position

In 2019, by adhering to its original aspiration of serving the real economy, accelerating cultivation of new growth momentum, building new advantages for development, continuously optimizing its business structure and increasing its supports in real economy, the Group has effectively improved the efficiency of asset and liability allocation, and significantly enhanced its liquidity and market risk management.

Management Discussion and Analysis

(1) Assets

As at the end of 2019, total assets of the Group amounted to RMB1,800.786 billion, representing an increase of RMB154.091 billion or 9.36% as compared to that at the end of last year, of which net loans and advances to customers amounted to RMB998.933 billion, representing an increase of RMB161.857 billion or 19.34% as compared to that at the end of last year. Financial investments amounted to RMB518.037 billion, representing a decrease of RMB46.896 billion or 8.30% as compared to that at the end of last year. In terms of the structure, net loans and advances to customers accounted for 55.47% of total assets, increased by 4.64 percentage points as compared to that at the end of last year, and the financial investments accounted for 28.77%, decreased by 5.54 percentage points as compared to that at the end of last year.

Assets utilization

In thousands of RMB, except percentages

Item	December 31, 2019		December 31, 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Total loans and advances to customers	1,030,171,014		865,232,669	
Less: the expected credit loss allowance for loans	(31,238,279)		(28,156,779)	
Net loans and advances to customers	998,932,735	55.47	837,075,890	50.83
Financial investments ⁽¹⁾	518,037,352	28.77	564,932,978	34.31
Cash and balances with central bank	131,029,072	7.28	126,370,232	7.67
Precious metal	21,251,360	1.18	8,103,317	0.49
Due from banks and other financial institutions	55,858,954	3.10	55,383,174	3.36
Others	75,676,394	4.20	54,829,153	3.34
Total assets	1,800,785,867	100.00	1,646,694,744	100.00

Note:

- (1) The financial investments include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortized cost.

Management Discussion and Analysis

Loans

According to changes in the macroeconomic environment and financial supervision requirements, and centered on serving the real economy and the supply-side structural reform, the Group continuously optimized credit structure, deepened financial services to small and micro enterprises and private enterprises as well as green financial services, and actively developed inclusive finance. As at the end of 2019, total loans and advances to customers of the Group amounted to RMB1,030.171 billion, representing an increase of RMB164.938 billion or 19.06% as compared to that at the end of last year.

Loan structure by business type

In thousands of RMB, except percentages

Item	December 31, 2019		December 31, 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate loans	679,610,018	65.97	603,258,461	69.72
Discounted bills	71,631,631	6.95	57,707,010	6.67
Personal loans	275,676,991	26.76	201,407,629	23.28
Changes in fair value through other comprehensive income	212,316	0.02	146,906	0.02
Accrued interest	3,040,058	0.30	2,712,663	0.31
Total	1,030,171,014	100.00	865,232,669	100.00

Corporate loans

Taking full advantage of its liquidity services, the Group enhanced platform-based customer acquisition capabilities, met customers' financing needs via diversified products, and promoted the optimization of corporate loan structure while taking into account the adjustment in total amount and structure of its loans. As at the end of 2019, total corporate loans amounted to RMB679.610 billion, representing an increase of 12.66% as compared to that at the end of last year.

Discounted bills

Through optimization of structure and acceleration of turnover, the Group improved the comprehensive returns on bill assets. As at the end of 2019, total discounted bills amounted to RMB71.632 billion, representing an increase of 24.13% as compared to that at the end of last year.

Management Discussion and Analysis

Personal loans

The Group accelerated platform-based transformation of the retail business, continued to enrich its application scenarios and expanded the scope of customer and business linkages to continuously promote the growth of personal loans. As at the end of 2019, total personal loans amounted to RMB275.677 billion, representing an increase of 36.88% as compared to that at the end of last year.

Financial investments

The Group strongly supported the development of real economy, and optimized investment portfolio and structure on the basis of ensuring liquidity and risk control. As at the end of 2019, total financial investments amounted to RMB518.037 billion, representing a decrease of 8.30% as compared to that at the end of last year.

Financial investment composition

In thousands of RMB, except percentages

Item	December 31, 2019		December 31, 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Financial assets at fair value through profit or loss	129,265,827	24.95	135,210,776	23.93
Financial assets at fair value through other comprehensive income	83,611,100	16.14	91,885,792	16.27
Financial assets measured at amortized cost	305,160,425	58.91	337,836,410	59.80
Total	518,037,352	100.00	564,932,978	100.00

As at the end of 2019, financial assets at fair value through profit or loss of the Group amounted to RMB129.266 billion; financial assets at fair value through other comprehensive income amounted to RMB83.611 billion; financial assets at amortized cost amounted to RMB305.160 billion.

(2) Liabilities

As at the end of 2019, total liabilities of the Group amounted to RMB1,672.758 billion, representing an increase of RMB128.512 billion or 8.32% as compared to that at the end of last year.

Management Discussion and Analysis

Liabilities Composition

In thousands of RMB, except percentages

Item	December 31, 2019		December 31, 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Customer deposits	1,143,740,603	68.37	974,770,403	63.12
Due to banks and other financial institutions	266,870,021	15.95	279,999,081	18.13
Financial liabilities at fair value through profit or loss	15,143,347	0.91	12,483,213	0.81
Debt securities issued	206,241,190	12.33	245,996,763	15.93
Others	40,763,037	2.44	30,996,747	2.01
Total liabilities	1,672,758,198	100.00	1,544,246,207	100.00

Customer deposits

The Group actively responded to the changes in market demand, fully utilized the comprehensive advantages of financial services, enhanced platform-based customer acquisition capabilities, vigorously organized the absorption of deposits, enriched the types of deposit products and continued to optimize the deposit structure. As at the end of 2019, balance of customer deposits of the Group amounted to RMB1,143.741 billion, representing an increase of RMB168.970 billion or 17.33% as compared to that at the end of last year. With respect to customer structure, corporate deposits increased by RMB105.432 billion or 12.20%; and personal deposits increased by RMB61.999 billion or 63.48%. With respect to term structures, time deposits increased by RMB139.383 billion or 22.73%; and demand deposits increased by RMB28.048 billion or 8.04%.

Management Discussion and Analysis

Structure of our customer deposits by business type

In thousands of RMB, except percentages

Item	December 31, 2019		December 31, 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate deposits				
Demand	332,440,330	29.07	308,220,456	31.62
Time	637,177,814	55.71	555,965,785	57.04
Sub-total	969,618,144	84.78	864,186,241	88.66
Personal deposits				
Demand	44,330,520	3.88	40,502,374	4.16
Time	115,331,893	10.08	57,161,099	5.86
Sub-total	159,662,413	13.96	97,663,473	10.02
Other deposits	2,596,013	0.22	2,577,816	0.26
Accrued interest	11,864,033	1.04	10,342,873	1.06
Total	1,143,740,603	100.00	974,770,403	100.00

(3) Shareholder's equity

As at the end of the reporting period, equity attributable to shareholders of the Bank amounted to RMB126.246 billion in total, representing an increase of RMB25.361 billion or 25.14% as compared to that at the end of last year. Please see "Consolidated Financial Statements – Consolidated Statement of Changes in Equity".

Management Discussion and Analysis

(IV) Analysis of the Loan Quality

1. Loan distribution by the five-category classification

In thousands of RMB, except percentages

Item	December 31, 2019		December 31, 2018	
	Amount of loans	Percentage (%)	Amount of loans	Percentage (%)
Pass	988,778,577	95.98	837,905,409	96.84
Special mention	23,992,605	2.33	14,053,511	1.62
Non-performing	14,147,458	1.37	10,414,180	1.20
Substandard	6,854,437	0.67	4,923,593	0.57
Doubtful	5,056,233	0.49	4,348,337	0.50
Loss	2,236,788	0.22	1,142,249	0.13
Changes in fair value through other comprehensive income	212,316	0.02	146,906	0.02
Accrued interest	3,040,058	0.30	2,712,663	0.31
Total loans and advances	1,030,171,014	100.00	865,232,669	100.00

The loan quality of our Group was kept at a relatively good level. As at the end of the reporting period, according to the five-category classification of the supervision system, the pass loans amounted to RMB988.779 billion, representing an increase of RMB150.873 billion as compared with that at the end of last year, accounting for 95.98% of total loans and advances to customers. Loans classified as special mention were RMB23.993 billion, representing an increase of RMB9.939 billion as compared with that at the end of last year, accounting for 2.33% of total loans and advances to customers. The non-performing loans were RMB14.147 billion, representing an increase of RMB3.733 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.37%, representing an increase of 0.17 percentage point as compared with that at the end of last year.

Management Discussion and Analysis

2. Distribution of loans and non-performing loans by business type

In thousands of RMB, except percentages

Item	December 31, 2019				December 31, 2018			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans	679,610,018	65.97	11,607,068	1.71	603,258,461	69.72	9,126,958	1.51
Personal loans	275,676,991	26.76	2,485,231	0.90	201,407,629	23.28	1,228,532	0.61
Discounted bills	71,631,631	6.95	55,159	0.08	57,707,010	6.67	58,689	0.10
Changes in fair value through other comprehensive income	212,316	0.02	N/A	N/A	146,906	0.02	N/A	N/A
Accrued interest	3,040,058	0.30	N/A	N/A	2,712,663	0.31	N/A	N/A
Total loans and advances	1,030,171,014	100.00	14,147,458	1.37	865,232,669	100.00	10,414,180	1.20

As at the end of the reporting period, our non-performing corporate loans amounted to RMB11.607 billion, representing an increase of RMB2.480 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.71%, representing an increase of 0.20 percentage point as compared with that at the end of last year. The personal non-performing loans were RMB2.485 billion, representing an increase of RMB1.257 billion as compared with that at the end of last year, with a non-performing loan ratio of 0.90%, representing an increase of 0.29 percentage point as compared with that at the end of last year.

Management Discussion and Analysis

3. Distribution of loans and non-performing loans by industry

In thousands of RMB, except percentages

Item	December 31, 2019				December 31, 2018			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans	679,610,018	65.97	11,607,068	1.71	603,258,461	69.72	9,126,958	1.51
Leasing and commercial services	150,011,231	14.56	638,535	0.43	116,611,687	13.48	366,293	0.31
Real estate	148,341,568	14.40	428,010	0.29	118,527,240	13.70	737,467	0.62
Manufacturing	114,721,676	11.14	6,203,466	5.41	113,574,111	13.13	4,188,823	3.69
Wholesale and retail trade	82,824,306	8.04	2,295,027	2.77	80,961,514	9.36	2,405,271	2.97
Administration of water conservancy, environment and public facilities	53,253,087	5.17	50,000	0.09	54,183,720	6.26	2,991	0.01
Construction	45,432,115	4.41	830,113	1.83	45,329,965	5.24	309,999	0.68
Financing	19,785,025	1.92	-	-	16,865,207	1.95	-	-
Transportation, storage and postal service	10,579,639	1.03	303,011	2.86	9,233,210	1.07	303,013	3.28
Electricity, heat, gas and water production and supply	9,561,877	0.93	375,111	3.92	9,675,724	1.12	252,183	2.61
Accommodation and Catering	8,857,459	0.86	82,877	0.94	5,624,076	0.65	98,632	1.75
Mining	6,721,696	0.65	-	-	5,286,317	0.61	16,104	0.30
Others ⁽¹⁾	29,520,339	2.86	400,917	7.91	27,385,690	3.17	446,182	1.63
Personal loans	275,676,991	26.76	2,485,231	0.90	201,407,629	23.28	1,228,532	0.61
Discounted bills	71,631,631	6.95	55,159	0.08	57,707,010	6.67	58,689	0.10
Changes in fair value through other comprehensive income	212,316	0.02	N/A	N/A	146,906	0.02	N/A	N/A
Accrued interest	3,040,058	0.30	N/A	N/A	2,712,663	0.31	N/A	N/A
Total loans and advances	1,030,171,014	100.00	14,147,458	1.37	865,232,669	100.00	10,414,180	1.20

Note:

- (1) Others include various industries such as public administration and social organization; culture, sports and entertainment; information transmission, computer service and software; agriculture, forestry, animal husbandry and fishery; household services and other services; scientific research, technology services and geological exploration; education; health, social security and social welfare.

Management Discussion and Analysis

In 2019, our Group actively supported the development of the real economy and followed the national economic restructuring, with a priority focus on national economy basic industries and national strategic emerging industries. Differential risk prevention and control strategies were formulated for areas such as industries with excess production capacity, real estate, etc., with a view to optimizing the allocation of credit resources continually.

4. Distribution of loans and non-performing loans by geographic region

In thousands of RMB, except percentages

	December 31, 2019				December 31, 2018			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Yangtze River								
Delta Region	571,941,836	55.52	9,137,962	1.60	461,768,587	53.37	4,741,626	1.03
Midwestern								
China Region	198,548,174	19.27	2,627,233	1.32	170,822,059	19.74	1,397,987	0.82
Bohai Rim Region	165,622,592	16.08	1,337,436	0.81	152,875,633	17.67	2,882,821	1.89
Pearl River								
Delta Region	90,806,038	8.81	1,044,826	1.15	76,906,821	8.89	1,391,745	1.81
Changes in fair value through other comprehensive income	212,316	0.02	N/A	N/A	146,906	0.02	N/A	N/A
Accrued interest	3,040,058	0.30	N/A	N/A	2,712,663	0.31	N/A	N/A
Total loans and advances	1,030,171,014	100.00	14,147,458	1.37	865,232,669	100.00	10,414,180	1.20

As at the end of the reporting period, the region where the Group incurred a relatively large volume of non-performing loans was the Yangtze River Delta Region. Taking into account economic characters of various regions, the Group continued to optimize the regional credit allocation to actively prevent regional risks and support regional development.

Management Discussion and Analysis

5. Distribution of loans and non-performing loans by security type

In thousands of RMB, except percentages

	December 31, 2019				December 31, 2018			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Collateralized loans	461,555,822	44.81	4,633,944	1.00	350,785,476	40.54	3,645,845	1.04
Pledged loans	117,831,564	11.44	3,384,737	2.87	119,429,333	13.80	1,249,338	1.05
Guaranteed loans	193,199,290	18.75	4,615,473	2.39	208,182,269	24.06	4,718,278	2.27
Unsecured loans	182,700,333	17.73	1,458,146	0.80	126,269,012	14.59	742,030	0.59
Discounted bills	71,631,631	6.95	55,159	0.08	57,707,010	6.67	58,689	0.10
Changes in fair value through other comprehensive income	212,316	0.02	N/A	N/A	146,906	0.02	N/A	N/A
Accrued interest	3,040,058	0.30	N/A	N/A	2,712,663	0.31	N/A	N/A
Total loans and advances	1,030,171,014	100.00	14,147,458	1.37	865,232,669	100.00	10,414,180	1.20

The secured loan structure of the Group basically remained stable. As at the end of the reporting period, the collateralized loans accounted for 44.81% of the total loans and advances to customers, which was a relatively high percentage; the collateralized loans balance was RMB461.556 billion, representing an increase of RMB110.770 billion compared with that at the end of last year; the balance of non-performing loans among collateralized loans was RMB4.634 billion, with the non-performing loan ratio of 1.00%, representing a decrease of 0.04 percentage point compared with that at the end of last year.

Management Discussion and Analysis

6. Top ten borrowers

In thousands of RMB, except percentages

Top ten borrowers	Industry	Amount	Percentages of total loans and advances to customers (%)
A	Leasing and commercial services	3,576,736	0.35
B	Manufacturing	3,560,000	0.35
C	Leasing and commercial services	3,496,000	0.34
D	Real estate	3,200,000	0.31
E	Leasing and commercial services	3,103,110	0.30
F	Real estate	2,918,000	0.28
G	Leasing and commercial services	2,785,040	0.27
H	Real estate	2,734,882	0.27
I	Leasing and commercial services	2,599,800	0.25
J	Real estate	2,500,000	0.24
Total		30,473,568	2.96

As at the end of the reporting period, the balance of loans to the single largest borrower of the Group was RMB3.577 billion, representing 2.16% of the Group's net capital. The total loans to our top ten single borrowers amounted to RMB30.474 billion, representing 18.38% of the net capital and 2.96% of the total loans and advances to customers of the Group.

7. Overdue loans

In thousands of RMB, except percentages

Overdue period	December 31, 2019		December 31, 2018	
	Amount	Percentages of total loans and advances to customers (%)	Amount	Percentages of total loans and advances to customers (%)
Overdue by 1 day to 90 days	9,387,103	0.91	2,335,939	0.27
Overdue by 90 days to one year	7,909,988	0.77	4,222,678	0.49
Overdue by one year to three years	3,644,719	0.35	3,759,409	0.43
Overdue by more than three years	126,077	0.01	333,107	0.04
Total	21,067,887	2.05	10,651,133	1.23

As at the end of the reporting period, the balance of overdue loans amounted to RMB21.068 billion, representing an increase of RMB10.417 billion as compared with that at the end of last year. Specifically, loans overdue by more than 90 days amounted to RMB11.681 billion, representing an increase of RMB3.366 billion as compared with that at the end of last year.

Management Discussion and Analysis

8. Renegotiated loans

The Group exercised strict and prudent control over loan renegotiation. As at the end of the reporting period, total renegotiated loans and advances amounted to RMB0.467 billion, representing a decrease of RMB1.138 billion as compared with that at the end of last year. Among them, total renegotiated loans and advances that were overdue by more than three months amounted to RMB0.026 billion, representing a decrease of RMB1.300 billion as compared with that at the end of last year.

9. Movements in the expected credit loss (“ECL”) allowance on loans

In thousands of RMB

	Amount
Balance at the beginning of the year	28,156,779
Provision for the period	7,639,744
Unwinding of discount on ECL allowance	(86,878)
Write-offs	(3,739,971)
Transfer out	(947,568)
Recovered loans and advances previously written off	342,908
Impact of exchange rate fluctuations	(126,735)
Balance at the end of the period	31,238,279

(V) Capital Management

In accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) (《商業銀行資本管理辦法(試行)》), the measurement range of the Group’s capital adequacy ratio covers credit risk, market risk and operational risk. Among them, credit risk-weighted assets were measured by using weight method, market risk-weighted assets were measured by using standardized approach, and operational risk-weighted assets were measured by using the basic indicator approach.

As of the end of the reporting period, capital adequacy ratio of the Group was 14.24%, tier-one capital adequacy ratio was 10.94%, core tier-one capital adequacy ratio was 9.64%, and leverage ratio was 5.95%, all of which met regulatory requirements.

Management Discussion and Analysis

Capital adequacy ratio (the Group)

In thousands of RMB, except percentages

Item	December 31, 2019	December 31, 2018
Core tier-one capital	112,506,386	87,264,309
Paid-in capital	21,268,697	18,718,697
Part of capital reserves that can be included	32,018,296	22,130,353
Surplus reserves	6,034,423	4,885,381
General risk reserves	19,541,397	18,483,647
Undistributed profits	30,196,063	20,455,847
Part of minority interests that can be included	1,051,314	793,328
Others	2,396,196	1,797,056
Core tier-one capital deductible items	(267,432)	(220,671)
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	(267,432)	(220,671)
Investment in core tier-one capital issued by financial institutions that are under control but not subject to consolidation	—	—
Net core tier-one capital	112,238,954	87,043,638
Other tier-one capital	15,097,839	15,063,441
Other tier-one capital instruments and premium	14,957,664	14,957,664
Part of minority interests that can be included	140,175	105,777
Net tier-one capital	127,336,793	102,107,079
Tier-two capital	38,416,201	36,923,021
Tier-two capital instruments and premium that can be included	25,000,000	25,000,000
Excessive allowance for loan losses	13,135,850	11,711,467
Part of minority interests that can be included	280,350	211,554
Tier-two capital deductible items	—	—
Net capital base	165,752,994	139,030,100
Risk-weighted assets	1,164,197,215	1,038,882,918
Core tier-one capital adequacy ratio (%)	9.64	8.38
Tier-one capital adequacy ratio (%)	10.94	9.83
Capital adequacy ratio (%)	14.24	13.38

Management Discussion and Analysis

Leverage ratio (the Group)

In thousands of RMB, except percentages

Item	December 31, 2019	December 31, 2018
Tier-one capital	127,604,225	102,327,750
Tier-one capital deductible items	(267,432)	(220,671)
Net tier-one capital	127,336,793	102,107,079
Adjusted asset balance inside the balance sheet	1,755,079,845	1,606,961,915
Asset balance of derivative products	5,847,879	32,845,335
Asset balance of securities financing transactions	29,042,509	28,929,451
Adjusted asset balance outside the balance sheet	349,682,527	332,637,482
Adjusted asset balance inside and outside the balance sheet	2,139,652,761	2,001,374,183
Leverage ratio (%)	5.95	5.10

As of the end of the reporting period, capital adequacy ratio of the Company was 14.27%, tier-one capital adequacy ratio was 10.95%, core tier-one capital adequacy ratio was 9.63%, and leverage ratio was 5.89%, all of which met regulatory requirements.

Management Discussion and Analysis

Capital adequacy ratio (the Company)

In thousands of RMB, except percentages

Item	December 31, 2019	December 31, 2018
Core tier-one capital	111,128,212	86,374,144
Paid-in capital	21,268,697	18,718,697
Part of capital reserves that can be included	32,018,296	22,130,353
Surplus reserves	6,024,740	4,882,975
General risk reserves	19,454,244	18,461,991
Undistributed profits	29,966,040	20,383,073
Others	2,396,196	1,797,056
Core tier-one capital deductible items	(1,786,415)	(1,742,290)
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	(256,415)	(212,290)
Investment in core tier-one capital issued by financial institutions that are under control but not subject to consolidation	(1,530,000)	(1,530,000)
Net core tier-one capital	109,341,797	84,631,854
Other tier-one capital	14,957,664	14,957,664
Net tier-one capital	124,299,461	99,589,518
Tier-two capital	37,798,621	36,454,777
Tier-two capital instruments and premium that can be included	25,000,000	25,000,000
Excessive allowance for loan losses	12,798,621	11,454,777
Tier-two capital deductible items	-	-
Net capital base	162,098,082	136,044,295
Risk-weighted assets	1,135,591,435	1,017,500,610
Core tier-one capital adequacy ratio (%)	9.63	8.32
Tier-one capital adequacy ratio (%)	10.95	9.79
Capital adequacy ratio (%)	14.27	13.37

Leverage ratio (the Company)

In thousands of RMB, except percentages

Item	December 31, 2019	December 31, 2018
Tier-one capital	126,085,876	101,331,808
Tier-one capital deductible items	(1,786,415)	(1,742,290)
Net tier-one capital	124,299,461	99,589,518
Adjusted asset balance inside the balance sheet	1,726,897,497	1,587,930,008
Asset balance of derivative products	5,847,879	32,845,335
Asset balance of securities financing transactions	28,941,131	27,557,542
Adjusted asset balance outside the balance sheet	349,682,527	332,504,955
Adjusted asset balance inside and outside the balance sheet	2,111,369,034	1,980,837,841
Leverage ratio (%)	5.89	5.03

Management Discussion and Analysis

(VI) Risk Management

1. Comprehensive risk management system

The Company adopts a “prudent and solid” risk appetite by persistently serving the real economy and strengthening innovation driving force. The Company facilitates the admission management to strengthen its customer base and optimize its business structure; improves the post-investment and post-loan management to effectively prevent and relieve risks; increases the application of financial technologies to continuously promote the construction of big data risk management system; and gradually improves the comprehensive risk management system to ensure the Company’s transformation and development with high quality and facilitate the achievement of the “two most” overall objective in a stable manner.

The Board of Directors takes the ultimate responsibility for comprehensive risk management; the Board of supervisors is responsible for supervision of comprehensive risk management; and the senior management is responsible for implementing comprehensive risk management. The Company establishes the position of chief risk officer. The senior management has established special committees including the risk management and internal control committee, asset and liability management committee, credit, investment and transaction review committee, asset risk classification review committee and business continuity management committee.

The risk management department at our head office is the coordination department for comprehensive risk management and the leading executive department for management of the credit risk, market risk (excluding interest rate risk of banking book), country risk and information technology risk. The planning and finance department (the asset and liability management department) at our head office is the leading executive department for management of the interest rate risk of banking book and liquidity risk. The internal control, compliance and legal department at our head office is the leading executive department for operational risk and compliance risk management. The general office at our head office is the leading executive department for reputational risk management. The development and planning department at our head office is the leading executive department for strategic risk management.

The Company assigns risk monitoring officers to departments subject to higher business complexity and relatively concentrative risks at our head office. Risk monitoring officers are responsible for helping leading officers of accrediting departments organize risk management. They are independent of such departments and directly report to the president of our head office. They make business judgment and report on risk issues independently. The Company assigns to its branches risk monitoring officers, who help presidents of such branches organize comprehensive risk management, focus on the management and control over risks of large financing customers as well as complicated and difficult businesses and are independent of such branches and directly report to the president of our head office. They make business judgment and report on risk issues independently.

2. Credit risk management

Credit risk refers to the risk of the Company suffering from losses due to defaults of debtors or counterparties or a decline in their credit. The Company’s credit risk primarily lies in on- and off-balance sheet business, including loans, inter-bank lending, bond investments, bill acceptances, letters of credit, letters of guarantee, bond holdings and special purpose vehicle investments.

The objectives of our credit risk management are to control our credit risk within a reasonable range acceptable to us and maximize comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

Management Discussion and Analysis

The Company's credit risk management system consists of the Board of Directors, the Board of Supervisors, the Senior Management, the risk management and internal control committee, the credit, investment and transaction review committee of the head office, the credit, investment and transaction review committee of the branches, the credit review teams of sub-branches, the risk management department of the head office and other credit risk control departments, business operation and management departments, financial technology department, audit department, branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the credit risk management as well as the formulation and implementation of systems and policies relating to credit risk management.

The Company formulates fundamental credit policies based on changes in external operating environment and internal operating and risk conditions. Such policies expressly set out guidances on certain aspects of our credit business, such as customer structure, industry structure, regional structure and key business areas. In addition, the Company regularly adjusts its credit policies based on a continuous tracking of the development trends in the macro economy and the industry.

The Company classifies its credit assets by reference to the standards set forth in the Guidelines on Risk-Based Classification of Loans (《貸款風險分類指引》) of the CBIRC, comprehensively taking into account such factors as a borrower's ability to repay the loan, repayment record, willingness to repay the loans, profitability of a credit project and status of a guarantee. The Company's credit asset risks are initially classified by client managers, then reviewed by the head of the marketing department and examined by risk management personnel and finally determined by authorized people.

(1) Credit risk management for corporate business

The Company conducts a unified credit management of corporate customers, and determines maximum comprehensive credit lines and business credit lines for customers based on comprehensive evaluation of customers and according to certain standards and procedures.

The Company strictly complies with relevant regulatory requirements of the CBIRC and puts loans (including trade financing), bill acceptances and discounting, overdrafts, bond investments, special purpose vehicle investments, opening letters of credit, factorings, guarantees, loan commitments and other businesses where credit risks are essentially borne by the Company under our unified credit extension management. In the full coverage of various types of credit businesses, the Company determines comprehensive credit limits of single corporate customers, group customers and industries.

The Company continuously enhances the construction of our credit system, formulates a unified credit quota management system for our corporate customers, intensifies our comprehensive management and unified control of the total credit quota amount of our corporate customers, improves standardized and normalized credit approval procedures, authorization system and position risk accountability mechanism, adjusts our credit policies in time and takes effective measures to prevent credit risks.

The Company further improves the concentration risk management, formulates the concentration risk management related systems, clarifies the responsibilities allocation and main methods of concentration risk management, and continues to promote the construction of concentration risk management.

Management Discussion and Analysis

The Company continuously enhances the management of loan risks related to financing platforms of local governments, strictly complies with various loan policies and regulatory requirements of the CBIRC on financing platforms of local governments, makes dynamic adjustments to targets of credit granting, and further optimizes the loan structure of financing platforms to prevent credit risks that may arise from governments' financing platforms; sets credit limits for loans to local governments' financing platforms and enhances our monitoring and management on the risks.

The Company continuously enhances the management of real estate loan risks. The Company engages in real estate related credit business prudently, and adjusts our credit extension orientation for the real estate industry in a duly manner according to national policy and industrial operation situation. The Company sets dynamic credit limits for loans we grant to the customers in the real estate industry and adopts the name list system management, and continuously adjusts and optimizes the asset structure, as well as strengthens the monitoring and management of risks relating to existing loans.

The Company continuously enhances the management of loan risks for industries with excessive production capacity, and strictly controls loans that we grant to entities in industries with seriously excessive production capacity.

(2) Credit risk management for small and micro enterprise business

The Company conducts unified credit extension management for small and micro enterprise customers (including individual operators), and integrates all types of credit business of small and micro enterprise customers (including individual operators) into our unified credit extension management. The Company actively explores a professionalized operating model, continuously improves our management system and further combs out and standardizes the procedures and requirements for credit extension to gradually cultivate a featured and standard credit extension model of the Company.

The Company continuously strengthens the management of credit risks of small and micro enterprise business and intensifies measures for risk mitigation. The Company strictly controls overdue loans and non-performing loans by tracking overdue loans and on-site and off-site monitoring.

(3) Credit risk management for Retail Business

The Company actively builds its credit evaluation system for personal loans, develops and designs personal loan products with complete functions and strong risk resistance capability. The Company formulates the entry barriers for different groups of customers, adopts controls over overall limits of personal loans, restrains risks associated with loans with multiple borrowers as well as improves and optimizes the management mechanism of credit risks associated with personal loans. The Company continuously enhances selection and management of guarantees and improves its ability to mitigate credit risks. The Company continues to strengthen subsequent management of personal loans such as postloan monitoring, collection of overdue loans and disposal of non-performing loans.

The Company has established a credit card risk management system featuring prebusiness risk prevention, on-going risk monitoring during the process and postbusiness risk management. The Company has formulated a complete set of rules and regulations to standardize various credit card business procedures, such as marketing and promotion procedures of credit cards and credit extension approval procedures. The Company continues to improve the design and operation of procedures for card issuance business, the determination and control of overall business risk tolerance, as well as the identifying, measuring, monitoring, assessment, control, mitigation and disposal of risks during and after the grant of a loan.

Management Discussion and Analysis

(4) Credit risk management for inter-bank business

The Company's inter-bank business mainly comprises financial institution business, monetary market business, investments and transactions business in bonds and other financial assets and foreign exchange and derivatives trading business. Credit risks faced are mainly concentrated on monetary market business, bond investment business and financial institution business.

The Company's inter-bank business involving customer credit risk is covered in our unified credit extension management. When conducting business, the Company will draw up the customers' credit lines in accordance with relevant policies for the management of the concentration of customer risks.

The Company manages the risks in our bond investment business through admission grading, credit limit control and credit extension risk assessment and put them under our unified credit extension management system. Credit risks of invested bonds are tracked and monitored together by traders in the front office and relevant risk management departments. In addition, relevant risk management departments will also evaluate credit risks of invested bonds regularly.

The Company includes financial institution customers in the customer scope of unified credit management. The Company has formulated unified management measures and relevant operating procedures for the unified line of credit of financial institution customers, improved a series of systems and procedures for the investigation, examination and approval of unified credit extension to financial institution customers.

3. Market risk management

Market risk refers to the risk of losses of on- and off-balance sheet business arising from unfavorable changes in market prices including interest rates, exchange rates, stock prices and commodity prices. Market risk can be divided into interest rate risk, exchange rate risk, stock risk and commodity risk. The term "market risk" in this section refers specifically to market risk other than interest rate risk of banking book (for the interest rate risk of banking book, please refer to the relevant content of "7. Interest rate risk management of banking book" below).

The objectives of our market risk management are to control our market risks within a reasonable range acceptable to us and maximize comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's market risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, financial market department, financial technology department, audit department, other departments, as well as branches, subbranches and subsidiaries. The Senior Management is responsible for implementing and organizing the market risk management, overseeing the implementation of market risk appetite as well as formulating and carrying out relevant systems and policies for market risk management and establishing market risk management information system, so as to ensure the Company can effectively identify, measure, monitor and control a series of market risks borne by various businesses.

Management Discussion and Analysis

The market risk measurement methods adopted by the Company include duration analysis, foreign exchange exposure analysis, scenario analysis, sensitivity analysis, Value at Risk (VaR) measurement etc., and the measures taken by the Company to control market risks include, among others, limit management, hedging, reducing risk exposures etc. The Company has established a market risk management system pursuant to the relevant measures and guidelines of CBIRC. The Company has formulated market risk management policies and procedures applicable to the nature, scale, complexity and risk features of its business and aligned such policies and procedures with its overall business development strategy, management capabilities, capital strength and overall risk level that can be borne by the Company.

During the reporting period, the Company has updated its market risk appetite and limit management system, further improved the market risk management systems and market risk measurement systems. The Company conducts market risk measurement, monitoring and routine management by using the independent market risk management system (ALGO system). The Company values positions of our trading book on a daily basis, continuously monitors trading limits, stop-loss limits and risk limits, and regularly evaluates market risks through stress testing and other methods.

4. Liquidity risk management

Liquidity risk refers to the risk of failure to obtain adequate funds in time at reasonable costs to repay debts when they are due, perform other payment obligations and meet other capital needs in the ordinary course of business. Factors affecting liquidity risks are divided into external factors and internal factors. The external factors include domestic and foreign financial conditions, macroeconomic regulation policies, depth and width of developments of financial markets and the competition status of the banking industry. The internal factors include maturities of assets and liabilities, business structures, stability of deposits, and ability to obtain financing in the market and various unexpected events, etc.

The objectives of our liquidity risk management are to ensure our liquidity needs can be satisfied in time at reasonable costs and to control our liquidity risks within a reasonable range acceptable to us.

The Company's liquidity risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (the asset and liability management department), financial market department, financial technology department, audit department, other operation and management departments of the head office, as well as branches, subbranches and subsidiaries. The Senior Management is responsible for implementing and organizing the liquidity risk management as well as the formulation and implementation of relevant systems and policies for liquidity risk management.

Management Discussion and Analysis

The Company managed the liquidity risk in a centralized manner. By establishing a scientific and complete liquidity risk management system, the Company can effectively identify, measure, monitor, control and report its liquidity risk. Specific measures for liquidity risk management include: continuously improving systems related to liquidity risk management, paying close attention to both domestic and foreign macroeconomic situations and market liquidity changes, as well as adjusting our asset and liability management strategy in a timely manner; strengthening debt management, making flexible use of active debt instruments, broadening long-term sources of fund, and continuously increasing the proportion of stable liabilities; promoting the diversification of financing channels construction and actively expanding financing channels while maintaining good relations with major financing counterparts; strengthening the early-warning monitoring and management of liquidity, optimizing our emergency response program for liquidity risk and conducting emergency drills on a regular basis; conducting stress tests for liquidity risk on a regular basis, identifying weak links in the Company's liquidity risk management based on results of such tests, adjusting liquidity risk management strategies and size and structure of high quality liquid assets if necessary, and modifying our liquidity risk management measures in a timely manner to improve our liquidity risk management mechanism.

As of the end of the reporting period, the Company's liquidity coverage ratio was 226.03%, our qualified liquid assets amounted to RMB157.273 billion, and the net cash outflows over the next 30 days was RMB69.582 billion, the total liquidity ratio of the local currencies and foreign currencies was 55.59%; the Group's liquidity coverage ratio was 223.49%, our qualified liquid assets amounted to RMB157.273 billion, and the net cash outflows over the next 30 days was RMB70.370 billion, and the total liquidity ratio of the local currencies and foreign currencies was 55.74%. As of the end of the reporting period, the Company's net stable fund ratio was 114.82%, stable fund available was RMB1,038.166 billion and stable fund required was RMB904.165 billion. The relevant information on the net stable fund ratio of the Group in the last two quarters was set out below:

Date	Net stable fund ratio (%)	Stable fund available (in 100 million of RMB)	Stable fund required (in 100 million of RMB)
As at December 31, 2019	113.49	10,485.86	9,239.20
As at September 30, 2019	111.88	9,991.16	8,930.44

5. Operational risk management

Operational risk refers to the risk of losses that may be incurred due to imperfect or problematic internal procedures, personnel and information technology systems, as well as external events. Types of incidents of losses due to operational risks that the Company may expose to mainly include seven categories, i.e. internal fraud, external fraud, employment systems and safety incidents at working places, incidents related to clients, product and business activity, damage to real property, incidents related to information technology system and incidents related to execution, closing and procedure management.

Management Discussion and Analysis

The Company's operational risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, internal control and compliance and legal department, financial technology department, audit department, other departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing its operational risk management as well as formulation and implementation of basic policies and systems of the Bank for operational risk management.

The objectives of our operational risk management are to "control our operational risks within a reasonable range acceptable to us and maximize comprehensive benefits after risk adjustment". The Company has established an operational risk management system which was matched with our business nature, scale and complexity. The Company exercises a whole-process management of operational risks, and effectively identifies, evaluates, monitors, controls and mitigates the operation risks by enhancing our internal control as an effective means to operational risk management. During the reporting period, the Company followed the management principles of "full coverage, clearly defined duties, honest reporting and quick response". The Company consolidated its foundation work, enhanced the system, innovated its management mechanism and intensified its risk prevention and control approaches so as to enhance the quality and efficiency of operational risk management. The Company comprehensively combed the business process, prompted the important businesses, the key risk areas and control measures; optimized functions of various business systems to improve the rigid control ability of these systems; organized various employees to receive professional ability and awareness raising training; carried out inspection to detect any irregular conduct of employees, thus strengthening the management of employees' conduct; enhance the ability of controlling legal risks by conducting contract review and popularizing legal affair management to be more processive and electronic; strengthened the management of safety and security and implemented work responsibilities to eliminate hidden risks; continuously enhanced business continuity plans and emergency plans and conducted emergency response drills, so as to promote the development of emergency sources throughout the Bank. The Company's operational risk management system operated smoothly and the overall operational risk level was controllable.

6. Country risk management

Country risk refers to the risk incurred due to any economic, political or social change and incident in a country or region which results in the borrowers or debtors in such country or region being unable or refusing to repay their debts or results in any losses to the business presence of the Company in such country or region or any other losses to the Company. The objectives of our country risk management are to control our country risk within a reasonable range acceptable to us and maximize comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

Management Discussion and Analysis

The Company's country risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, planning and finance department (asset and liability management department), international business department, financial market department, retail banking department and other business operation and management departments of the head office, financial technology department and audit department, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the country risk management as well as the formulation and implementation of relevant systems and policies for country risk management.

The Company continuously advances the country risk management work pursuant to the relevant measures and guidelines of the CBIRC. The Company has formulated basic country risk management systems, limit management measures and schemes, clarified the organizational structure and division of responsibilities, limit framework, management mechanism, etc. with respect to country risk limit management, and set the index and threshold of country risk limits. The Company regularly conducts assessment and monitoring of country risks and accrues a provision for country risks.

7. Interest rate risk management of banking book

Interest rate risk in the banking book refers to the risk of losses in the economic value and overall gain of the banking book arising from adverse changes in interest rate levels and term structure etc., mainly including gap risk, benchmark risk and option risk.

The objectives of our interest rate risk management of banking book are to control our interest rate risk of banking book within a reasonable range acceptable to us and maximize the comprehensive benefits denominated in local currency and adjusted with respect to risks.

The Company's interest rate risk management system of banking book consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (the asset and liability management department), financial market department, financial technology department, audit department and other operation and management departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing the interest rate risk management of banking book, establishing the framework for interest rate risk management and the system for measurement of interest rate risk of banking book, and promoting the effective implementation of relevant systems and policies for interest rate risk management of banking book.

The Company measures and evaluates our interest rate risk of banking book mainly through price-resetting gap analysis, sensitivity analysis, scenario simulation analysis, stress test etc. During the reporting period, the Company supplemented and modified the relevant management systems for interest rate risk of banking book and established and gradually improved the management framework and measurement framework for interest rate risk of banking book and raised the interest rate risk management level of banking book in accordance with the requirements in the *Guidelines for the Management of Interest Rate Risk in the Banking Book of Commercial Banks (Revision)* (Yin Bao Jian Fa [2018] No. 25) 《商業銀行銀行賬簿利率風險管理指引(修訂)》(銀保監發[2018]25號) issued by the CBIRC.

Management Discussion and Analysis

8. Reputational risk management

Reputational risk refers to the risk that any interested party will have a negative view of the Company as a result of our operation, management and other activities or external events.

Reputational risk management means the dynamic process of reputational risk identification, measurement or assessment, monitoring, control and reporting by the Company through formulation and implementation of a series of systems, measures and procedures, for achieving operational targets and building a good social image.

The objectives of our reputational risk management are to correctly handle news and public opinions on us, public relations and our relationships with customers, actively and effectively prevent reputational risks and respond to reputational events, so as to minimize the losses and negative impacts caused by such events on the Company, interested parties and the public. The Company has included reputational risk management in its corporate governance and comprehensive risk management system.

The Company's reputational risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, executive office, risk management department, financial technology department, other relevant departments of the head office, as well as branches, subbranches and subsidiaries. The Senior Management is responsible for implementing and organizing the reputational risk management across the Bank as well as the formulation and implementation of relevant systems and policies for reputational risk management of the Company.

During the reporting period, the Company further improved the reputational risk management system, refined reputational risk management measures, continuously enhanced the management of the sources of reputational risks, actively identified potential risks, improved emergency plans, standardized reputational risk reporting and treatment processes, established emergency working mechanisms for reputational risk and enhanced the level and effectiveness of reputational risk prevention and control. Meanwhile, the Company further strengthened positive publicity, innovated communication methods, enhanced public opinion guidance and improved the brand reputation of the Company.

9. Strategic risk management

Strategic risk refers to the risk arising from any improper operational strategy or change in the external business environments, including improper strategic design, inappropriate strategic implementation and inapplicable stated strategy as a result of changes in the internal and external environments.

The objective of our strategic risk management is to control our strategic risk within a reasonable range acceptable to us by continuously improving the strategic risk management system.

The Company's strategic risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department of the head office, development and planning department of the head office, audit department of the head office, financial technology department of the head office, other relevant departments of the head office, as well as domestic and foreign branches, sub-branches and subsidiaries.

Management Discussion and Analysis

Adhering to the principle of “clear responsibilities, proactive prevention, overall evaluation and timely adjustment”, the Company constantly improves and refines the strategic risk management system suitable for the scale and features of its business, and has realized effective management of strategic risks. Main management measures include: establishing the implementation of platform service strategy by taking the opportunities from the evaluation and revision of “Third Five-Year Plan” to create a second development curve; strengthening the differentiated management to promote transformation and development of branches; keeping a close eye on our peers to continuously improve the comprehensive benchmarking management system; enhancing strategic research and situation analysis to improve the strategic risk prediction and assessment ability; strengthening innovative implementation and active management, and reinforcing the resilience of strategic risk management.

10. Compliance risk management

Compliance risk refers to the risk of legal sanctions, regulatory penalties, significant financial losses and reputational losses that may result from the failure to comply with laws, rules and standards.

The objectives of our compliance risk management are to establish a sound compliance risk management framework and promote the development of a comprehensive risk management system which enables us to operate in a lawful and compliant manner.

The Company’s compliance risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, the risk management and internal control committee, the risk management department of the head office, internal control, compliance and legal affair department, the audit department of the head office, other relevant departments of the head office as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the compliance risk management as well as the formulation and implementation of basic systems and policies for compliance risk management.

Management Discussion and Analysis

During the reporting period, adhering to the “compliance-based operation” as one of the five operating principles, the Company strengthened its compliance risk management in order to establish a sound compliance risk management system. It stuck to the principle of system first to implement more precise management of systems through systematically combing the existing codes and policies and comprehensively optimizing system management and processes. The Company carried out the special activity of “safeguarding by internal control and escorting by compliance” in a pragmatic manner, actively promoted the concept of “compliance-focus”, established examination system of internal control compliance at all levels, improved internal control compliance and operational risk case database and organized the signing of the letters of the commitments for internal control compliance and incident prevention. In addition, the Company strengthened its interpretation and analysis of policies, enhanced the risk warning as well as proactively identified, assessed, mitigated and dissolved the risks associated with new products, new businesses and major projects so as to ensure lawful and compliant operation of the Company’s businesses. The Company adhered to protect the rights and interests of consumers and actively fulfilled its social responsibilities. It also fully implemented regulatory requirements and deployed to carry out related work such as “consolidating the outcomes of market chaos handling and promoting compliance construction”, special crackdown against crime syndicates and the case-based warning education activities, enhanced risk screening procedures in key areas, made more efforts to rectify problems and accountability, so as to effectively prevent compliance risk and improve the quality and efficiency of serving the real economy.

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11. Information technology risk management

Information technology risk refers to any operational, legal and reputational risk arising from natural factors, human factors, technical bugs and management defects in connection with the application of information technologies by the Company.

The objectives of our information technology risk management are to control our information technology risk within a reasonable range acceptable to us, promote business innovation, enhance application level of information technology, and intensify core competence and sustainable development capability.

The Company’s information technology risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, chief information officer, risk management and internal control committee, information technology management committee, business continuity management committee, the risk management department of the head office, the financial technology department of the head office, relevant departments of the head office and audit department, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the information technology risk management as well as formulating and implementing relevant systems and policies for information technology risk management.

Management Discussion and Analysis

The Company has established a relatively well-organized information technology risk management mechanism and process system, and comprehensively formulated relevant system processes and implementation rules in accordance with the ISO20000, ISO22301 and ISO27001 management system and regulatory requirements; established relatively well-organized systems for business continuity management, information technology outsourcing risk management, information security management, information technology services management etc. and a relatively well-standardized information technology risk monitoring and assessment mechanism.

During the reporting period, the Company implemented the Information Technology Development Plan of China Zheshang Bank (《浙商銀行資訊科技發展規劃》) and Information Technology Development Plan of China Zheshang Bank (Enhancement Plan 2018-2020) (《浙商銀行信息科技發展規劃 (2018-2020提升規劃)》) in an orderly manner so as to comprehensively promote the platform service strategy and expedite its fintech innovation; continually implemented network security management and the production and operational management of “safety+”; continually carried out monitoring, assessment and security detection of important information systems operation; continually improved the disaster preparedness system of “three centres in two cities (兩地三中心)”, and enhanced the business continuity guarantee capacity; continually promoted the emergency management and made arrangements for the annual emergency drill plan and improved emergency plans and held emergency drills. During the reporting period, the systems operated stably without occurring any substantial information technology risk event.

12. Anti-money laundering management

The objectives of our anti-money laundering management are to effectively identify, evaluate, monitor, control and report the money laundering risk by establishing and perfecting the internal control system suitable to the anti-money laundering regulatory requirements and our development strategy to effectively guard against and control the money laundering and terrorism financing, and crack down on compliance risk. In accordance with the requirements of the Company’s governance structure, the Company has established and optimized the anti-money laundering organization framework and management mechanism, under which the Board of Directors, the Board of Supervisors, Senior Management and relevant departments are subject to layered management, take their respective responsibilities, coordinate and cooperate with each other.

Management Discussion and Analysis

During the reporting period, in strict compliance with the laws and regulations concerning anti-money laundering, the Company faithfully performed its social responsibility and legal obligation with respect to anti-money laundering, continuously perfected the management system for anti-money laundering and anti-terrorist financing risk, optimize the anti-money laundering organizational structure and operating mechanisms, thus the work was carried out stably and orderly as a whole. The Company focused primarily on the following areas: enhanced the customer identification and account management to improve the effectiveness and timeliness of customer identification; strengthened the monitoring and reporting of large transactions and suspicious transactions and optimized the monitoring model to continuously improving the quality and efficiency of reporting suspicious transactions; performed business risk warning to enhance monitoring, management and control of high-risk customers businesses and high-risk customers; continuously optimized the relevant anti-money laundering business system and intensified the ability in big data analytics, so as to continuously improve risk prevention and control capabilities by applying new technologies; faithfully supported regulatory inspection, money laundering risk assessment and anti-money laundering investigation and assistant investigation; organized and carried out anti-money laundering publicity and trainings, performed internal business supervision and inspection in a pragmatic manner, and practically complied with all regulatory requirements of anti-money laundering.

(VII) Business Summary

1. Corporate banking segment

(1) Corporate business

The Group focused on enterprises liquidity management, supply chain finance and intelligent transformation, innovated the application of financial technologies, including internet and blockchain, and implanted the gene of platform for the construction of a comprehensive service platform of “Technology + Finance + Industry”, with an aim to establish itself into a platform-based service bank and an intelligent manufacturing service bank to support the real economy actively, provide easy, efficient and flexible new financial services to enterprises, help them in deleveraging and lowering costs and, ultimately, create values for customers to achieve multi-win of the society, enterprise and bank. During the reporting period, the Company’s corporate business developed quickly, with a rapid growth achieved and the core competitiveness further improved. As of the end of the reporting period, the Company had 111,391 corporate customers, representing an increase of 17,819 or 19.04% as compared with that at the end of last year; balance of corporate loans was RMB679.610 billion, representing an increase of RMB76.352 billion or 12.66% as compared to that at the end of last year.

① Platform-based service bank

With a focus on creating value for customers, the Company continuously deepened the application of blockchain and other financial technologies, insisted on establishing a platform-based service bank, and, relying on its basic business platforms including the pooled financing, Yiqiyin (易企銀) and chain of accounts receivable and depending on different application scenarios, launched various innovative business models and solutions to the industry, including Distribution Connect (分銷通), Instalment Connect (分期通), Bank-leasing Connect (銀租通), Order Connect (訂單通), Manifest Connect (倉單通), YongJin Treasure (湧金司庫), “A+B” and “H+M”, successively through innovation and researches, enabling real enterprises to activate their assets and resources, reduce external financing, lower financial costs and improve the quality and efficiency in providing services to the real economy.

Management Discussion and Analysis

Accounts receivable chain platform

The accounts receivable chain platform is another significant innovation by the Bank in applying the blockchain technology to corporate accounts receivable business to enhance the corporate liquidity services, as well as an enterprise-bank cooperation platform designed and developed by the Bank based on innovative technologies including internet and blockchain, to solve problems of enterprises as to corporate accounts receivable. It is specifically used for handling corporate accounts receivable businesses including issuance, acceptance, confirmation, transfer, pledge and honoring. Such platform can help enterprises easily mobilize current assets, reduce payables, activate receivables, to realize “reducing leverage and cost”, lower cost and improve efficiency, and relieve problems of difficult and expensive financing confronting medium-sized and small enterprises. At the end of the reporting period, the Company launched 2,493 accounts receivable chain platforms, representing an increase of 76.81% compared with that at the end of last year, and the confirming balance of accounts receivable was RMB96.108 billion, representing an increase of 46.34% compared with that at the end of last year.

Pooled financing platform

With a focus on two core requirements of enterprises, namely “reducing financing costs and improving service efficiency”, the Company innovated the “pooled” and “online” financing business models. Based on the “three pools” (namely Yongjin Bill Pool (湧金票據池), Yongjin Asset Pool (湧金資產池) and Yongjin Export Pool (湧金出口池)), it introduced Ultra-Short Loan (超短貸) and Zhizhen Loan (至臻貸), thus forming a full set of solutions to the comprehensive financial service for corporate liquidity to help the enterprises activate current assets, such as bills receivables and accounts receivables, and realize online operation, self-financing, drawdown on demand, and instant drawdown and immediate repayment, and, accordingly, reduce their fund payment provisions and loans, corporate financial leverage, interest expense and financing costs. As of the end of the reporting period, the Company had 25,053 contracted customers of Asset Pool (Bill Pool), representing an increase of 12.40% compared with that at the end of last year, the asset balance in the pool was RMB354.562 billion, representing an increase of 1.11% compared with that at the end of last year; and the financing balance under the pool was RMB333.055 billion, representing an increase of 10.39% compared with that at the end of last year.

Yiqiyin platform

Yiqiyin (易企銀) platform is an innovative and comprehensive financial service platform through which the Company innovates the philosophy of “Internet + Real-Economy Enterprise + Financial Service”, integrates professional technologies such as settlement, credit and financing, and innovates the model of cooperation with enterprise group, core supply chain enterprises and internet transaction platform, so as to provide cost-reducing, efficiency-increasing, safe and efficient services for its members, and upstream and downstream enterprises. The Bank provides custody service, liquidity service and individualized services for Yiqiyin (易企銀) platform, which facilitates online financing and cost reduction of upstream and downstream enterprises in the supply chain, and support core enterprises to construct a good supply chain ecosystem. At the end of the reporting period, the Company launched 333 Yiqiyin platforms, representing an increase of 42.31% compared with that at the end of last year, and the total financing amount from the platforms reached RMB92.194 billion, representing an increase of 150.63% compared with that at the end of last year.

Management Discussion and Analysis

② Intelligent manufacturing service bank

As the first in the industry to introduce the systematic financial solution of “financing with capital, goods and services” to intelligent manufacturing, the Company strives to establish the first “intelligent manufacturing service bank” in the industry and supports the digitalization and intellectualization of traditional industry to cultivate a new mode of production and facilitate industry transformation and upgrade. During the reporting period, the Company continuously deepened the financial service solution to intelligent manufacturing, prompted the application of platform-based businesses in different scenarios and the integration of intelligent manufacturing and leasing service, improved the level of intelligent manufacturing financial service, solved the pain points of enterprises and reduced financing cost. At the end of the reporting period, the credit balance for the intelligent manufacturing segment of the Company was RMB64.461 billion, representing an increase of 20.53% compared with that at the end of last year.

(2) International business

Sticking to the platform and internet-based operation philosophy, the Company strengthened the innovative application in foreign trade, focused on Yongjin Export Pool (湧金出口池) and launched various platform-based service models of “Technology + Scenario Finance + Real Economy”, such as the Freight Forwarding Connect (貨代通), Pooled Chain Connect (池鏈通), Export Financing Easy Loan (出口融易貸) and Yongjin Easy E-Commerce (湧金電商易), all supporting the process integration for local and foreign currency exchange rates, in order to satisfy the comprehensive finance demand of clients and support the real foreign trade economy. During the reporting period, the Company completed the international settlement in an amount of US\$89.995 billion, and total balance sheet and off-balance sheet trade financing amount was US\$14.844 billion.

Following the trend of foreign exchange market closely, the Company has continuously enriched “Zheshang Huiliying (浙商匯利盈)”, a product providing agency services for foreign exchange transactions, and continuously optimized “Zheshang Trading Treasure (浙商交易寶)”, a multi-functional comprehensive foreign exchange trading platform, and launched many innovative mechanisms, such as security deposit waiver in respect of quality clients and cooperation in processing forward settlement and sale of foreign exchange to help foreign trade enterprises to respond to exchange rate fluctuation risks effectively. During the reporting period, the amount of foreign exchange transactions conducted by the Company for its customers reached US\$46.223 billion.

The Company has persisted in the Internet + innovation concept and continuously optimized the online services for international business. By now, its network covers online corporate banking, online personal banking, mobile banking and self-service terminals, supporting remitting, document reviewing, trading, financing and declaring online, through which users can have 24/7 service access and needn't to go to the brick-and-mortar banks and fill out kinds of forms, thus offering an outstanding user experience.

Management Discussion and Analysis

2. Inter-bank financial segment

(1) Financial market business

In terms of financial market business, the Company continued to build a comprehensive FICC trading platform which integrates proprietary investment and financing, proprietary trading and trading agency service, and continuously strengthened its capabilities of innovating cross-border businesses and businesses between markets and asset classes, and its abilities to serve customers. It cooperated with corporate, retail and inter-bank business departments and branches of the Bank in promoting business development. All kinds of business licenses are available, covering multiple domestic and foreign markets for fixed income, foreign exchange, precious metal, commodity, etc., and there are various products including bond trading, foreign exchange transaction, physical gold transaction and precious metal transaction, etc. The Company also provided relevant agency and commissioned services for customers, such as bond trading connect (債券通), agency in bond bidding, foreign exchange transaction agency (代客外匯), precious metal transaction agency, commissioned interest rate derivatives transaction etc. During the reporting period, the Company has successfully obtained the inter-bank foreign currency transaction market maker qualification, the inter-bank rmb/fx forward and swap market maker qualification at foreign exchange market, the inter-bank bond indicative quotations agency, the financial category membership of Shanghai Gold Exchange, the bidding gold market maker of Shanghai Gold Exchange and the bidding silver market maker of Shanghai Gold Exchange, thus further expanding the room for the development of financial market businesses of the Bank.

For the local currency transaction, in 2019, the market yield of local currency bonds showed a trend of fluctuations. According to the change in market environment, the Company adjusted the bond investment strategies in a timely manner and accurately captured the market opportunities of a downward trend of long-duration instrument in yield at the beginning of the year and a sharply rebound in bond yield in the second quarter; during the reporting period, the market trading volume of the inter-bank local currency of the Company increased by 123.07% on a period-on-period basis. The Company was granted the “Core Trader of Inter-bank Local Currency Markets (銀行間市場本幣市場核心交易商)”, “Excellent Trader of Currency Markets (優秀貨幣市場交易商)”, “Excellent Trader of bond Markets (優秀債券市場交易商)” in 2019. The Company strengthened the building of trading selling capability, so that the distribution business of bond maintained rapid growth, and the sales volume ranked among the best in the commercial banks. After the central bank improved the LPR formation mechanism in 2019, the Company actively applied interest rate derivatives to serve the requirements of rate risk management of the real enterprises, so as to reduce the financing costs of the enterprises.

For foreign currency transactions, the Company enhanced research and judgment on the foreign exchange market, and achieved comprehensive development of spot, swap and option businesses. It conducted risk diversification by using diversified trading portfolio strategies, and actively carried out foreign exchange agency businesses to meet customers' demands and provide liquidity to the market. During the reporting period, the trading volume of the Company in the inter-bank foreign exchange market exceeded US\$1 trillion for the first time, representing a period-on-period increase of 12.93%. During the reporting period, as the yields on sovereign bonds of overseas developed countries continued to decrease and the credit spread of Chinese enterprises was greatly narrowed, the Company reduced the duration of foreign currency dominated bonds properly in accordance with the market changes. During the reporting period, the Company won the Sixth Prize in “2019 Best Investment Institutions of Foreign Currency Bonds in Asia (the PRC/Hong Kong)” of The Assets.

Management Discussion and Analysis

For precious metal transactions, the Company effectively captured trends of the precious metal market and opportunities of price differences between domestic and foreign markets and differences between future and spot prices, actively conducted precious metal transactions and physical sales, and innovated and improved the precious metal service solution so as to support the real entity customers. During the reporting period, the amount of precious metal transactions made by the Company represented a period-on-period increase of 69.53%. The Company took a leading position in the market in terms of proprietary trading of gold and the proprietary trading of silver both in Shanghai Gold Exchange and Shanghai Futures Exchange.

(2) Capital market business

Adhering to the basic requirement of “financial sector serving the real economy”, the Company actively implemented the central financial policies and focused on its platform-based strategy to drive business transformation and provide services to the private enterprises and the small and micro businesses by utilizing equity-based financial instruments during the reporting period.

The Company also developed the market-oriented debt-to-equity swap business in an active manner. It helped the quality enterprises to improve financial structure by using the central bank’s cut reserve fund and in the form of special bond and debt-to-equity fund. As at the end of the year, the balance of the market-oriented debt-to-equity swap business supported by the cut reserve fund of the Bank was RMB2.3 billion and the unleashed social capital amounted to RMB460 million.

Focusing on intelligent warehousing, intelligent manufacturing, semi-conductor and other emerging technology industries, the Company has strengthened its investment in equity and talent pool business, and provided long-term and stable fund support to the medium-sized and small growing enterprises by using a wide range of financial instruments.

(3) Financial institution business

During the reporting period, as for the financial institution business, the Company actively adapted to the new situation, focused on the “two most” overall objective and the platform-based service strategy, insisted on the development direction of “going back to basics, deepening transformation, serving the general public and lawful operation”, and took advantage of the channels and platforms by relying on the financial institution customers, with a view to promoting asset sales, fund collection and service output.

By technological means, including the internet and blockchain, and based on the platform of inter-bank asset pools, the financial institution business is targeted to the customers of all major financial institutions covering banks, securities, funds, trusts, insurance and asset management in a full manner, aiming to construct a brand-new comprehensive financial service cloud platform accessible to all financial institutions. With a focus on “creating value for customers”, the Company endeavours to establish a virtuous cooperation ecosphere, expand cooperation channels continuously, help customer to keep dynamic balance between liquidity and efficiency, ease tensions in interbank lending markets, further deepen its services to corporate clients, continue to improve its capability and level of service and provide its customers with a comprehensive financial service solution integrating overall financial asset management, liquidity service, transaction and circulation, and credit enhancement agency.

Management Discussion and Analysis

(4) Asset management business

The Company's asset management business is centered on serving our customers professionally, aiming to build a professional platform that is equipped with cross-market and multi-tool applications, which enjoys professional efficiency higher than our peers and provides one-stop solutions to fulfil customers' investment and financing needs. The Company positively accommodated to the market and policy changes, attached importance to advancing the optimization of asset structure and customer structure, made full efforts to satisfy various investment and financing demands of individuals, companies and inter-bank customers, and strived to build a respected asset management business brand featured by "professional management, customer first, differentiated competition and leading efficiency".

As of the end of the reporting period, the balance of the Company's wealth management products amounted to RMB330.480 billion, representing a decrease of 2.89% as compared with that at the beginning of the year, wherein, the proportion of funds for the individuals, corporate and inter-bank customers was 93.14%, 6.12% and 0.73%, respectively, representing an increase of 4.94 percentage points, a decrease of 2.5 percentage points and a decrease of 2.45 percentage points, respectively, as compared with that at the beginning of the year. During the reporting period, the Company issued wealth management products with a total amount of RMB739.992 billion, representing a decrease of 1.88% on a year-on-year basis, and realized handling fee income from asset management business of RMB581 million. During the reporting period, the Company continued to develop its assets management brand and received lots of professional awards and recognition, including a member of the third standing committee of the China Banking Association Finance Committee (中國銀行業協會理財專業委員會), "Deputy Director Unit of Best Committee of China Banking association (中國銀行業協會最佳專業委員會副主任單位)" by the China Banking Association, "2019 Junding Award for Bank Asset Management Brand in China" (2019中國銀行資產管理品牌君鼎獎) by Securities Times, the "Most Competitive Asset Management Bank" (最具競爭力資產管理銀行) by the 21st Century Business Herald and "Top Innovative Financial Product 2019" (2019年度金牌創新力金融產品) by Each Finance and Financial Money.

(5) Investment banking business

During the reporting period, relying on its business model and channel innovation, the investment banking business of the Company continuously improved its market competitiveness and influence and maintained a strong momentum of development to serve the real economy in a sustainable way.

For the bond underwriting business, the Company intensified its management team building, seeing a steady increase in the bond underwriting size. During the reporting period, the Company underwrote various direct financial instruments such as local government bonds, financial bonds, corporate bonds and asset-backed securities in a total amount of RMB217.318 billion. Meanwhile, the Company made full use of the advantages of its investment banking business to serve the real economy and ranked the first in terms of the volume of bond-financing support instrument for private enterprises in the inter-bank market according to the data from WIND, a financial information service provider.

Management Discussion and Analysis

For the syndicated loan and M&A loan business, the Company proactively developed business to provide indirect financing service related to investment banking to its customer. During the reporting period, the total amount of syndicated loan and M&A loan was RMB7.155 billion.

For credit asset securitization business, during the reporting period, the Company issued the asset-backed securities in respect of the micro and small enterprise loans of RMB2.333 billion and asset-backed securities in respect of individual housing mortgage loan of RMB1.048 billion.

The Company was granted the “2019 Tianji Award of Banking investment Business of Universal Banks (2019年度全能銀行投行業務天璣獎)” and the “2019 Tianji Award of Bond Underwriting Bank (2019年度債券承銷銀行天璣獎)” in China by Securities Times for its investment banking business. It also won the “Top 10 Master Underwriters” (十佳主承銷商), “Enterprising Bank Award” (銳意進取獎) and “Spirit of Craftsmanship Award” (工匠精神獎) granted by Beijing Financial Assets Exchange in 2019.

(6) Asset custodian business

During the reporting period, the Company’s asset custodian business developed in a healthy and steady manner. As of the end of the reporting period, the assets balance held in custody by the Company reached RMB1.63 trillion, of which the assets of the public securities investment fund held in custody reached RMB167.872 billion, representing a year-on-year increase of 18.94%. During the reporting period, the Company’s income from the custodian business was RMB539 million.

During the reporting period, the Company’s asset custodian business adhered to the general concept of “doing a custodian business with ideas of investment banking”. The Company increased the marketing of various key custodian products, and continuously improved contributions of the custodian business to the intermediary business income of the Bank. In the meantime, the Company continuously improved the product line of public funds custodian business, closely followed the market conditions and innovative hotspots, and cooperated with fund companies to lay out all kinds of funds and expand the size of public funds custodian business. During the reporting period, the Company increased its investment in system R&D resources and improve functions of these systems. Currently, it has established a featured custodian business service platform consisting of three functional systems: custodian business support, custodian business processing and public network service of custodian business. Meanwhile, the Company improved the custodian operation efficiency and customers’ satisfaction of its services through continuous optimization of the business process of its custodian operation and support of opening an account where the custodian account locates.

Management Discussion and Analysis

3. Large retail segment: small enterprise business

During the reporting period, the Company actively innovated the platform-based service model for the small and micro enterprise business, accelerated business transformation and continuously improved the quality and efficiency in rendering services to the real economy, driving the development of the small and micro enterprise finance in a sustainable and healthy manner and enabling the Company to meet the regulatory target of “two increases and two controls”. As of the end of the reporting period, the balance of the small and micro enterprise loans under inclusive finance ^(note 1) of the Company was RMB171.104 billion, representing an increase of RMB30.526 billion or 21.71% compared with that at the beginning of the year, which is 2.52 percentage points higher than the growth of loans by domestic institutions during the corresponding period; the number of borrowers reached 87,000, representing an increase of 12,700 compared with that at the beginning of the year; the interest rate met the regulatory target; the asset quality remained excellent, the non-performing loan ratio of the small and micro enterprise loans under inclusive finance was 1.01%, representing a decrease of 0.02 percentage point compared with that at the beginning of the year. The proportion of the small and micro enterprise loans under inclusive finance over total various loans by domestic institutions reached 16.77%, being the highest among the commercial banks nationwide ^(note 2); the non-performing asset ratio was maintained at a pretty good level and the quality of the Company’s asset took a leading position among the commercial banks nationwide ^(note 2). During the reporting period, it won various honours, including the “Best Inclusive Financial Performance Award” (最佳普惠金融成效獎) during the social responsibility evaluation of the banking industry in China and “Outstanding Unit in Supporting Private Enterprises and Small and Micro Enterprises Development” (支持民營企業、小微企業發展優秀單位) granted by the government of Zhejiang province.

The Company continuously improved the accuracy of its services to support the small and micro new economy precisely. It helped the transformation and upgrading of the small and micro enterprises and launched the “5+N” financial service solution to the small and micro enterprise parks innovatively, including providing customized products to satisfy the demand of the small and micro enterprises in the parks. It implemented 310 small and micro enterprise park projects with an accumulated credit line of RMB36.6 billion. In response to the government’s policy to develop intelligent manufacturing industry, it provided exclusive products, including “Zhizao Loan” (智造貸) of a total amount of RMB748 million, to those small and micro enterprises who need to upgrade their intelligent equipment. With a view to supporting the transformation and upgrading of the small and micro enterprises in the manufacturing and technology industry, it launched the “Talent Support Loan” (人才支持貸) and granted total lines of credit of RMB6.437 billion.

The Company intensified the innovative application of financial technology to improve the service experience of the small and micro enterprises. For the convenience of the small and micro enterprises, it actively promoted “Easy Loan” (易貸) and “Quick Loan” (快貸), provided “One-Off” (最多跑一次) financial service and launched four patterns of service, i.e. “Online Application” (線上申請、不用跑網點), “Mobile Survey and Visiting Banking Service” (移動調查、銀行上門), “Online Handling” (線上辦理、網點搬回家) and “Financial Technology and Automatic Service” (金融科技、自動服務). Through technological innovation, such as the combination of line of credit approval and single payment loan, together with “Fast Loan” (快速放款), “Online Loan Application” (在線預約放款), “Instant Loan Withdrawal” (實時提款), the Company tried best to keep its customers from going to the brick-and-mortar banks. As of the end of the reporting period, the accumulated lines of credit granted by the Company online amounted to RMB43.0 billion, which greatly saved the unnecessary time and trips of the small and micro enterprises to the bank.

Management Discussion and Analysis

4. Large retail segment: retail banking business

During the reporting period, the Company persisted in the bank-wide “two most” overall strategic objective for the retail banking business, implemented the “platform-based service strategy”, focused on customers, actively embraced the internet, strengthened the application of financial technologies including big data, block chain and artificial intelligence, accelerated the exploration into a platform-based development path and expedited the transformation of retail banking business. As of the end of the reporting period, the balance of personal financial assets of the Company reached RMB489.516 billion, representing an increase of 18.54% as compared with that at the beginning of the year. And the Company had 4,746,200 effective personal customers, representing an increase of 4.33% as compared with that at the beginning of the year.

(1) Personal deposit and loan business

The Company enhanced the expansion of personal deposit products, focused on the improvement of the core deposit product system and launched the transferable certificates of deposit with differentiated pricing, which led to a substantial increase in the size of personal deposits. The Company has established an asset pool platform named “e-banking”, which focused on “the asset pool of individuals, family members and friends”. It also expanded the personal housing loans in a moderately stable manner, continued to optimize personal credit policy and improved risk control capacity. As of the end of the reporting period, the balance of personal deposits of the Company was RMB159.662 billion, representing an increase of 63.48% as compared with that at the beginning of the year; the balance of personal consumption loans and personal housing loans was RMB145.970 billion, representing an increase of 54.36% as compared with that at the beginning of the year.

(2) Wealth management

Committed to establishing itself into a “platform-based service wealth management bank”, the Company launched many net-value wealth management products, including “Shengxin Win” (升鑫赢), “Juxin Win” (聚鑫赢), “Yongxin Zengli Anxiang” (湧薪增利安享) and “Yongxin Zengli Zunxiang” (湧薪增利尊享). It also diversified the consigned wealth management products and launched “Zengjin Smart Investment” (增金智投), a fund portfolio investment service to meet the demand of individual customers for comprehensive financial services. As of the end of the reporting period, the balance of personal wealth management was RMB307.764 billion, representing an increase of 2.67% as compared with that at the beginning of the year, accounting for 93.13% of the total wealth management balance. And the Company had 690,100 high quality individual customers, representing an increase of 14.06% as compared with that at the beginning of the year.

Management Discussion and Analysis

(3) Private banking

During the reporting period, focusing on “customer operation”, the Company further enhanced its ability to serve customers, increase wealth and allocate assets by improving three main systems, namely product, featured value-added service and professional team, thus developing the core competitiveness of private banking. It successively launched many private-banking investment and wealth management products with controllable risks, higher earnings and diversified terms. The Company made continuous efforts to develop unique value-added services including “airport and highspeed rail 24/7 free car pickup” service, VIP airport service and customized activities for ultra-high net worth customers. As of the end of the reporting period, the Company had 8,480 private banking customers with daily average financial assets in a month of RMB6.0 million or above, representing an increase of 24.26% as compared with that at the beginning of the year.

(4) Credit card business

For the credit card business, the Company adhered to the operation philosophy of flexibility and convenience, tapped into the financial character of internet through the implementation of the platform-based retail strategy, and realized the business transformation of credit cards. By stepping up the research and development efforts in credit card products and launching Wuqiong (無窮卡), Zengjin Card (增金卡) and talent card for the “Thousand Talents Program” of the country or each province, the Bank kept diversifying its credit card products system. Focusing on the platform-based operation, it also launched MBA tuition instalment product and e loans (e借金) and expanded its customer-base through the development of scenario-based methods of customer acquisition, including instalments products for parking space, home decoration and car, which diversified the credit card instalment products and met the financing demand of different customers. Besides, for customer experience, it launched the all-in-one express credit business, allowing the application for various businesses in one form to simplify the application materials. It also realized online instant pre-credit granting for car parks to improve customer satisfaction continuously.

As of the end of the reporting period, the Company had issued 3,661,300 credit cards, including 181,300 credit cards newly issued during the reporting period; the consumption amount was RMB92.953 billion, representing a year-on-year increase of 28.50%; and the revenue was RMB1.365 billion, representing a year-on-year increase of 68.66%.

Management Discussion and Analysis

5. E-finance and electronic banking

(1) E-finance

During the reporting period, for the e-finance business, the Company gave priority to the needs of real economy enterprises and the pain point requirements of customers, continuously perfected bottom-layer products, and innovated technological applications and business models with a focus on creating customer value. According to features of application in various real production and living scenarios, it designed and provided a scenario scheme and a personal-corporate business linkage scheme based on technical solutions to improve the financial service ability.

(2) Electronic banking

During the reporting period, the Company has formed a complete electronic banking service system consisting of online banking, mobile banking, telephone banking, WeChat banking and self-service banking. The replacement rate of electronic banking channels reached 99.03%, taking a leading position in the industry. During the evaluation of the 7th “Best Banking Awards” organized by Sina Finance in 2019, the Company’s personal mobile banking APP garnered the “Most Distinctive Mobile Banking” (最具特色手機銀行) for its diversified and distinctive services and functions and efficient and convenient intelligent application. It also won the “Best Mobile Banking Interactive Experience Award” (最佳手機銀行交互體驗獎) and the “Best Smart Financial Platform Award” (最佳智慧金融平台獎) granted by China Financial Certification Authority.

Online banking

During the reporting period, the Company continuously optimized the 4.0 version of personal online banking, completed the channel consistency construction of the PC terminals, and realized the comprehensive upgrading of multiple business modules. Being customer-oriented, the Company focused on simplifying operations of frequently used functions, enriched channel service scenarios, enhanced interactive intelligent application to improve customer experience and extend customer channel services through continuous application of advanced technologies including big data and artificial intelligence. As of the end of the reporting period, the Company had 1,343,000 customers with personal online banking certificates, representing a year-on-year increase of 20.01%, and conducted 87,208,900 transactions totalling RMB971.384 billion through personal online banking for the full year.

During the reporting period, based on the genuine need of enterprises, the Company continuously optimized the functions of corporate online banking, improved the ability to serve corporate groups, and innovatively launched the function of “licensed roles” to realize the personalized customization of customers. The Company continuously simplified operations of frequently used functions and intelligentized channel routing to further reduce customer operations and optimize customer experience. As of the end of the reporting period, the Company had 139,400 customers with corporate online banking certificates, representing a year-on-year increase of 23.80%, and conducted 63,153,300 transactions totalling RMB10,794.565 billion through corporate online banking for the full year.

Management Discussion and Analysis

Mobile banking

During the reporting period, the 4.0 version of the Company's personal mobile banking APP was newly launched, which realized APP integration and offered one-stop comprehensive financial services to its customers in an efficient, safe and convenient manner. Meanwhile, leveraging on the latest achievement of financial technology, it launched a series of innovative featured products, such as the Asset Pool, Smart Deposit, Zengjin Smart Investment (增金智投), further simplified the operation procedures of customers and improved the interactive intelligence capability of our system in order to make it easier for customers to make account transfer and payment, as well as investment and wealth management with more secured intelligent technologies. As of the end of the reporting period, the Company had 3,376,800 personal mobile banking customers, representing a year-on-year increase of 35.78%. During the reporting period, the 2.0 version of the Company's corporate mobile banking APP was newly launched to provide collaborative support for the corporate online banking, and create a mobile financial management tool for the corporate management personnel.

Telephone banking

The Company upheld the service philosophy of "customer-oriented, beyond expectation" and broke the traditional mindset on customer service. By applying multi-channel service platform, big data and intelligent technology and expanding all-media service channels continuously, it established an intelligent customer service system offering inclusive financial services to its customers in an efficient and cost-saving manner. Leveraging on intelligent voice, intelligent online robot, telephone operator service, online manpower service, WeChat, email and other means, the Company provided customers with rapid, comprehensive and professional high-quality services and was committed to establishing a 24/7 comprehensive one-stop service platform.

During the reporting period, the Company received 2,850,700 calls from customers, of which 1,532,600 were passed to operators, with customer satisfaction of 99.73%. It served online customers for 738,800 times and achieved 100% complaint resolution rate. The Company won the "Best Smart Team Award" (最佳智慧團隊獎) during the fourth business contest of "Looking for Best Voice" (尋找好聲音) organized by the Customer Service Centre of China Banking Association.

WeChat banking

During the reporting period, the Company was committed to developing WeChat banking into an important platform for the introduction of new financial services and brand marketing. The WeChat banking consists of a WeChat official account and a WeChat official mini app. The WeChat official account provides debit card service, credit card service and online customer service, etc. The WeChat official mini app provides services such as wealth management, gold trading, information sharing on foreign exchange settlement and sales and online appointment. As of the end of the reporting period, the Company had 1,853,500 WeChat banking users and messages sent by the WeChat banking received over 1,200,000 views accumulatively.

Management Discussion and Analysis

Self-service banking

During the reporting period, the Company continued to step up the construction of traditional self-service equipment, including the automated teller machines, cash recycling systems and other 24/7 self-service banking services, available for customers to make deposits, withdrawals, account transfers, balance checks, password reset and other financial service needs. Meanwhile, in order to promote the construction of intelligent outlets and meet customers' needs for opening an account via self-service banking, the Company provided intelligent self-service machines, such as intelligent teller machines, intelligent printers and online queueing machines to the outlets with large customer flows and business volumes, which greatly solved the problem of long-time queueing. As of the end of the reporting period, the Company had 257 self-service banks providing 24/7 services and 1,400 self-service machines of various types in its outlets.

6. Business of Hong Kong Branch

The Company's Hong Kong Branch was established in 2018 and is the first branch established overseas. As a fully licensed bank, Hong Kong Branch can operate a full range of commercial banking services currently focusing on wholesale business. In 2019, Hong Kong Branch focused on strategic opportunities including the "Guangdong-Hong Kong-Macao Greater Bay Area" and the "Belt and Road Initiative", promoted cross-border linkage business for high-quality "going global" customers who met requirements of national policies, continued to expand the local customer base and expand market share, so as to provide customers with professional cross-border financial solutions and financial services. Through close cooperation with banking peers, the Company implemented trade finance, bilateral loan, syndicated loan and other projects, which were influential in the industry. Meanwhile, it was also engaged in financial market business activities including trading agency, proprietary trading, banking account bond investments and monetary market transactions. During the reporting period, Hong Kong Branch actively implemented the platform-based service strategy of our head office, accelerated the exploration of distinctive businesses, continued to expand local asset pool customer and further optimized the online banking system, laying a foundation for innovative development of its business.

As of the end of the reporting period, the total assets of Hong Kong Branch of the Company were HK\$27.712 billion, of which financial assets at fair value through other comprehensive income amounted to HK\$11.093 billion, accounting for 40.03%; loans and advances to customers amounted to HK\$7.207 billion, accounting for 26.01%; amounts due from head office and overseas offices amounted to HK\$6.371 billion, accounting for 22.99%; and trade bills amounted to HK\$1.575 billion, accounting for 5.68%. During the reporting period, the net profit was HK\$220 million.

Management Discussion and Analysis

(VIII) Holding and Equity Participation Companies of the Bank

1. Holding Subsidiary of the Bank

As a subsidiary controlled by China Zheshang Bank, Zheyin Financial Leasing obtained its business license on January 18, 2017, with a registered capital of RMB3 billion. Its business scope covers financial leasing, transfer and grant of financial leasing assets, investment in fixed-income securities, acceptance of lease deposits from lessees, acceptance of fixed deposits of three months (inclusive) or longer from non-bank shareholders, inter-bank lending, borrowing from financial institutions, overseas borrowing, sale and disposal of leasehold, economic consulting as well as other businesses approved by CBIRC. As of the end of the reporting period, Zheyin Financial Leasing had 101 employees in total with a total asset of RMB28.693 billion and net asset of RMB3.635 billion. In 2019, it realized a net profit of RMB445 million.

2. Equity Participation Companies of the Bank

1) China UnionPay

China UnionPay is an equity participation company of the Bank. It was established on March 26, 2002 upon approval from the People's Bank of China. It was registered in Shanghai, with principal place of business at No. 498 Guo Shoujing Road, China (Shanghai) Pilot Free Trade Zone. The legal representative is Shi Wenchao, with registered capital of RMB2,930,374,380 and paid-up capital of RMB2,930,374,380. Its business scope covers construction and operation of nationwide unified bank card interbank information exchange network, provision of advanced electronic payment technology and professional services related to bank card interbank information exchange, bank card technology innovation; management and operation of "UnionPay" trademark, formulation of bank card interbank transaction business regulations and technical standards, coordination and arbitration of interbank transaction business disputes, organization of industry training, business seminar and international exchange, related research and consulting services; and other related businesses approved by the People's Bank of China. (For business items for which approvals are required under the laws, they can be carried out after obtaining approval from relevant authorities.) The Bank made contribution of RMB25 million and holds 10 million shares of China UnionPay, accounting for 0.34% of China UnionPay's total share capital.

Management Discussion and Analysis

2) The National Financing Guarantee Fund

The National Financing Guarantee Fund is an equity participation company of the Bank. It was established on July 26, 2018 upon approval from the State Council. It was registered in Beijing, with principal place of business at 17/F, Building 7, Financial Street (Yuetan) Center, Xicheng District, Beijing. The legal representative is Li Cheng, with registered capital of RMB66.1 billion and paid-up capital of RMB29.1 billion. Its business scope covers re-guarantee business; project investment; investment consulting; and other businesses approved by the regulatory authorities. (Enterprise is allowed to choose the business to be engaged in and carry out such business activities pursuant to laws. For business items for which approvals are required under the laws, they can be carried out after obtaining approval from relevant authorities. No business activities which are prohibited and restricted by the industrial policies of Beijing shall be carried out.) The Bank made contribution of RMB1 billion, accounting for 1.51% of the registered capital of the National Financing Guarantee Fund.

(IX) Outlook

1. Structure and Trend of the Industry

2020 is the closing year of building a moderately well-off society and the “13th Five-Year Plan”. Under the underlying principle of seeking progress while maintaining stability, by adhering to the new development philosophy, focusing on supply-side structural reform and motivated by the reform and opening-up policy, China will pursue high-quality development, win the three critical missions, maintain stable growth, advance reform, make structural adjustments, improve living standards, guard against risks, ensure stability, and achieve a reasonable increase in economic growth and a steady improvement in quality. Proactive fiscal policies will enhance the quality and efficiency, and focus more on structural adjustment, while prudent but flexible monetary policies will maintain reasonable and sufficient liquidity. The growth of monetary credit and social financing scale will be in line with economic development, and social financing costs will further decline.

2020 is also the closing year of the battle to prevent and resolve financial risks. At present, China’s financial system is generally healthy and capable of resolving various risks, but the risk situation remains complicated, with many uncertainties and instabilities. Financial regulation will direct financial institutions to effectively respond to the risks and properly manage such risks. In order to promote and improve the quality and efficiency of financial services in the real economy, financial regulation will continue to direct funds to invest in private enterprises and small and micro enterprises, and in underdeveloped advanced manufacturing, livelihood construction and infrastructure sectors that benefit both supply and demand and with multiplier effects, so as to promote “dual upgrade” of industry and consumption. Financial regulation will also direct financial institutions to optimize the structure of financial products and institution system, direct the stable transformation of financial management of banks, comprehensively deepen the reform of various banking and insurance institutions by focusing on the reform of small and medium-sized banks, put responsibilities of all parties in practice, and establish healthy and orderly financial governance system.

Management Discussion and Analysis

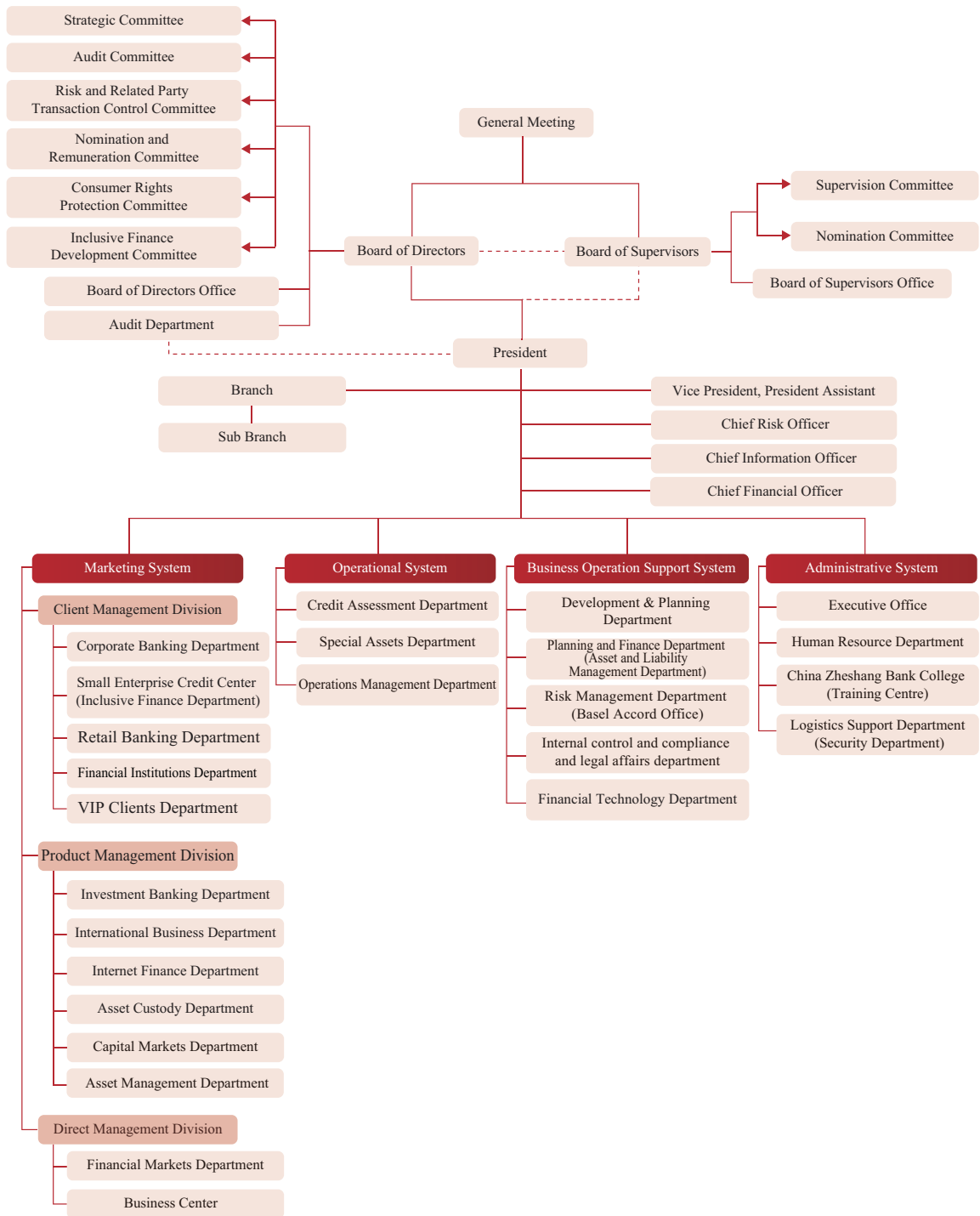
The outbreak of the novel coronavirus pneumonia epidemic (the “COVID-19”) has brought great challenges to the global economic situation and public health security. The CPC Central Committee and the State Council have timely formulated policies on epidemic prevention and control to make sure that the epidemic prevention and control is carried out in an effective and orderly manner, with a firm determination to contain the spread and dissemination of epidemic. Currently, great achievement has been made in epidemic prevention and control in China, with social production and activities gradually restoring to normal. Under the unified deployment of the CPC Central Committee and the State Council, commercial banks will increase credit support for sectors relating to epidemic prevention and control as well as key sectors including manufacturing industry, small and micro enterprises and private enterprises, improve financial service efficiency and innovate the way of financial service, so as to ensure smooth going of financial service. With uncertain impact of the epidemic on the economic operation and the overall performance of the banking industry in China, our Bank will closely monitor the global epidemic situation and respond actively to minimize the impact of the epidemic on our operating results. Our Bank will make an announcement in a timely manner of matters that need to be disclosed due to the impact of the epidemic.

2. Business Plan

In 2020, guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the Company will fully implement the decisions and arrangements of the CPC Central Committee, the State Council, the CPC Zhejiang Provincial Committee and the Provincial Government, implement the requirements of regulation, adhere to the new development philosophy and focus on the main responsibilities and principal businesses. The Company will coordinate and follow up strict self-governance of the Party in every respect, implement the platform-based service strategy, improve the quality and efficiency of our services in the real economy, enhance risk management capabilities, improve lean management level, enhance the value of the bank, build a dynamic organizational system, strive to promote our Bank’s innovative transformation and high-quality development, and make unremitting efforts to accelerate the realization of our “two most” overall goal and build our Bank into a “first-class commercial bank”.

Corporate Governance Report

(I) Chart of Organizational Structure



Corporate Governance Report

(II) Overview of Corporate Governance

Corporate governance is a key support to realize business transformation. As a nationwide joint-stock commercial bank established in the “2000s”, the Company made unremitting efforts to pursue standardized business operation and extraordinary corporate governance. The Company continuously improves corporate governance structure set by the Shareholder’s General Meeting, the Board of Directors, the Board of Supervisors and the Senior Management according to the relevant laws, regulations and regulatory requirements, and the governance bodies of the Company operate independently, effectively check and balance one another, cooperate with each other and operate in an coordinated manner.

The Board of Directors of the Company makes efforts to establish a corporate governance mechanism which clearly defines responsibilities, provides for a proper combination of check and balance and collaboration, and ensures scientific and democratic decisionmaking, standard and high-efficiency operation, under the principle of corporate governance complying with laws and regulations, by reference to the best practices of excellent companies, based on perfecting the corporate governance mechanism and system, and with a focus on giving play to the decision-making role of the Board of Directors.

In 2019, the Company insisted on comprehensively promoting the organic unification of the Party’s leadership and its corporate governance, and formulated the Implementation Measures of China Zheshang Bank’s Party Committee on the “Three Important and One Large (《浙商銀行黨委「三重一大」決策制度實施辦法》)” Decision-Making System to effectively enable the Party Committee to oversee the overall situation and coordinate all parties. The Company digested the latest business rules of the Shanghai Stock Exchange in a timely manner, and adopted a set of top-level systems that meet the governance requirements of A-share listed companies, laying a systemic foundation for establishing a corporate governance system that meets the standards of A-share listed companies. The Company proactively implemented the regulatory system of regulatory authorities on corporate governance, organized and conducted comparison and assessment on OECD corporate governance principles, supervision and assessment on banking and insurance institutions corporate governance according to regulatory requirements, comprehensively reviewed the compliance and effectiveness of the corporate governance mechanism, optimized and enhanced the corporate governance practice level.

The meetings held during the reporting period were as follows: one annual general meeting, one extraordinary general meeting, one domestic shareholders’ class meeting, one H shareholders’ class meeting; ten meetings of Board of Directors, one meeting of Strategic Committee, three meetings of Audit Committee, ten meetings of Risk and Related Party Transaction Control Committee, two meetings of Nomination and Remuneration Committee, two meetings of Consumer Rights Protection Committee, one meeting of Inclusive Finance Development Committee; nine meetings of the Board of Supervisors, three meetings of Supervision Committee and four meetings of Nomination Committee.

(III) General Meeting

Pursuant to the Articles of Association, the shareholders’ general meeting is the top governing body of the Company, which manages and supervises the Company through the Board of Directors and the Board of Supervisors. The Company raised an independent resolution for each actually independent matter at the general meeting, and voted by ballot to ensure that all shareholders fully and equally enjoy the right to know, the right to speak, the right to raise questions, the right to vote and other rights.

Corporate Governance Report

During the reporting period, the Company held the 2019 First Extraordinary General Meeting on February 28, 2019, the 2018 Annual General Meeting, the 2019 First Class Meeting for Domestic Shareholders and the 2019 First Class Meeting for H Shareholders on May 27, 2019. For details of relevant proposals and relevant announcements about resolutions adopted at the meetings, please refer to the circular for the general meetings and poll results announcement in connection with the general meetings published by the Company on the websites of Hong Kong Stock Exchange and the Company.

The convening, notifying, holding and voting procedures for the meetings are in compliance with the relevant provisions of the Company Law, the Hong Kong Listing Rules and the Articles of Association. The Chairman of the meetings has explained the detailed procedures for voting by poll to the Shareholders at the general meetings. Lawyers were invited to witness onsite and provide legal opinions for the meetings.

(IV) Board of Directors

1. Composition of the Board of Directors

As at the end of the reporting period, the Board of Directors of the Company comprised 17 Directors, of which 3 were executive Directors, namely Mr. Shen Renkang, Mr. Xu Renyan and Ms. Zhang Luyun; 7 were non-executive Directors, namely Mr. Huang Zhiming, Mr. Wei Dongliang, Ms. Gao Qinhong, Mr. Hu Tiangao, Mr. Zhu Weiming, Ms. Lou Ting and Mr. Xia Yongchao; 7 were independent non-executive Directors, namely Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liu Pak Wai, Mr. Zheng Jindu, Mr. Zhou Zhifang and Mr. Wang Guocai. Not less than 1/3 of the members of the Board of Directors of the Company were independent non-executive Directors, and at least one of the independent non-executive Directors fully complied with the Rule 3.10(2) of the Hong Kong Listing Rules, who had appropriate professional qualifications or accounting or related financial management expertise. The number and composition of independent non-executive Directors are in compliance with relevant laws, regulations and requirements of the Hong Kong Listing Rules.

The Board of Directors of the Company was rationally structured with experienced members. The executive Directors are diligent, professional and efficient, while the non-executive Directors are equipped with rich banking or enterprise management experiences, and the independent non-executive Directors' knowledge and background covering various areas including economy, finance, securities, accounting and law.

During the reporting period, all Directors diligently performed their duties, being present or in attendance at relevant meetings in a timely manner; actively participated in discussion on affairs, trainings, thematic study and discussion activities; prudently expressed professional opinions; paid continuous attention to conditions of operation and management of the Company; proactively improved their ability to perform their duties; continuously improved the scientificity and efficiency of decisions, with their high sense of responsibility and excellent professionalism; ensured that commercial activities of the Company complied with national laws and regulations and requirements of regulatory authorities; and effectively protected legitimate rights and interests of shareholders.

Corporate Governance Report

2. Board Diversity Policy

The Company considers the diversity of the members of the Board of Directors as an important impetus to support the Company in enhancing the corporate governance level and achieving sustainable development. The Company has formulated the Board Diversity Policy of China Zheshang Bank Co., Ltd. according to the relevant provisions of the Hong Kong Listing Rules. It is expressly provided in the Policy that the Board of Directors shall consider various aspects and diversified factors when determining the composition of the Board, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and/or service period, thus ensuring the Board of Directors have diversified viewpoints and angles in performing their duties, and forming into a composition model of the Board matched with the Company's development model.

The Board Diversity Policy of the Company comprises of chapters such as purpose, philosophy, policy statement, expected objective, supervision and reporting, with the main purpose of recognizing and accepting the philosophy of building a diversity of the Board to strengthen the execution of the Board, and affirming the importance of diversity of the Board to achieve strategic objectives. During the reporting period, the geographical distribution, educational background and professional experience of members of the Board are relatively diversified. Among the incumbent 17 Directors, three of them are female, and 13 are with post graduate diploma or master's degree or above, including two with doctoral diploma and one director ordinarily residing in Hong Kong. The diversified composition of the Board brings a broad vision and a high level of professional experience to the Board and maintains an independent element within the Board to ensure that the Board is able to effectively make independent judgments and scientific decision when studying and considering material issues.

3. Responsibilities of the Board of Directors

According to the Articles of Association, the Board of Directors is the decision-making organ of the Company and shall undertake ultimate responsibility for the operation and management of the Company. The main responsibilities are as follows: to convene general meetings, present proposals and report to shareholders at the general meetings; to implement the resolutions of the general meetings; to formulate medium and long-term development plans and development strategies of the Bank and supervise the implementation of such development plans and development strategies; to decide the annual appraisal indices for the operation of the Bank and approve the annual operation plans of the Bank; to formulate our annual financial budgets and final accounts; to formulate our profit distribution plans and plans for recovery of losses; to formulate proposals for increase or decrease of our registered capital, issuance of shares or bonds with the capital replenishment nature; to decide on issuance of bonds other than those with the capital replenishment nature by the Bank; and to formulate proposals for merger, demerger, dissolution and liquidation of the Bank.

The Senior Management of the Company has the rights to make decision in daily operation independently under the authority of the Board, and the Board will not intervene specific daily affairs of operation and management of the Company.

Corporate Governance Report

The Board of the Company is responsible for carrying out the corporate governance functions and has fulfilled their duties and responsibilities, as set out in Code Provision D.3.1 of the Corporate Governance Code. The Board acknowledges that it is responsible for the risk management and internal control systems and for reviewing its effectiveness on an annual basis. During the reporting period, the Board and its committees reviewed the Company's compliance with laws, regulatory provisions and the Corporate Governance Code and disclosures in the Corporate Governance Report, reviewed and monitored the training and continuous professional development of Directors and senior management, strengthened the Company's risk management and internal control, and further enhanced the Company's corporate governance policy and regular practice.

4. Meetings and Proposals of Board of Directors

During the reporting period, the Company held ten meetings of Board of Directors, among which four were regular meetings and six were interim meetings. The main proposals considered at the Board meetings were as follows:

Work Report of the Board of Directors of China Zheshang Bank for 2018
Work Report of President of China Zheshang Bank for 2018
Social Responsibility Report of China Zheshang Bank for 2018
Final Financial Report of China Zheshang Bank for 2018
Profit Distribution Plan of China Zheshang Bank for 2018
Business Operation Plan of China Zheshang Bank for 2019
Annual Budget Report of China Zheshang Bank for 2019
Institution Development Plan of China Zheshang Bank for 2019
Report on Comprehensive Risk Management of China Zheshang Bank for 2018
Internal Audit Work Report of China Zheshang Bank for 2018
2018 CZBank Work Report on Protection of Consumer Rights and Interests
2018 CZBank Work Report on Anti-money Laundering
Internal Control Evaluation Report of China Zheshang Bank for 2018
Report on Implementation of Related Party Transaction Management System and
Particulars of Related Party Transactions of China Zheshang Bank for 2018
Proposal on Results of 2018 Performance Evaluation of Directors by the Board of
Directors of CZBank
Proposal on Extension of the Validity Period of A Share IPO and Listing Plan of CZBank
Proposal on A Share IPO Issuance Plan of China Zheshang Bank Co., Ltd.
2016-2020 Development Plan of China Zheshang Bank Co., Ltd. (Interim Revision)
Proposal on Platform-based Service Strategy
Proposal on Amendment to the Rules of Procedure for the Audit Committee of
the Board of Directors of CZBank (A+H)
CZBank Block-Trade and Suspicious Trading Informant Regulation (2019)

Corporate Governance Report

5. Attendance of Directors at the Meetings

The following table sets forth the records of attendance in person of each director at the meetings convened by the Board of Directors and by special committees under Board of Directors and at the shareholders' general meetings held in 2019.

Directors	Board of Directors	Strategic Committee	Audit Committee	Risk and Related Party Transaction Control Committee	Nomination and Remuneration Committee	Consumer Rights Protection Committee	Inclusive Finance Development Committee	General Meeting
Executive Directors								
Shen Renkang	10/10	1/1	-	-	-	-	1/1	2/2
Xu Renyan	9/10	1/1	-	-	-	-	1/1	2/2
Zhang Luyun	9/10	-	-	-	-	-	-	2/2
Non-executive Directors								
Huang Zhiming	10/10	1/1	-	-	-	-	1/1	2/2
Wei Dongliang	9/10	1/1	-	-	-	-	1/1	0/2
Gao Qinrong	8/10	-	-	-	-	-	-	1/2
Hu Tiangao	10/10	-	2/3	-	-	-	-	2/2
Zhu Weiming	8/10	1/1	-	-	-	-	1/1	1/2
Lou Ting	7/10	-	-	-	-	-	-	1/2
Xia Yongchao	8/10	-	-	-	-	-	-	2/2
Independent non-executive Directors								
Tong Benli	9/10	-	2/3	-	2/2	-	-	2/2
Yuan Fang	9/10	-	-	9/10	-	2/2	-	2/2
Dai Deming	9/10	-	3/3	-	-	-	-	2/2
Liu Pak Wai	8/10	1/1	-	-	-	-	1/1	1/2
Zheng Jindu	9/10	1/1	-	-	2/2	-	1/1	1/2
Zhou Zhifang	9/10	-	-	10/10	2/2	2/2	-	2/2
Wang Guocai	10/10	-	-	9/10	-	2/2	-	2/2

Corporate Governance Report

Notes:

- (1) Times of attention in person/number of meetings that he/she should attend during the reporting period.
- (2) The above Directors who did not attend the meetings in person had appointed other Directors to attend such meetings on their behalf.
- (3) The annual general meeting for 2018, the 2019 first class meeting for domestic shareholders and the 2019 first class meeting for H shareholders held on May 27, 2019 have been counted as one general meeting.
- (4) For details of the change of Directors, please see "INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS".
- (5) The Chairman held a meeting with independent non-executive Directors without the attendance of other Directors.

6. Information on Survey and Training of the Directors

During the reporting period, certain Board members visited Taizhou Branch, Ningbo Branch, Zhoushan Branch, Hefei Branch and the Financial Technology Department at our head office and carried out field research to collect primary data and understand specific conditions of grass-roots organizations as to strategy implementation, risk management, technology innovation and otherwise, and heard the opinions and suggestions of the branches and the Financial Technology Department on operation and management of the Board and the head office, targetedly put forward guiding opinions, and in a timely manner, submitted to the Senior Management, relevant opinions and suggestions.

The Company has always paid attention to continuous training of Directors to ensure that all Directors properly understand the operation and businesses of the Company, and their responsibilities under relevant laws and regulatory requirements. During the reporting period, the Company invited intermediary agencies to provide lectures on the "Continuing Obligations of Directors of Hong Kong Listed Companies and the Latest Regulatory Developments" and the "Information Disclosure Rules and Examples of A-share Listed Companies" for Board members, and invited experts at our head office to provide lectures on the "three major platforms". In addition, the Board members actively participated in affiliated person seminars of The Hong Kong Institute of Chartered Secretaries, special trainings on corporate governance in the banking and insurance industry and other lectures and trainings, thus effectively widening their vision for macro decision-making, improving the ability to understand policies and strengthening the intellectual capital of the Board.

Corporate Governance Report

According to the training records for 2019 kept by the Company, the status of relevant trainings for Directors is as follows:

Directors	Scope of Provision of Information and Trainings		
	Corporate Governance	Finance/Business	Compliance/Operation
Executive Directors			
Shen Renkang	✓	✓	✓
Xu Renyan	✓	✓	✓
Zhang Luyun	✓	✓	✓
Non-executive Directors			
Huang Zhiming	✓	✓	✓
Wei Dongliang	✓	✓	✓
Gao Qinhong	✓	✓	✓
Hu Tiangao	✓	✓	✓
Zhu Weiming	✓	✓	✓
Lou Ting	✓	✓	✓
Xia Yongchao	✓	✓	✓
Independent non-executive Directors			
Tong Benli	✓	✓	✓
Yuan Fang	✓	✓	✓
Dai Deming	✓	✓	✓
Liu Pak Wai	✓	✓	✓
Zheng Jindu	✓	✓	✓
Zhou Zhifang	✓	✓	✓
Wang Guocai	✓	✓	✓

Corporate Governance Report

7. Performance of Independent Non-executive Directors

As of the end of the reporting period, the Company had seven independent non-executive Directors, the number and percentage were in compliance with the relevant laws, regulations and regulatory requirements. The Audit Committee, Risk and Related Party Transaction Control Committee, Nomination and Remuneration Committee and Consumer Rights Protection Committee under the Board of the Company were all chaired by independent non-executive Directors, and the independent non-executive Directors formed majority in such committees. During the reporting period, the independent non-executive Directors actively participated in and provided suggestions and advices at the meetings of Board of Directors and the special committees to make effective contribution. Besides, they maintained effective communication with the Company through various means, including site visits, special surveys and attending trainings etc.

The independent non-executive Directors have presented their professional advice on the resolutions considered by the Board of Directors, including offering independent written opinions on significant matters, such as the Profit Distribution Scheme, the appointment of Senior Management, the engagement of auditors and significant related party transactions. In addition, for the special committees under the Board of Directors, the independent non-executive Directors made full advantage of their professional edge, provided professional and independent advice regarding corporate governance and operation management of the Company, and thereby ensured the scientific decision-making of the Board of Directors.

The Company has received the annual confirmations from the independent non-executive Directors according to Rule 3.13 of the Hong Kong Listing Rules regarding their independence, and considered that none of the independent non-executive Directors were involved in any factor set out in Rule 3.13 of the Hong Kong Listing Rules that may cast doubt on their independence. Therefore, the Company believes that all independent non-executive Directors meet the independence criteria as set out in the Hong Kong Listing Rules.

8. Responsibilities of Directors in Preparation of Financial Reports

The Directors of the Company acknowledged that they were responsible for preparing the financial report of the Company for the year ended December 31, 2019. The Board of Directors undertook that there were no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, save for the information disclosed in this annual report of the Company.

The Directors shall review and confirm the financial reports for each accounting period, so as to ensure that the financial reports truly and fairly reflect the financial status, operation results and cash flow of the Company.

When preparing the financial report for the year ended December 31, 2019, the Directors adopted and applied suitable accounting policies and made prudent and reasonable judgment.

Corporate Governance Report

9. Election, change and removal of Directors

According to the Articles of Association, the Directors shall be elected or replaced at the general meeting and shall each serve a term of three years. Directors may, after expiry of their term of office, hold a consecutive term upon re-election. A director, before his/her term of office expires, shall not be dismissed by the general meeting without any cause. The term of a Director shall start from the date of appointment and end upon the expiry of the current session of the Board.

A director may be removed by an ordinary resolution at a general meeting before the expiry of his/her term of office in accordance with relevant laws and regulations (however, any claim which may be made under any contract will not be affected).

For the change of Directors during the reporting period, please refer to “Directors, Supervisors, senior management, Employees and Institutions” of this report.

(V) Special Committees Under Board of Directors

There are six special committees under the Board of Directors of the Company, including Strategic Committee, Audit Committee, Risk and Related Party Transaction Control Committee, Nomination and Remuneration Committee, Consumer Rights Protection Committee and Inclusive Finance Development Committee.

1. Strategic Committee

As of the end of the reporting period, the Strategic Committee of the Company consisted of seven Directors. Mr. Shen Renkang, chairman and executive Director of the Board, served as the committee chairman. Other committee members included Mr. Xu Renyan, executive Director, Mr. Huang Zhiming, non-executive Director, Mr. Wei Dongliang, non-executive Director, Mr. Zhu Weiming, non-executive Director, Mr. Liu Pak Wai, independent non-executive Director, Mr. Zheng Jindu, independent non-executive Director.

According to the Articles of Association, the main duties of the Strategic Committee are as follows: to research and formulate business targets, medium and long-term development plans and development strategies of the Company; to supervise and inspect the implementation of annual business plans and investment plans; and to deal with other matters as authorized by the Board.

During the reporting period, the Strategic Committee mainly considered the Final Financial Report for 2018, Profit Distribution Plan for 2018, Business Operation Plan for 2019, Annual Budget Report for 2019, resolutions or reports on extension of the validity period of A share IPO and listing plan of CZBank.

Corporate Governance Report

2. Audit Committee

As of the end of the reporting period, the Audit Committee of the Company consisted of three Directors. Mr. Dai Deming, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Tong Benli, independent non-executive Director, and Mr. Hu Tiangao, non-executive Director.

According to the Articles of Association, main duties of the Audit Committee are to examine our accounting policies, financial position, financial reporting procedures, and risk and compliance status; to propose the appointment or replacement of external auditors; to supervise our internal audit system and its implementation; to facilitate communication between internal auditors and external auditors; to review our financial information and the related disclosure and prepare conclusive reports on the authenticity, accuracy, completeness and timeliness of the audited financial reports to be submitted to our Board of Directors for consideration; to deal with other matters as prescribed by relevant laws, regulations, departmental rules and regulations of the securities regulatory authority in the place(s) of listing of the Company's shares and as authorized by the Board of Directors.

During the reporting period, the Audit Committee mainly considered the Annual Report for 2018, Internal Audit Work Report for 2018, Proposal on Employing Accounting Firm for 2019, Interim Report for 2019 as well as other resolutions or reports. The Audit Committee also reviewed the independence of external auditors and provided recommendations to the Board on the appointment of external auditors, and considered the audit fees of external auditors for 2019.

During the reporting period, no former partners of any auditing firm which was responsible for auditing accounts of the Company were appointed by the Company as members of the Audit Committee.

3. Risk and Related Party Transaction Control Committee

As of the end of the reporting period, the Risk and Related Party Transaction Control Committee of the Company consisted of three Directors. Mr. Zhou Zhifang, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Yuan Fang, independent non-executive Director, and Mr. Wang Guocai, independent non-executive Director.

According to the Articles of Association, main duties of the Risk and Related Party Transaction Control Committee are to supervise the risk control by Senior Management of the Company; to assess our risk profile; to offer proposals on improving our risk management and internal controls; to review and approve general related party transactions of the Company or accept the filing of general related party transactions; to review and approve of major related party transactions of the Company or the transactions which are subject to reporting, announcement and/or independent shareholders' approvals under the relevant stipulations of securities regulatory authority in the place(s) of listing of the Company's shares, which shall be submitted to the Board of Directors by the committee for approval; and to deal with other matters as authorized by the Board.

Corporate Governance Report

The Risk and Related Party Transaction Control Committee will review the effectiveness of the Company's risk management procedures and internal control procedures, to ensure the efficiency of the Company's business operations and achieve the Company's objectives and strategies.

During the reporting period, the Risk and Related Party Transaction Control Committee primarily examined the Report on Comprehensive Risk Management for 2018, Report on Implementation of Related Party Transaction Management System and Particulars of Related Party Transactions for 2018, Report on Implementation of Risk Preference for 2018 and Proposal on Risk Preference for 2019, Report on Internal Control Appraisal for 2018, the 2019 List of Related Parties of the Bank as well as other resolutions or reports.

4. Nomination and Remuneration Committee

As of the end of the reporting period, the Nomination and Remuneration Committee of the Company consisted of three Directors. Mr. Tong Benli, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Zheng Jindu, independent non-executive Director, and Mr. Zhou Zhifang, independent non-executive Director.

According to the Articles of Association, main duties of the Nomination and Remuneration Committee are to propose to the Board on the membership of the Board based on the business operations, asset size and equity structure of the Company; to draft the standard and procedure for the selection of Directors and senior management, and propose the same to the Board; to recommend candidates for Chairman and Vice Chairman to Board of Directors, and provide review comments on the candidates of Directors and senior management members including the President, Vice President, Financial Principal, Secretary to the Board and etc; to draft the remuneration policy and scheme for Directors and senior management, and make proposals to the Board; and to deal with other matters as prescribed by relevant laws, administrative regulations, departmental rules and regulations of the securities regulatory authority in the place(s) of listing of the Company's shares and as authorized by the Board of Directors.

The Nomination and Remuneration Committee under the Board makes recommendations to the Board on the remuneration package of individual executive Directors and senior management.

The nomination procedures for a director candidate of the Company are: the eligible shareholders will recommend candidates for directorship to the Company for consideration; the Nomination and Remuneration Committee will conduct examination of such candidates for directorship and then make recommendations to the Board; following consideration and approval of the Board, the candidates for directorship will be submitted in the general meeting by written resolutions. For details, please refer to the section headed "Directors and Board of Directors" in Articles of Association.

Criteria for selection and recommendation of candidates for directorship is that Directors shall have professional knowledge and work experiences necessary for performing their duties and meet conditions specified by CBIRC, with their qualification for appointment subject to approval by CBIRC.

Corporate Governance Report

The Company appoints or re-appoints its Directors in strict compliance with the Articles of Association of the Company. Pursuant to the Board diversity policy requirements in the Board Diversity Policy of China Zheshang Bank Co., Ltd., the Nomination and Remuneration Committee shall also pay attention to complementarities among candidates for directorship in terms of knowledge structure, professional competence and experience, cultural and educational background, gender and otherwise, to ensure that the Directors are well equipped, experienced and have diversified perspectives and views.

During the reporting period, the Nomination and Remuneration Committee mainly considered the 2018 Appraisal Results of Duty Performance of Directors by the Board, the 2018 Appraisal Results of Duty Performance of senior management by the Board, 2018 Remuneration Scheme for senior management, Measures for Performance Appraisal and Rewards & Punishments of senior management for 2019 and other resolutions or reports.

The Nomination and Remuneration Committee has established a policy on Directors' remuneration and regularly evaluated the performance of the executive Directors and approved the terms of service contracts of executive Directors. In addition, the Nomination and Remuneration Committee has implemented the policies on the nomination of directors as well as the nomination procedures and selection and recommendation criteria on candidates for directors. The Nomination and Remuneration Committee has reviewed the structure, number and composition of the Board (including skills, knowledge and experience) during the reporting period to make recommendations on any changes proposed on members of the Board for the purpose of complying with the long-term strategies of the Company.

5. Consumer Rights Protection Committee

As of the end of the reporting period, the Consumer Rights Protection Committee of the Company consisted of three Directors. Mr. Wang Guocai, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Yuan Fang, independent non-executive Director, and Mr. Zhou Zhifang, independent non-executive Director.

According to the Articles of Association, main duties of the Consumer Rights Protection Committee are to formulate strategies, policies and objectives of the consumer rights protection work; to guide, urge and supervise the Senior Management to effectively execute and implement relevant work, and regularly listen to the Senior Management's special reports on the progress of consumer rights protection work; to supervise and evaluate the comprehensiveness, timeliness and effectiveness of our consumer rights protection work as well as relevant duty performance status of the Senior Management; and to deal with other matters as authorized by the Board.

During the reporting period, the Consumer Rights Protection Committee mainly considered the 2018 Work Report on Protection of Consumer Rights and Interests, 2019 Half-year Work Summary on Protection of Financial Consumer Rights and Interests and other resolutions or reports.

Corporate Governance Report

6. Inclusive Finance Development Committee

As of the end of the reporting period, the Inclusive Finance Development Committee of the Company consisted of seven Directors. Mr. Shen Renkang, chairman and executive Director of the Board, served as the committee chairman. Other committee members included Mr. Xu Renyan, executive Director, Mr. Huang Zhiming, non-executive Director, Mr. Wei Dongliang, non-executive Director, Mr. Zhu Weiming, non-executive Director, Mr. Liu Pak Wai, independent non-executive Director, Mr. Zheng Jindu, independent non-executive Director.

Main duties of the Inclusive Finance Development Committee are to formulate the development planning of inclusive finance business, deliberate the operation plans, and evaluate the assessment methods.

During the reporting period, the Inclusive Finance Development Committee mainly considered the 2019 Inclusive Finance Work Plan and other resolutions.

(VI) Board of Supervisors

The Board of Supervisors is a supervisory body of the Company and is accountable to the general meetings, and oversees the strategic planning, business decisions, financial activities, risk management, internal control and corporate governance of the Company, and the duty performance of the Directors and the senior management with an aim to protect the legitimate rights and interests of the Company, Shareholders, employees, creditors and other stakeholders.

1. Composition of Board of Supervisors

The Board of Supervisors of the Company consists of ten members, of which the two shareholder representative Supervisors are from large enterprises and have extensive experience in business management and professional knowledge in finance; the four employee representative Supervisors have participated in banking operation and administration for a long time, and thus accumulated rich professional experience in finance; and the four external Supervisors have been engaged in finance, economics, accounting, taxation, international trade, etc., and have thus accumulated extensive experience in those fields and unique perspectives. The composition of the Board of Supervisors of the Company has adequate expertise and independence which ensures the effective supervision by the Board of Supervisors.

A Supervision Committee and a Nomination Committee are established under the Board of Supervisors of the Company.

Corporate Governance Report

2. Performance of Board of Supervisors

The Board of Supervisors performs its supervisory duties primarily by holding regular meetings of supervisors and special committees to consider relevant issues, attending shareholders' general meetings, board meetings and special committee meetings; attending related meetings on operation and management held by the Senior Management; reviewing related work reports or professional reports of the Senior Management and departments; making performance appraisal on directors, supervisors or senior management; reviewing various documents, information and statements of the Company; carrying out special investigations and surveys at branches; putting forward work suggestions to the Board of Directors and Senior Management; appointing third-party professional agency to carry out 5 special audit investigations; 2 special assessment work, under the leadership of the Board of Supervisors office, with the participation of relevant departments of the head office and consultation with external experts and otherwise.

During the reporting period, the Board of Supervisors convened nine meetings, of which eight were onsite meetings and one was by way of telecommunications. 19 proposals were considered and 39 reports were researched and listened to regarding corporate governance, regular report, evaluation of the duty performance of the Directors, Supervisors and Senior Management, development plans, business operations, risk management, financial activities, internal control and case prevention and internal audit, etc.

According to the provisions of relevant laws, regulations and the Articles of Association of the Company, the supervisors attended two meetings for all general meetings, ten meetings for all meetings of the Board of Directors, eleven meetings of some special committees under the Board of Directors, and performed supervision on legal compliance of holding general meetings and Directors' meetings, the procedures for voting by poll as well as the Directors' attendance of meetings, providing opinions and voting, etc.

All the four external Supervisors of the Company can exercise the supervision function independently. In performing their duties, the external Supervisors took the initiative to know about the Company's operation and management situations by attending meetings of the Board of Supervisors, convening meetings of the special committees under the Board of Supervisors, being present at the meetings of the Board of Directors and its special committees, participating in the survey activities of the Board of Supervisors on branch outlets, and reviewing carefully all kinds of documents, data and statements. Meanwhile, they expressed their independent opinions or suggestions about major issues, and exchanged opinions with the Board of Directors and Senior Management about the problems found out, which played an active role for the Board of Supervisors to perform their supervision duties.

During the reporting period, the Board of Supervisors of the Company had no objection to the matters supervised.

Corporate Governance Report

3. Information on training and survey of Supervisors

The Board of Supervisors actively organized Supervisors to participate in training lectures and activities, learned specific requirements for information disclosure of listed companies and corresponding legal liabilities, actively participated in Qiantangjiang Forum, understood the recent economic and financial hot spots, thus improving their prejudgment on economic and financial situation.

In the year, Supervisors were organized to carry out investigations and collective surveys in 12 branches, namely Nanjing Branch, Ningbo Branch, Guangzhou Branch, Shenzhen Branch, Jinhua Branch, Chengdu Branch, Guiyang Branch, Changsha Branch, Shanghai Branch, Zhengzhou Branch, Chongqing Branch and Xi'an Branch, understood the implementation of head office system and decision and the transformation and development of branch and risk management, prepared an investigation report, which provided the Board and the Senior Management with a reference in the form of Reference Information (參閱信息) in a timely manner, and proactively provided advices and recommendations for the Bank to improve its operation and management.

(VII) Special Committees under Board of Supervisors

The Supervision Committee and the Nomination Committee under the Board of Supervisors each consisted of five Supervisors, and the external Supervisor served as the committee chairman.

1. Supervision Committee under Board of Supervisors

The members of Supervision Committee under Board of Supervisors are Mr. Yuan Xiaoqiang (committee chairman), Mr. Zheng Jianming, Mr. Ge Meirong, Mr. Jiang Rong and Ms. Cheng Huifang.

The main duties of the Supervision Committee are as follows: to draft plans of supervision on the financial activities of the Company and conducting relevant inspections; to supervise the Board of Directors' adoption of prudent business philosophy and value standards and formulate development strategies in line with the actual situations of the Company; to regularly evaluate and report on the scientificity, rationality and effectiveness of the development strategies formulated by the Board of Directors for compilation of evaluation reports; to instruct the work of the internal audit department of the Company; to carry out a review of any resigning senior management when necessary; to supervise the duty performance by Directors, Supervisors and senior management; to supervise and inspect major operational decisions of the Company; to supervise and inspect risk management of the Company; to supervise and inspect the soundness and effectiveness of the internal control of the Company; and to deal with other matters as authorized by the Board of Supervisors.

During the reporting period, the Supervision Committee held a total of 3 meetings, considering the 2018 Annual Report, internal audit work in 2018, accounting policy change, the 2019 Interim Report of the Company and otherwise, and listening to the reports on the financial position of the Company in 2018 and special audit investigations. Moreover, the members of the Supervision Committee also attended ten on-site meetings of the Risk and Related Party Transaction Control Committee under the Board of Directors, supervised the process of consideration on related party transactions and Directors' duty performance.

Corporate Governance Report

2. Nomination Committee under Board of Supervisors

The members of Nomination Committee under Board of Supervisors are Mr. Wang Jun (committee chairman), Mr. Yu Jianqiang, Mr. Wang Chengliang, Mr. Chen Zhongwei and Mr. Huang Zuhui.

The main duties of the Nomination Committee are as follows: to draft standards and procedures of electing and appointing Supervisors; to recommend qualified candidates of external Supervisors; to make an initial evaluation on the qualifications of candidates of shareholder representatives serving as Supervisors and external Supervisors and give suggestions to the Board of Supervisors; to propose to the Board of Supervisors candidates of Chairman and Vice Chairman of the Board of Supervisors based on the actual condition of the Company; to propose to the Board of Supervisors candidates of chairmen of various special committees; to supervise the election and appointment of Directors; to draft remuneration plans for Supervisors, make proposals to the Board of Supervisors and supervise the implementation of the said plans after they have been considered by the Board of Supervisors and have been submitted to the general meetings for consideration; to supervise the scientificity and rationality of the remuneration system and policy of the whole Bank as well as the remuneration scheme of senior management; to be responsible for drafting measures for evaluating the duty performance of Directors, Supervisors and senior management, making proposals to the Board of Supervisors and implementing these measures after submitting them to the Board of Supervisors for consideration and decision-making; to assist the Board of Supervisors office with the establishment of a duty performance supervision recording system for Directors, Supervisors and senior management and complete the duty performance supervision records; and to deal with other matters as authorized by the Board of Supervisors.

During the reporting period, the Nomination Committee of the Board of Supervisors held a total of 4 meetings, mainly considering the results of 2018 performance evaluation of Directors, Supervisors and senior management of the Company, the related compensation management plan of Supervisors of the Bank, studying and discussing the compensation management system evaluation report of the Bank.

(VIII) Company Operation and Decision-Making System

The general meeting is the Company's power organ which manages and supervises the Company through the Board of Directors and Board of Supervisors. The President is employed by the Board of Directors to take charge of the daily operation and management of the Company. The Company adopts the one-level legal person system. All the branches and sub-branches are non-independent accounting units. They carry out the operation and management activities according to the authorization of the head office and are accountable to the head office.

According to the Articles of Association, the Board of Directors exercises the functions and powers of appointing or dismissing the Bank's president, listening to the work report of the president and reviewing his performance, monitoring and ensuring the Senior Management's efficient fulfillment of management duties. The Company adopts a system by which the President shall assume overall responsibility in operation and management of the Company, and the President shall be accountable to the Board of Directors.

The Company has no controlling Shareholder and de facto controller. The Company and the Shareholders are completely independent in terms of assets, businesses, personnel, organizations and finance, etc.. The Company has complete and independent operation capacity. The Board of Directors, Board of Supervisors and internal units of the Company operate independently.

Corporate Governance Report

(IX) Chairman and President

In the Company, the positions of Chairman and President are served by different persons, and each position has clearly defined responsibilities, fulfilling the requirements of the Hong Kong Listing Rules. Mr. Shen Renkang serves as the Chairman of the Company and exercises his duties to preside over the general meetings, convene and preside over the meetings of Board of Directors and supervise and inspect the implementation of the resolutions of the Board of Directors. Mr. Xu Renyan is the President of the Company and exercises his duties to lead the operation and management of the Company, reports to the Board of Directors and organizes the implementation of the resolutions of the Board of Directors, the annual operation plan and investment scheme of the Company.

(X) Company Secretary

Mr. Liu Long is the company secretary of the Company, mainly responsible for facilitating the operation of the Board of Directors, ensuring the effective communication between the members of the Board of Directors and the observation of the policies and procedures of the Board of Directors, and ensuring the compliance with Hong Kong Listing Rules and other regulations by the Company. Any Director can discuss with, seek advice from and obtain information from the company secretary. Mr. Liu Long officially serves as the sole company secretary of the Bank from May 9, 2019, and at the same time, Ms. Chan Yin Wah has resigned from her position as a joint company secretary of the Bank.

During the reporting period, Mr. Liu Long has complied with the requirements of Rule 3.29 of the Hong Kong Listing Rules.

(XI) Securities Transactions of Directors and Supervisors

The Company has adopted a Code of Conduct for Securities Transactions by Directors and Supervisors no less exacting than the Model Code in the Appendix 10 of the Hong Kong Listing Rules. The Company had inquired all the Directors and Supervisors and confirmed that they had been complying with the aforesaid Code of Conduct during the reporting period.

(XII) Relationship Between Directors, Supervisors and Senior Management

There is no financial, business, family or other material/affiliated relationship between the Directors, Supervisors and senior management of the Company.

Corporate Governance Report

(XIII) Shareholders' Rights

The Shareholders shall enjoy the following rights in accordance with the Articles of Association:

1. To hold extraordinary general meeting

At the request of the Shareholders separately or jointly holding 10% or more of the total Shares, the Company shall hold an extraordinary general meeting within two months.

When the Shareholders request to convene an extraordinary general meeting or a Shareholders' class meeting, the following procedures shall be observed: the Shareholders separately or jointly holding 10% or more of the total Shares submit a written proposal to the Board of Directors and explain the meeting topics. The Board of Directors shall reply in written form within ten days after receiving the proposal as for agreeing or disagreeing to convene the extraordinary general meeting or a Shareholders' class meeting.

If the Board of Directors agrees to convene an extraordinary general meeting or a Shareholders' class meeting, a notice of convening the general meeting shall be sent within five days after the resolution made by the Board of Directors. Any change to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Board of Directors does not agree to convene the extraordinary general meeting or a Shareholders' class meeting, or fails to reply within ten days after receiving the proposal, the Shareholders separately or jointly holding 10% or more of the total Shares have the right to propose to the Board of Supervisors to hold the extraordinary general meeting or a Shareholders' class meeting, provided that written request shall be submitted to the Board of Supervisors.

If the Board of Supervisors agrees to convene an extraordinary general meeting or a Shareholders' class meeting, the notice of convening the general meeting shall be sent within five days after the receipt of the request. Any change to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Board of Supervisors fails to provide the notice of holding general meeting or a Shareholders' class meeting within the specified period, it shall be deemed that Board of Supervisors will not convene and preside over the general meeting or a Shareholders' class meeting, the Shareholders separately or jointly holding 10% or more of the total Shares may convene and preside over such meetings at their own discretion.

If the Board of Supervisors or the Shareholders decide to convene the general meeting on their own, they shall notify the Board of Directors in writing and file with the local banking supervisory authorities and other regulatory authorities. The Board of Directors and the secretary to the Board of Directors shall cooperate. The Board of Directors shall provide the register of members as of the record date, and the reasonable cost required for the meeting shall be borne by the Company, which shall be deducted from the payment due to the default Directors.

Corporate Governance Report

2. To make proposal to the general meeting

The Shareholders separately or jointly holding 3% or more of the voting Shares have the right to make proposals to the general meeting.

The Shareholders separately or jointly holding 3% or more of the voting Shares may make temporary proposal and submit in written form to the convener ten days before the holding date of the general meeting or at least two days before the deadline for providing supplementary notice of general meeting as stipulated by Hong Kong Listing Rules (whichever is earlier). The convener shall issue the supplementary notice of the general meeting within two days after receiving the relevant proposal to disclose the contents of the temporary proposal. For the contact details, please refer to “Company Profile” of this report.

3. To hold interim meeting of Board of Directors

At the request of the shareholders separately or jointly holding 10% or more of the total Shares, the chairman shall convene and preside over an interim meeting of Board of Directors within ten days after receiving the proposal.

4. To make inquiries with the Board of Directors

The shareholders have the right to obtain the relevant information according to the laws, regulations and Articles of Association. They can obtain the copies of the Articles of Association after paying the relevant costs. They have the right to access and copy the following information after paying reasonable fees: any and all parts of the share register; personal information of the Directors, Supervisors and senior management of the Company; the Company’s equity status; the report of total par values, quantity, maximum price and minimum price of each class of shares repurchased by the Company since the last financial year as well as the total expenses the Company paid for this; meeting minutes of general meetings, resolutions of the meetings of Board of Directors, resolutions of the meetings of Board of Supervisors; bond stubs of the Company; the audited financial report, report of Board of Directors, report of Board of Supervisors, and report of auditors for the last fiscal period, the annual report for the last fiscal period that has been filed with the State Administration for Market Regulation or other regulatory authorities. For the contact details, please refer to “Company Profile” of this report.

(XIV) Implementation of Information Disclosure

The Company always attaches importance to information disclosure, and strictly complies with various regulatory rules of the place of listing of the Company. On the basis of comprehensively implementing various regulatory rules, the Company continuously sorts out and perfects the implementation details of information disclosure management matter from the aspect of system construction and work procedure design.

The Company prohibits its staff from trading or recommending others to trade by making use of inside information. The Company established information disclosure management system, which has identified the department responsible for inside information disclosures, to disclose information in a timely and compliant manner according to the requirements and procedures of Rules Governing the Listing of Stocks on Shanghai Stock Exchange and the Hong Kong Listing Rules.

Corporate Governance Report

During the reporting period, the Company truly, accurately and completely carried out information disclosure work in a timely manner, strictly in accordance with the requirements of relevant information disclosure laws and regulations. The Company disclosed a total of 28 various announcements for A Shares on the newspapers operated by the CSRC, including China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily, the websites of the Shanghai Stock Exchange and the Company, and disclosed a total of 81 various announcements for H Shares on the websites of the Hong Kong Stock Exchange and the Company, which ensured that all shareholders had equal opportunity to get relevant information of the Company, and enhanced the transparency of the Company's governance.

(XV) Investor Relations Management

The Company consistently conducts good management on investor relations and promotes integration of market capitalization and intrinsic value. Aimed to maximize the investors' profit and protect their legitimate rights and interests, the Company forms a corporate cultural concept of serving and respecting investors and procures sound interaction between the Company and the investors, thereby enhancing investors' understanding and recognition of the Company.

During the reporting period, by taking advantage of A Share IPO, the press conference for 2018 annual results announcement, the Company conducted several management roadshows in Hong Kong, Beijing, Shanghai, Guangzhou and Shenzhen strengthened domestic and foreign market communication and introduction. They made in-depth exchange with the investors and the analysts, timely answered the questions that are concerns of the investors, and effectively expanded the coverage of the investors.

During the reporting period, the Company in accordance with the regulatory requirements of the place of listing and practical experience, managed the investor relations in various forms, and consistently enhanced service level of investors. Through reverse roadshow, website of investor relations, telephone, e-mail and other means, the Company handled the matters in connection with investor relations, timely answered and fed back the questions raised by the investors, which effectively procured the further understanding of investors and analysts on the Company's investment value and enhanced the Company's influence at capital market.

Aiming to get more attention and recognition from investors, the Company consistently improves the management of webpage of investor relations, timely updates the content on the webpage, earnestly collects investor information, duly traces the reports from analysts, strengthens dynamic monitor of media opinions and actively learns about advice and proposals for the Company's operation and development from capital market.

Corporate Governance Report

(XVI) Major Changes of the Articles of Association

The Company held the first extraordinary general meeting for 2019 on February 28, 2019. The resolution on the proposed change of the address of the Company was considered and passed at the meeting. It was agreed that the address of the Company was changed from No. 288 Qingchun Road, Hangzhou to No. 1788 Hongning Road, Xiaoshan District, Hangzhou, and the Articles of Association were revised accordingly. For details of the resolution, please see the general meeting circular of the Company published on the websites of Hong Kong Stock Exchange and the Company. The change of the address of the Company and the amendment to the Articles of Association were approved by CBIRC on April 17, 2019.

The Company held the annual general meeting for 2017 on June 27, 2018. The resolution on the amendment to the Articles of Association was considered and passed at the meeting. In order to earnestly implement requirements of the higher-level party committee and regulatory authorities on incorporating the party building work into the Articles of Association, and in accordance with the Interim Measures for the Equity Management of Commercial Banks (Order No. 1 [2018] of the China Banking Regulatory Commission) and the Guidelines on Management and Regulation of Consolidated Financial Statements of Commercial Banks (Yin Jian Fa [2014] No.54), the Company amended relevant contents of the Articles of Association applicable upon A share listing, by reference to practices of banking peers and in consideration of the share capital structure in relation to the issue of additional H shares of the Company and otherwise. For details of the amendments, please see the general meeting circular of the Company published on the websites of Hong Kong Stock Exchange and the Company. The amendments to the Articles of Association applicable upon A share listing were approved by CBIRC on October 14, 2019.

(XVII) Statement of Compliance with the Corporate Governance Code as Set out in Hong Kong Listing Rules

The Company agrees to the principles of Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Hong Kong Listing Rules. The Company has been in full compliance with the code provisions set out in the Code during the reporting period.

(XVIII) Risk Management and Internal Control

In accordance with the requirements of Commercial Banking Law (《商業銀行法》), Basic Rules on Enterprise Internal Control (《企業內部控制基本規範》), Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》) and other laws and regulations, the Company has established standardized corporate governance structure and defined the scope of rights, responsibility assignment and rules of procedures for the general meeting, Board of Directors, Board of Supervisors and Senior Management. Such organizations as Audit Committee and the Risk and Related Party Transaction Control Committee have been established under the Board of Directors to take charge of the establishment and implementation of sufficient and effective risk management and internal control system and review of the sufficiency and effectiveness of such systems. The Supervision Committee has been established under the Board of Supervisors to take charge of the supervision on sufficiency and effectiveness of internal control systems of the Board of Directors and Senior Management. The risk management and internal control committee has been established under the Senior Management to take charge of the organization and coordination of internal control management as well as establishment and improvement of the concept, system and organizational structure of internal control.

Corporate Governance Report

The Company has strictly complied with the relevant requirements of the Rules Governing the Listing of Stocks on Shanghai Stock Exchange and the Hong Kong Listing Rules, established and continuously improved internal control and risk management system by taking account of the practical situation of the Company to reasonably ensure that the operation management complies with the laws and rules, that the assets are safe and that the financial reports and relevant information are true and complete to improve the operating efficiency and effectiveness and to promote the fulfillment of development strategy. The risk management and internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and the Board can only provide reasonable and not absolute assurance against material misstatement or loss.

During the reporting period, the Company orderly carried forward the comprehensively strict management, defined the basic internal control compliance management requirements of “Five Strictness” (i.e. “strict governance of the Bank, strict management and control, strict inspection, strict accountability, strict punishment”), and improved three permanent internal control mechanisms, namely circular improvement mechanism, issues identification and rectification mechanisms, and accountability and inspection rewards and punishment mechanism, so as to enhance the implementation of internal control system and the effectiveness of internal control management. In accordance with the unified deployment by CBIRC, the Company earnestly organized and conducted the work of “strengthening the achievement of governance of chaos and enhancing the compliance construction” throughout the Bank by reviewing the deepened governance of market chaos in 2018 to continue to propel the governance of issues in major areas in 2019 to enhance the compliance construction of internal control. Continuously conducting the special activity of “safeguarding by internal control and compliance” and insisting on the philosophy of “internal control first”, the Company promptly took measures against internal control defects identified to ensure that internal control could adapt to the management model, business scale, product complexity and risk condition of the Company. The Company strengthened the control of transaction by strictly implementing the counter business operating standards to enhance the control of material events, business, seals and sections. The Company strengthened the construction of information system by continuing to propel the construction of systems such as big data risk control platform to enhance the automatic control of business and management activity systems. The Company established a performance assessment system on the basis of identification, cultivation and motivation of talents and strengthened the use of differentiated appraisal results to enhance the motivation and constraint of the performance assessment against employees. The Company perfected the assessment and appraisal system on internal control and compliance, improved the department assessment mechanism at the head office, optimised the assessment indicators at its branches, and effectively guided the head office and branches to strengthen management of internal control. The Company enhanced the management of employees’ behavior, strengthened the supervision of the performance of employees holding key positions and improved the management system of employees’ abnormal behavior. The Company used the financial and technical big data search on the basis of normal inspection to promptly identify and eliminate various potential risks by perfecting inspection methods of employees’ abnormal behavior through the power of technology. The Company adopted combined methods of centralised supervision, on-site inspection, CCTV inspection, raid, and off-site supervision to strengthen the power, width and depth of supervision and inspection so as to enhance the effectiveness of supervision and inspection.

Corporate Governance Report

While disclosing the annual report, the Company also disclosed the Internal Control Evaluation Report of China Zheshang Bank Co., Ltd. for 2019 in accordance with the requirements of CSRC and Shanghai Stock Exchange. The report stated that the Bank had maintained effective internal control over financial reporting in all material aspects in accordance with the standard system for enterprise internal control and relevant rules as at December 31, 2019 (benchmark date). PricewaterhouseCoopers Zhong Tian LLP has audited the effectiveness of the Bank's internal control over financial reporting as at December 31, 2019 and issued the standardized audit report on internal control. The Board of the Company has reviewed the risk management and internal control systems of the Company for 2019 and considers that the risk management and internal control systems of the Company are effective and sufficient.

(XIX) External Auditors and Their Remuneration

For the Company's external auditors and their remuneration, please see "Directors' Report – External auditors and their remuneration" of this report.

The responsibility statement of the Company's external auditors on its financial statements is set out in "Independent Auditor's Report" of this report.

(XX) Internal Audit

The Company has established the internal audit department, which is subject to an independent and vertical audit organization system, and as required, will establish an audit agency. As of the end of the reporting period, the head office had established an audit department under which 19 branch audit departments were established. The internal audit department independently performs the audit, supervision, evaluation and consultation functions, and is responsible and reports to the Board of Directors and the Audit Committee thereof. It is responsible for reviewing, evaluating and supervising the improvement of operation activities, risk management, internal control and compliance management and corporate governance effect of commercial banks; preparing and implementing the mid-and-long term audit plan and annual audit plan; in a timely manner, reporting problems identified in an audit; putting forward independent audit opinions and management opinions; carrying out subsequent audit and evaluating rectification effects; promoting the effective rectification of problems identified in an audit. The internal audit department has established systems consisting of the Internal Audit Charter of China Zheshang Bank Co., Ltd., the CZBank Basic System of Internal Audit, the CZBank Internal Audit Standards and otherwise, and the combination of onsite and offsite inspection model and the audit quality "three-level re-check" mechanism. The internal audit staffing complies with the regulatory requirements and the auditors enjoy sufficient training courses and relevant budgets.

During the reporting period, mainly focusing on the general objective of "Two Most", the Company thoroughly implemented the platform-based service strategy. It fully implemented the work requirements of "strict governance of the Bank, strict management and control, strict inspection, strict accountability, and strict punishment". Oriented towards risk prevention and focusing on asset quality, the Company highly strengthened the audit supervision of implementation of the operating strategy and major decisions of the Bank by each department and authority. It revealed and punished the material breach of regulations and disciplines and potential risks and hazards, analysed the reasons from the aspects such as policy, system, implementation and supervision, provided advices and facilitated sound development and effective management of the business of the Bank.

Changes in Shares and Information on Shareholders

(I) Changes in Ordinary Shares

1. Table of Changes in Ordinary Shares

Unit: Share, %

	December 31, 2018		Increase/Decrease during the reporting period (,)					December 31, 2019	
	Number	Proportion (%)	Issuance of New Shares	Bonus Issue	Share Capital converted from reserve fund	Other	Subtotal	Number	Proportion (%)
I. Shares Subject to Selling Restrictions	14,164,696,778	75.67	+482,432,713	-	-	-	+482,432,713	14,647,129,491	68.87
1. Shares Held by State	-	-	-	-	-	-	-	-	-
2. Shares Held by State-owned									
Legal Persons	3,799,614,844	20.30	+11,973,833	-	-	-	+11,973,833	3,811,588,677	17.92
3. Other Domestic Shares	10,365,081,934	55.37	+470,331,760	-	-	-	+470,331,760	10,835,413,694	50.95
Including: Shares Held by									
Domestic Non-State-owned									
Legal Persons	10,365,081,934	55.37	+378,100,696	-	-	-	+378,100,696	10,743,182,630	50.51
Shares Held by Domestic									
Natural Persons	-	-	+92,231,064	-	-	-	+92,231,064	+92,231,064	0.43
4. Foreign Shares	-	-	+127,120	-	-	-	+127,120	+127,120	0.00
Including: Shares Held by									
Foreign Legal Persons	-	-	+127,120	-	-	-	+127,120	+127,120	0.00
Shares Held by Foreign									
Natural Persons	-	-	-	-	-	-	-	-	-
II. Listed Shares without Selling Restrictions	4,554,000,000	24.33	+2,067,567,287	-	-	-	+2,067,567,287	6,621,567,287	31.13
1. RMB Ordinary Shares	-	-	+2,067,567,287	-	-	-	+2,067,567,287	2,067,567,287	9.72
2. Domestic Listed Foreign Shares	-	-	-	-	-	-	-	-	-
3. Overseas-listed Foreign Shares	4,554,000,000	24.33	-	-	-	-	-	4,554,000,000	21.41
4. Other	-	-	-	-	-	-	-	-	-
III. Total Ordinary Shares	18,718,696,778	100.00	+2,550,000,000	-	-	-	+2,550,000,000	21,268,696,778	100.00

As of the end of the reporting period, the issued shares of the Bank were 21,268,696,778 ordinary shares, including 16,714,696,778 A Shares and 4,554,000,000 H Shares.

Changes in Shares and Information on Shareholders

2. Description on Change in Ordinary Shares

On October 11, 2019, the Bank received from CSRC the Reply on Approval of Initial Public Offering Shares of China Zheshang Bank Co., Ltd. (Zheng Jian Xu Ke [2019] No. 1846) (《關於核准浙商銀行股份有限公司首次公開發行股票的批覆》(證監許可[2019]1846號)) which granted an approval on the Bank's public offering no more than 2,550,000,000 A Shares. On November 26, 2019, A Shares of the Bank were officially listed on the Shanghai Stock Exchange. The total number of the ordinary shares of the Bank and the change in the equity structure upon this public offering were set out in the "Table of Changes in Ordinary Shares" above.

3. Effects of Change in Ordinary Shares on Financial Indicators such as Earnings per Share and Net Assets per Share for the Latest Year and Period

The Bank made an initial public offering of 2,550,000,000 A Shares in November 2019 at an issuing price of RMB4.94 per share. In 2019, basic earnings per share were RMB0.64 and net assets per share attributable to the shareholders of the parent company were RMB5.23. If calculated based on the Shares before offering, the basic earnings per share were RMB0.64 and net assets per share attributable to the shareholders of the parent company were RMB5.95 for this reporting period.

4. Changes in A Shares Subject to Lock-up

Unit: Share

Name of shareholders	Number of shares subject to lock-up at the beginning of the year	Number of shares unlocked during the year	Increase in number of shares subject to lock-up during the year	Number of shares subject to lock-up at the end of the year	Reasons for lock-up	Date of unlocking
A-share IPO off-line placing accounts subject to lock-up	0	0	482,432,713	482,432,713	Lock-up for A-share IPO off-line placing	May 26, 2020
Total	0	0	482,432,713	482,432,713	/	/

Note: All new shares subject to lock-up in 2019 were shares under A-share IPO off-line placing subject to lock-up with a lock-up period of 6 months from the date of listing.

Changes in Shares and Information on Shareholders

(II) Issuance and Listing of Securities

1. Issuance of Securities during the Reporting Period

Types of Shares and their derivative securities	Issuing Date	Issuing Price (RMB/share)	Issue Volume (Share)	Listing Date	Approved Number of Shares for Listing and Dealing (Share)
A Shares	2019-11-14	4.94	2,550,000,000	2019-11-26	2,550,000,000

Note: 482,432,713 A Shares were subject to a lock-up period of 6 months from the date of listing, which had been placed to the off-line investors under IPO.

2. Description on Change in Asset and Liability Structure

To further improve the capital adequacy ratio of the Bank, optimize the corporate governance structure of the Bank, and develop domestic and international financing platforms, the Bank completed its initial public offering of RMB ordinary shares (A shares) on the Shanghai Stock Exchange in November 2019 with the issue of 2,550,000,000 shares at a nominal value of RMB1.00 per share, the stock code of which is 601916, and the original domestic shares of the Bank were simultaneously converted into A shares. The offering price of A share was RMB4.94 per share. The gross proceeds raised in this issuance was RMB12,597,000,000 and the net proceeds after deducting the issuance expenses was RMB12,437,943,100. After the A Share offering, the total number of shares of the Bank was 21,268,696,778 shares, comprising 14,164,696,778 A Shares converted from the existing Domestic Shares, 2,550,000,000 newly issued A Shares and 4,554,000,000 H Shares. All of the proceeds raised from the A Share Offering after deduction of issuance expenses were used to replenish the Core Tier I capital of the Bank. PricewaterhouseCoopers Zhong Tian LLP verified the preparation of capital for this public offering of new shares of the Company and issued "PricewaterhouseCoopers Zhong Tian Yan Zi (2019) No. 0685", the Report on Verification of Capital for Initial Offering of RMB Ordinary A Shares by China Zheshang Bank Co., Ltd. (《浙商银行股份有限公司首次發行人民幣普通股A股驗資報告》) on November 20, 2019.

Changes in Shares and Information on Shareholders

(III) Information on Shareholders of Ordinary Shares

Number of Shareholders of Ordinary Shares and Their Shareholdings

As of the end of the reporting period, the Bank had 663,447 shareholders of ordinary shares in total, including 663,317 shareholders of A Shares and 130 shareholders of H Shares. As of the end of the last month before the publication date of this Annual Report, there were 524,904 shareholders of ordinary shares, including 524,777 shareholders of A Shares and 127 shareholders of H Shares.

As of the end of the reporting period, the table of shareholdings of the top ten shareholders and top ten shareholders of circulating shares (or shareholders without selling restrictions) was as follows:

Unit: Share

Shareholdings of Top Ten Shareholders

Name of Shareholder (full name)	Increase/Decrease during the reporting period	Number of shares held at the end of period	Proportion (%)	Number of shares held subject to selling restrictions	Pledge and freezing		Nature of shareholders
					Status of Shares	Number	
HKSCC Nominees Limited	+6,000	4,553,758,850	21.41	-	Unknown	-	-
Zhejiang Provincial Financial Holdings Co., Ltd.	-	2,655,443,774	12.49	2,655,443,774	-	-	State-owned Legal Person
Traveller Automobile Group Co., Ltd.	-	1,346,936,645	6.33	1,346,936,645	Freezing	1,346,936,645	Domestic Non-State-owned Legal Person
Hengdian Group Holdings Limited	-	1,242,724,913	5.84	1,242,724,913	-	-	Domestic Non-State-owned Legal Person

Changes in Shares and Information on Shareholders

Shareholdings of Top Ten Shareholders

Name of Shareholder (full name)	Increase/Decrease during the reporting period	Number of shares held at the end of period	Proportion (%)	Number of shares held subject to selling restrictions	Pledge and freezing		Nature of shareholders
					Status of Shares	Number	
Zhejiang Provincial Energy Group Co., Ltd.	-	841,177,752	3.96	841,177,752	-	-	State-owned Legal Person
Minsheng Life Insurance Company Ltd. – self-owned capital	-	803,226,036	3.78	803,226,036	-	-	Domestic Non-State-owned Legal Person
Zhejiang Yongli Industry Group Co., Ltd.	-	548,453,371	2.58	548,453,371	Pledge	543,893,371	Domestic Non-State-owned Legal Person
Tong Lian Capital Management Co., Ltd.	-	543,710,609	2.56	543,710,609	-	-	Domestic Non-State-owned Legal Person
Zhejiang RIFA Holding Group Co., Ltd.	-	518,453,371	2.44	518,453,371	Pledge	470,279,000	Domestic Non-State-owned Legal Person
Zhejiang Hengyi High-tech Material Co., Ltd.	-	508,069,283	2.39	508,069,283	Pledge	508,069,283	Domestic Non-State-owned Legal Person

Changes in Shares and Information on Shareholders

Shareholdings of Top Ten Shareholders without Selling Restrictions

Name of Shareholder	Number of circulating shares held without selling restrictions	Class and number of Shares	
		Class	Number
HKSCC Nominees Limited	4,553,758,850	H Shares	4,553,758,850
CITIC Trust Co., Ltd – CITIC Financial Investment Collective Capital Trust Scheme based on Value Management	16,749,236	A Shares	16,749,236
China Life Insurance Company Limited – Dividend – Individual Dividend – 005L – FH002 Shanghai	11,999,922	A Shares	11,999,922
China Foreign Economy and Trade Trust Co. Ltd. – Foreign Trade Trust-Ruijin 31 Qingshuiyuan Security Investment Collective Capital Trust Scheme	9,585,600	A Shares	9,585,600
Shenzhen Qingshuiyuan Investment Management Company Limited (深圳清水源投資管理有限公司) – Qingshuiyuan No. 20 Security Investment Fund	7,154,000	A Shares	7,154,000
Ding Yuzhong (丁裕中)	6,800,000	A Shares	6,800,000
Industrial and Commercial Bank of China Limited- Dongfanghong Qiyuan Three-year-term Blend Security Investment Fund	6,623,200	A Shares	6,623,200
Shenzhen Qingshuiyuan Investment Management Company Limited (深圳清水源投資管理有限公司) – Qingshuiyuan No.29 Fund	5,187,600	A Shares	5,187,600
Zhao Chengcheng (趙程誠)	5,000,000	A Shares	5,000,000
Shenzhen Qingshuiyuan Investment Management Company Limited (深圳清水源投資管理有限公司) – Qingshuiyuan No.26 Fund	4,344,100	A Shares	4,344,100
Description on the connected relationship and action in concert of the shareholders above	The Bank was aware of neither the connected relationship between the shareholders above nor whether they were parties acting in concert		
Description on shareholders of preference shares with restoration of voting rights and their number of shares held	Nil		

Note: The number of shares held by HKSCC Nominees Limited was the sum of shares of the Company's holders of H shares which were trading in its transaction system. Except for 490,000,000 shares held by Zhejiang Seaport (Hong Kong) Co., Limited were pledged, whether the rest of the H Shares were pledged was unknown to the Bank.

Changes in Shares and Information on Shareholders

Number of Shares Held by Top Ten Shareholders Subject to Selling Restrictions and Conditions of Selling Restrictions

Unit: Share

No.	Name of Shareholders subject to Selling Restrictions	Number of Shares Held Subject to Selling Restrictions	Listing and Trading of Shares Subject to Selling Restrictions		Conditions of Selling Restriction
			Listing and Trading Date	Number of Additional Listing and Trading Shares	
1	Zhejiang Provincial Financial Holdings Co., Ltd.	2,655,443,774	2022-11-28	0	Selling Restriction for Initial Offering
2	Traveller Automobile Group Co., Ltd.	1,346,936,645	2022-11-28	0	Selling Restriction for Initial Offering
3	Hengdian Group Holdings Limited	1,242,724,913	2022-11-28	0	Selling Restriction for Initial Offering
4	Zhejiang Provincial Energy Group Co., Ltd.	841,177,752	2022-11-28	0	Selling Restriction for Initial Offering
5	Minsheng Life Insurance Company Ltd. – self-owned capital	803,226,036	2020-11-26	0	Selling Restriction for Initial Offering
6	Zhejiang Yongli Industry Group Co., Ltd.	548,453,371	2020-11-26	0	Selling Restriction for Initial Offering
7	Tong Lian Capital Management Co., Ltd.	543,710,609	2022-11-28	0	Selling Restriction for Initial Offering

Changes in Shares and Information on Shareholders

No.	Name of Shareholders subject to Selling Restrictions	Number of Shares Held Subject to Selling Restrictions	Listing and Trading of Shares Subject to Selling Restrictions		Conditions of Selling Restriction
			Listing and Trading Date	Number of Additional Listing and Trading Shares	
8	Zhejiang RIFA Holding Group Co., Ltd.	518,453,371	2020-11-26	0	Selling Restriction for Initial Offering
9	Zhejiang Hengyi High-tech Material Co., Ltd.	508,069,283	2022-11-28	0	Selling Restriction for Initial Offering
10	Zhejiang Hengyi Group Co., Ltd.	494,655,630	2022-11-28	0	Selling Restriction for Initial Offering

Description on the connected relationship and action in concert of the shareholders above

Except for Zhejiang Hengyi High-tech Material Co., Ltd. and Zhejiang Hengyi Group Co., Ltd. between which there was the connected relationship, the Bank was not aware of other connected relationships or relationships of acting in concert between the shareholders above

(IV) Information on the Controlling Shareholders and De Facto Controllers

As of the end of the reporting period, the Bank had no controlling shareholders and de facto controllers.

(V) Information on the Company's Largest Shareholder of Ordinary Shares

As of the end of the reporting period, Zhejiang Provincial Financial Holdings Co., Ltd. held 12.49% of the shares of the Company and was the Company's largest shareholder of ordinary shares.

Zhejiang Provincial Financial Holdings Co., Ltd. was established in September 2012 with the uniform social credit code of 913300000542040763 and its legal representative was Zhang Qicheng (章啟誠). With a registered capital of RMB12.0 billion, the company is a financial investment management platform established by Zhejiang Provincial Government. The company is a state-owned enterprise directly subordinated to the provincial government and is supervised and managed by Zhejiang Provincial Department of Finance with the authorization from Zhejiang Provincial Government. The company is mainly engaged in financial equity investment, government equity investment fund management, asset management and other business.

Changes in Shares and Information on Shareholders

(VI) Information on Substantial Shareholders of Ordinary Shares

As at December 31, 2019

Unit: Share, %

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlling shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
1	Zhejiang Provincial Financial Holdings Co., Ltd.	2,655,443,774	12.49	12.49	Holding 5% or more of our Bank's shares	-	Zhejiang Province Financial Development Company	Zhejiang Provincial Department of Finance	Nil	Zhejiang Provincial Financial Holdings Co., Ltd.
2	Zhejiang Provincial Energy Group Co., Ltd.	841,177,752	3.96	6.99	Holding 5% or more of our Bank's shares in total with the related parties	-	State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province	State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province	Nil	Zhejiang Provincial Energy Group Co., Ltd.
3	Zhejiang Energy Capital Holdings Co., Ltd. (H share)	365,633,000	1.72			-	Zhejiang Provincial Energy Group Co., Ltd.		Nil	Zhejiang Energy Capital Holdings Co., Ltd.
4	Zhejiang Energy International Co., Ltd. (H share)	280,075,000	1.32			-	Zhejiang Provincial Energy Group Co., Ltd.		Nil	Zhejiang Energy International Co., Ltd.
5	Traveller Automobile Group Co., Ltd.	1,346,936,645	6.33			6.33	Holding 5% or more of our Bank's shares		-	Shenzhen Xianglong Equity Investment Management Co., Ltd.
6	Zhejiang Hengyi High-tech Material Co., Ltd.	508,069,283	2.39	5.84	Holding 5% or more of our Bank's shares in total with the related parties	508,069,283	Zhejiang Hengyi Petrochemical Co., Ltd.	Qiu Jianlin (邱建林)	Nil	Zhejiang Hengyi High-tech Material Co., Ltd.
7	Zhejiang Hengyi Group Co., Ltd.	494,655,630	2.33			494,655,630	Qiu Jianlin (邱建林)		Nil	Zhejiang Hengyi Group Co., Ltd.
8	Zhejiang Hengyi Petrochemical Co., Ltd.	240,000,000	1.13			240,000,000	Hengyi Petrochemical Co., Ltd.		Nil	Zhejiang Hengyi Petrochemical Co., Ltd.

Changes in Shares and Information on Shareholders

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlling shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
9	Hengdian Group Holdings Limited	1,242,724,913	5.84	5.84	Holding 5% or more of our Bank's shares	-	Hengdian Association For Economics Corporation	Hengdian Association For Economics Corporation	Nil	Hengdian Group Holdings Limited
10	Zhejiang Seaport (Hong Kong) Co., Limited	864,700,000	4.07	4.70	Jointly dispatch Directors to our Bank	490,000,000	Zhejiang Seaport Asset Management Co., Limited	State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province	Nil	Zhejiang Seaport (Hong Kong) Co., Limited
11	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	135,300,000	0.64			-	State-owned Assets Supervision and Administration Commission of the People's Government of Ningbo Municipality		Nil	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.
12	Guangsha Holding Group Co., Ltd	457,005,988	2.15	4.49	Jointly dispatch Directors to our Bank	457,004,756	Lou Zhongfu (樓忠福)	Lou Zhongfu (樓忠福)	Nil	Guangsha Holding Group Co., Ltd
13	Zhejiang Dongyang Third Construction Co., Ltd.	354,480,000	1.67			354,480,000	Guangsha Holding Group Co., Ltd		Nil	Zhejiang Dongyang Third Construction Co., Ltd.
14	Zhejiang Guangsha Co., Ltd.	143,169,642	0.67			143,169,600	Guangsha Holding Group Co., Ltd		Nil	Zhejiang Guangsha Co., Ltd.
15	Minsheng Life Insurance Company Ltd.	803,226,036	3.78	3.78	Dispatch Supervisors to our Bank	-	China Wanxiang Holding Co., Ltd.	Lu Weiding (魯偉鼎)	Nil	Minsheng Life Insurance Company Ltd.

Changes in Shares and Information on Shareholders

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlling shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
16	Zhejiang China Light & Textile Industrial City Group Co., Ltd.	457,816,874	2.15	3.58	Jointly dispatch Supervisors to our Bank	-	Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd.	Shaoxing City Keqiao Finance Bureau	Nil	Zhejiang China Light & Textile Industrial City Group Co., Ltd.
17	Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd.	302,993,318	1.42			-	Shaoxing City Keqiao District State-owned Assets Investment and Operation Co., Ltd.		Nil	Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd.
18	Zhejiang Yongli Industry Group Co., Ltd.	548,453,371	2.58	2.58	Dispatch Directors to our Bank	543,893,371	Shaoxing Keqiaoyongyang Assets Management Co., Ltd.	Zhou Yongli (周永利)	Nil	Zhejiang Yongli Industry Group Co., Ltd.

Note:

- (1) For the definition of substantial shareholders, controlling shareholders, de facto controllers, related parties, parties acting in concert and ultimate beneficial owners, please see the relevant requirement of the Interim Measures for the Shareholding Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by CBIRC. The substantial shareholders of the Bank has reported their related parties, and the Bank will regularly maintain and update the list of related parties to continuously lift the level of management of related party transactions. The Bank has disclosed the related party transactions for 2019 in this annual report. Due to limitations on space, this annual report does not provide the list of related parties of substantial shareholders.
- (2) As Traveller Automobile Group Co., Ltd., a shareholder of the Company, was unable to provide the information of its de facto controller, the disclosures about the information, such as the de facto controller of that shareholder, equity interest and short positions, were based on its shareholding structure information in the industrial and commercial registration.

Changes in Shares and Information on Shareholders

(VII) Pledge and Freezing of Ordinary Shares

As at the end of the reporting period, to the knowledge of the Company, 4,890,302,953 shares of the Bank (representing 22.99% of the total ordinary shares in issue) were pledged; 2,433,659,926 shares were subject to judicial freezing. During the reporting period, 15,000,000 shares of the Company held by Zhejiang Jingfa Industry Group Co., Ltd. were subject to judicial auction, and were acquired by Zhejiang Huasheng Logistic Co., Ltd. (浙江華升物流有限公司) through auction, and share transfer registration has been completed. On November 5, 2019, according to the announcement of Shanghai United Assets and Equity Exchange, all shares of the Bank held by Traveller Automobile Group Co., Ltd. were subject to judicial disposal through auction and listing-for-sale, which is not yet completed.

(VIII) Interests in Shares and Short Positions in Accordance with the Hong Kong Securities and Futures Ordinance

As of December 31, 2019, in accordance with the register kept by the Company under section 336 of the SFO and so far as the Company is aware, the following persons (excluding the Company's directors, supervisors and chief executive (as defined in the Hong Kong Listing Rules)) had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly held 5% or more of any class of share capital of the Company:

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Zhejiang Provincial Financial Holdings Co., Ltd.	Beneficial owner	A Shares	Long position	2,655,443,774	12.49	15.89
Zhejiang Province Financial Development Company	Interest of controlled corporation	A Shares	Long position	2,655,443,774	12.49	15.89
Traveller Automobile Group Co., Ltd.	Beneficial owner	A Shares	Long position	1,346,936,645	6.33	8.06
Shenzhen Xianglong Equity Investment Management Co., Ltd.	Interest of controlled corporation	A Shares	Long position	1,346,936,645	6.33	8.06
Jiang Jinsheng (蔣金聲)	Interest of controlled corporation	A Shares	Long position	1,346,936,645	6.33	8.06
Zhejiang Hengyi Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	A Shares	Long position	1,242,724,913	5.84	7.43
Qiu Jianlin (邱建林)	Interest of controlled corporation	A Shares	Long position	1,242,724,913	5.84	7.43
Hengdian Group Holdings Limited	Beneficial owner	A Shares	Long position	1,242,724,913	5.84	7.43

Changes in Shares and Information on Shareholders

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Hengdian Association For Economics Corporation	Interest of controlled corporation	A Shares	Long position	1,242,724,913	5.84	7.43
Guangsha Holding Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	A Shares	Long position	954,655,630	4.49	5.71
Lou Zhongfu (樓忠福)	Interest of controlled corporation	A Shares	Long position	954,655,630	4.49	5.71
Wang Shuifu (王水福)	Interest of controlled corporation	A Shares	Long position	850,546,358	4.00	5.09
Chen Guihua (陳桂花)	Interest of controlled corporation	A Shares	Long position	850,546,358	4.00	5.09
Chen Xiabin (陳夏鑫)	Interest of controlled corporation	A Shares	Long position	850,546,358	4.00	5.09
Zhejiang Provincial Energy Group Co., Ltd.	Beneficial owner	A Shares	Long position	841,177,752	3.96	5.03
Zhejiang Provincial Energy Group Co., Ltd.	Interest of controlled corporation	H Shares	Long position	645,708,000	3.04	14.18
Zhejiang Energy Capital Holdings Co., Ltd. (浙能資本控股有限公司)	Beneficial owner	H Shares	Long position	365,633,000	1.72	8.03
Zhejiang Energy International Co., Ltd. (浙江能源國際有限公司)	Beneficial owner	H Shares	Long position	280,075,000	1.32	6.15
Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	H Shares	Long position	1,000,000,000	4.70	21.96
Zhejiang Seaport (Hong Kong) Co., Limited	Beneficial owner	H Shares	Long position	864,700,000	4.07	18.99
Zhejiang Seaport Asset Management Co., Limited	Interest of controlled corporation	H Shares	Long position	864,700,000	4.07	18.99
Yancoal International (Holding) Company Limited	Beneficial owner	H Shares	Long position	934,000,000	4.39	20.51
Yanzhou Coal Mining Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	4.39	20.51
Yankuang Group Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	4.39	20.51

Changes in Shares and Information on Shareholders

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Central Huijin Investment Ltd.	Interest of controlled corporation	H Shares	Long position	685,000,000	3.22	15.04
Next Hero Holdings Limited	Party with security interest over the shares	H Shares	Long position	490,000,000	2.30	10.76
ICBC International Investment Management Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.30	10.76
ICBC International Holdings Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.30	10.76
Industrial and Commercial Bank of China Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.30	10.76
Hong Kong Xinhua Investment Co., Ltd.	Beneficial owner	H Shares	Long position	389,037,000	1.83	8.54
Xinhua Zhongbao Co., Ltd.	Interest of controlled corporation	H Shares	Long position	389,037,000	1.83	8.54
Zhejiang Xinhua Group Co., Ltd.	Interest of controlled corporation	H Shares	Long position	389,037,000	1.83	8.54
Huang Wei (黄偉)	Interest of controlled corporation	H Shares	Long position	389,037,000	1.83	8.54
FTLIFE INSURANCE COMPANY LIMITED	Beneficial owner	H Shares	Long position	338,566,000	1.59	7.43
EARNING STAR LIMITED	Interest of controlled corporation	H Shares	Long position	338,566,000	1.59	7.43
SUCCESS IDEA GLOBAL LIMITED	Interest of controlled corporation	H Shares	Long position	338,566,000	1.59	7.43
NWS SERVICE MANAGEMENT LIMITED <small>(Note 2)</small>	Interest of controlled corporation	H Shares	Long position	338,566,000	1.59	7.43
NWS SERVICE MANAGEMENT LIMITED <small>(Note 2)</small>	Interest of controlled corporation	H Shares	Long position	338,566,000	1.59	7.43
NWS HOLDINGS LIMITED	Interest of controlled corporation	H Shares	Long position	338,566,000	1.59	7.43
NEW WORLD DEVELOPMENT COMPANY LIMITED	Interest of controlled corporation	H Shares	Long position	338,566,000	1.59	7.43

Changes in Shares and Information on Shareholders

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
CHOW TAI FOOK ENTERPRISES LIMITED	Interest of controlled corporation	H Shares	Long position	338,566,000	1.59	7.43
CHOW TAI FOOK (HOLDING) LIMITED	Interest of controlled corporation	H Shares	Long position	338,566,000	1.59	7.43
CHOW TAI FOOK CAPITAL LIMITED	Interest of controlled corporation	H Shares	Long position	338,566,000	1.59	7.43
CHENG YU TUNG FAMILY (HOLDINGS) LIMITED	Interest of controlled corporation	H Shares	Long position	338,566,000	1.59	7.43
CHENG YU TUNG FAMILY (HOLDINGS II) LIMITED	Interest of controlled corporation	H Shares	Long position	338,566,000	1.59	7.43
Shaoxing Lingyan Equity Investment Fund Partnerships (Limited Partnership)	Beneficial owner	H Shares	Long position	250,000,000	1.18	5.49
Zhejiang Lingyan Capital Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Shanghai Run Kuan Investment Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Liu Yaozhong (劉耀中)	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Great Wall Securities Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Jiaxing Credit Lingxin Investment Partnership Enterprise (Limited Partnership) (嘉興信業領信投資合夥企業(有限合夥))	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
CITIC Securities Company Limited	Interest of controlled corporation	H Shares	Long position	824,590,520 ^(Note 1)	3.88	18.11
	Interest of controlled corporation	H Shares	Short position	882,125,847 ^(Note 1)	4.15	19.37

Changes in Shares and Information on Shareholders

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
CITIC Securities International Company Limited	Interest of controlled corporation	H Shares	Long position	824,590,520 ^(Note 1)	3.88	18.11
	Interest of controlled corporation	H Shares	Short position	882,125,847 ^(Note 1)	4.15	19.37
CLSA B.V.	Interest of controlled corporation	H Shares	Long position	824,590,520 ^(Note 1)	3.88	18.11
	Interest of controlled corporation	H Shares	Short position	882,125,847 ^(Note 1)	4.15	19.37
CITIC CLSA Global Markets Holdings Limited	Interest of controlled corporation	H Shares	Long position	824,590,520 ^(Note 1)	3.88	18.11
	Interest of controlled corporation	H Shares	Short position	882,125,847 ^(Note 1)	4.15	19.37
CSI Capital Management Limited	Beneficial owner	H Shares	Long position	824,590,520 ^(Note 1)	3.88	18.11
	Beneficial owner	H Shares	Short position	7,735,062 ^(Note 1)	0.04	0.17
CSI Financial Products Limited	Beneficial owner	H Shares	Short position	874,390,785 ^(Note 1)	4.11	19.20
Goncius I Limited	Beneficial owner	H Shares	Long position	792,843,890 ^(Note 1)	3.73	17.41
	Beneficial owner	H Shares	Short position	792,843,890 ^(Note 1)	3.73	17.41

Note:

- (1) This part involves derivative instrument. For the details, please refers to the relevant information about disclosure of interests, which was published on the website of the Hong Kong Stock Exchange.
- (2) These two companies that have the same name have different addresses of registration. For the details, please refers to the relevant information about disclosure of interests, which was published on the website of the Hong Kong Stock Exchange.

Save as disclosed above, the Company was unaware of any other person (excluding the Company's Directors, Supervisors and chief executive (as defined in the Hong Kong Listing Rules)) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or any interest or short position as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO on December 31, 2019.

Changes in Shares and Information on Shareholders

(IX) Issue of Bonds

On December 24, 2015, according to the approvals under the documents issued by CBIRC (Yin Jian Fu [2015] No. 465) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2015] No. 307), the Company publicly issued China Zheshang Bank Co., Ltd.'s 2015 financial bonds of RMB5.0 billion in the national interbank bond market. This tranche of bonds has a term of 5 years and bear interest at fixed interest rate. Relevant proceeds will all be used by the Company to extend small and micro corporate loans in accordance with applicable laws and the approvals from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of subordinated bonds was AAA.

On February 24, 2016, according to the approvals under the documents issued by CBIRC (Yin Jian Fu [2015] No. 465) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2015] No. 307), the Company publicly issued China Zheshang Bank Co., Ltd.'s 2016 financial bonds of RMB10.0 billion in the national interbank bond market. This tranche of bonds has a term of 5 years and bear interest at fixed interest rate. Relevant proceeds will all be used by the Company to extend small and micro corporate loans in accordance with applicable laws and the approvals from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of financial bonds was AAA.

On September 14, 2016, according to the approvals under the documents issued by CBIRC (Yin Jian Fu [2016] No. 102) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2016] No. 125), the Company publicly issued China Zheshang Bank Co., Ltd.'s 2016 Tier 2 capital bonds of RMB10 billion in the national interbank bond market. This tranche of bonds has a term of 10 years and bear interest at fixed interest rate, and the Company may exercise the right of redemption with pre-conditions upon the expiry of the first five-year period. Raised proceeds will all be used to replenish the tier-two capital of the Company. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of tier 2 capital bonds was AA+.

On June 13, 2018, according to the approvals in the documents issued by CBIRC (Yin Jian Fu [2017] No. 339) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2017] No. 232), the Company publicly issued the first tranche of tier-two capital bonds of 2018 of China Zheshang Bank Co., Ltd.'s in an amount of RMB15 billion in the national interbank bond market. This tranche of bonds has a term of 10 years and bears interest at fixed interest rate, and the Company may exercise the right of redemption with pre-conditions upon the expiry of the first five-year period. Raised proceeds will all be used to replenish the tier-two capital of the Company. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of tier 2 capital bonds was AA+.

Changes in Shares and Information on Shareholders

On August 27, 2018, according to the approvals in the documents issued by CBIRC (Yin Jian Fu [2017] No.189) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2017] No.174), the Company publicly issued the first tranche of 2018 financial bonds of China Zheshang Bank Co., Ltd. in the amount of RMB20 billion in the national inter-bank bond market. This tranche of bonds has a term of 3 years and bears interest at fixed interest rate, and all proceeds from the issue of the bonds will be used to extend small and micro corporate loans pursuant to applicable laws and approval from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of financial bonds was AAA.

On September 16, 2019, according to the approvals in the documents issued by CBIRC (Yin Jian Fu [2019] No.794) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2019] No.139), the Company publicly issued 2019 green financial bonds of China Zheshang Bank Co., Ltd. in the amount of RMB5 billion in the national inter-bank bond market. This tranche of bonds has a term of 3 years and bears interest at fixed interest rate, and all proceeds from the issue of the bonds will be used in the green industrial projects stipulated by Green Bond Endorsed Project Catalogue (《綠色債券支持項目目錄》) issued by Green Finance Professional Committee under China Finance Association (中國金融學會綠色金融專業委員會) pursuant to applicable laws and approval from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of green financial bonds was AAA.

(X) Information about Offshore Preference Shares

1. Issuance and listing of offshore preference shares

Pursuant to the approval of the CBIRC (Yin Jian Fu [2017] No. 45) and the approval of the CSRC (Zheng Jian Xu Ke [2017] No. 360), the Bank made a non-public issuance of US\$2.175 billion Offshore Preference Shares in the offshore market on March 29, 2017. The Offshore Preference Shares had a par value of RMB100 and raised US\$20 per share, all of which were subscribed in U.S. dollars. Such Offshore Preference Shares were listed on the Hong Kong Stock Exchange on March 30, 2017 (Stock Code of Preference Shares: 4610).

Based on the CNY Central Parity Rate published by the China Foreign Exchange Trading Centre on March 29, 2017, the gross proceeds from the offering of the Offshore Preference Shares were approximately RMB14.989 billion. Subject to applicable laws and regulations and the approvals by the relevant regulatory authorities such as the CBIRC and the CSRC, the capital raised from the Offshore Preference Shares issuance were used to replenish the Bank's additional tier 1 capital after deducting the issuance expenses, increase the tier 1 capital adequacy ratio of the Bank and optimize the capital structure.

Changes in Shares and Information on Shareholders

Stock Code of Offshore Preference Shares	Issuing Date	Issuing Price (US\$/share)	Initial Annual Dividend Rate (%)	Issue Volume (Share)	Total Issue Amount (US\$)	Listing Date	Approved Number of Shares for Listing and Dealing (Share)
4610	2017/3/29	20	5.45	108,750,000	2,175,000,000	2017/3/30	108,750,000

2. Relevant articles with respect to rights and interests of the offshore preference shares have been included to the Company's articles of association, which can be found on the websites of the Hong Kong Stock Exchange and the Company.
3. Number of shareholders and shareholding of offshore preference shares

As of the end of the reporting period, the total number of shareholders (or nominees) of the Company for the Offshore Preference Shares was one, being The Bank of New York Depository (Nominees) Limited as the nominee.

Name of Shareholder	Nature of Shareholder	Share Class	Increase/Decrease during the Reporting Period (Share)	Shareholding Ratio (%)	Total Number of Shares Held (Share)	Number of Shares Subject to Selling Restrictions (Share)	Number of Shares Pledged or Frozen (Share)
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore Preference Shares	-	100	108,750,000	-	unknown

Note:

- (1) Shareholding information on shareholders of Offshore Preference Shares was provided based on the information specified in the register of shareholders of Offshore Preference Shares of the Bank.
- (2) As the issuance was an offshore non-public offering, what is set out in the register of shareholders of Offshore Preference Shares is the information on the Offshore Preference Shares held by The Bank of New York Depository (Nominees) Limited as a nominee on behalf of the placees in the clearing systems of Euroclear Bank S.A./N.V. and Clearstream Banking S.A. as of the end of the reporting period.

Changes in Shares and Information on Shareholders

4. Profit distribution for Offshore Preference Shares

The Bank paid the dividend in cash once a year to the holders of the Offshore Preference Shares. The dividend not paid by the Bank in full to the holders of the Offshore Preference Shares will not be accumulated to the next interest-bearing year. After being distributed with the dividend according to the agreed dividend rate, the holders of the Offshore Preference Shares shall no longer participate in the distribution of the remaining profits with the holders of the Ordinary Shares.

According to the resolution and authorization of shareholders' general meeting, the Board meeting dated March 18, 2019 deliberated and adopted the Proposal for Distributing Dividends for Offshore Preference Shares, approving the Bank to distribute the dividends for Offshore Preference Shares on March 29, 2019. Pursuant to relevant laws and regulations of China, while distributing dividends for Offshore Preference Shares to offshore non-resident corporate shareholders, the Bank shall withhold and pay on their behalf the corporate income tax calculated on a tax rate of 10%. According to relevant terms and conditions with respect to the Bank's Offshore Preference Shares, relevant taxes and fees shall be paid by the Bank. The dividends for Offshore Preference Shares distributed this time totaled US\$131,708,333.33, including: US\$118,537,500 actually paid to shareholders of the Offshore Preference Shares according to an annual dividend yield of 5.45%; pursuant to relevant legal regulations, the corporate income tax withheld and paid on behalf based on a tax rate of 10% was US\$13,170,833.33.

For the implementation plan for the distribution of dividends for Offshore Preference Shares, please refer to the announcements published on the websites of the Hong Kong Stock Exchange and the Company.

The above dividend was paid in cash on March 29, 2019.

5. Redemption or conversion of Offshore Preference Shares

During the reporting period, no redemption or conversion occurred for the Bank's Offshore Preference Shares.

6. Resumption of voting rights for Offshore Preference Shares

During the reporting period, no resumption of voting rights occurred for the Bank's Offshore Preference Shares.

7. Accounting policies adopted for Offshore Preference Shares and the reasons thereof

In accordance with the Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, the Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments and the Rules on Differentiating the Financial Liabilities and Equity Instruments and Relevant Accounting Treatment published by the Ministry of Finance, as well as IAS 39 – Financial Instruments: Recognition and Measurement and IAS 32 – Financial Instruments: Disclosures and Presentation formulated by the International Accounting Standards Board, the terms of the issued and existing Offshore Preference Shares of the Bank meet the requirements for being accounted as equity instruments and will be accounted as equity instruments.

Directors, Supervisors, Senior Management, Employees and Institutions

(I) Directors, Supervisors and Senior Management

1. Basic information of Directors, Supervisors and senior management

Name	Position	Gender	Date of birth	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period (RMB in ten thousand)	Whether remunerated by related parties of the Company
Shen Renkang (沈仁康)	Chairman, Executive Director	Male	January 1963	September 2014 to June 2021	0	0	169.08	No
Xu Renyan (徐仁艳)	Executive Director, President	Male	August 1965	July 2004 to June 2021 (Executive Director) July 2018 to June 2021 (President)	0	0	389.85	No
Zhang Luyun (張魯芸)	Executive Director	Female	December 1961	January 2016 to June 2021	0	0	156.60	No
Huang Zhiming (黃志明)	Non-executive Director	Male	April 1976	October 2018 to June 2021	0	0	-	Yes
Wei Dongliang (韋東良)	Non-executive Director	Male	September 1974	October 2018 to June 2021	0	0	-	Yes
Gao Qinrong (高勤紅)	Non-executive Director	Female	July 1963	July 2004 to June 2021	0	0	-	Yes
Hu Tiangao (胡天高)	Non-executive Director	Male	September 1965	July 2004 to June 2021	0	0	-	Yes
Zhu Weiming (朱瑋明)	Non-executive Director	Male	March 1969	December 2016 to June 2021	0	0	-	Yes
Lou Ting (樓婷)	Non-executive Director	Female	October 1976	June 2015 to June 2021	0	0	-	Yes
Xia Yongchao (夏永潮)	Non-executive Director	Male	February 1970	October 2018 to February 2020	0	0	-	Yes

Directors, Supervisors, Senior Management, Employees and Institutions

Name	Position	Gender	Date of birth	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period (RMB in ten thousand)	Whether remunerated by related parties of the Company
Tong Benli (董本立)	Independent non-executive Director	Male	August 1950	June 2015 to June 2021	0	0	30.00	Yes
Yuan Fang (袁放)	Independent non-executive Director	Male	March 1957	June 2015 to June 2021	0	0	30.00	Yes
Dai Deming (戴德明)	Independent non-executive Director	Male	October 1962	June 2015 to June 2021	0	0	30.00	Yes
Liu Pak Wai (廖柏偉)	Independent non-executive Director	Male	January 1948	July 2015 to June 2021	0	0	30.00	Yes
Zheng Jindu (鄭金都)	Independent non-executive Director	Male	July 1964	January 2016 to June 2021	0	0	30.00	Yes
Zhou Zhifang (周志方)	Independent non-executive Director	Male	December 1956	October 2018 to June 2021	0	0	30.00	No
Wang Guocai (王國才)	Independent non-executive Director	Male	November 1956	October 2018 to June 2021	0	0	30.00	No
Yu Jianqiang (于建強)	Shareholder Representative Supervisor, Chairman of the Board of Supervisors	Male	March 1962	February 2015 to June 2021	0	0	298.69	No

Directors, Supervisors, Senior Management, Employees and Institutions

Name	Position	Gender	Date of birth	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period (RMB in ten thousand)	Whether remunerated by related parties of the Company
Zheng Jianming (鄭建明)	Employee Representative Supervisor, Vice Chairman of the Board of Supervisors	Male	January 1973	February 2015 to June 2021	0	0	-	No
Ge Meirong (葛梅榮)	Shareholder Representative Supervisor	Male	September 1964	June 2018 to June 2021	0	0	-	Yes
Wang Chengliang (王成良)	Employee Representative Supervisor	Male	June 1963	May 2017 to June 2021	0	0	-	No
Chen Zhongwei (陳忠偉)	Employee Representative Supervisor	Male	September 1970	June 2018 to June 2021	0	0	-	No
Jiang Rong (姜戎)	Employee Representative Supervisor	Male	December 1969	June 2018 to June 2021	0	0	-	No
Yuan Xiaoqiang (袁小強)	External Supervisor	Male	March 1963	February 2015 to June 2021	0	0	30.00	Yes
Wang Jun (王軍)	External Supervisor	Male	April 1970	February 2015 to June 2021	0	0	30.00	Yes
Huang Zuhui (黃祖輝)	External Supervisor	Male	June 1952	February 2015 to June 2021	0	0	30.00	Yes
Cheng Huifang (程惠芳)	External Supervisor	Female	September 1953	June 2016 to June 2021	0	0	30.00	Yes

Directors, Supervisors, Senior Management, Employees and Institutions

Name	Position	Gender	Date of birth	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period (RMB in ten thousand)	Whether remunerated by related parties of the Company
Huang Haibo (黃海波)	Former Shareholder Representative Supervisor	Male	February 1978	June 2018 to August 2019	0	0	-	Yes
Xu Manxuan (徐蔓萱)	Vice President	Male	October 1963	April 2016 to June 2021	0	0	318.95	No
Wu Jianwei (吳建偉)	Vice President	Male	February 1971	July 2016 to June 2021	0	0	314.23	No
Liu Long (劉龍)	Vice President, Secretary of the Board	Male	September 1965	April 2016 to June 2021 (Vice President) February 2015 to June 2021 (Secretary of the Board)	0	0	318.03	No
Zhang Rongsen (張榮森)	Vice President	Male	October 1968	April 2018 to June 2021	0	0	352.40	No
Liu Guishan (劉貴山)	Assistant to President, Chief Risk Officer	Male	June 1963	October 2018 to June 2021	0	0	260.10	No
Chen Haiqiang (陳海強)	Assistant to President	Male	October 1974	October 2018 to June 2021	0	0	288.93	No
Luo Feng (駱峰)	Assistant to President	Male	September 1979	May 2019 to June 2021	0	0	260.85	No
Sheng Hongqing (盛宏清)	Assistant to President	Male	July 1971	May 2019 to June 2021	0	0	260.28	No
Song Shizheng (宋士正)	Chief Information Officer	Male	April 1964	December 2018 to June 2021	0	0	259.40	No
Jing Feng (景峰)	Chief Finance Officer	Male	December 1979	December 2018 to June 2021	0	0	258.93	No

Directors, Supervisors, Senior Management, Employees and Institutions

Note:

- (1) Due to other work commitments, Huang Xufeng (Director) resigned as a non-executive Director of the Bank with effect from May 10, 2019 prior to his qualification for appointment as a Director being ratified of his eligibility by CBIRC.
- (2) Nomination of incumbent Directors of the fifth session of the Board of the Company by shareholders is as follows: Huang Zhiming (Director) was nominated by Zhejiang Provincial Financial Holdings Co., Ltd. (shareholder); Wei Dongliang (Director) was nominated by Zhejiang Provincial Energy Group Co., Ltd., Zhejiang Energy Capital Holdings Co., Ltd. (浙能資本控股有限公司), and Zhejiang Energy International Co., Ltd. (shareholders); Gao Qinhong (Director) was nominated by Zhejiang Hengyi Group Co., Ltd., Zhejiang Hengyi Petrochemical Co., Ltd. and Zhejiang Hengyi High-tech Material Co., Ltd. (shareholders); Hu Tiangao (Director) was nominated by Hengdian Group Holdings Limited (shareholder); Zhu Weiming (Director) was nominated by Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd. and Zhejiang Seaport (Hong Kong) Co., Limited (shareholders); Lou Ting (Director) was nominated by Guangsha Holding Group Co., Ltd., Zhejiang Dongyang Third Construction Co., Ltd. and Zhejiang Guangsha Co., Ltd. (shareholders); Xia Yongchao (Director) was nominated by Zhejiang Yongli Industry Group Co., Ltd. (shareholder).
- (3) Nomination of incumbent shareholder Supervisors for the fifth session of the Board of Supervisors of the Company is as follows: Yu Jianqiang (Supervisor) was nominated by Minsheng Life Insurance Company Ltd. (shareholder); Ge Meirong (Supervisor) was nominated by Zhejiang China Light & Textile Industrial City Group Co., Ltd. and Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd. (shareholders).
- (4) The Company's employee representative Supervisors receive their remuneration with respect to their posts as employees and do not receive any remuneration as employee representative Supervisors.
- (5) Due to other work commitments, Xia Yongchao (Director) resigned as a non-executive Director of the Bank, with effect from February 6, 2020, and such resignation would not be mentioned again in this annual report.
- (6) The time of the beginning of the term of Directors and senior management shall be subject to the approval time of the CBIRC, and shall be effective since the date of first appointment for re-elected Directors, Supervisors and senior management.
- (7) The aggregate pre-tax remunerations of certain Directors, Chairman of the Board of Supervisors and senior management of the Company are still being verified, and the information about the pre-tax remunerations of other staff will be disclosed separately upon confirmation of payment.

Directors, Supervisors, Senior Management, Employees and Institutions

2. Changes of Directors, Supervisors and senior management during the Reporting Period

Directors

Huang Xufeng (Director) resigned as a non-executive Director of the Bank due to other work commitments, with effect from May 10, 2019. As of the date that the resignation came into effect, the qualification of Mr. Huang Xufeng for appointment as a Director has not been ratified of his eligibility by CBIRC.

Supervisors

On August 7, 2019, Mr. Huang Haibo ceased to be a shareholder Supervisor of the Bank due to other work commitments, with effect from the date of his resignation.

Senior Management

On May 28, 2019, the senior management qualifications of Mr. Luo Feng and Mr. Sheng Hongqing for appointment as assistants to the president of the Company were approved by CBIRC, and they have duly performed their duties.

3. Posts held by incumbent Directors, Supervisors and Senior Management in shareholders and those resigned during the reporting period

Name	Name of shareholder	Position in shareholders	Date of Appointment	Date of Termination
Huang Zhiming	Zhejiang Provincial Financial Holdings Co., Ltd.	Member of the party committee and employee Director General Manager of the Financial Management Department	October 2017	September 2019
Wei Dongliang	Zhejiang Energy Capital Holdings Co., Ltd. (浙能資本控股有限公司)	Member of the party committee and general manager	November 2016	August 2019
Wei Dongliang	Zhejiang Energy Capital Holdings Co., Ltd. (浙能資本控股有限公司)	Director	December 2019	to date
Gao Qinong	Zhejiang Hengyi Group Co., Ltd.	Chief financial advisor	April 2012	to date
Hu Tiangao	Hengdian Group Holdings Limited	Director and vice president	September 1995	to date
Zhu Weiming	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Director of the Financial Affairs Department	January 2017	to date
Zhu Weiming	Zhejiang Seaport (Hong Kong) Co., Limited	Director	November 2016	to date
Lou Ting	Guangsha Holding Group Co., Ltd.	Chief executive officer	September 2013	to date
Lou Ting	Zhejiang Guangsha Co., Ltd.	Deputy chairman	December 2017	to date
Xia Yongchao	Zhejiang Yongli Industry Group Co., Ltd.	Executive deputy general manager	March 2001	to date

Directors, Supervisors, Senior Management, Employees and Institutions

Name	Name of shareholder	Position in shareholders	Date of Appointment	Date of Termination
Ge Meirong	Zhejiang China Light & Textile Industrial City Group Co., Ltd.	Secretary of the party committee	April 2018	to date
Ge Meirong	Zhejiang China Light & Textile Industrial City Group Co., Ltd.	Chairman	May 2018	to date
Huang Haibo	Zhejiang RIFA Holding Group Co., Ltd.	Chief financial officer	July 2013	to date
Huang Haibo	Zhejiang RIFA Holding Group Co., Ltd.	Director	August 2014	to date
Huang Haibo	Zhejiang Rifa Textile Machinery Co., Ltd.	Director	October 2011	to date
Huang Haibo	Zhejiang Rifa Precision Machinery Co., Ltd.	Director	July 2019	to date

4. Posts held by incumbent Directors, Supervisors and Senior Management in other companies and those resigned during the reporting period

Name	Name of other companies	Position in other companies	Date of Appointment	Date of Termination
Huang Zhiming	Yongan Futures Co., Ltd. (永安期貨股份有限公司)	Member of the CPC committee and vice general manager	October 2019	to date
Huang Zhiming	Yongan Guofu Asset Management Co., Ltd. (永安國富資產管理有限公司)	Director	November 2019	to date
Wei Dongliang	Zheneng Jinjiang Environment Holding Company Limited (浙能錦江環境控股有限公司)	Chairman	September 2019	to date
Wei Dongliang	Hangzhou Jinhuan Investment Company Limited (杭州錦環投資有限公司)	Chairman	September 2019	to date
Wei Dongliang	Zhejiang Zheneng Venture Capital Co., Ltd. (浙江浙能創業投資有限公司)	Executive director	November 2017	to date
Wei Dongliang	Zhejiang Zheneng Investment Management Co., Ltd. (浙江浙能投資管理有限公司)	Executive director	June 2017	to date
Hu Tiangao	Hengdian Group DMEGC Magnetics Co., Ltd. (橫店集團東磁股份有限公司)	Director	March 2008	to date
Hu Tiangao	Apeloa Pharmaceutical Co., Ltd. (普洛藥業股份有限公司)	Director	May 2008	to date
Hu Tiangao	Innuovo Technology Co., Ltd. (英洛華科技股份有限公司)	Director	April 2011	to date
Hu Tiangao	Hengdian Group Tospo Lighting Co., Ltd. (橫店集團得邦照明股份有限公司)	Director	January 2013	to date
Hu Tiangao	Hengdian Entertainment Co., Ltd. (橫店影視股份有限公司)	Director	June 2015	to date
Hu Tiangao	Dongyang Taurus Small Loan Co., Ltd. (東陽市金牛小額貸款有限公司)	Director	January 2010	to date

Directors, Supervisors, Senior Management, Employees and Institutions

Name	Name of other companies	Position in other companies	Date of Appointment	Date of Termination
Zhu Weiming	Zhejiang Seaport Asset Management Co., Limited (浙江海港資產管理有限公司)	Chairman	April 2016	to date
Zhu Weiming	Zhejiang Seaport Bulk Commodity Exchange Co., Ltd. (浙江海港大宗商品交易中心有限公司)	Chairman	November 2016	to date
Zhu Weiming	Zhejiang Seaport Asset Finance Investment Management Co., Ltd. (浙江海港產融投資管理有限公司)	Director	July 2016	to date
Zhu Weiming	Zhejiang Touden Port Investment & Development Co., Ltd. (浙江頭門港投資開發有限公司)	Director	July 2016	to date
Zhu Weiming	Zhejiang Seaport Dushan Port Affairs Co., Ltd. (浙江海港獨山港務有限公司)	Director	June 2016	to date
Zhu Weiming	Zhejiang Fu Zhe Investment Co., Ltd. (浙江富浙投資有限公司)	Director	November 2016	to date
Zhu Weiming	Ningbo Commerce Bank Company Limited (寧波通商銀行股份有限公司)	Director	June 2018	to date
Zhu Weiming	Donghai Marine Insurance Company Limited (東海航運保險股份有限公司)	Director	June 2018	to date
Zhu Weiming	Donghai Marine Insurance Company Limited (東海航運保險股份有限公司)	Vice chairman and director	January 2019	to date
Zhu Weiming	Zhejiang Zhegang Trading Co., Ltd. (浙江浙港商貿有限公司)	Chairman	January 2019	to date
Zhu Weiming	Ningbo Shipping Exchange Co., Ltd. (寧波航運交易所有限公司)	Chairman	February 2019	to date
Xia Yongchao	Sinatay Life Insurance Co., Ltd. (信泰人壽保險股份有限公司)	Deputy Chairman	November 2006	to date
Xia Yongchao	Zhejiang Lingyan Capital Management Co., Ltd. (浙江領雁資本管理有限公司)	Chairman	December 2015	to date
Xia Yongchao	Zhejiang Shaoxing Ruifeng Rural Commercial Bank Co., Ltd. (浙江紹興瑞豐農村商業銀行股份有限公司)	Director	April 2017	to date
Xia Yongchao	Shaoxing Shaoneng Power Investment Co., Ltd. (紹興紹能電力投資有限公司)	Director	July 2006	to date
Xia Yongchao	Shaoxing Longshan Saibole Venture Investment Co., Ltd. (紹興龍山賽伯樂投資有限公司)	Director	August 2008	to date
Xia Yongchao	Zhejiang Fengyue Property Management Co., Ltd. (浙江豐越物業管理有限公司)	Director	July 1998	to date

Directors, Supervisors, Senior Management, Employees and Institutions

Name	Name of other companies	Position in other companies	Date of Appointment	Date of Termination
Xia Yongchao	Shanghai Lingyi Business Consulting Co., Ltd. (上海領耀商務諮詢有限公司)	Executive director	March 2017	to date
Xia Yongchao	Zhejiang Yongrong Finance Leasing Co., Ltd. (浙江永融融資租賃有限公司)	Executive director	December 2017 (pending approval for operation from the Ministry of Commerce)	to date
Xia Yongchao	Shaoxing Keqiao Huiyou Trading Co., Ltd. (紹興柯橋匯友貿易有限公司)	Supervisor	December 2010	to date
Xia Yongchao	Zhejiang Yongli Warp Knitting Co., Ltd. (浙江永利經編股份有限公司)	Director	November 1997	to date
Xia Yongchao	Guizhou Yongan Finance Holdings Co., Ltd. (貴州永安金融控股股份有限公司)	Director	March 2015	to date
Tong Benli	Hangzhou Jiebai Group Co., Limited (杭州解百集團股份有限公司)	Independent non-executive director	May 2014	to date
Tong Benli	Zhejiang Anglikang Pharmaceutical Co., Ltd. (浙江昂利康製藥股份有限公司)	Independent non-executive director	October 2014	to date
Tong Benli	Zhejiang Zhengyuan Zhihui Technology Co., Ltd. (浙江正元智慧科技股份有限公司)	Independent non-executive director	March 2015	to date
Tong Benli	Zhejiang Pujiang Rural Commercial Bank Co., Ltd. (浙江浦江農村商業銀行股份有限公司)	Independent non-executive director	December 2016	to date
Yuan Fang	Myshare Bank of Wanzhou (溫州民商銀行)	Independent non-executive director	August 2015	to date
Yuan Fang	Zhejiang Qiantangjiang Jinyanyuan Consultation Co., Ltd. (浙江錢塘江金研院諮詢股份有限公司)	Chairman of the Supervisory Committee	July 2017	to date
Dai Deming	Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	Independent non-executive director	June 2015	to date
Dai Deming	BOC Aviation Limited (中銀航空租賃有限公司)	Independent non-executive director	May 2016	to date
Dai Deming	China Securities Co., Ltd. (中信建投證券股份有限公司)	Independent non-executive director	August 2016	to date
Dai Deming	Power Construction Corporation of China (中國電力建設股份有限公司)	Independent non-executive director	March 2018	to date
Dai Deming	Poly Developments and Holdings Group Co., Ltd. (保利發展控股集團股份有限公司)	Independent non-executive director	September 2018	to date
Dai Deming	Accounting Society of China	Vice chairman	September 2004	to date

Directors, Supervisors, Senior Management, Employees and Institutions

Name	Name of other companies	Position in other companies	Date of Appointment	Date of Termination
Dai Deming	Renmin University of China	Professor	July 1996	to date
Liu Pak Wai	Transport International Holdings Limited (載通國際控股有限公司)	Independent non-executive director	September 2011	to date
Liu Pak Wai	Hang Lung Group Limited (恒隆集團有限公司)	Independent non-executive director	March 2015	to date
Liu Pak Wai	Shenzhen Finance Institute	Council member	January 2017	to date
Liu Pak Wai	Lau Chor Tak Institute of Global Economics and Finance, the Chinese University of Hong Kong	Research professor	August 2013	to date
Liu Pak Wai	Hong Kong Institute for Monetary and Financial Research under the Hong Kong Monetary Authority	Director	March 2003	to date
Zheng Jindu	Zhejiang L&H Law Firm (浙江六和律師事務所)	Director and partner	December 1998	to date
Zheng Jindu	Hangzhou Shenhao Technology Co., Ltd. (杭州申昊科技股份有限公司)	Independent non-executive director	August 2014	to date
Zheng Jindu	Sundy Land Investment Co., Ltd. (宋都基業投資股份有限公司)	Independent non-executive director	April 2016	to date
Zheng Jindu	Wonderful-wall Materials Co., Ltd. (墻煌新材料股份有限公司)	Independent non-executive director	April 2016	to date
Zheng Jindu	Hangzhou United Rural Commercial Bank Co. Ltd. (杭州聯合農村商業銀行股份有限公司)	Independent non-executive director	October 2018	to date
Zheng Jindu	Sanmen Chamber of Commerce in Hangzhou	President	March 2014	to date
Zheng Jindu	Zhejiang Lawyers Association (浙江省律師協會)	President of Tenth Council	June 2019	to date
Zheng Jindu	Zhejiang Law Society	Vice-president of Seventh Council	November 2015	to date
Zheng Jindu	All China Lawyers Association (中華全國律師協會)	Managing director of Ninth Council	April 2016	to date
Zheng Jindu	Zhejiang Federation of Industry and Commerce	Member of the 11th Advisory Committee	July 2017	to date
Zheng Jindu	CPPCC National Committee of Zhejiang Province	Member of the 12th committee	January 2018	to date
Yu Jianqiang	Federation of automobile & Motorcycle Sports of Zhejiang	Vice chairman	June 2014	to date

Directors, Supervisors, Senior Management, Employees and Institutions

Name	Name of other companies	Position in other companies	Date of Appointment	Date of Termination
Yu Jianqiang	Zhejiang Boshiwa Enterprise Development Co., Ltd. (浙江博士蛙企業發展有限公司)	Chairman and general manager	October 2011	to date
Ge Meirong	Zhejiang China Light & Textile Industrial City Group Co., Ltd. (浙江中國輕紡城集團股份有限公司)	Secretary of the CPC Committee	April 2018	to date
Ge Meirong	Zhejiang China Light & Textile Industrial City Group Co., Ltd. (浙江中國輕紡城集團股份有限公司)	Chairman	May 2018	to date
Yuan Xiaoqiang	Zhonghui (Zhejiang) Tax Agency (中匯(浙江)稅務師事務所有限公司)	Legal representative, general manager and chairman	October 2019	to date
Yuan Xiaoqiang	Hangzhou Sidu Investment and Consultation Co., Ltd. (杭州思渡投資諮詢有限公司)	Director	May 2017	to date
Yuan Xiaoqiang	Zhejiang Kaibei Investment and Consultation Co., Ltd. (浙江凱貝投資諮詢有限公司)	Director	January 2018	to date
Yuan Xiaoqiang	Hangzhou Zhonghui Education Consulting Co., Ltd. (杭州中匯教育諮詢有限公司)	Legal representative and chairman	February 2019	to date
Yuan Xiaoqiang	Zhonghui Taxation Consulting Co., Ltd (中匯稅務股份諮詢有限公司)	General manager and director	May 2018	to date
Wang Jun	Zhongyuan Bank Co., Ltd. (中原銀行股份有限公司)	Chief economist	November 2017	to date
Huang Zuhui	Zhejiang Agricultural Materials Group Co., Ltd. (浙農集團股份有限公司)	Independent director	December 2017	to date
Cheng Huifang	Hangzhou Hikvision Digital Technology Co., Ltd. (杭州海康威視數字技術股份有限公司)	External supervisor and chairman of the board of supervisors	March 2016	to date
Cheng Huifang	Hangzhou Hangyang Co., Ltd. (杭州杭氧股份有限公司)	Independent director	January 2015	to date
Cheng Huifang	Zhejiang Huace Film & TV Co., Ltd. (浙江華策影視股份有限公司)	Independent director	June 2016	to date
Cheng Huifang	Zhejiang Furun Co., Ltd. (浙江富潤股份有限公司)	Independent director	April 2014	to date
Cheng Huifang	Quzhou NGF Chemicals Co., Ltd. (衢州南高峰化工有限公司)	Independent director	January 2017	to date
Xu Manxuan	Zhejiang Guarantee Group Co., Ltd. (浙江省擔保集團有限公司)	Executive director and general manager	February 2016	December 2019
Xu Manxuan	Zhejiang Re-guarantee Co., Ltd. (浙江省再擔保有限公司)	Chairman	December 2018	July 2019

Directors, Supervisors, Senior Management, Employees and Institutions

5. Profile of Directors, Supervisors and senior management and information of their concurrent post

Directors

Shen Renkang (沈仁康)

Mr. Shen Renkang is currently the secretary of the Communist Party of China (“CPC”) committee, chairman of the Board and executive Director of the Company. He holds a postgraduate degree and is a senior economist. Mr. Shen had successively held the posts of member of the CPC standing committee, vice county chief, vice county secretary of CPC committee, acting county chief and county chief of Qingtian County, Zhejiang; he served as the vice mayor of Lishui City, Zhejiang and successively held the position of vice mayor and CPC working committee secretary of management committee of Lishui Economic Development Zone; member of the standing committee of Lishui City, Zhejiang, vice mayor and CPC working committee secretary of management committee of Lishui Economic Development Zone; member of the standing committee of Lishui City, Zhejiang and vice mayor as well as the deputy secretary of the municipal CPC committee of Lishui City and politics and law committee secretary in the municipal CPC committee of Lishui City; and he also served as deputy secretary of municipal CPC committee, acting mayor and mayor of Quzhou City, Zhejiang Province.

Xu Renyan (徐仁艷)

Mr. Xu Renyan is currently the deputy secretary of the CPC committee, executive Director and president of the Company, He holds a postgraduate degree and is a senior accountant and certified tax agent. Mr. Xu had successively held positions of the deputy section chief and the section chief of financial section, accounting department, Zhejiang provincial branch of PBOC; vice director of accounting department, Zhejiang provincial branch of PBOC; vice director and director of accounting and financial department, Hangzhou central branch, PBOC; a member of the CPC committee and vice president of Hangzhou central branch, PBOC; a member of the CPC committee and vice president of China Zheshang Bank Co., Ltd. and concurrently held the position of director and chairman of Zhejiang Zheyin Financial Leasing Co., Ltd..

Zhang Luyun (張魯芸)

Ms. Zhang Luyun is currently the deputy secretary of CPC committee, executive Director and director of labor union working committee at the head office of the Company. She holds an EMBA degree, and is a senior economist and post-secondary education assistant researcher. Ms. Zhang had held the position of vice director of information division and chief of press section of Hangzhou Municipal General Office. She was a member of the CPC committee and vice president of Hangzhou Radio & TV University; secretary for confidential information at division chief level of organization department of Zhejiang provincial CPC committee; a member of the CPC committee, vice general manager and director of Zhejiang Communications Investment Group Co., Ltd. (浙江省交通投資集團有限公司); and non-executive director of Zhejiang Expressway Co., Ltd. (浙江滬杭甬高速公路股份有限公司).

Directors, Supervisors, Senior Management, Employees and Institutions

Huang Zhiming (黃志明)

Mr. Huang Zhiming is currently a non-executive Director of the Company, with a postgraduate degree. Mr. Huang acted as a confidential secretary, project leader of the No.2 Investment Department, deputy director of the General Office and director of the General Management Office in Zhejiang Provincial Financial Development Company; chairman of the board of supervisors of Zhejiang Nongdu Agricultural Products Co., Ltd. (浙江省農都農產品有限公司); supervisor of Wuchan Zhongda Group Co., Ltd. (物產中大集團股份有限公司), general manager of the Risk and Compliance Department, director of the General Office, member of the CPC Committee, employee director and general manager of the Financial Management Department at Zhejiang Provincial Financial Holdings Co., Ltd. (浙江省金融控股有限公司); chairman of the board of supervisors of Zhejiang Industry Fund, executive supervisor of Zhejiang Guarantee Group, director of Caitong Securities Co., Ltd. (財通證券股份有限公司), director of Yongan Futures Co., Ltd. (永安期貨股份有限公司), and chairman of the Board of Hangzhou Jinxi Hotel (杭州金溪山莊). He currently served as a member of the CPC Committee and vice general manager of Yongan Futures Co., Ltd. (永安期貨股份有限公司) as well as a director of Yongan Guofu Asset Management Co., Ltd. (永安國富資產管理有限公司).

Wei Dongliang (韋東良)

Mr. Wei Dongliang is currently a non-executive Director of the Company, with a postgraduate degree, as well as an electrical engineer with professional qualification of business administration economy (intermediate). Mr. Wei served as the secretary of the General Office of Zhejiang Provincial Energy Group Company Ltd. (浙江省能源集團有限公司); assistant to general manager, vice general manager and a member of CPC committee of Zhejiang Zheneng Lanxi Power Generation Co., Ltd. (浙江浙能蘭溪發電有限責任公司); vice general manager and a member of CPC committee of Zhejiang Province Water Conservancy and Hydropower Investment Group Co., Ltd. (浙江省水利水電投資集團有限公司); vice director and director of asset operation department of Zhejiang Provincial Energy Group Company Ltd.; director and vice chairman of Qianjiang Water Resources Development Co., Ltd. (錢江水利開發股份有限公司); director and vice chairman of Zheshang Property and Casualty Insurance Company Limited (浙商財產保險股份有限公司), general manager and a member of CPC committee of Zhejiang Energy Capital Holdings Co., Ltd. (浙能資本控股有限公司), and general manager of Zheneng Equity Investment Fund Management Co., Ltd. (浙能股權投資基金管理有限公司). He currently serves as chairman of Zheneng Jinjiang Environment Holding Company Limited, chairman of Hangzhou Jinhuan Investment Company Limited (杭州錦環投資有限公司), executive director of Zhejiang Zheneng Venture Capital Co., Ltd. (浙江浙能創業投資有限公司), executive director of Zhejiang Zheneng Investment Management Co., Ltd. (浙江浙能投資管理有限公司) and director of Zhejiang Energy Capital Holdings Co., Ltd. (浙能資本控股有限公司).

Directors, Supervisors, Senior Management, Employees and Institutions

Gao Qinhong (高勤紅)

Ms. Gao Qinhong is currently a non-executive Director of the Company. She holds a postgraduate degree and is a senior economist. Ms. Gao worked as accountant and credit manager of Xiaoshan branch of Industrial and Commercial Bank of China. She also served as accountant and credit manager of Zhejiang provincial branch of Industrial and Commercial Bank of China; section chief of credit and loan section and division-level inspector of Hangzhou branch and vice president of Wulin sub-branch, Shanghai Pudong Development Bank Co., Ltd.; vice general manager and chief financial officer and director of Zhejiang Hengyi Group Co., Ltd. and director of Hengyi Petrochemical Co., Ltd. (恒逸石化股份有限公司). She currently serves as chief financial advisor of Zhejiang Hengyi Group Co., Ltd..

Hu Tiangao (胡天高)

Mr. Hu Tiangao is currently a non-executive Director of the Company. He holds an EMBA degree and is a senior economist. Mr. Hu served as vice president of Dongyang sub-branch, Bank of China. He is currently a director and vice president of Hengdian Group Holdings Limited; director of Hengdian Group DMEGC Magnetics Co., Ltd. (橫店集團東磁股份有限公司); director of Apelo Pharmaceutical Co., Ltd. (普洛藥業股份有限公司); director of Innuovo Technology Co., Ltd. (英洛華科技股份有限公司); director of Hengdian Group Tospo Lighting Co., Ltd. (橫店集團得邦照明股份有限公司) and director of Hengdian Entertainment Co., Ltd. (橫店影視股份有限公司).

Zhu Weiming (朱瑋明)

Mr. Zhu Weiming is currently a non-executive Director of the Company. He holds a postgraduate degree. Mr. Zhu successively held the positions of vice director and director of the general manager service department at Jiaxing Power Generation Co., Ltd.; vice general manager and secretary of the board for Zhejiang Southeast Electric Power Company Limited; vice general manager at Zhoushan Marine Comprehensive Development and Investment Co., Ltd.; vice director of the investment and development department at Zhejiang Marine Development & Investment Group Co., Ltd.; vice director of the investment and development department as well as vice director and director of the finance and asset management department at Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.. He is currently the director of the financial affairs department at Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.; chairman of Zhejiang Seaport Asset Management Co., Limited (浙江海港資產管理有限公司); chairman of Zhejiang Seaport Bulk Commodity Exchange Co., Ltd. (浙江海港大宗商品交易中心有限公司), vice chairman of Donghai Marine Insurance Company Limited (東海航運保險股份有限公司), chairman of Zhejiang Zhegang Trading Co., Ltd. (浙江浙港商貿有限公司) and Ningbo Shipping Exchange Co., Ltd. (寧波航運交易所有限公司) as well as director of Zhejiang Seaport (Hong Kong) Co., Limited and Ningbo Commerce Bank Co., Ltd. (寧波通商銀行股份有限公司) respectively.

Directors, Supervisors, Senior Management, Employees and Institutions

Lou Ting (樓婷)

Ms. Lou Ting is currently a non-executive Director of the Company. She holds an undergraduate degree and is an intermediary financial economist. Ms. Lou held several positions in Jinhua branch of Bank of Communications Co., Ltd. (交通銀行股份有限公司), including assistant manager of business department I, assistant manager of operating department, manager of business and sales department III, vice general manager of international business department and business development department, manager of Jindong District and Dongyang District's regional business development department III and president of Dongyang sub-branch. She is now the chief executive officer of Guangsha Holding Group Co., Ltd. and vice chairman of Zhejiang Guangsha Co., Ltd..

Xia Yongchao (夏永潮)

Mr. Xia Yongchao is currently a non-executive Director of the Company. He is a senior economist, with an MBA degree. Mr. Xia had held the posts of secretary of Shaoxing Yongli Industrial Corporation; manager of the Treasury Department of Zhejiang Yongli Industry Group Co., Ltd.; director of the polyester factory of Zhejiang Yongli Group; and chairman of Shaoxing Motor Mart Co., Ltd.. Mr. Xia now serves as the deputy general manager of Zhejiang Yongli Industry Group Co., Ltd.; the deputy chairman of Sinatay Life Insurance Co., Ltd.; the chairman of Zhejiang Lingyan Capital Management Co., Ltd.; and a director of Zhejiang Shaoxing Ruifeng Rural Commercial Bank Co., Ltd..

Tong Benli (童本立)

Mr. Tong Benli is currently an independent non-executive Director of the Company. He holds a postgraduate degree and is a professor and a senior accountant. Mr. Tong held the position of division chief of budget division of Zhejiang Provincial Department of Finance; associate dean, dean and secretary of CPC committee of Zhejiang College of Finance & Economics (now known as Zhejiang University of Finance and Economics); independent non-executive director of Zhejiang Medicine Co., Ltd. (浙江醫藥股份有限公司), Hangzhou Sunyard System Engineering Co., Ltd. (杭州信雅達系統工程股份有限公司), Zhejiang Narada Power Source Co., Ltd. (浙江南都電源動力股份有限公司), Soyea Technology Co., Ltd. (數源科技股份有限公司), Zhejiang Reclaim Construction Group Co., Ltd. (浙江省圍海建設集團股份有限公司) and Hangzhou Changqiao Travelling Investment Co., Ltd. (杭州長喬旅遊投資集團股份有限公司) respectively. Mr. Tong is currently an independent non-executive director of Hangzhou Jiebai Group Co., Limited (杭州解百集團股份有限公司), Zhejiang Anglikang Pharmaceutical Co., Ltd. (浙江昂利康製藥股份有限公司), Zhejiang Zhengyuan Zhihui Technology Co., Ltd. (浙江正元智慧科技股份有限公司) and Zhejiang Pujiang Rural Commercial Bank Co., Ltd. (浙江浦江農村商業銀行股份有限公司) respectively.

Directors, Supervisors, Senior Management, Employees and Institutions

Yuan Fang (袁放)

Mr. Yuan Fang is currently an independent non-executive Director of the Company. He holds an undergraduate degree, with the securities practice qualification. Mr. Yuan served as vice president of Zhejiang Academy of Bank (now known as Zhejiang Financial College); vice division chief of finance management division, Zhejiang provincial branch of People's Bank of China; vice general manager of Zhejiang Provincial Securities Trading Center; vice president of Tianyi Securities Co., Ltd. (天一證券有限責任公司); general manager of Zhejiang Property & Stock Exchange Co., Ltd. (浙江產權交易所有限公司); vice president of Coslight Technology International Group Co., Ltd. (光宇集團有限公司); chairman of Zhejiang Provincial Securities and Listed Company Research Association. He is currently the independent non-executive director of Myshare Bank of Wanzhou (溫州民商銀行) and the Chairman of the Supervisory Committee of Zhejiang Qiantangjiang Jinyanyuan Consultation Co., Ltd.

Dai Deming (戴德明)

Mr. Dai Deming is currently an independent non-executive Director of the Company. He holds a doctoral degree and is a professor. Mr. Dai has been teaching at the accounting department of Renmin University of China, being a lecturer, associate professor and professor successively. Mr. Dai was an independent non-executive director of CRRC Corporation Limited (中國南車股份有限公司), Shanxi Taigang Stainless Steel Co., Ltd. (山西太鋼不銹鋼股份有限公司), and Beijing Capital Development Co., Ltd. (北京首都開發股份有限公司) respectively. He currently serves as vice chairman of Accounting Society of China and independent non-executive director of Haier Smart Home Co., Ltd. (海爾智家股份有限公司), BOC Aviation Limited, China Securities Co., Ltd. (中信建投證券股份有限公司), Power Construction Corporation of China, and Poly Developments and Holdings Group Co., Ltd..

Liu Pak Wai (廖柏偉)

Mr. Liu Pak Wai is currently an independent non-executive Director of the Company. He holds a doctoral degree and is a professor. Mr. Liu has been teaching at the Chinese University of Hong Kong, being a lecturer, senior lecturer, professor and chair professor of the Chinese University of Hong Kong successively, during which, he also worked as pro-vice chancellor of the Chinese University of Hong Kong. He served as director of Institute of Global Economics and Finance, the Chinese University of Hong Kong, and an independent non-executive director of Hang Lung Properties Limited (恒隆地產有限公司). Mr. Liu now works as a professor of Lau Chor Tak Institute of Global Economics and Finance, the Chinese University of Hong Kong, a director of Hong Kong Institute of Monetary and Financial Research under the Hong Kong Monetary Authority, an independent non-executive director of Transport International Holdings Limited (載通國際控股有限公司) and Hang Lung Group Limited (恒隆集團有限公司) respectively; and a council member of Shenzhen Finance Institute. Mr. Liu was awarded the Hong Kong Silver Bauhinia Star in 1999 and was appointed Hong Kong Justice of the Peace in 2006.

Directors, Supervisors, Senior Management, Employees and Institutions

Zheng Jindu (鄭金都)

Mr. Zheng Jindu is currently an independent non-executive Director of the Company. He holds a postgraduate degree and is a qualified first grade lawyer. Mr. Zheng was a lecturer at the Faculty of Law of Hangzhou University (now known as Zhejiang University), a vice director and partner of Zhejiang Guoqiang Law Firm (浙江國強律師事務所) and an independent non-executive director of Changjiang & Jingong Steel Building (Group) Co., Ltd. (長江精工鋼結構(集團)股份有限公司). Mr. Zheng is currently a director and partner of Zhejiang L&H Law Firm (浙江六和律師事務所) and he is also the managing director of Ninth Council of All China Lawyers Association (中華全國律師協會), the member of the 12th CPPCC National Committee of Zhejiang Province, the president of Tenth Council of Zhejiang Lawyers Association (浙江省律師協會), the vice-president of Seventh Council of Zhejiang Law Society and the president of Sanmen Chamber of Commerce in Hangzhou. He serves as an independent non-executive director of Hangzhou United Rural Commercial Bank Co. Ltd., Sundry Land Investment Co., Ltd. (宋都基業投資股份有限公司), Hangzhou Shenhao Information Technology Co., Ltd. (杭州申昊信息科技股份有限公司) and Wonderful-wall Materials Co., Ltd. (墻煌新材料股份有限公司).

Zhou Zhifang (周志方)

Mr. Zhou Zhifang is currently an independent non-executive Director of the Company. He is a senior economist, with an undergraduate degree. Mr. Zhou held the posts of deputy unit chief at People's Bank of China, Jiangshan Sub-branch; deputy unit chief at Industrial and Commercial Bank of China, Jiangshan Sub-branch; director at the business department and the savings department, vice president, member of the CPC committee, leader of the discipline inspection team, deputy secretary of the CPC committee, vice president (in charge), secretary of the CPC committee and president of Industrial and Commercial Bank of China, Quzhou Branch; vice president and member of the CPC committee of Industrial and Commercial Bank of China, Jiangxi Branch; vice president, member of the CPC committee, and general manager and secretary of the CPC committee of the business department of Guangdong Branch of Industrial and Commercial Bank of China; president and secretary of the CPC committee of Ningbo Branch of Industrial and Commercial Bank of China; director of Shanghai Branch of the Internal Audit Bureau of Industrial and Commercial Bank of China; and senior expert (at president level) of Zhejiang Branch of Industrial and Commercial Bank of China of during which he acted as leader of the third inspection team in the head office of Industrial and Commercial Bank of China.

Wang Guocai (王國才)

Mr. Wang Guocai is currently an independent non-executive Director of the Company. He is a senior economist, with an undergraduate degree. Mr. Wang held the posts of vice president and president of Yuhuan Sub-branch of Industrial and Commercial Bank of China; president of Wenling Sub-branch of Industrial and Commercial Bank of China; vice president and president of Taizhou Branch of Industrial and Commercial Bank of China; and expert of Zhejiang Branch of Industrial and Commercial Bank of China.

Directors, Supervisors, Senior Management, Employees and Institutions

Supervisors

Yu Jianqiang (于建强)

Mr. Yu Jianqiang is currently the chairman of the Board of Supervisors and a shareholder representative Supervisor of the Company. He holds a postgraduate degree. Mr. Yu worked successively in the Communist Youth League of Zhejiang Provincial CPC Committee as vice minister in propaganda department and the head of United Front Work Department. He also served as general secretary and vice chairman of Zhejiang Youth United Association. He successively worked as vice section chief and chief in the Office of the Food and Drug Administration of Zhejiang (during which period he concurrently worked as director of the planning and finance department from October 2003 to December 2005); and assistant to the chief executive officer of Minsheng Life Insurance Company Ltd. (民生人壽保險股份有限公司).

Zheng Jianming (鄭建明)

Mr. Zheng Jianming is currently the vice chairman of the Board of Supervisors, director of the Board of Supervisors Office and employee representative Supervisor. He holds a postgraduate degree and is an economist. Mr. Zheng successively worked as the office secretary and vice director of Zhejiang provincial branch of PBOC, and office secretary and vice director of the secretary section of Hangzhou Central Branch of PBOC. He successively held the positions of vice division chief and secretary at director level in the General Office of the People's Government of Zhejiang Province.

Ge Meirong (葛梅荣)

Mr. Ge Meirong is currently a shareholder representative Supervisor of the Company. He holds an undergraduate degree and is a senior economist. He used to work as secretary of the Youth League Committee of Wanghua Village, Shaoxing County, youth officer of the district office in Pingshui District, Shaoxing County, agricultural assistant in Hengxi Township, Shaoxing County, standing committee member of the Youth League Committee, head of the Agro-industrial Department, deputy secretary of the Youth League Committee, member of the CPC Committee, secretary of the Youth League Committee, secretary of the CPC Committee in Shaoxing County, deputy secretary of the CPC Committee in Qianqing Town, Shaoxing County, deputy secretary of the CPC Committee and mayor of Keqiao Town, Shaoxing County, secretary of the CPC Committee and director of the Working Committee of the People's Congress of Keyan Street, Shaoxing County, secretary of the CPC Committee and director of the Working Committee of the People's Congress of Keqiao Street, Shaoxing County, director and secretary of the CPC Committee of Shaoxing County Economic and Trade Bureau, secretary of the CPC Committee and director of the Housing Demolition Management Office of Shaoxing County, director of the Urban Village Transformation Office of Shaoxing County and deputy office director of the People's Government of Shaoxing County, secretary of the CPC Working Committee of Huashe Street, Shaoxing County, deputy head of the United Front Work Department of the CPC Shaoxing County Committee, secretary of the Party Committee at the Industry & Commerce Association of Shaoxing County, director of the Ethnic and Religious Affairs Bureau of Shaoxing County and deputy secretary of the CPC Committee and director of the Statistics Bureau of Keqiao District (Shaoxing County), secretary of the CPC Committee and director of the Statistics Bureau of Keqiao District, Shaoxing City, general manager of Shaoxing Natural Gas Investment Co., Ltd., secretary of the CPC Committee, chairman and general manager of Transport Investment and Construction Group Co., Ltd. in Keqiao District, Shaoxing City, chairman of Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd.. Currently, he works as secretary of the CPC committee and chairman of Zhejiang China Light & Textile Industrial City Group Co., Ltd..

Directors, Supervisors, Senior Management, Employees and Institutions

Wang Chengliang (王成良)

Mr. Wang Chengliang is currently an employee representative Supervisor of the Company. He holds a postgraduate degree and is a senior economist. Mr. Wang worked at Wenzhou Branch of the People's Bank of China, and successively held the positions of Vice Chief of Planning Subsection of Wenzhou Branch, Vice President of Ou Hai County Sub-Branch and Wenzhou Chengnan Sub-Branch, Chief of Planning Division and the first Business Division of Wenzhou Branch, and President of Wenzhou Wuma Sub-Branch of the ICBC; Vice President and President of Wenzhou Branch of the China Guangfa Bank; General Manager of Wenzhou Business Department and President of Wenzhou branch of CZBank. He currently serves as member of the CPC committee and General Manager of the HR Department of the Company.

Chen Zhongwei (陳忠偉)

Mr. Chen Zhongwei is currently an employee Supervisor of the Company. He holds an undergraduate degree and is an economist. Mr. Chen used to work as chief of the business and system sections at the credit division at Zhejiang Branch of Industrial and Commercial Bank of China; general manager of the risk management department and the corporate department at Hangzhou Branch of China Everbright Bank; risk director (assistant to president) and member of the CPC committee at Shanghai Branch of China Everbright Bank; risk director (vice president) and member of the CPC committee at Suzhou Branch of China Everbright Bank; as well as deputy general manager of the credit review department of the Bank (in charge of relevant work). Mr. Chen currently works as general manager of the internal control, compliance and legal affairs department of the Company.

Jiang Rong (姜戎)

Mr. Jiang Rong is currently an employee Supervisor of the Company. He holds an undergraduate degree and is an accountant. Mr. Jiang used to work as an assistant to division chief and deputy division chief at the finance division in Shanghai Electric Tool Research Institute of the Ministry of Machine-Building and Electronics Industry, assistant to division chief, deputy division chief, division chief (back-up cadre for director generals at bureau level) at the CNAO's Shanghai Resident Office, audit head and general manager of the audit department at Dazhong Insurance Co., Ltd.. Mr. Jiang currently works as general manager of the audit department, director of the discipline inspection office and member of the working committee at the head office of the Company.

Yuan Xiaoqiang (袁小強)

Mr. Yuan Xiaoqiang is currently an external Supervisor of the Company. He holds a postgraduate degree and is a registered tax agent, senior accountant and certified public accountant. Mr. Yuan served as the vice director of Hangzhou Tax Agency of Zhejiang. He is currently a senior partner of Zhonghui Tax Agency and Zhonghui Accounting Firm. Mr. Yuan is also a member of Standing Committee of the People's Congress of Zhejiang Province, executive director of the Chinese Certified Tax Agents Association, vice chairman and director of the Standards Committee of Certified Tax Agents Association of Zhejiang and vice chairman of Zhejiang Province Intellectuals Fellowship, and the director of Zhejiang Kaibei Investment and Consultation Co., Ltd. (浙江凱貝投資諮詢有限公司) and Hangzhou Sidu Investment and Consultation Co., Ltd. (杭州思渡投資諮詢有限公司).

Directors, Supervisors, Senior Management, Employees and Institutions

Wang Jun (王軍)

Mr. Wang Jun is currently an external Supervisor of the Company. He is a postdoctorate and a researcher. Mr. Wang worked at Central Policy Research Office of the CPC and served as vice division chief and division chief; director of macroeconomic research division, vice director (in charge) of consultation research department, vice director (in charge), director of information department of China Center for International Economic Exchanges and independent director of China Kings Resources Group Co., Ltd. (金石資源集團股份有限公司). He is currently a chief economist of Zhongyuan Bank Co., Ltd..

Huang Zuhui (黃祖輝)

Mr. Huang Zuhui is currently an external Supervisor of the Company. He holds a postgraduate degree and is a professor. Mr. Huang is currently the professor and doctoral supervisor of Agricultural Economical Management Department, Management School, Zhejiang University. Mr. Huang is also vice chairman of Chinese Rural Cooperative Economic Management Institute and an independent director of Zhejiang Agricultural Materials Group Co., Ltd. (浙農集團股份有限公司).

Cheng Huifang (程惠芳)

Ms. Cheng Huifang is currently an external Supervisor of the Company. She holds a doctoral degree and is a professor and doctoral supervisor. Ms. Cheng was a lecturer and the vice professor of Zhejiang Chemical College and Zhejiang Institute of Technology (now known as Zhejiang University of Technology). She also worked as the assistant to the president, the executive vice president and the president of College of Economics and Management, Zhejiang University of Technology. She is now the president of Global Institute for Zhejiang Merchants Development, Zhejiang University of Technology. She also serves as the general director of Zhejiang Institute of Financial Engineering, an independent director of Zhejiang Furun Co., Ltd. (浙江富潤股份有限公司), an independent director of Hangzhou Oxygen Plant Group Co., Ltd. (杭州制氧機集團股份有限公司) and the chairman of the board of supervisors of Hangzhou Hikvision Digital Technology Co., Ltd. (杭州海康威視數字技術股份有限公司).

Senior Management

Xu Renyan (徐仁艷)

As for Mr. Xu Renyan, please refer to Mr. Xu Renyan's profile in the "Directors" section above.

Directors, Supervisors, Senior Management, Employees and Institutions

Xu Manxuan (徐蔓萱)

Mr. Xu Manxuan is currently the CPC committee member and vice president of the Company. He holds an undergraduate degree and is a senior accountant. Mr. Xu successively served as vice section chief and section chief of finance infrastructure office, accountant and cashier division of Zhejiang provincial branch, Agricultural Bank of China; vice division chief of accountant and finance division; vice director of inspection office; and vice director of inspection division (division-level), Zhejiang provincial branch, Agricultural Bank of China; he also held the position of general manager of planning and finance department, president assistant and general manager of planning and finance department, president assistant and general manager of finance & accounting department as well as president assistant of CZBank.

Wu Jianwei (吳建偉)

Mr. Wu Jianwei is currently a member of the CPC committee and the vice president of the Company, and the secretary of the CPC committee and the president of Shanghai Branch. He holds a postgraduate degree and is a senior engineer. Mr. Wu worked at Zhejiang provincial branch, Agricultural Bank of China where he successively held the positions of vice section chief of application development section of information and technology department I, section chief of sales development department, assistant to director; he served as vice director of data operation center; he held the position of vice division chief (in charge) and division chief of E-bank division; general manager of E-bank department; secretary of CPC Committee and president of Wenzhou branch, Agricultural Bank of China; CPC committee member and president assistant of Inner Mongolia Autonomous Region branch of Agricultural Bank of China; president assistant of CZBank.

Liu Long (劉龍)

Mr. Liu Long is currently a CPC committee member, vice president, secretary to the Board and joint company secretary of the Company. He holds a postgraduate degree and is a senior accountant. Mr. Liu worked at finance and tax bureau of Changshan County, Zhejiang, during which period he served as vice director and CPC party member; secretary of CPC committee of Tianma Town, Changshan County, Zhejiang; director and secretary of CPC committee of planning and economy committee of Changshan County, Zhejiang; vice director and CPC committee member of auditing bureau of Quzhou City, Zhejiang; county CPC standing committee member of Changshan County, Zhejiang, as well as vice county chief of Changshan County People's Government; vice secretary of CPC county committee, vice county chief and vice secretary of CPC county committee, vice secretary of CPC committee of Changshan County, Zhejiang and chairman of People's Political Consultative Conference of Changshan County, Zhejiang; director and secretary of CPC committee of the economic and information committee of Quzhou City, Zhejiang; vice secretary general and executive office director of Quzhou Municipal Government, Zhejiang.

Directors, Supervisors, Senior Management, Employees and Institutions

Zhang Rongsen (張榮森)

Mr. Zhang Rongsen is currently a member of the CPC committee and the vice president of the Company, and the secretary of the CPC committee and the president of Beijing Branch, China Zheshang Bank. He holds a doctoral degree and is senior economist. Mr. Zhang served as president of Hangtianqiao Sub-branch, Beijing Branch, China Guangfa Bank, member of the CPC committee and assistant to president of Beijing Branch, China Guangfa Bank; secretary of the CPC committee and president of Beijing Branch, Bank of Jiangsu, and member of the party committee, vice president and executive director of Bank of Jiangsu.

Liu Guishan (劉貴山)

Mr. Liu Guishan is currently the assistant to president and chief risk officer of the Company. He is a senior accountant, with an undergraduate degree. Mr. Liu worked as the deputy head of deposit department (section chief level) and principal staff member of planning department at Xining Branch, Bank of China, deputy head of financial and accounting department at Xijing Branch, Bank of China, deputy director of Beida Avenue Office at Xijing Branch, Bank of China, vice president at Beida Avenue Sub-branch, Xi'an Branch, Bank of China, director of credit card department and business department at Xi'an Branch, Bank of China, and vice president (in charge of relevant work) and president at Jiefang Road Sub-branch, Bank of China; the assistant to president, member of the CPC committee, secretary of the commission for discipline inspection and vice president at Xi'an Branch, and leader of preparation team of Hohhot Branch, China CITIC Bank; the deputy general manager of Xi'an business department of China Zheshang Bank, member of the CPC committee, secretary of the commission for discipline inspection, risk monitoring officer and vice president, deputy secretary of the CPC committee and vice president (in charge of relevant work), secretary of the CPC committee and president at Xi'an Branch, as well as general manager of credit review department of China Zheshang Bank.

Chen Haiqiang (陳海強)

Mr. Chen Haiqiang is currently the assistant to president of the Company and secretary of the CPC committee and president of Hangzhou Branch of the Company. He is a senior economist, with a postgraduate degree. Mr. Chen worked as deputy principal staff member at Zhejiang Branch, China Development Bank; deputy director (in charge of relevant work) of Ningbo Beilun Banking Office, president of Ningbo Beilun Branch, member of the CPC committee, assistant to president, and vice president of Ningbo Branch, China Merchants Bank; secretary of the CPC committee and president of Ningbo Branch, China Zheshang Bank.

Directors, Supervisors, Senior Management, Employees and Institutions

Luo Feng (駱峰)

Mr. Luo Feng is currently the assistant to president of the Company and general manager of financial market department of the Company. He holds a doctoral degree. Mr. Luo worked as manager assistant of financial market research center of treasury department, manager assistant of business management center, deputy manager and manager of business management center (research center) of treasury department, risk monitoring officer and general manager assistant of treasury department, manager of risk management center, deputy general manager and deputy general manager (in charge of relevant work) of treasury department of China Zheshang Bank.

Sheng Hongqing (盛宏清)

Mr. Sheng Hongqing is currently the assistant to president of the Company. He holds a doctoral degree. Mr. Sheng worked as the deputy head and head of financial engineering division of treasury department of China Everbright Bank; and the assistant to president and chief investment officer of Huishang Bank.

Song Shizheng (宋士正)

Mr. Song Shizheng is currently the chief information officer of the Company and the general manager of financial technology department of the Company. He is a senior engineer, with an undergraduate degree. Mr. Song acted as the deputy section head, section head of technology department, deputy general manager of computer center, deputy general manager (in charge of relevant work) of customer service center of Zhejiang Branch, Industrial and Commercial Bank of China; and deputy general manager of accounting technology department and general manager of information technology department of China Zheshang Bank.

Jing Feng (景峰)

Mr. Jing Feng is currently the chief financial officer of the Company and the general manager of planning and finance department (asset and liability management department) of the Company. He is a certified public accountant in the US, with a postgraduate degree. Mr. Jing worked as the deputy general manager and general manager of planning and finance department of Suzhou Branch, China Minsheng Bank, finance specialist of corporate financial business department of China Minsheng Bank; deputy general manager of Jiangsu business department of China Zheshang Bank, member of the CPC committee and vice president of Nanjing Branch, China Zheshang Bank; deputy general manager (in charge of relevant work) and general manager of finance and accounting department, and also general manager of finance and accounting department and general manager of asset and liability management department of China Zheshang Bank.

Directors, Supervisors, Senior Management, Employees and Institutions

6. Remuneration policies for Directors, Supervisors and senior management

The remuneration of the Directors of the Company is determined and paid in accordance with the relevant laws and regulations as well as the relevant provisions of the Articles of Association. The specific remuneration distribution plans should be reviewed by the Nomination and Remuneration Committee under the Board of Directors and submitted to the Board of Directors for approval, and submitted to the general meeting for approval after being approved by the Board of Directors.

The remuneration of the Supervisors of the Company is determined and paid in accordance with the relevant laws and regulations as well as the relevant provisions of the Articles of Association. The specific remuneration distribution plans should be reviewed by the Nomination Committee under Board of Supervisors and submitted to the Board of Supervisors for approval, and submitted to the general meeting for approval after being approved by the Board of Supervisors.

The Company's appraisal on the senior management is based on their performance in completing the decisions, strategic targets and plans of the Board of Directors and whether they are actively and effectively protecting the interests of the Company and the Shareholders, and it is implemented by the Board of Directors.

The Remuneration Management Plan of Directors and Supervisors of China Zheshang Bank Co., Ltd. considered and approved at the 2018 annual general meeting and the Measures for Performance Appraisal and Rewards & Punishments of Senior Management for 2019 of China Zheshang Bank Co., Ltd. considered and approved at the fourth meeting of the fifth session of the Board of Directors have provided the basis for determining the remuneration of the Directors, Supervisors and senior management.

The incentive and restraint mechanism of the Company is mainly embodied in the distribution mechanism for the senior management. The remuneration of the senior management is linked with the appraisal indicators of the Board of Directors, in order to combine the target incentive with responsibility restraint, ensure the alignment of the remuneration payment with the long-term interests of the Company, and better encourage the senior management to contribute to the steady and sustainable development of the Company. The evaluation and remuneration payment plan for the senior management shall be reviewed by the Nomination and Remuneration Committee under the Board of Directors, and then approved and implemented by the Board of Directors annually, and disclosed according to the relevant requirements.

Directors, Supervisors, Senior Management, Employees and Institutions

(II) Employees and Remuneration Policies

As of the end of the reporting period, the Group had 15,077 employees, representing an increase of 1,369 as compared with that at the end of last year, of which 14,976 were employees of the Company, including 13,673 regular employees, 483 dispatched employees and 820 outsourced technicians, and 101 were employees of the subsidiary of the Company, Zheyin Financial Leasing. Divided by the position types, 5,976 regular employees of the Company were categorised as marketing personnel, 1,513 employees as counter personnel, and 6,184 employees as mid-office and back-office personnel; divided by the educational levels, 3,013 obtained post-graduate degree or above (including 62 with doctorate degree), 9,800 obtained bachelor degree, and 860 obtained college degree or below. All of our employees participate in basic social pension insurance, and as of the end of the reporting period, 74 employees had retired from the Company.

The Company's remuneration policy is guided by its growth strategy and the people-oriented concept. By adhering to the principle of marketization and by implementing comprehensive benchmarking management, the Company proactively explores its remuneration management mechanism that the remuneration is determined according to the salary levels based on position types, and optimizes the remuneration determination mechanism that is based on individual performance and organizational performance. Employee remuneration is mainly driven by capabilities and performance and the Company strives to set up a market-based remuneration system, which would reflect internal fairness and external competitiveness, promote the co-growth of employees and employers, focus equally on incentives and restraints and base remuneration on post value.

The Company's remuneration policy coordinates well with the risk management system, and is matched with its size as well as the nature and complexity degree of its business. Specifically, the total amount of remuneration allocated by the Company to its branches is linked with the realization status of overall benefits by such branches and the Company takes into account various kinds of risk factors so that the branch outlets would strive for risk-adjusted value creation and that long-term performance would be improved. Furthermore, the remuneration paid to employees is linked with the responsibilities and risk degree associated with the employee's post and different kinds of appraisal and performance allocation methods are applied to different types of employees, and the deferment payment of the performance-based remuneration is implemented in accordance with the internal control principles of prudent operations and strengthened constraints with the payment time basically in line with the risk persistency period of the corresponding business. For employees in the risk and compliance departments, their remuneration is determined by taking into account their position value, abilities to perform duties and other factors, and such remuneration is not directly related to the matters under their regulation and remains independent of other business segments.

(III) Employees Training

Based on our operation and development strategy, the Company strengthens the overall management of training to improve professional capabilities and performance. In addition to the all-staff training, we also attach high importance to the training of key talents, support the innovation and transformation of businesses, enhance the effectiveness and efficiency of training, and strengthen the development of basic training resources, so as to comprehensively improve management abilities and professional capabilities of our employees, and provide knowledge and talents support for the implementation of our strategy. During the reporting period, the Bank held 2,423 training programmes in total with 329,164 attendances.

Directors, Supervisors, Senior Management, Employees and Institutions

(IV) Information on Institutions

Region	Name of institution	Business address	Tel. No.	Postal code	Number of institution	Number of employees	Asset size (thousand)
Yangtze River Delta region	Head office	No. 1788, Hongning Road, Xiaoshan District, Hangzhou, Zhejiang	95527	310006	1	2,709	-
	Small Enterprise Credit Center	No. 288, Qingchun Road, Hangzhou	0571-87659510	310006	1	47	-
	Shanghai Branch	No. 567, Weihai Road, Shanghai	021-61333333	200041	11	566	76,390,081
	Nanjing Branch	No.9, Zhongshan North Road, Gulou District, Nanjing	025-86823636	210008	23	953	101,867,436
	Suzhou Branch	Yueliangwan International Business Center, No. 9, Cuiwei Street, Industrial Park Zone, Suzhou	0512-62995527	215123	10	408	54,287,859
	Hefei Branch	Block A16, Financial Harbour Centre at the junction of Huizhou Avenue and Yangtze River Road, Baohe District, Hefei	0551-65722016	230611	1	156	14,719,736
	Hangzhou Branch	Block D, Zhujin Building, No.1 Minxin Road, Jianggan District, Hangzhou, Zhejiang	0571-87330733	310016	50	2,215	270,756,977
	Ningbo Branch	No. 128, Wenkang Road, No. 555, Yangfan Road, Gaoxin District, Ningbo	0574-81855678	315000	15	586	49,961,458
	Wenzhou Branch	Northwest of Land Plot 17-05, Binjiang CBD, Lucheng District, Wenzhou, Zhejiang	0577-88079900	325000	11	448	41,390,418
	Shaoxing Branch	No. 1418, Jinkeqiao Avenue, Keqiao District, Shaoxing	0575-81166006	312030	9	418	37,861,813
	Yiwu Branch	No. 955, Beicun Road, Yiwu, Zhejiang	0579-83811501	322000	6	235	24,710,583
Zhoushan Branch	No. 88, Lvdao Road, Qiandao Streets, Dinghai District, Zhoushan, Zhejiang	0580-2260302	316021	2	95	8,516,485	
Bohai Rim region	Beijing Branch	Jia 1-1, Jinrong Main Street, Xicheng District, Beijing	010-88006088	100033	17	841	162,312,271
	Tianjin Branch	No. 37, Youyi North Road, Hexi District, Tianjin	022-23271379	300204	12	514	42,744,987
	Shenyang Branch	No. 467, Shifu Road, Shenhe District, Shenyang	024-31259003	110000	7	295	20,156,540
	Jinan Branch	No. 801, Caoshanling South Road, Lixia District, Jinan, Shandong	0531-59669527	250101	14	753	67,550,606
Pearl River Delta region	Guangzhou Branch	No. 921, Guangzhou South Avenue, Haizhu District, Guangzhou	020-89299999	510220	7	482	68,571,523
	Shenzhen Branch	(1-4/F, 6/F) Lianhezongbu Building, High-tech District, Xuefu Road, Nanshan Street, Nanshan District, Shenzhen	0755-82760666	518057	11	463	71,116,037

Directors, Supervisors, Senior Management, Employees and Institutions

Region	Name of institution	Business address	Tel. No.	Postal code	Number of institution	Number of employees	Asset size (thousand)
Midwestern China region	Hohhot Branch	Zheshang Bank Building, No. 8, Chilechuan Street, Saihan District, Hohhot	0471-6993000	010098	1	73	1,074,570
	Nanchang Branch	1-2/F, 14-20/F, Block 35, Alph X, No. 1, Xuefu Road, Honggutan New District, Nanchang, Jiangxi	0791-88250606	330038	1	85	5,894,978
	Zhengzhou Branch	No. 2 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan	0371-66277306	450018	2	217	23,423,426
	Changsha Branch	Unit 118-129, 1/F, Block 6, Unit 215-219, 2/F, Block 6 and 22-23/F, Block 1, Huachuang International Plaza, No. 109 Furong Middle Road Part 1, Kaifu District, Changsha, Hunan	0731-82987566	410005	1	136	15,499,470
	Wuhan Branch	International Financial Center, No. 296, Xinhua Road, Jianghan District, Wuhan, Hubei	027-85331510	430022	3	264	22,540,682
	Chongqing Branch	Block A, No. 1, Xingguang Avenue, Gaoxin Park, New North Zone, Chongqing	023-88280888	401121	9	426	69,497,956
	Chengdu Branch	Building 1, Jinjiang Spring, No. 299, Yong'an Road, Jinjiang District, Chengdu	028-85579955	610023	14	480	44,796,341
	Guiyang Branch	No. 88, Yan'an Road Central, Yunyan District, Guiyang	0851-85861088	550000	1	87	5,944,035
	Xi'an Branch	Building 3, Taihua Jinmao Guoji, No. 16, Fenghui South Road, Yanta District, Xi'an	029-61833333	710075	11	527	46,631,428
	Lanzhou Branch	No. 1888, Nanchang Road, Chengguan District, Lanzhou	0931-8172110	730030	9	439	34,852,703
Overseas Institution Subsidiary	Hong Kong Branch	15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong	0852-28018282	999077	1	58	24,762,616
	Zheyin Financial Leasing	5/F, Zheshang Bank Building, No. 1 Minxin Road, Jianggan District, Hangzhou, Zhejiang	0571-87560880	310020	1	101	28,693,195
Total	-	-	-	-	262	15,077	-

Directors' Report

(I) Our Principal Business

The Company's principal business is to provide banking and related financial services.

(II) Business Review

For the business review of our Company, please refer to the relevant sections, among others, "Description of Major Risks and Uncertainties", "Future Development" are set out in the section headed "Management Discussion and Analysis"; "Major Events Occurred after the Reporting Period" is set out in the section headed "Significant Events"; "Key Financial Performance Indicators" is set out in the section headed "Financial Summary" and financial statements; "Compliance with Relevant Laws and Regulations Which Could Materially Affect the Company" is set out in "Compliance with the Laws and Regulations" in this section; and "Explanation on Important Relationship between Employees, Customers and Suppliers" is set out in "Major Customers" in this section and the section headed "Directors, Supervisors, Senior Management, Employees and Institutions". Please refer to "Performance of Social Responsibilities" in this section for the information on "Environmental Policy and Performance".

(III) Profit and Dividend Distribution

1. The Company's profit distribution policy

According to the Articles of Association, our profit distribution policy is:

(1) The Company shall distribute profits after income tax in the following order:

To make up for the losses of previous years;

To set aside 10% as statutory reserve fund;

To make provision for general risk reserve;

To set aside discretionary reserve fund;

To pay dividends to shareholders.

(2) The Company may distribute profits in the form of cash, shares or other forms approved by competent regulatory authorities.

(3) After the profit distribution plan is adopted at the general meeting of the Company, the Board shall finish distributing profits within two months after the general meeting.

Directors' Report

- (4) **Cash dividends and other payments made by the Company to the holders of A Shares shall be denominated, declared and paid in RMB. Cash dividends and other payments made by the Company to the holders of H Shares shall be denominated and declared in RMB and paid in Hong Kong dollars.**

The formulation and implementation of policy on cash dividend are in compliance with the requirements of the Articles and Association and the resolutions passed at the general meeting. The standards and proportion of dividends declaration are clear and explicit and the procedures and mechanism of decision making are well-organized, and have been considered and approved by the independent non-executive Directors. Minority Shareholders may fully express their opinions and requirements, and their legitimate interests have been fully protected.

2. Profit distribution proposal for the year

The results of the Company for the year ended December 31, 2019 are set out in the section of "Notes to Consolidated Financial Statement" in this report.

The Board of the Company has recommended declaring a cash dividend for ordinary Shares for 2019 at RMB2.40 (tax inclusive) for every 10 Shares, payable in RMB to the holders of A Shares and in Hong Kong dollars to the holders of H Shares. The above profit distribution proposal is subject to consideration and approval at the annual general meeting of the Company for 2019.

If approved, the 2019 final dividend of the Company will be denominated and declared in RMB and paid to the holders of A Shares in RMB and to the holders of the H Shares in Hong Kong dollars with the Hong Kong dollar to RMB exchange rate being the average mid-point exchange rate published on the website of the People's Bank of China prevailing seven business days immediately prior to the date of 2019 annual general meeting of the Company.

The dividend is expected to be paid before August 24, 2020, subject to the approval by the shareholders by way of ordinary resolution on the final dividend payment arrangement. Information regarding the record date and book closure date to determine the entitlement to the final dividend and attendance of 2019 annual general meeting of the Company will be announced in due course.

3. Cash dividends for ordinary shares in the past three years

Item	2019	2018	2017
Cash dividend for every 10 shares (tax inclusive, in RMB)	2.40	–	1.70
Cash dividend (tax inclusive, in thousands of RMB)	5,104,487	–	3,182,178
Percentage of cash dividend (%)	39.49	–	29.06

Directors' Report

4. Dividend tax

(1) Holders of A Shares

In accordance with the Notice on Relevant Issues Regarding the Implementation of the Policy of Differentiated Individual Income Tax for Stock Dividends from Listed Companies issued by the Ministry of Finance, State Administration of Taxation and CSRC (Cai Shui [2012] No. 85) (《財政部、國家稅務總局、證監會關於實施上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2012]85號)) and the Notice on Relevant Issues Regarding the Implementing Differentiated Individual Income Tax Policy for Stock Dividends of Listed Companies (Caishui [2015] No. 101) (《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2015]101號)), for the Relevant Individuals who have held the shares, where the holding period is less than one month (inclusive), the full amount of dividends shall be counted as taxable income; where the holding period is more than one month and less than one year (inclusive), 50% of the dividends shall be counted as taxable income and where the holding period is more than one year, the dividends is temporarily exempted from individual income tax. The individual income tax rate of 20% shall be applicable for all incomes mentioned above. For the dividends obtained from a listed company by a securities investment fund, individual income tax is levied in accordance with the requirements above.

According to Article 26.2 of the Enterprise Income Tax Law of the PRC, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises shall be tax-free.

According to Article 83 of the Implementation Rules of Enterprise Income Tax Law of the PRC, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises as referred in Article 26.2 of the Enterprise Income Tax Law of the PRC include those proceeds obtained from direct investment of resident enterprises into other resident enterprises, excluding the proceeds from holding the stocks of the resident enterprises that were obtained through public offering or through trading in the stock market for less than 12 months on a continuing basis.

According to the Enterprise Income Tax Law of the PRC and its implementation rules, dividend income obtained by non-resident enterprises shall be levied at a preferential enterprise income tax rate of 10%.

(2) Holders of H Shares

According to the Enterprise Income Tax Law of the PRC and its implementation rules, both effective on January 1, 2008, the Company shall withhold and pay enterprise income tax at the rate of 10% before distributing dividends to non-resident enterprise Shareholders whose names appear on the Bank's register of members for H Shares.

According to the Notice on Collection of Individual Income Tax after the Repeal of Guo Shui Fa No. [1993] 045 (Guo Shui Han No. [2011] 348) (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), the Company shall withhold and pay individual income tax for individual holders of the H Shares.

Directors' Report

If the individual holders of the H Shares are Hong Kong or Macau residents or residents of other countries or regions that have a tax rate of 10% under the tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 10% on behalf of such Shareholders.

If the individual holders of the H Shares are residents of countries or regions that have a tax rate lower than 10% under the tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 10% on behalf of such Shareholders. If such Shareholders wish to claim refund of the amount in excess of the individual income tax payable under the tax treaties, the Company can apply on behalf of the Shareholders according to the relevant tax treaties for the relevant agreed preferential tax treatment, provided that the relevant Shareholders submit the relevant documents and information in a timely manner required by the Administrative Rules on Enjoying Treatment under Taxation Treaties by Non-resident Taxpayers (State Administration of Taxation Announcement 2019, No. 35)(《非居民納稅人享受稅收協定待遇管理辦法》(國家稅務總局公告2019年第35號)) and the provisions of the relevant tax treaties. The Company will assist with the tax refund subject to the approval of the competent tax authority.

If the individual holders of the H Shares are residents of countries or regions that have a tax rate higher than 10% but lower than 20% under the tax treaties with the PRC, the Company will withhold and pay individual income tax at the applicable tax rates stated in such taxation treaties on behalf of such Shareholders.

If the individual holders of the H Shares are residents of countries or regions that have a tax rate of 20% under the tax treaties with the PRC, or that have not entered into any taxation treaties with the PRC, or otherwise, the Company will withhold and pay individual income tax at the rate of 20% on behalf of such Shareholders.

(IV) Donations

During the reporting period, the Group's external donations amounted to RMB10.86 million.

(V) Major Customers

During the reporting period, the Group's interest income and other total operating income attributable to our five largest customers did not exceed 30% of the annual interest income and other total operating income of the Group.

(VI) Purchase and Sale and Redemption of Securities

During the reporting period, the Company and its subsidiary did not purchase, sell or redeem any of the Company's listing securities.

Directors' Report

(VII) Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association and the PRC laws.

(VIII) Public Float

Based on the public information available to the Company and to the knowledge of the Directors, as of the Latest Practicable Date prior to the issue of this report, the Company had met the public float requirement of the Hong Kong Listing Rules.

(IX) Equity-Linked Agreements

No equity-linked agreements were entered into by the Company during the year ended December 31, 2019.

(X) Material Connected Transactions

Connected Transactions Related to Daily Operations

In 2019, the Company carried out the connected transactions in accordance with the relevant requirements of regulatory authorities at home and abroad, Related Party Transaction Management Measure of China Zheshang Bank Co., Ltd. (2018 Edition) (《浙商銀行股份有限公司關聯交易管理辦法(2018年版)》) and CZBank Operation Rules for Related Party Credit Business (2018 Edition) (《浙商銀行關聯方授信業務操作規程(2018年版)》) of the Company. The connected transactions were conducted on normal commercial terms. The terms of transactions were fair and reasonable and in the benefits of the Company and the shareholders as a whole. Under the relevant requirements of the Administrative Measures for the Connected Transactions between the Commercial Banks and their Insiders or Shareholders (《商業銀行與內部人和股東關聯交易管理辦法》) issued by CBIRC, the Company concluded the implementation of the connected transaction management system and particulars of the connected transactions for 2019 and formed the Report on Implementation of Related Party Transaction Management System and Particulars of Related Party Transactions of China Zheshang Bank for 2019 (《浙商銀行2019年度關聯交易管理制度執行及關聯交易情況的報告》). This report will be submitted to vote at the annual general meeting of the Company for 2019 upon submission to the Board for consideration.

During the reporting period, under the Administrative Measures for the Connected Transactions between the Commercial Banks and their Insiders or Shareholders (《商業銀行與內部人和股東關聯交易管理辦法》) and the Interim Measures for the Shareholding Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by CBIRC, the material connected transactions of the Company were all credit extension businesses. All credit extension connected transactions were handled in accordance with relevant laws and regulations, external regulatory requirements and the examination procedures stipulated by the internal system, without non-performing loans and had no negative effects on the operating results and financial condition of the Company.

Directors' Report

According to the relevant requirements of CBIRC, during the reporting period, the Bank conducted connected transactions with the balance of RMB157 million with connected natural persons, mainly engaging in businesses such as personal loan and credit card overdraw. There were 5 resolutions on material connected transactions considered and approved by the Board, which are connected transactions with Hengdian Group Holdings Limited and its related parties, Caitong Securities Co., Ltd. (財通證券股份有限公司) and its related parties, Guangsha Holding Group Co., Ltd. (廣廈控股集團有限公司) and its related parties, Shaoxing City Keqiao District State-owned Assets Investment and Operation Co., Ltd. and its related parties, and Zhejiang Zheyin Financial Leasing Co., Ltd.. The consideration was as follows:

On March 18, 2019, at the fourth meeting of the fifth session of the Board, the Company considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Hengdian Group (Group Client) (《關於本行對橫店集團(集團客戶)關聯方授信方案的議案》), approving to grant credit lines of RMB3 billion to Hengdian Group (group client); considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Caitong Securities Co., Ltd. (《關於本行對財通證券股份有限公司關聯方授信方案的議案》), approving to grant credit lines of RMB2 billion to Caitong Securities Co., Ltd. (財通證券股份有限公司);

On June 11, 2019, at the fifth meeting of the fifth session of the Board, the Company considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Guangsha Holding Group (Group Client) (《關於本行對廣廈控股集團(集團客戶)關聯方授信方案的議案》), approving to grant credit lines of RMB2.85 billion to Guangsha Holding Group (group client);

On August 9, 2019, at the sixth meeting of the fifth session of the Board, the Company considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Shaoxing City Keqiao District State-owned Assets Investment and Operation (Group Client) (《關於本行對紹興市柯橋區國有資產投資經營集團(集團客戶)關聯方授信方案的議案》), approving to grant credit lines of RMB3,930.01 million to Shaoxing City Keqiao District State-owned Assets Investment and Operation (group client);

On November 22, 2019, at the seventh meeting of the fifth session of the Board, the Company considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Zhejiang Zheyin Financial Leasing Co., Ltd. (《關於本行對浙江浙銀金融租賃股份有限公司關聯方授信方案的議案》), approving to grant maximum comprehensive credit lines of RMB8 billion to Zhejiang Zheyin Financial Leasing Co., Ltd..

Directors' Report

During the reporting period, the balance of the material connected transactions of the Bank was RMB2.807 billion, the details of which were as follows:

Unit: RMB in ten thousand

No.	Name of related parties	Type of business	Security type	Balance of credit	Net credit deducting margins, bank deposits and PRC treasury bonds	Percentage of the net capital at the end of the reporting period
1	Hengdian Group Holdings Limited and its related parties	Acceptances	Pledge	15,859.64	15,859.64	0.10%
2	Guangsha Holding Group Co., Ltd. (廣慶控股集團有限公司) and its related parties	Current capital loan, acceptances	Pledge, security, guarantee	115,980.28	115,980.28	0.72%
3	Shaoxing City Keqiao District Development and Operation Co., Ltd. and its related parties	Project loan	Guarantee	58,989.90	58,989.90	0.36%
4	Zhejiang Zheyin Financial Leasing Co., Ltd.	Domestic letters of credit negotiation, confirmation of receivables, acceptances	Pledge	89,868.26	83,624.13	0.52%

Directors' Report

During the reporting period, the Company provided commercial banking services and products in our ordinary and usual course of business to the public in the PRC, which include our connected persons (including certain shareholders, Directors, Supervisors, Senior Management and/or their respective associates). These transactions were entered into on normal commercial terms (or on better terms to the Company) in the ordinary and usual course of our business, and thus are fully exempt from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Company also enters into certain non-banking transactions (such as leasing arrangements and wealth management products) with our connected persons and/or their respective associates from time to time in our ordinary and usual course of business on normal commercial terms (or on better terms to us) which have constituted de minimis transactions or sales of consumer goods or services under Chapter 14A of the Hong Kong Listing Rules and are fully exempted from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Details of related party transactions entered into by the Company during the year ended December 31, 2019 are set out in "Notes to Consolidated Financial Statements – 42 Related Party Transactions".

Saved as disclosed above, no related party transactions set out in "Notes to Consolidated Financial Statements – 42 Related Party Transactions" comply with the definition of "connected transactions" or "continuing connected transaction" in Chapter 14A of the Hong Kong Listing Rules and the Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

Connected Transactions in Acquisition and Disposal of Assets or Equity

During the reporting period, the Bank hasn't conducted connected transactions involving the acquisition and disposal of assets or equity.

Connected Transactions in relation to Joint External Investment

During the reporting period, the Bank hasn't conducted connected transactions in relation to joint external investment.

Connected Creditor's Rights and Liabilities

During the reporting period, the Bank hasn't had any non-operational connected creditor's rights and liabilities.

Directors' Report

(XI) Transactions, Arrangements or Contractual Interest and Service Contracts of Directors and Supervisors

During the reporting period, the Directors or Supervisors or any entities connected with the Directors or Supervisors had no material interest, directly or indirectly, in any significant transactions, arrangements or contracts entered into by the Company with respect to the Company's business. None of the Directors and Supervisors has entered into any service contract with the Company that is not terminable by the Company within one year without payment of compensation (excluding statutory compensation).

(XII) Interests Owned by the Directors, Chief Executive and Supervisors in the Company

As of the end of the reporting period, none of the Company's Directors, the President, the Supervisors or their respective associates had interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

(XIII) Information on Directors, Supervisors and Senior Management

Details of the Directors, Supervisors and senior management of the Company are set out in the section headed "Directors, Supervisors, Senior Management, Employees and Institutions" in this annual report.

(XIV) Directors' Interests in Businesses Competing with the Company

Since April 2017, Mr. Xia Yongchao has been serving as a director of Zhejiang Shaoxing Ruifeng Rural Commercial Bank Co., Ltd. ("Zhejiang Shaoxing Ruifeng Rural Commercial Bank"). Zhejiang Shaoxing Ruifeng Rural Commercial Bank, a financial institution mainly engaged in commercial banking businesses in Zhejiang, has banking businesses in Zhejiang, which compete with certain businesses of the Company. Considering that (i) Mr. Xia serves as a director of Zhejiang Shaoxing Ruifeng Rural Commercial Bank but does not participate in daily operation or management of Zhejiang Shaoxing Ruifeng Rural Commercial Bank, (ii) Zhejiang Shaoxing Ruifeng Rural Commercial Bank has an independent management team, and (iii) during the reporting period, Mr. Xia acted as a non-executive Director of the Company but did not participate in daily management of the Company, the Company and its Directors are of the opinion that, during the reporting period, Mr. Xia, who concurrently served as the director of Zhejiang Shaoxing Ruifeng Rural Commercial Bank and the non-executive Director of the Company, had no impact on business operation of the Company.

Directors' Report

Since June 2018, Mr. Zhu Weiming has been serving as a director of Ningbo Commerce Bank Co. Ltd. ("Ningbo Commerce Bank"). Ningbo Commerce Bank, a financial institution mainly engaged in commercial banking businesses in Ningbo, has banking businesses in Ningbo, which compete with certain businesses of the Company. Considering that (i) Mr. Zhu serves as a director of Ningbo Commerce Bank but does not participate in daily operation or management of Ningbo Commerce Bank, (ii) Ningbo Commerce Bank has an independent management team, and (iii) during the reporting period, Mr. Zhu acted as a non-executive Director of the Company but did not participate in daily management of the Company, the Company and its Directors are of the opinion that, during the reporting period, Mr. Zhu, who concurrently served as the director of Ningbo Commerce Bank and the non-executive Director of the Company, had no impact on business operation of the Company.

Save as disclosed above, none of the Directors of the Company is interested in any business which, directly or indirectly, competes or may compete with businesses of the Company.

(XV) Directors' and Supervisors' Rights to Acquire Shares or Debentures

During and as of the end of the reporting period, none of the Directors and Supervisors had the rights to acquire shares or debentures of the Company and its associated corporations (within the meaning of the SFO).

(XVI) Permitted indemnity Provisions

The Company has purchased appropriate liability insurance to indemnify its Directors, Supervisors and senior management in respect of the liabilities arising from engaging in the activities of the Company. Such arrangements remained effective as at the end of the reporting period.

(XVII) Management Contracts

Save as the service contracts entered into with the Directors and employees, the Company has not entered into any contract with any person, company or corporation in order to manage or deal with the whole or any material portion of any business of the Company.

(XVIII) Reserves and Distributable Reserves

For details of the changes in the Group's reserves and distributable reserves, please see "Consolidated Financial Statements – Consolidated Statements of Changes in Equity".

(XIX) Fixed Assets (Properties and Equipments)

For details of the changes in the Group's fixed assets (properties and equipments), please see "Notes to Consolidated Financial Statements – 21 Fixed Assets".

Directors' Report

(XX) Employment of Accounting Firms and Sponsors

The Company engaged PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the auditors to audit the annual financial statements of the Company for 2019 prepared in accordance with the Chinese Accounting Standards and International Financial Reporting Standards, respectively. The Company has engaged the above two accounting firms as its auditors since 2008.

As of the end of the reporting period, the remuneration paid to the above external auditors of the Company in respect of audit services amounted to RMB6.98 million, of which the internal control audit fee was RMB1 million. The remuneration in respect of non-audit service amounted to RMB2.98 million.

The Company has not changed the external auditor for the past three years.

The Company engaged CITIC Securities Company Limited as the sponsoring institution (Joint Lead Underwriter) of the A Share IPO, and China International Capital Corporation Limited as the Joint Lead Underwriter of the A Share IPO. During the reporting period, the remuneration (including sponsoring fees and underwriting fees) paid to CITIC Securities Company Limited and China International Capital Corporation Limited by the Company amounted to RMB151.164 million in aggregate.

(XXI) Usage of Proceeds Raised

On November 26, 2019, the Bank completed the initial public offering of A Shares. This public offering issued 2,550,000,000 ordinary A Shares at a price of RMB4.94/share. The total amount of proceeds raised from the Offering is RMB12,597 million, which is all raised from Public Offering of new shares; the net proceeds, after deducting the issuance expenses, is RMB12,437,943,100. As of December 31, 2019, such net proceeds were all used to replenish the core tier 1 capital of the Company.

Before the reporting period, the Company completed its initial public offering of H Shares in March 2016, issued Offshore Preference Shares in March 2017 and completed H-share placing in March 2018. All proceeds raised were used as disclosed. As of December 31, 2019, such proceeds were all used to replenish the Company's capital to meet the needs for sustained growth of our business.

(XXII) Debentures Issued

Please refer to "Changes in Shares and Information on Shareholders – Issue of Bonds" of this Report for details about the debentures issued by the Company.

Directors' Report

(XXIII) Compliance with the Laws and Regulations

As of the end of the reporting period, to the best knowledge of the Company, we have complied with all relevant laws and regulations which could materially affect the Company in all major aspects.

(XXIV) Performance of Social Responsibilities

In 2019, CZBank bore in mind the initial objective at the very beginning and being mindful of the mission, insisted on the organic integration of the performance of the social responsibility with the achievement of commercially sustainable development, and endeavored to create comprehensive economic, environmental and social values. As the Company made remarkable achievements in the performance of the social responsibility during the year, it received considerable recognition from both the regulatory authorities and the general public and won various honors, including the “Best Inclusive Financial Performance Award” by China Banking Association and the “Best Poverty Alleviation Bank” by Financial Times.

I. Striving to serve the national strategies

CZBank focused on diversified financial demands of the real economy, proactively served major strategies and key projects of the state, actively promoted supply-side structural reform, and provided financial momentum to promote the high-quality economic and social development. The Bank provided high-quality financial services for relevant projects under the “Belt and Road Initiative”, with projects covering Malaysia, Cambodia, Singapore, Thailand, United Arab Emirates, Poland and other countries. The Bank provided enterprises with liquidity support and exchange rate hedging value-added services to “go global” through such products as “Yongjin Export Pool (湧金出口池)” and “Zheshang Huiliying (浙商匯利盈)”, created the whole-process “funds, assets and services financing” systematic financial solution for intelligent manufacturing, which was the first of a kind in the industry, and created the first “intelligent manufacturing service bank” in the industry, addressing financial demands in intelligent transformation in the manufacturing industry, and promoting the transformation and upgrading of traditional enterprises. As of the end of the reporting period, it provided a total of 1,600 intelligent manufacturing enterprises in China with financial support in an amount of over RMB300.0 billion, of which approximately 90% were private enterprises. By gaining a toehold in Zhejiang, the Bank provided services nationwide, and continuously enhanced its support for local urban rail transit, shantytowns transformation, etc.

Directors' Report

II. Making great efforts to enhance inclusive finance service

Capitalising on the advantages of private business and benchmark for small and micro enterprise finance, CZBank focused on facilitating and reducing the cost of the financing for private enterprises and small and micro enterprises, and continued to enhance inclusive finance service. The Bank issued the Notice on Clarifying Objectives to Serve Private Enterprises in 2019 (Zhe Shang Yin Ban [2019] No. 130) at the beginning of 2019, and set the annual objectives to serve private enterprise at the corporate level. Through platform-based services, the Bank adopted “one enterprise and one policy” to private enterprises for their cost reduction and deleveraging, and provided comprehensive financial service solutions. It improved the “Five Dedicated” operating mechanism, made efforts to strengthen construction of inclusive financial institutions, implement special resource allocation and provide discount for internal capital transfers and allocated more resources to small and micro enterprises finance. Through innovative products and services, expanded guarantee methods and application of financial technology, it assisted small and micro enterprises in obtaining multiple loans easily and rapidly, and applied special products including “Intelligent Manufacturing Loan (智造贷)” and “farmhouse mortgage loan” to help the transformation and upgrading of small and micro enterprises, and support farmers in starting a business and increase income. Further, it lowered interest rates of certain small and micro enterprise loans through proactively reducing fees and giving up a share of the profits, so as to reduce financing costs of small and micro enterprises. As of the end of the reporting period, the national-standard small and micro enterprise loan balance of the Bank reached RMB232.352 billion, representing an increase of 13.59% compared with that at the beginning of the year; the small and micro enterprise loans accounted for 22.78% of all loans, and the total number of small and micro business customers served by the Company reached 303.8 thousand; and the number of small and micro enterprises specialized institutions amounted to 161, creating a total of 5.00 million employments.

III. Steadily promoting the overcoming of difficulties in poverty alleviation

CZBank actively sought a long-term mechanism for financial poverty alleviation, focused on both industrial poverty alleviation and educational poverty alleviation, and allocated more financial resources to poverty-stricken areas, so as to promote the overcoming of difficulties in poverty alleviation. The Bank proactively extended service outlets to poverty-stricken areas, and took the lead in establishing second-tier branches in Xianyang, Shaanxi, Liangshan, Sichuan and Tianshui, Gansu where there are many poor counties. It implemented industrial and educational talents poverty alleviation by dispatching more talents to poverty-stricken areas and assigning key staff to the villages and schools, and promoted industrial poverty alleviation by taking into account of the conditions of the local special industries at poverty-stricken areas. The Bank applied the “bank + guarantee + enterprise + farmer” model to promote development of enterprises and lead poor farmers to increase their income, while distributing and purchasing plantation and breeding products of enterprises and farmers at poverty-stricken areas through the Bank’s newly launched online procurement and distribution platform. As of the end of the reporting period, the targeted poverty alleviation loan balance of the Bank was RMB600 million, of which the balance of industrial targeted poverty alleviation loans was RMB518 million. In 2019, based on the successful experience of helping Central Primary School in Jieguanting Town in Lueyang County, Hanzhong, Shaanxi Province for over a decade, the Bank launched the “one school for one branch” program, requiring each of domestic branches to comprehensively assist one targeted school in the long run. At present, it has paired with Zhouyuantian Primary School, Liangshan, Sichuan and Chetian Town Primary School, Youyang County, Chongqing.

Directors' Report

IV. Actively practicing the green finance philosophy

CZBank actively practiced the green finance philosophy, made efforts to simultaneously achieve business development and environmental protection, insisted on promoting green operation of the Bank, and encouraged stakeholders to conduct operation in a duly thrifty, green and low-carbon manner. In 2019, the Bank discussed, approved and issued the Guiding Opinions on Green Finance Work in 2019 (Zhe Shang Yin Ban [2019] No. 154), clarifying nine key tasks of the year, responsibilities of relevant departments and implementation methods. It differentiated green finance business with review resources by giving priority to its review and approval, and implemented “a veto” mechanism for credit approval of enterprises with poor environmental and social performance. The Bank strengthened incentives for green loan in respect of operating resources and performance measurement, enriched the financing channels of the green industry through the capital market, and provided green enterprises with diversified comprehensive financial services. The Bank successfully issued the first green finance bond with a coupon rate of 3.42% and an amount of RMB5 billion for a term of three years, with proceeds specifically applied to green industry projects that meet central bank policies and specified in the Green Bond Projects Category. The Bank proactively supported the financing requirements of the green industry and promoted the growth of green loans. As of the end of the reporting period, the balance of green loan of the Bank was RMB53.878 billion, representing an increase of RMB31.320 billion or 138.84% compared with that at the beginning of the year.

V. Considerately providing high-quality services

CZBank adhered to the principle of “customer orientation” by clearing customer service channel, paying great attention to protect customer privacy and interests, and continued to publicize financial security knowledge including consumer rights protection. The Bank effectively constructed a bank-wide operation network. As of the end of the reporting period, the Bank had 260 branch outlets in 19 provinces (cities) in China and the Hong Kong Special Administrative Region. It continuously optimized the construction of e-banking channels for customers to handle various businesses on their own, so as to improve their service efficiency and experience. In 2019, the replacement rate of electronic banking channels was more than 99%. The Bank continued to improve customer complaint management mechanism, and strengthened the construction of complaint management team and supervision on complaint handling to optimize products and services. It provided special customer groups with more convenient and considerate financial services through measures including sidewalk for the blind, priority seats and green channel. The Bank established a data security protection system composed of data leakage prevention (DLP), digital watermarking and other technologies, continuously optimized the entire lifecycle management of customer information and regularly carried out potential data risks investigation and rectification, so as to protect customer privacy and data security. It continued to carry out a series of financial knowledge awareness activities including “3.15 Financial Consumer Awareness Week” and “publicity activities in industrial parks, suburbs and communities” to enhance the education of the public on financial affairs. In 2019, it carried out over 1,300 activities and attracted over 3 million audiences. Three branches of the Bank were granted “Consumer Protection Star” (only 30 financial institutions were granted such honor in China) in the “Consumer Protection Star” special campaign organized by the China Banking Association.

Directors' Report

VI. Innovating application of financial technology

Supported by financial technology, CZBank continuously improved the service quality and strived to create an integrated, process-based and intelligent bank. The Bank innovated application of financial technology, launched platform-based services represented by pooled financing, Yiqiyin (易企銀) and accounts receivable chain, and promoted the integration and extension of platform-based services to small enterprises, retail and inter-bank business lines. The “accounts receivable chain platform” won the “Bank Technology Development Award” of the People’s Bank of China. The Bank continued to promote iterative innovation of financial service models, built specific ecological scenarios using AI technology and biometric identification technology, and innovatively launched various smart applications such as mobile banking voice transfer, voice search, OCR identification, smart recommendation and Zengjin Smart Investment (增金智投) to continuously optimize service processes. It promoted the application of intelligent self-service machines such as light weight smart teller machines, smart printers and cash side cabinets at the outlets, and the newly established business outlets were no longer equipped with queueing machines, instead scanning the QR code to obtain the queueing number to reduce paper consumption. In 2019, the coverage rate of the Bank’s new intelligent machines was 100%, and it was awarded the “Financial Technology Innovative Enterprise” by International Financial News.

VII. Caring for employee development

CZBank persisted in the corporate culture philosophy of “humanity care”, established a fair and efficient talent management mechanism, created an employee career growth platform, actively paid attention to the health and life style of employees, and grew together with employees. The Bank proactively optimized undergraduate training modes, perfected the youth talent selection system and established a talent pool, smoothed employee communication channels, organized a number of youth employee forums, built an employee satisfaction platform and listened to the voices of grass-roots employees. It paid attention to the health and life style of employees, innovatively launching the “Employee Mutual Assistance Program”, organizing calligraphy, floriculture, yoga and other hobby groups, carrying out “swimming across the Qiantang River”, “table tennis, badminton and tennis” and other colorful recreational and sport activities, organizing a number of mental health knowledge trainings, so as to creating a positive and harmonious home culture atmosphere. The Bank attached importance to employee training by constantly improving the intelligent training system, organized 2,423 training projects in 2019, such as the “Good Teacher Good Lecture” contest and “Swift Horse” plan, and the average training duration for employees was approximately 53.86 hours.

Directors' Report

VIII. Continuing to deepen the public welfare

CZBank insisted on participating in social public welfare, actively devoted to such public welfare as education sponsorship and volunteer services, and built the “CZBank Rainbow Plan”, “Salute to City Guardians” and other special public benefit brands, striving to deliver love and warmth to more groups in need. The Rainbow Plan has been implemented for 13 years up to 2019, raising a total donation of approximately RMB24.61 million and ensuring the growth of over 20 thousand underprivileged students. In the “Salute to City Guardians” campaign, the Bank established a special zone for free drink events in its outlets and mobilized volunteers to distribute drinks to sanitation workers, traffic wardens and other groups working outdoors, offering over 410,000 bottles of customized drinks. Meanwhile, the Bank promoted themed public benefit programs including donations to assist underprivileged students, environmental protection, disaster relief, poverty alleviation, caring for the disadvantage. In 2019, the Bank made donations of RMB10.855 million.

For further relevant details, please refer to the Social Responsibility Report of China Zheshang Bank for 2019 published by the Company on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

(XXV) Miscellaneous

- (1) As of the date of this report, the Company was not aware that any Shareholders had waived or agreed to waive any dividend arrangement.
- (2) As of the date of this report, none of the Directors waived or agreed to waive the related remuneration arrangements.
- (3) During the reporting period, there are no collateral and pledges of significant assets of the Company.

Report of the Board of Supervisors

During the reporting period, the Board of Supervisors has proactively and effectively carried out supervision on the financial activities, internal control, risk management, lawful operation as well as the duty performance of the Board of Directors and the senior management of the Company pursuant to the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Articles of Association of the Company and the supervisory duties delegated by relevant supervisory authorities.

(I) Legal Operation

Our Company operated in accordance with law, and our decision-making procedure was compliant with the relevant provisions in the Company Law of the People's Republic of China, the Commercial Banking Law of the People's Republic of China (《中華人民共和國商業銀行法》) and the Articles of Association of the Company. The directors, president and other Senior Management did not violate any laws and regulations or behave against the interests of our Company when they performed duties.

(II) Truthfulness of Financial Statements

The 2019 annual financial report of our Company truthfully reflected the financial position and the operating results of the Company during the reporting period, and had been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, who had issued standard auditing reports without qualified opinion.

(III) Use of Proceeds

During the reporting period, the use of proceeds of the Company was consistent with such usages as committed in the Prospectus of the Company.

(IV) Acquisition and Sale of Assets

No insider trading or behavior harming the interests of some Shareholders was found in the major acquisitions of the Company.

(V) Connected Transactions

The connected transactions of our Company were conducted in a fair and reasonable way and were in compliance with national laws and regulations and the Articles of Association of the Company, and the Board of Supervisors was not aware of any behaviors which were not conducted on an arm's length basis or were detrimental to the interests of the Company and Shareholders.

(VI) Internal Control System

The Board of Supervisors had reviewed the "Internal Control Evaluation Report of China Zheshang Bank for 2019", and concurred with the Board of Directors' representations regarding the completeness, reasonableness, effectiveness and implementation of the internal control system of the Company.

(VII) Implementation of Resolutions Passed at Shareholders' General Meetings

The Board of Supervisors had no objection to the reports or proposals submitted by the Board of Directors to the Shareholders' general meeting in 2019. It supervised the implementation of resolutions passed at the Shareholders' general meetings and was of the opinion that the Board of Directors had implemented the relevant resolutions earnestly.

Significant Events

(I) Material Litigations and Arbitrations

The Company was involved in certain legal proceedings or arbitrations in the ordinary course of business. Most of these litigations or arbitrations are filed by the Company in order to recover non-performing loans and include litigations or arbitrations arising from other disputes. As of the end of the reporting period, there were seventeen pending litigations or arbitrations (excluding actions of opposition to execution) to which the Company was a defendant involving an amount of RMB59.2147 million. The Company expects that such pending litigations or arbitrations will not materially and adversely affect the Company's business, financial position or operating results.

(II) Material Contracts and Their Performance

1. Significant Events Relating to Custody, Contracting and Leasing

During the reporting period, none of the material contracts signed by the Company involved holding in custody, contracting or leasing any assets of other companies or vice versa beyond the normal business scope of a bank.

2. Significant Guarantees

Guarantee business is an ordinary business of the Company. During the reporting period, save for the financial guarantee business carried out by the Company within the business scope approved by the PBOC and the CBIRC, there were no other significant guarantees required to be disclosed.

(III) Misappropriation of Non-Operating Funds of the Company by Controlling Shareholders and Other Related Parties

During the reporting period, the Company did not have any non-operating misappropriation of the Company's funds by the controlling shareholders and other related parties, and PricewaterhouseCoopers Zhong Tian LLP (being an auditor of the Company) has issued a special review opinion for this purpose.

(IV) Disciplinary Actions Imposed on the Company or its Directors, Supervisors, Senior Management and Shareholders Holding 5% or More Shares in the Company

No significant administrative penalty was imposed and no notice of criticism was circulated by any regulatory authority upon the Company or the Board of Directors and the Directors, Board of Supervisors, the Supervisors and senior management of the Company and Shareholders holding 5% or more shares during the reporting period.

Significant Events

(V) Performance of the Undertakings

Background of undertakings	Type of undertakings	Undertaking entities	Undertakings	Time and period of undertakings	Any period for performance	Whether timely and strictly performed
Undertakings in relation to the initial public offering	Shares subject to trading moratorium	Zhejiang Provincial Financial Holdings Co., Ltd., Traveller Automobile Group Co., Ltd., Zhejiang Hengyi Group Co., Ltd. and its related parties Zhejiang Hengyi High-tech Material Co., Ltd. and Zhejiang Hengyi Petrochemical Co., Ltd., Hengdian Group Holdings Limited, Guangsha Holding Group Co., Ltd and its related parties Zhejiang Dongyang Third Construction Co., Ltd. and Zhejiang Guangsha Co., Ltd., Zhejiang Provincial Energy Group Co., Ltd., Tong Lian Capital Management Co., Ltd., Xizi Elevator Group Co, Ltd., Shanghai Xizi United Investment Co., Ltd., Hangzhou Minsheng Pharmaceutical Holding Group Co., Ltd. (杭州民生醫藥控股集團有限公司) (9,460,000 Domestic Shares), Zhuji Hongyi Electronic Science and Technology Co., Ltd. (諸暨宏億電子科技有限公司), Zhejiang Huasheng Logistics Co., Ltd. (浙江華升物流有限公司)	Within 36 months from the date on which the A Shares of the Bank are listed and traded on the stock exchange, they will not transfer or entrust others to manage the Domestic Shares of the Bank that are directly or indirectly held by them before the issuance, nor sell the above shares back to the Bank.	November 26, 2019 to November 25, 2022	Yes	Yes

Significant Events

Background of undertakings	Type of undertakings	Undertaking entities	Undertakings	Time and period of undertakings	Any period for performance	Whether timely and strictly performed
Undertakings in relation to the initial public offering	Shares subject to trading moratorium	Minsheng Life Insurance Company Ltd., Zhejiang China Light & Textile Industrial City Group Co., Ltd., Kejiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd., Lizi Industrial Group Co., Ltd., Zhuji Lizi Automobile Transportation Co., Ltd., Nice Group Co., Ltd., Zhejiang Yongli Industry Group Co., Ltd., Zhejiang RIFA Holding Group Co., Ltd., Jinggong Group Co., Ltd., Zhejiang Huatong Holding Group Co., Ltd., Zhejiang Jingfa Industry Group Co., Ltd., Hangzhou Huiying Investment Management Co., Ltd. (杭州匯映投資管理有限公司), Zhejiang Xin'ao Industry Co., Ltd., Hangzhou Minsheng Pharmaceutical Holding Group Co., Ltd. (8,310,000 Domestic Shares), Xihu Sub-branch of Hangzhou United Rural Commercial Bank Co. Ltd.	Within 12 months from the date on which the A Shares of the Bank are listed and traded on the stock exchange, they will not transfer or entrust others to manage the Domestic Shares of the Bank that are directly or indirectly held by them before the issuance, nor sell the above shares back to the Bank.	November 26, 2019 to November 25, 2020	Yes	Yes

Note: Hangzhou Minsheng Pharmaceutical Holding Group Co., Ltd. held 8,310,000 Domestic Shares of the Bank due to judicial transfer before the application of the Bank's A Shares, and held additional 9,460,000 Domestic Shares of the Bank due to judicial transfer after the application of the Bank's A Shares.

Significant Events

(VI) Review of Annual Results

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have audited the financial statements of the Company prepared in accordance with the China Accounting Standards and the International Financial Reporting Standards respectively, and issued standard unqualified auditing reports. The Board of Directors and the Audit Committee have reviewed the results and financial report of the Company for the year ended December 31, 2019.

(VII) Annual General Meeting

For the convening of its 2019 annual general meeting of the Company, the Company will make further announcement.

(VIII) Publishing the Annual Report

The English and Chinese version of the annual report prepared by the Company in accordance with the International Financial Reporting Standards and Hong Kong Listing Rules will be available on the website of Hong Kong Stock Exchange and the Company's website.

The Chinese version of the annual report prepared by the Company in accordance with the China Accounting Standards and the Rules for the Preparation of Annual Reports will be available on the website of Shanghai Stock Exchange and the Company's website.

Independent Auditor's Report

To the Shareholders of China Zheshang Bank Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of China Zheshang Bank Co., Ltd. (the "Bank") and its subsidiary (the "Group") set out on pages 176 to 301, which comprise:

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

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 Consolidated 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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarized as follows:

- (i) Measurement of expected credit losses for loans and advances to customers, financial assets measured at amortized cost in financial investments and loan commitments and financial guarantees
- (ii) Consolidation assessment and disclosure of structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>(i) Measurement of expected credit losses for loans and advances to customers, financial assets measured at amortized cost in financial investments and loan commitments and financial guarantees</p>	<p>We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of Expected Credit Losses ("ECL") for loans and advances to customers, financial assets measured at amortized cost in financial investments, loan commitments and financial guarantees, primarily including:</p> <ul style="list-style-type: none"> (1) Selection, approval and application of modelling methodology of ECL and the internal controls relating to the on-going monitoring and optimization of the models; (2) Internal controls relating to significant management judgments and assumptions, including the parameters estimation, significant increase in credit risk, judgement of defaults or credit-impaired, and review and approval of forward-looking and management overlay adjustments; (3) Internal controls over the accuracy and completeness of key inputs used by the models;
<p>Refer to Note 3.1, Note 12, Note 19, Note 20, Note 28, Note 38 and Note 44.1.</p> <p>As at December 31, 2019, the loans and advances to customers of the Group amounted to RMB1,030.2 billion, and a loss allowance of RMB31.2 billion was recognized in the consolidated statement of financial position; financial assets measured at amortized cost in financial investments amounted to RMB318.3 billion and a loss allowance of RMB13.2 billion was recognized; the exposure of loan commitments and financial guarantees was RMB526.1 billion, for which a provision of RMB5.5 billion was recognized. The expected credit losses on loans and advances to customers, financial assets measured at amortized cost in financial investments, loan commitments and financial guarantees recognized in the Group's consolidated statement of comprehensive income for the year ended December 31, 2019 amounted to RMB18.7 billion.</p>	

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>(i) Measurement of expected credit losses for loans and advances to customers, financial assets measured at amortized cost in financial investments and loan commitments and financial guarantees (continued)</p>	
<p>The Group assesses whether the credit risk of loans and advances to customers, financial assets measured at amortized cost in financial investments and loan commitments and financial guarantees have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For corporate loans and advances, financial assets measured at amortized cost in financial investments, commitments and financial guarantees and all personal loans and advances, classified into stages 1 and 2, 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 advances, financial assets measured at amortized cost in financial investments, commitments and financial guarantees in stage 3, management assesses loss allowance by estimating the forward- looking cash flows from the loan, financial investments or commitments and financial guarantees.</p> <p>The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following:</p> <p>(1) Selection of appropriate models and determination of relevant key measurement parameters;</p>	<p>(4) Internal controls relating to estimation of future cash flows through forward-looking and calculations of present values of such cash flows for such assets, corporate loans and advances, financial assets measured at amortized cost in financial investments, commitments and financial guarantees in stage 3;</p> <p>(5) Internal controls over the information systems for model-based measurement.</p> <p>The substantive procedures we preformed to assess the ECL measurement by management, primarily including:</p> <p>(1) We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We examined the calculation for model measurement on a sample basis, to test whether or not the measurement models is consistent the modelling methodologies documented by the management.</p> <p>(2) We selected samples to assess the appropriateness of the management's identification of loans and advances to customers, financial assets measured at amortized cost in financial investments, commitments and financial guarantees in stage 3.</p>

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>(i) Measurement of expected credit losses for loans and advances to customers, financial assets measured at amortized cost in financial investments and loan commitments and financial guarantees (continued)</p> <p>(2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;</p> <p>(3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;</p> <p>(4) Management overlay adjustments due to significant uncertain factors not covered in the models; and</p> <p>(5) The forward-looking estimation of future cash flows and discount rate for corporate loans and advances, financial assets measured at amortized cost in financial investments, commitments and financial guarantees in stage 3.</p> <p>The Group established internal controls for the measurement of expected credit losses.</p> <p>The ECL allowance of such assets, commitments and financial guarantees were all significant, and its estimation is a highly complex process involving a lot of management judgment and interpretation. Therefore, it was identified as our audit focus.</p>	<p>(3) For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators, economic scenarios and weightings employed, assessed its reasonableness and performed sensitivity analysis of economic indicators, economic scenarios and weightings.</p> <p>(4) We assessed the reasonableness of the selection of significant uncertain factors, its application and measurement in the management overlay adjustments, and examined the accuracy of the relevant mathematical calculations.</p> <p>(5) We examined key data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. We performed reconciliation of the transmission of key data inputs between the models' measurement engines and the information systems, to verify their accuracy and completeness; and</p> <p>(6) For corporate loans and advances, financial assets measured at amortized cost in financial investments, commitments and financial guarantees in stage 3, we examined, on a sample basis, forward-looking forecasted future cash flows and discount rate prepared by management 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, the measurement of expected credit losses for loans and advances to customers, financial assets measured at amortized cost in financial investments and loan commitments and financial guarantees by management could be supported by the audit evidence we acquired.</p>

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>(ii) Consolidation assessment and disclosure of structured entities</p> <p>Please refer to Note 3.3 and Note 37 to the financial statements</p> <p>Primary structured entities the Group managed were wealth management products issued. Primary structured entities the Group invested in were trust and asset management plans. As of December 31, 2019, the book value of unconsolidated structured entities invested by Zheshang Bank was RMB217.1 billion, and the size of unconsolidated structured entities issued and managed was RMB330.5 billion. Zheshang Bank assesses whether it has control over structured entities and whether it needs to merge and makes relevant disclosures.</p> <p>Our focuses were on the following key aspects of management's assessment:</p> <p>(1) The reasonableness of the Group's consolidation assessment according to its analysis of the Group's power over the structured entities, its variable returns from the structured entities, and whether the Group uses its power over the structured entities to affect the returns.</p> <p>(2) Whether the Group disclosed sufficiently and adequately in the financial statements.</p> <p>Considering the significant balance of the structured entities and significant judgments the Group made to assess whether the Group has control of the structured entities, it was identified to be a key area of audit focus.</p>	<p>We obtained an understanding of, evaluated and tested the design and operating effectiveness of Zheshang Bank's internal controls relating to consolidation and disclosure of structured entities. We also performed the following substantive procedures:</p> <p>(1) To assess whether the Group should consolidate the structured entities, we understood the objective and the design of transaction structure. We examined the source data used by the Group in the control analysis, reviewed related contracts through sampling basis and assessed whether the Group had power over the structured entities and had exposure to variable returns from structured entities (such as management fees and direct investment returns), and also recalculated variable returns according to contract terms. We also understood and sampled to verify whether the Group provided financial and other support to structured entities.</p> <p>(2) Regarding to the structured entities issued and managed by the Group, primary were wealth management products issued, we assessed factors management considered when assessing whether the Group was the principal or agency role through sampling tests, including, among other things, the scope of the Group's decision-making authority, the substantive rights held by other parties, the remuneration to which the Group was entitled to as the asset manager for providing management services, and the risk exposure to variable returns from any other arrangements and whether the Group provided financial and other support to structured entities.</p> <p>(3) We examined whether the disclosures related to structured entities was sufficient and adequate.</p> <p>By performing the above procedures, management's consolidation judgment and disclosure of structured entities were supportable.</p>

Independent Auditor's Report

Other Information

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

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 consolidated financial statements.

Independent Auditor's Report

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Cheng Sin Bun, Benson.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 27, 2020

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended December 31,	
		2019	2018
Interest income	4	79,488,355	72,251,597
Interest expense	4	(45,614,289)	(45,866,049)
Net interest income		33,874,066	26,385,548
Fee and commission income	5	5,078,857	4,829,898
Fee and commission expense	5	(499,875)	(577,975)
Net fee and commission income		4,578,982	4,251,923
Net trading gains	6	6,235,406	7,254,140
Net gains on financial investments	7	1,346,417	608,813
Other operating income	8	412,238	522,052
Operating income		46,447,109	39,022,476
Operating expenses	9	(12,864,480)	(12,142,420)
Expected credit losses	11	(18,902,216)	(13,029,555)
Operating profit		14,680,413	13,850,501
Profit before income tax		14,680,413	13,850,501
Income tax expense	12	(1,537,430)	(2,290,164)
Net profit		13,142,983	11,560,337
Net profit attributable to:			
Shareholders of the Bank		12,924,764	11,490,416
Non-controlling interests		218,219	69,921
		13,142,983	11,560,337
Basic and diluted earnings per share for profit attributable to shareholders of the Bank (in RMB yuan)	13	0.64	0.61

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

	Year ended December 31,	
	2019	2018
Net profit	13,142,983	11,560,337
Other comprehensive income		
Items that cannot be reclassified subsequently to profit or loss:		
Fair value changes on financial assets at fair value through other comprehensive income	164,500	–
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on financial assets at fair value through other comprehensive income	635,965	546,392
Expected credit losses of financial assets at fair value through other comprehensive income	(249,791)	521,187
Exchange difference on translation of foreign financial statements	465,606	886,023
Related income tax impact	(137,668)	(266,895)
Total other comprehensive income, net of tax	878,612	1,686,707
Total comprehensive income for the year	14,021,595	13,247,044
Total comprehensive income attributable to:		
Shareholders of the Bank	13,803,376	13,177,123
Non-controlling interests	218,219	69,921
	14,021,595	13,247,044

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
ASSETS			
Cash and balances with central bank	14	131,029,072	126,370,232
Precious metal		21,251,360	8,103,317
Due from banks and other financial institutions	15	55,858,954	55,383,174
Derivative financial assets	17	13,892,307	10,123,361
Loans and advances to customers	18	998,932,735	837,075,890
Financial investments			
– Financial assets at fair value through profit or loss	16	129,265,827	135,210,776
– Financial assets at fair value through other comprehensive income	19	83,611,100	91,885,792
– Financial assets measured at amortized cost	19	305,160,425	337,836,410
Property, plant and equipment	21	12,673,290	10,357,153
Right-of-use assets	22	5,081,055	N/A
Deferred income tax assets	23	11,830,627	8,319,665
Other assets	24	32,199,115	26,028,974
Total assets		1,800,785,867	1,646,694,744
LIABILITIES			
Due to banks and other financial institutions	25	266,870,021	279,999,081
Financial liabilities at fair value through profit or loss	26	15,143,347	12,483,213
Derivative financial liabilities	17	14,911,116	10,648,171
Customer deposits	27	1,143,740,603	974,770,403
Income tax payable		3,965,802	1,902,618
Provisions	28	5,543,931	3,118,177
Debt securities issued	29	206,241,190	245,996,763
Other liabilities	30	13,234,312	15,327,781
Lease liabilities		3,107,876	N/A
Total liabilities		1,672,758,198	1,544,246,207

Consolidated Statement of Financial Position

As at December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
EQUITY			
Share capital	31	21,268,697	18,718,697
Other equity Instruments	32	14,957,664	14,957,664
Capital reserve	31	32,018,296	22,130,353
Surplus reserve	33	7,294,213	6,024,739
Statutory general reserve	33	19,454,244	18,461,991
Investment revaluation reserve	34	2,267,967	1,389,355
Retained earnings		28,985,330	19,202,699
Equity attributable to shareholders of the Bank		126,246,411	100,885,498
Non-controlling interests	36	1,781,258	1,563,039
Total equity		128,027,669	102,448,537
Total liabilities and equity		1,800,785,867	1,646,694,744

The accompanying notes form an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on March 27, 2020 and were signed on its behalf by:

Shen Renkang

Legal Representative, Chairman of Board

Xu Renyan

Executive Director, President

Consolidated Statement of Changes in Equity

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

	Equity attributable to shareholders of the Bank								Total
	Share capital (Note 31)	Other equity instrument (Note 32)	Capital reserve (Note 31)	Surplus reserve (Note 33)	Statutory general reserve (Note 33)	Investment revaluation reserve (Note 34)	Retained earnings	Non-Controlling interests	
Balance at December 31, 2018	18,718,697	14,957,664	22,130,353	6,024,739	18,461,991	1,389,355	19,202,699	1,563,039	102,448,537
Net profit for the year	-	-	-	-	-	-	12,924,764	218,219	13,142,983
Other comprehensive income for the year	-	-	-	-	-	878,612	-	-	878,612
Total comprehensive income	-	-	-	-	-	878,612	12,924,764	218,219	14,021,595
Contribution of shareholders	2,550,000	-	9,887,943	-	-	-	-	-	12,437,943
Appropriation to statutory surplus reserve	-	-	-	1,269,474	-	-	(1,269,474)	-	-
Appropriation to statutory general reserve	-	-	-	-	992,253	-	(992,253)	-	-
Cash dividend	-	-	-	-	-	-	(880,406)	-	(880,406)
Balance at December 31, 2019	21,268,697	14,957,664	32,018,296	7,294,213	19,454,244	2,267,967	28,985,330	1,781,258	128,027,669
Balance at December 31, 2017	17,959,697	14,957,664	19,974,808	4,882,975	17,243,730	(1,553,817)	14,729,579	1,493,118	89,687,754
Impact on accounting policy changes	-	-	-	-	-	1,256,465	(1,475,093)	-	(218,628)
Balance at January 1, 2018	17,959,697	14,957,664	19,974,808	4,882,975	17,243,730	(297,352)	13,254,486	1,493,118	89,469,126
Net profit for the year	-	-	-	-	-	-	11,490,416	69,921	11,560,337
Other comprehensive income for the year	-	-	-	-	-	1,686,707	-	-	1,686,707
Total comprehensive income	-	-	-	-	-	1,686,707	11,490,416	69,921	13,247,044
Contribution of shareholders	759,000	-	2,155,545	-	-	-	-	-	2,914,545
Appropriation to statutory surplus reserve	-	-	-	1,141,764	-	-	(1,141,764)	-	-
Appropriation to statutory general reserve	-	-	-	-	1,218,261	-	(1,218,261)	-	-
Cash dividend	-	-	-	-	-	-	(3,182,178)	-	(3,182,178)
Balance at December 31, 2018	18,718,697	14,957,664	22,130,353	6,024,739	18,461,991	1,389,355	19,202,699	1,563,039	102,448,537

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended December 31,	
		2019	2018
Cash flows from operating activities:			
Profit before income tax		14,680,413	13,850,501
Adjustments:			
Depreciation and amortization	9	1,418,444	658,661
Expected credit losses on loans	11	18,902,216	13,029,555
Net (gains)/losses on de-recognition of fixed assets		(78)	1,333
Net gains on de-recognition of financial investments		(1,346,417)	(608,813)
Fair value changes in financial assets at fair value through profit or loss and derivatives		724,997	(3,145,197)
Interest income from investments	4	(20,465,467)	(23,770,825)
Interest expense from debt securities issued	4	8,236,921	9,641,058
Net change in operating assets and operating liabilities:			
Net (increase)/decrease in restricted deposit balances with central bank		(2,909,188)	13,922,851
Net (increase)/decrease in due from banks and other financial institutions		(1,383,590)	9,063,533
Net decrease/(increase) in financial assets at fair value through profit or loss		5,911,958	(1,871,389)
Net increase in loans and advances to customers		(168,803,293)	(194,099,574)
Net increase in other operating assets		(12,258,074)	(3,827,735)
Net decrease in due to banks and other financial institutions		(13,886,283)	(79,121,498)
Net increase in customer deposits		167,449,040	103,808,073
Net (decrease)/increase in other operating liabilities		(4,693,278)	6,580,236
Cash used in operating activities before tax		(8,421,679)	(135,889,230)
Income tax paid		(3,122,876)	(4,426,313)
Net cash used in operating activities		(11,544,555)	(140,315,543)

Consolidated Statements of Cash Flows

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended December 31,	
		2019	2018
Cash flows from investing activities:			
Dividends received		1,500	1,100
Cash generated from disposal of property and equipment, intangible assets and other long-term assets		13,754	66,611
Cash paid for purchase of property and equipment, intangible assets and other long-term assets		(4,682,639)	(4,969,026)
Interest received from financial investments		29,168,894	28,743,794
Proceeds from disposal and redemption of financial investments		3,754,263,010	1,853,742,367
Purchase of financial investments		(3,721,619,440)	(1,802,283,878)
Net cash generated from investing activities		57,145,079	75,300,968
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares		12,437,943	2,914,545
Proceeds from issuance of debt securities		227,478,130	314,226,594
Cash paid for repayment of debt securities		(267,097,180)	(260,010,000)
Interest paid on debt securities issued		(8,373,444)	(9,339,243)
Dividends paid		(884,889)	(4,041,754)
Net cash (used in)/generated from financing activities:		(36,439,440)	43,750,142
Effect of exchange rate changes on cash and cash equivalents		144,117	313,504
Net increase/(decrease) in cash and cash equivalents		9,305,201	(20,950,929)
Cash and cash equivalents at beginning of the year		37,638,813	58,589,742
Cash and cash equivalents at end of the year	41	46,944,014	37,638,813
Net cash flows from operating activities including:			
Interest received		57,555,724	49,871,172
Interest paid		(34,959,774)	(36,468,796)

The accompanying notes form an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

1 General Information

China Zheshang Bank Co., Ltd. (the “Bank”) is a national joint-stock commercial bank established on the basis of the original Zhejiang commercial bank with the approval from the China Banking Regulatory Commission (“CBRC” which was renamed to China Banking and Insurance Regulatory Commission in 2018, hereinafter “CBIRC”) (Yin Jian Fu [2004] No. 91 Document) and Zhejiang Commission of China Banking Regulatory Commission (Zhe Yin Jian Fu [2004] No. 48 Document). The Bank obtained the Finance License (No. B0010H133010001) with the approval from the CBIRC. On July 26, 2004, the Bank completed the change of registration in Zhejiang Administration for Industry and Commerce and obtained the Business License of Legal Entity (No. 330000000013295) in Zhejiang Province, the People’s Republic of China (the “PRC”). On November 7, 2016, the Bank obtained the Uniform Social Credit Code (No.91330000761336668H).

The Bank was listed on the Hong Kong Stock Exchange on March 30, 2016, on the Shanghai Stock Exchange on November 26, 2019. On December 31, 2019, the Bank possesses 21,268,697 thousand shares (at a face value of RMB1 per share).

As at December 31, 2019, the Bank has established 260 branch outlets in 19 provinces (municipalities) and Hong Kong in China, including 63 branches (27 of them are tier-one branches), one branch-level specialized institution and 196 sub-branches. The principal activities of the Bank include corporate and personal deposits, loans and advances, clearing and settlement service, treasury business, and other banking service as approved by the CBIRC.

Zhejiang Zheyin Financial Leasing Co., Ltd. (“Zheyin Leasing”) was established on January 18, 2017 with a registered capital of RMB3,000,000 thousand. Since the Bank has control over Zheyin Leasing, the Bank has included it in the consolidated scope of the report. The Bank and its subsidiary, Zheyin Leasing (Note 20), are collectively referred to as the “Group”.

The consolidated financial statements were approved by the Bank’s Board of Directors on March 27, 2020.

2 Principal Accounting Policies

2.1 Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (“IFRSs”), listing rules of Hong Kong Exchange Stock and requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, precious metal and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss which are carried at fair value.

The preparation of consolidated 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 Group’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 3.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.1 Basis of presentation *(continued)*

2.1.1 Consistency

These financial statements have been prepared on a going concern basis.

2.1.2 Amendments to accounting policies and disclosures

New and revised IFRSs effective by January 1, 2019 applied by the Group

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

The adoption of the revised International Financial Reporting Standards, with the exception of “International Financial Report Standard 16 Leases” (“IFRS 16”), have no significant impact on the Group in 2019.

IFRS 16 Leases

The International Accounting Standards Board (“IASB”) has issued IFRS 16 Leases in January 2016. The Group has used the above criteria to prepare the financial statements for the year ended December 31, 2019. The impact on the Group’s financial statements is as follows:

Leases

On 1 January 2019, the new lease standard was implemented by the Group for the first time. According to relevant provisions of the new lease standard, the Group would not reassess the contracts that had already existed prior to the date of initial application. The Group recognized the cumulative effect of initially applying the standard as an adjustment to the opening balances of relevant line items in the financial statements in 2019. The comparatives for 2018 were not restated.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.1 Basis of presentation *(continued)*

2.1.2 Amendments to accounting policies and disclosures *(continued)*

IFRS 16 Leases (continued)

Content and reasons for changes in accounting policies	Affected items	Affected amount January 1, 2019
For the operating lease contracts that existed prior to the first adoption of the new lease criteria, the Group differentiated the different lease methods according to the remaining lease terms:	Right-of-use assets	3,315,603
	Lease liabilities	3,096,171
	Other Asset	(219,432)

If the remaining lease term is longer than one year, the Group recognizes the lease liability and right-of-use assets based on the remaining lease payments and the incremental borrowing rate on January 1, 2019, and assumes that the new lease policy is adopted from the beginning of the lease period.

If the remaining lease term is shorter than one year, the Group adopts a simplified method and does not recognize the right-of-use assets and lease liabilities, and has no significant impact on the financial statements.

For leases that are low-value on the first execution date, the Group applies the exemption and does not recognize the right-of-use assets or lease liabilities and has no significant impact on the financial statements.

On January 1, 2019, when measuring lease liabilities, the Group used the same discount rate for lease contracts with similar characteristics, and the weighted average of the incremental borrowing rates used was 4.80%.

On January 1, 2019, the unpaid minimum operating lease payments disclosed under original accounting policy and the lease liabilities recognized at the date of initial application are adjusted as follows:

	Affected amount
Operating lease commitments disclosed as at December 31, 2018	4,239,275
Less: short-term leases recognized on a straight-line basis as expense	(307,148)
Less: Others	(99,196)
Total contract amount of lease liabilities at the date of initial application	3,832,931
Present value discounted using the lessee's incremental borrowing rate at January 1, 2019	3,096,171

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.1 Basis of presentation *(continued)*

2.1.2 Amendments to accounting policies and disclosures *(continued)*

IFRS 16 Leases (continued)

As at December 31, 2019, the accounting policies applicable to the Group's leases are as follows:

Leases

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

The Group as lessee

The Group recognizes the right-of-use asset on the commencement date of the lease term and recognizes the lease liability at the present value of the lease payments that have not been paid. The lease payments include fixed payments and payments to be made in the event that it is reasonably determined that the purchase option will be exercised or the lease option is terminated. The variable rent determined based on a certain percentage of sales is not included in the lease payments and is recognized in profit or loss when incurred.

The Group's right-to-use assets include leased houses and buildings, machinery and equipment, transportation vehicles, and computers and electronic equipment. The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments paid on or before the lease beginning date, the initial direct costs, etc., and deducts the lease incentives received. If the Group can reasonably determine the ownership of the leased asset at the expiration of the lease term, it is depreciated over the remaining useful life of the leased asset; if it is not possible to reasonably determine whether the ownership of the leased asset can be obtained at the expiration of the lease term, the lease term and the remaining use of the leased asset, depreciation is made in the short period between the lease term and the remaining life of the leased asset. When the recoverable amount is lower than the carrying amount of the right-of-use asset, the Group reduces its carrying amount to the recoverable amount.

For short-term leases with a lease term of no more than 12 months and low-value asset leases with a lower value of individual assets, the Group chooses not to recognize the right-of-use assets and lease liabilities, and the relevant rental expenses are based on the straight-line method for each period of the lease term. It is included in the current profit and loss or related asset cost.

The Group as lessor

A lease that transfers substantially all of the risks and rewards associated with the ownership of the leased asset is a finance lease. Other leases are operating leases.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.1 Basis of presentation *(continued)*

2.1.2 Amendments to accounting policies and disclosures *(continued)*

The Group as lessor (continued)

Operating lease

When the Group operates its own buildings, machinery and equipment and transportation vehicles, the rental income from operating leases is recognized on the straight-line basis over the lease term. The Group's variable rent determined based on a certain percentage of sales is included in rental income when it actually occurs.

Financial lease

On the commencement date of the lease term, the Group recognizes the finance lease receivable from the finance lease and derecognizes the relevant assets. The Group presents the finance lease receivables as long-term receivables.

Standards and amendments that have been issued but not yet effective and have not been adopted by the Group:

		Effective for annual period beginning on or after
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after January 1, 2016. The effective date has now been deferred/removed.
IFRS 17	Insurance Contracts	January 1, 2021

Amendments to IFRS 10 and IAS 28

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

A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

The Group anticipates that the amendments will not have a significant impact on the Group's consolidated statement of financial position.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.1 Basis of presentation *(continued)*

2.1.2 Amendments to accounting policies and disclosures *(continued)*

IFRS 17

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

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

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

IFRS 17 provides a general measurement model called the “variable fee approach” for certain contracts written by life insurers where policyholders share in the returns from underlying items, which is a modification of the general measurement model. When applying the variable fee approach, the modification reflects that it allows adjustment of contractual service margin for certain change. The results of insurers using this model are therefore likely to be less volatile than under the general model.

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

The Group anticipates that there will be no significant impact on the Group’s consolidated statement of financial position of adopting IFRS 17.

2.2 Financial year

The financial year starts on January 1 and ends on December, 31.

2.3 Functional currency

The functional currency of the Group is RMB.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.4 Consolidated Financial Statement

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries. A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Bank and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Bank. All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity, net profits and total comprehensive income for the period not attributable to the Bank are recognized as non-controlling interest and total comprehensive income attributed to non-controlling interest and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively.

Unrealised profits or losses resulting from the Bank selling assets to its subsidiaries are offset against the parent company's net profits. Unrealised profits or losses resulting from the subsidiaries selling assets to the Bank are offset against net profits attributable to shareholders of the parent company and non-controlling interests based on the distribution percentage. Unrealised profits or losses resulting from transactions among subsidiaries are offset among net profits attributable to shareholders of the parent company and non-controlling interest based on parent company's share percentage in the selling subsidiary.

If the Group, as a reporting entity, and the Bank or subsidiaries, as separate reporting entities, have different views on the accounting treatment of the same transaction, the transaction should be adjusted and accounted for based on the Group's perspective. The loss distributed to non-controlling shareholders of subsidiaries overtook the shares in early shareholders' equity. The rest of them still decrease the non-controlling shareholders' equity.

2.5 Interest income and expense

Interest income and expense for interest-bearing financial instruments is recognized in profit or loss using the effective interest method.

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

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.6 Fee and commission income

For the fee and commission income that the performance obligation performs at a certain point in time, the Group recognizes income when the customer obtains and consumes the economic benefits of the performance of the Group. For the fee and commission income that the performance obligation performs during a certain period of time, the Group recognizes the income according to the progress of the performance during the period.

2.7 Dividend income

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

2.8 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, post-employment benefits.

(a) Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognizes the short term employee benefits payable for those services as a liability with a corresponding increase in the expenses in profit or loss. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labor union fees and staff education expenses.

(b) Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions.

2.9 Income taxes

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

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.9 Income taxes *(continued)*

Current income tax and movements in deferred tax balances are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively. At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realization and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

2.10 Foreign currency translation

Monetary items denominated in foreign currency are translated into RMB with the closing rate as of the reporting date and exchange differences are recognized in the profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as of the date of initial recognition.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, such as cash, surplus reserve with the central bank, deposits or placements with banks and other financial institutions with original tenors less than 3 months.

2.12 Precious metals

Precious metals comprise gold and silver. All precious metals are related to the Group's trading activities, which are initially recognized at fair value, and subsequently measured at fair value. Changes in fair value are included in the current profit and loss.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.13 IFRS 9 Financial instruments

(1) Financial instruments

Measurement methods

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss (“ECL”) allowance.

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 amortized cost before any impairment allowance) or to the amortized 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 Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of ECL in estimated future cash flows.

When the Group 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 cash flow discounted using the original effective interest rate. Any changes are recognized 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 amortized 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 amortized cost (i.e. net of the ECL allowance).

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.13 IFRS 9 Financial instruments *(continued)*

(1) Financial instruments *(continued)*

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date.

At initial recognition, the Group 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 recognized for financial assets measured at amortized cost and investments in debt instruments of financial assets at fair value through other comprehensive income ("FVOCI"), which results in an accounting loss being recognized 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 recognizes the difference as follows:

- (a) 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 recognized as a gain or loss.
- (b) 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 amortized over the life of the instrument, or deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

If the main contract of a combined contract applied to IFRS 9, the combined contract should be considered as a whole under classification of IFRS 9. The embedded derivatives should not be separated from the contract and accounted for as stand-alone derivatives.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.13 IFRS 9 Financial instruments *(continued)*

(1) Financial instruments *(continued)*

Financial assets

(i) Classification and subsequent measurement

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

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortized 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 Group's business model for managing the asset; and
- (ii) The cash flow characteristics of the asset.

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

Amortized 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 amortized cost. The carrying amount of these assets is adjusted by any ECL allowance recognized 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 amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized 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.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.13 IFRS 9 Financial instruments *(continued)*

(1) Financial instruments *(continued)*

Debt instruments *(continued)*

Fair value through profit or loss: Assets that do not meet the criteria for amortized 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 recognized in profit or loss and presented in the profit or loss statement.

Business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group'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. Factors considered by the Group 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.

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 Group assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Group 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.

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.13 IFRS 9 Financial instruments *(continued)*

(1) Financial instruments *(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 Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group'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 recognized 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 recognized in profit or loss when the Group'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

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes an ECL allowance for such losses at each reporting date. The measurement of ECL reflects:

- a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- b) The time value of money; and
- c) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.13 IFRS 9 Financial instruments *(continued)*

(1) Financial instruments *(continued)*

Modification of loans contract

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

- (i) 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;
- (ii) Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;
- (iii) Significant extension of the loan term when the borrower is not in financial difficulty;
- (iv) Significant change in the interest rate;
- (v) Change in the currency the loan is denominated in;
- (vi) 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 Group derecognizes the original financial asset and recognizes 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 Group also assesses whether the new financial asset recognized 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 recognized 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 Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes 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).

Derecognition other than on a modification of contract

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.13 IFRS 9 Financial instruments *(continued)*

(1) Financial instruments *(continued)*

Derecognition other than on a modification of contract *(continued)*

The Group 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 Group:

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

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.13 IFRS 9 Financial instruments *(continued)*

(1) Financial instruments *(continued)*

Financial liabilities

(i) Classification and subsequent measurement

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

- Financial liabilities at fair value through profit or loss: This classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Group recognizes any expense incurred on the financial liability; when continuing involvement approach applies and please refer to Note 2.13(2).
- Financial guarantee contracts and loan commitments, please refer to Note 2.13(2).

(ii) Derecognition

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

The exchange between the Group 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 the exchange of contract or modification of terms is accounted for as an extinguishment and derecognition of relevant financial liability, relevant costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, relevant costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.13 IFRS 9 Financial instruments *(continued)*

(2) Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a contract. Such financial guarantees include the loans provided by banks, financial institutions, overdrafts and other banking facilities guarantee.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the ECL allowance (calculated as described in note 2.13(1); and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the ECL allowance (calculated as described in note 2.13(1)). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the ECL allowance is recognized as a provision. However, for contracts that include both a loan and an unused commitment and the Group cannot separately identify provision of unused commitment component from the loan component, the ECL on the unused commitment is recognized together with the ECL allowance for the loan. Provided that the combined ECL exceeds the gross carrying amount of the loan, the ECL is recognized as provisions.

2.14 Property, plant and equipment

Property, plant and equipment are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to property, plant and equipment when ready for its intended use.

(a) Cost

Property, plant and equipment are initially recognized at cost. The cost of a purchased property, plant and equipment comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed property, plant and equipment comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Subsequent costs, including the cost of replacing part of an item of property, plant and equipment, are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. Expenditures relating to ordinary maintenance of property, plant and equipment are recognized in profit or loss.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.14 Property, plant and equipment *(continued)*

(b) Depreciation and impairment

Depreciation is calculated based on the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives, and then charged to the profit or loss. Impaired property, plant and equipment are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, estimated residual values rates and depreciation rates of respective property, plant and equipment are as follows:

Type of assets	Estimated useful lives	Estimated residual value rates	Depreciation rate
Buildings	30 years	5%	3.17%
Self-owned buildings improvements	10 years	5%	9.50%
Equipment	3-5 years	5%	19.00-31.67%
Motor vehicles	5 years	5%	19.00%

Operating leased fixed assets are used for the Group's operating lease business. The Group determines the depreciation period and depreciation method based on actual conditions. The depreciation is accrued on a straight-line basis based on the estimated useful life of 10-19 years. The estimated net residual value rate is 5%.

The Group reviews the estimated useful lives and estimated residual values of property, plant and equipment and the depreciation method applied at least once a financial year.

Impairment losses on property, plant and equipment are accounted for in accordance with the accounting policies as set out in Note 2.17.

(c) Disposal

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

2.15 Land use rights

Land use rights are initially recognized at costs and amortized using the straight-line basis over the legal term of use through profit and loss. Impaired land use rights are amortized net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 2.17.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

2 Principal Accounting Policies *(continued)*

2.16 Intangible assets

The intangible assets are initially recognized at cost. The cost less estimated residual values, if any, of the intangible assets is amortized on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortized net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 2.17.

2.17 Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and the asset's present value of future cash flows.

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.

2.18 Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

2.19 Dividend distribution

Ordinary share dividends are recognized as liabilities in the period in which they are approved by the Shareholders' Annual General Meeting. Preference share dividend is recognized as a liability in the period in which they are approved by the Board of Directors.

2.20 Wealth management

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Group and securities investment funds, insurance companies, trust companies, and other institutions and individuals. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's statement of financial position.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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2 Principal Accounting Policies *(continued)*

2.21 Entrusted loans

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers. The Group is responsible for the arrangement and collection of the entrusted loans and receives commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans, they are not recognized as assets and liabilities of the Group.

2.22 Financial guarantee contracts

Financial guarantees are contracts that require the Group as the guarantor (the “issuer”) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group’s liabilities under such guarantees are measured at the higher of the initial amount less amortization of guarantee fees recognized in accordance with the revenue recognition policy, and the best estimate of the expenditure required to settle the guarantees. Any increase in the liability relating to guarantees is taken to the profit or loss.

2.23 Contingent liabilities

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 Group. 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.

2.24 Segment reporting

The Group determines the operating segments on the basis of the internal organizational structure, requirements of management and internal reporting system, and establishes the reporting segments on the basis of the operating segments and discloses the segment information.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group’s accounting policies. There is no difference between the accounting policies used in the preparation of the Group’s financial statements and those used in preparing the operating segment information.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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3 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group continually evaluates the significant accounting estimates and key assumptions applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below.

3.1 The measurement of ECL

For loans and advances to customers, financial assets measured at amortized cost, loan commitments and financial guarantees, a complex model and a large number of assumptions are used in the measurement of ECL. These models and assumptions relate to future macroeconomic conditions and the borrower's credit behaviour (e.g. the likelihood of customer default and corresponding losses).

The Group's measurement of ECL involves many significant judgments, such as:

- 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;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay adjustments due to significant uncertain factors not covered in the models.
- The estimated future cash flows for corporate loans and advances, financial assets measured at amortized cost in financial investments and loan commitments and financial guarantees in stage 3.

Note 44.1.4 specifies the parameters, assumptions and valuation techniques used in the measurement of ECL.

3.2 Control over structured entity

Where the Group acts as an asset manager or investor of structured entities, the Group makes judgment on whether it is the principal or an agent to assess whether the Group controls the structured entities and should consolidate them. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from other interests (e.g. direct investment) that it holds in the structured entities. The Group performs reassessment periodically.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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3 Critical Accounting Estimates and Judgments in Applying Accounting Policies *(continued)*

3.3 Fair value measurement of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. To the extent practicable, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, should be made maximum use of when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the fair value measurement of financial instruments.

4 Net Interest Income

	Year ended December 31,	
	2019	2018
Interest income		
Balances with central bank	1,742,833	1,778,755
Due from banks and other financial institutions	2,166,089	2,675,600
Loans and advances to customers	55,113,966	44,026,417
Investments	20,465,467	23,770,825
Subtotal	79,488,355	72,251,597
Including: Interest income from impaired financial assets	86,878	73,734
Interest expense		
Due to banks and other financial institutions	(10,791,835)	(16,240,522)
Customer deposits	(26,429,021)	(19,984,469)
Lease liabilities	(156,512)	–
Debt securities issued	(8,236,921)	(9,641,058)
Subtotal	(45,614,289)	(45,866,049)
Net interest income	33,874,066	26,385,548

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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5 Net Fee and Commission Income

	Year ended December 31,	
	2019	2018
Fee and commission income		
Settlement business	1,490,260	993,718
Underwriting service	1,355,905	756,073
Credit commitment	651,741	449,926
Asset management business	580,672	1,389,652
Custodian and other fiduciary service	539,469	525,285
Agency service	199,639	357,807
Others	261,171	357,437
Total	5,078,857	4,829,898
Fee and commission expense	(499,875)	(577,975)
Net fee and commission income	4,578,982	4,251,923

6 Net Trading Gains

	Year ended December 31,	
	2019	2018
Funds investment	3,291,133	4,027,085
Financial instruments at fair value through profit or loss	3,267,264	2,752,626
Derivative financial instruments	(542,994)	1,023,683
Exchange differences	206,196	(567,273)
Other investment gains	13,807	18,019
Total	6,235,406	7,254,140

7 Net Gains on Financial Investments

	Year ended December 31,	
	2019	2018
Net gains arising from financial assets – fair value through other comprehensive income	1,207,711	243,394
Net gains arising from financial assets measured at amortized cost	116,753	251,827
Other investment gains	21,953	113,592
Total	1,346,417	608,813

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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8 Other Operating Income

	Year ended December 31,	
	2019	2018
Government grants	118,306	175,937
Dividend income	1,500	1,100
Gains on disposal of fixed assets	78	(1,333)
Operating lease income	–	54,955
Other miscellaneous income	292,354	291,393
Total	412,238	522,052

9 Operating Expenses

	Year ended December 31,	
	2019	2018
Staff costs (i)	8,242,969	7,152,858
General and administrative expenses	2,378,491	3,036,909
Depreciation	1,174,367	480,743
Tax and surcharges	597,822	437,828
Amortization of long-term prepaid expenses	174,094	120,662
Rental expenses	120,791	710,664
Amortization of intangible assets (Note 24(i))	44,552	40,987
Amortization of land use rights (Note 22, 24(i))	25,431	16,269
Donations	10,856	13,283
Auditors' remuneration	6,980	6,258
Others	88,127	125,959
Total	12,864,480	12,142,420

(i) Staff costs

	Year ended December 31,	
	2019	2018
Salaries and bonuses	6,338,379	5,467,041
Pension costs-Defined contribution plans	811,452	749,736
Housing funds	298,398	267,840
Labor union fee and staff education expenses	165,788	141,546
Other social security and benefit costs	628,952	526,695
Total	8,242,969	7,152,858

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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10 Emoluments of Directors, Supervisors and the Highest Paid Individuals

(a) Details of the directors' and supervisors' emoluments are as follows:

Name	Year ended December 31, 2019					Total
	Fees	Salaries	Allowances and benefits	Discretionary bonuses	Contribution to pension schemes	
Executive Directors						
Shen Renkang (iii)	-	466	53	942	229	1,690
Zhang Luyun (iii)	-	419	53	848	245	1,565
Xu Renyan (iii)	-	2,340	55	1,295	209	3,899
Non-Executive Directors						
Huang Zhiming (iii)	-	-	-	-	-	-
Wei Dongliang (iii)	-	-	-	-	-	-
Gao Qinhong (iii)	-	-	-	-	-	-
Hu Tiangao (iii)	-	-	-	-	-	-
Zhu Weiming (iii)	-	-	-	-	-	-
Lou Ting (iii)	-	-	-	-	-	-
Xia Yongchao (iii)	-	-	-	-	-	-
Independent Non-Executive Directors						
Tong Benli (iii)	300	-	-	-	-	300
Yuan Fang (iii)	300	-	-	-	-	300
Dai Deming (iii)	300	-	-	-	-	300
Liu Pak Wai (iii)	300	-	-	-	-	300
Zheng Jindu (iii)	300	-	-	-	-	300
Zhou Zhifang (iii)	300	-	-	-	-	300
Wang Guocai (iii)	300	-	-	-	-	300
Supervisors						
Yu Jianqiang (vi)	-	2,175	1	598	213	2,987
Ge Meirong (vi)	-	-	-	-	-	-
Zheng Jianming (v)	-	-	-	-	-	-
Wang Chengliang (v)	-	-	-	-	-	-
Chen Zhongwei (v)	-	-	-	-	-	-
Jiang Rong (v)	-	-	-	-	-	-
Yuan Xiaoqiang (vi)	300	-	-	-	-	300
Wang Jun (vi)	300	-	-	-	-	300
Huang Zuhui (vi)	300	-	-	-	-	300
Cheng Huifang (vi)	300	-	-	-	-	300
Total	3,300	5,400	162	3,683	896	13,441

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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10 Emoluments of Directors, Supervisors and the Highest Paid Individuals *(continued)*

(a) Details of the directors' and supervisors' emoluments are as follows: *(continued)*

Year ended December 31, 2018

Name	Fees	Salaries	Allowances and benefits	Discretionary bonuses	Contribution to pension schemes	Total
Executive Directors						
Shen Renkang (iii)	–	300	51	581	220	1,152
Liu Xiaochun (ii)	–	960	21	3,956	154	5,091
Zhang Luyun (iii)	–	270	50	526	236	1,082
Xu Renyan (iii)	–	2,016	63	3,273	199	5,551
Non-Executive Directors						
Wang Yibin (iii)	–	–	–	–	–	–
Wang Mingde (iii)	–	–	–	–	–	–
Shen Xiaojun (iii)	–	–	–	–	–	–
Huang Zhiming (iii)	–	–	–	–	–	–
Wei Dongliang (iii)	–	–	–	–	–	–
Huang Xufeng (iii) (iv)	–	–	–	–	–	–
Gao Qinhong (iii)	–	–	–	–	–	–
Hu Tiangao (iii)	–	–	–	–	–	–
Zhu Weiming (iii)	–	–	–	–	–	–
Lou Ting (iii)	–	–	–	–	–	–
Xia Yongchao (iii)	–	–	–	–	–	–
Independent Non-Executive Directors						
Jin Xuejun (iii)	250	–	–	–	–	250
Tong Benli (iii)	300	–	–	–	–	300
Yuan Fang (iii)	300	–	–	–	–	300
Dai Deming (iii)	300	–	–	–	–	300
Liu Pak Wai (iii)	300	–	–	–	–	300
Zheng Jindu (iii)	300	–	–	–	–	300
Zhou Zhifang (iii)	75	–	–	–	–	75
Wang Guocai (iii)	75	–	–	–	–	75
Supervisors						
Yu Jianqiang (vi)	–	1,906	1	2,850	206	4,963
Ge Meirong (vi)	–	–	–	–	–	–
Huang Haibo (vi) (viii)	–	–	–	–	–	–
Zheng Jianming(v)	–	–	–	–	–	–
Wang Chengliang(v)	–	–	–	–	–	–
Chen Zhongwei(v)	–	–	–	–	–	–
Jiang Rong(v)	–	–	–	–	–	–
Yuan Xiaoqiang(vi)	300	–	–	–	–	300
Wang Jun(vi)	300	–	–	–	–	300
Huang Zuhui (vi)	300	–	–	–	–	300
Cheng Huifang(vi)	300	–	–	–	–	300
Tao Xuegen(vii)	–	–	–	–	–	–
Zhou Yang(vii)	–	–	–	–	–	–
Ge Lixin(vii)	–	–	–	–	–	–
Zhang Rulong(vii)	–	–	–	–	–	–
Jiang Zhihua(vii)	150	–	–	–	–	150
Total	3,250	5,452	186	11,186	1,015	21,089

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For the year ended December 31, 2019
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10 Emoluments of Directors, Supervisors and the Highest Paid Individuals *(continued)*

(a) Details of the directors' and supervisors' emoluments are as follows: *(continued)*

- (i) The total pre-tax remuneration of some directors and the supervisor of the Bank performing their duties is still in the process of confirmation, and the rest will be disclosed separately after confirmation.
- (ii) Mr. Liu Xiaochun resigned as an executive director, vice chairman, board strategy committee and member of the Inclusive Financial Development Committee due to changes in his work. The resignation took effect on April 18, 2018.
- (iii) On June 27, 2018, the Bank held the 2017 Annual General Meeting of Shareholders to elect Mr. Shen Renkang, Mr. Xu Renyan, Ms. Zhang Luzhen, Mr. Huang Zhiming, Mr. Wei Dongliang, Mr. Huang Xufeng, Ms. Gao Qinhong, Mr. Hu Tiangao, Mr. Zhu Yuming, Ms. Lou Ting, Mr. Xia Yongchao, Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liao Baiwei, Mr. Zheng Jindu, Mr. Zhou Zhifang and Mr. Wang Guocai to be the members of the fifth board of directors of the Bank; Mr. Wang Mingde, Ms. Wang Yibing and Ms. Shen Xiaojun no longer served as the principal non-executive director of the Bank; Mr. Jin Xuejun no longer serves as an independent non-executive director of the Bank. Among the new directors, the qualifications of the directors of Mr. Huang Zhiming, Mr. Wei Dongliang, Mr. Xia Yongchao, Mr. Zhou Zhifang and Mr. Wang Guocai have been approved by the regulatory authorities. The qualification of Mr. Huang Xufeng has yet to be approved by the regulatory authorities.
- (iv) On May 10, 2019, Mr. Huang Xufeng resigned as a shareholder director due to other work arrangements.
- (v) On May 10, 2018, the Employee Representatives' Meeting of the Bank elected Mr. Zheng Jianming, Mr. Wang Chenliang, Mr. Chen Zhongwei and Mr. Jiang Rong as employees supervisors of the Bank. It took into effect since the 2017 Shareholders' Annual General Meeting on June 27, 2018.
- (vi) On June 27, 2018, the Shareholders' Annual General Meeting of the Bank elected Mr. Yu Jianqiang, Mr. Huang Haibo and Mr. Ge Meirong as shareholder supervisors of the Bank. It elected Mr. Yuan Xiaoqiang, Mr. Wang Jun, Mr. Huang Zuhui and Mrs. Cheng Huifang as external supervisors of the Bank.
- (vii) On June 27, 2018, shareholder supervisors Mr. Tao Xuegen and Mr. Zhou Yang, employee supervisors of the Bank, Mr. Ge Lixin and Mr. Zhang Rulong, retired as supervisors. An external supervisor of the Bank, Mr. Jiang Zhihua retired as supervisors after six-year tenure.
- (viii) On August 7, 2019, Mr. Huang Haibo resigned from the position of shareholder supervisor of the Bank due to other work arrangements.
- (ix) Employee supervisors of the Bank receive remuneration as staff, and receive no remuneration as supervisors.
- (x) Directors and supervisors of the Bank receive only remuneration in respect of their services as directors and supervisors. No emoluments was paid to or receivable by directors and supervisors in respect of their other services in connection with the management of the affairs of the Bank or its subsidiary undertaking in any form.

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10 Emoluments of Directors, Supervisors and the Highest Paid Individuals *(continued)*

(b) Five highest paid individuals

For the year ended December 31, 2019, the five highest paid individuals in the Bank including no director or supervisor (2018: no director or supervisor).

The rest of the five highest paid individuals for the year are as follows:

	Year ended December 31,	
	2019	2018
Salaries and allowances and benefits	3,225	4,812
Discretionary bonuses	52,966	48,449
Contribution to pension schemes	724	508
Total	56,915	53,769

The emoluments fell within the following bands:

	Number of Individuals Year ended December 31,	
	2019	2018
RMB7,500,001 – RMB8,000,000	1	–
RMB8,000,001 – RMB8,500,000	–	1
RMB8,500,001 – RMB12,000,000	1	3
RMB12,000,001 – RMB17,000,000	3	1

No emoluments had been paid or payable by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year ended December 31, 2019, no non-cash benefits (share options, car, insurance premium, club membership, etc.) was paid to the directors or supervisors (2018: nil).

During the year ended December 31, 2019, no retirement benefit was paid to the directors or supervisors by a defined benefit pension plan operated by the Group (2018: nil).

During the year ended December 31, 2019, no termination benefits was paid to the directors or supervisors operated by the Group (2018: nil).

During the year ended December 31, 2019, no consideration was provided to former employers for making available directors' and supervisors' services by the Group (2018: nil).

During the year ended December 31, 2019, no loan, quasi-loan or other dealings was provided in favor of directors or connected entities related to directors (2018: nil).

During the year ended December 31, 2019, no significant transactions, arrangements and contracts was in relation to the corporate in which a director of the Group had a material interest, whether directly or indirectly subsisted (2018: nil).

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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11 Expected Credit Losses

	Year ended December 31,	
	2019	2018
Due from banks and other financial institutions	80,444	(1,196)
Loans and advances to customers	7,639,744	9,539,474
Financial assets at fair value through other comprehensive income	(299,694)	440,662
Financial assets measured at amortized cost (Note 44.1.4)	8,670,029	2,700,846
Off-balance sheet losses	2,422,259	(1,559)
Finance lease receivables	382,722	300,133
Others	6,712	51,195
Total	18,902,216	13,029,555

12 Income Tax Expense

	Year ended December 31,	
	2019	2018
Current income tax	5,186,060	3,437,040
Deferred income tax (Note 23)	(3,648,630)	(1,146,876)
Total	1,537,430	2,290,164

Current income tax is calculated based on the statutory rate of 25% of the taxable income of the Group for the respective periods.

The difference between the actual income tax charged in the profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended December 31,	
	2019	2018
Profit before income tax	14,680,413	13,850,501
Tax calculated at a tax rate of 25%	3,670,103	3,462,625
Tax effect arising from income not subject to tax (i)	(2,247,547)	(1,180,256)
Tax effect of expenses that are not deductible for tax purposes (ii)	114,874	7,795
Income tax expense	1,537,430	2,290,164

- (i) The income not subject to tax mainly represents interest income arising from treasury bonds and municipal government bonds, and dividend income arising from fund investments, which is income tax free in accordance with the PRC tax regulations.
- (ii) The expenses that are not tax deductible for tax purposes mainly include certain expenditures, such as entertainment expenses and so forth, which are not deductible for tax purposes according to PRC tax regulations.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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13 Basic and Diluted Earnings Per Share

Basic earnings per share are calculated by dividing the net profit for the period attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding in issue during the years.

	Year ended December 31,	
	2019	2018
Net profit attributable to ordinary shareholders of the Bank (in RMB thousands)	12,044,358	11,273,802
Weighted average number of ordinary shares in issue (in thousands)	18,931,197	18,528,947
Basic earnings per share (in RMB yuan)	0.64	0.61

For the year ended December 31, 2019, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

The Bank issued preference shares on March 29, 2017 and the terms and conditions as detailed in Note 32. The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur during the year ended December 31, 2019, and therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

14 Cash and Balances with Central Bank

	December 31, 2019	December 31, 2018
Cash	527,636	519,035
Mandatory reserve deposits with central bank (a)	108,184,508	104,802,428
Surplus reserve deposits with central bank (b)	22,219,189	20,479,963
Fiscal deposits	40,595	513,487
Accrued interest	57,144	55,319
Total	131,029,072	126,370,232

(a) The Group 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 Group.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

14 Cash and Balances with Central Bank *(continued)*

(a) *(continued)*

As at December 31, 2019, the mandatory reserve deposit rates of the Bank were as follows:

	December 31, 2019	December 31, 2018
Mandatory reserve rate for deposits denominated in RMB (i)	9.5%	11%
Mandatory reserve rate for deposits denominated in foreign currencies (i)	5%	5%
Mandatory reserve rate for foreign forward exchange (ii)	20%	20%

(i) Based on deposit balance on the end of reporting period.

(ii) Based on contractual amount of foreign forward exchange during the period.

(b) Surplus reserve deposits maintained with the PBOC are mainly for settlement purpose.

15 Due from Banks and Other Financial Institutions

	December 31, 2019	December 31, 2018
Deposits with banks and other financial institutions	17,746,809	20,056,535
Notes purchased under resale agreements	2,237,987	16,796,380
Securities purchased under resale agreements	26,703,145	10,761,162
Placements with banks and other financial institutions	9,198,841	7,657,495
Accrued interest	58,297	11,297
ECL allowance	(86,125)	(5,695)
Total	55,858,954	55,383,174

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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16 Financial Investments: Financial Assets at Fair Value through Profit or Loss

	December 31, 2019	December 31, 2018
Government bonds		
– Listed outside Hong Kong	9,951,600	6,762,199
Other debt securities		
– Listed outside Hong Kong	30,211,000	41,152,944
Fund investments	86,142,785	82,342,692
Trust plans and asset management plans issued by financial institution other than bank	1,720,737	2,078,695
Wealth management products issued by other banks	–	2,010,739
Other investment on stocks	1,239,497	261,994
Others	208	601,513
Total	129,265,827	135,210,776

As at December 31, 2019 and December 31, 2018, all financial assets at fair value through profit or loss of the Group were held for trading.

As at December 31, 2019 and December 31, 2018, no financial assets at fair value through profit or loss were pledged to other banks under any repurchase agreements.

Debt securities traded within China domestic interbank bond market are included under the category of “Listed outside Hong Kong”.

Financial assets at fair value through profit or loss analyzed by categories of the issuer were as follows:

	December 31, 2019	December 31, 2018
Issuers in the PRC		
– Government	9,951,600	6,762,199
– Banks and other financial institutions	101,387,607	107,108,985
– Corporates	17,926,412	20,738,079
Accrued interest	208	601,513
Total	129,265,827	135,210,776

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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17 Derivative Financial Instruments

Below listed the nominal value and fair value of unmatured derivative financial instruments held for trading:

	Nominal value	Fair value	
		Asset	Liability
December 31, 2019			
Swap contracts	2,028,549,870	13,352,653	(14,313,164)
Option contracts	95,789,498	491,690	(428,834)
Forward contracts	4,572,610	47,964	(169,118)
Total	2,128,911,978	13,892,307	(14,911,116)
December 31, 2018			
Swap contracts	1,785,860,447	9,235,537	(10,095,239)
Option contracts	57,220,209	809,859	(425,225)
Forward contracts	6,216,931	77,965	(127,707)
Total	1,849,297,587	10,123,361	(10,648,171)

18 Loans and Advances to Customers

(a) Loans and advances to customers:

	December 31, 2019	December 31, 2018
Loans and advances at amortized cost		
Corporate loans and advances		
– Corporate loans	641,781,658	575,687,278
– Trade finance	14,433,900	22,066,506
Subtotal	656,215,558	597,753,784
Personal loans and advances		
– Personal business	129,706,788	106,843,459
– Residential mortgage loans	52,956,169	44,449,992
– Consumer loans	93,014,034	50,114,178
Subtotal	275,676,991	201,407,629
Gross amount of loans and advances at amortized cost	931,892,549	799,161,413

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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18 Loans and Advances to Customers *(continued)*

(a) Loans and advances to customers: *(continued)*

	December 31, 2019	December 31, 2018
Loans and advances at fair value through other comprehensive income		
Corporate loans and advances		
– Trade finance	23,394,460	5,504,677
Discounted bills	71,631,631	57,707,010
Subtotal of loans and advances at fair value through other comprehensive income	95,026,091	63,211,687
Subtotal of loans and advances	1,026,918,640	862,373,100
Fair value changes on financial assets at fair value through other comprehensive income	212,316	146,906
Accrued interest	3,040,058	2,712,663
Gross amount of loans and advances	1,030,171,014	865,232,669
Less: ECL allowance of Loans and advances at amortized cost	(31,060,630)	(28,029,034)
Less: ECL allowance of Loans and advances at fair value through other comprehensive income	(177,649)	(127,745)
Gross amount of ECL	(31,238,279)	(28,156,779)
Net amount of loans and advances	998,932,735	837,075,890

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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18 Loans and Advances to Customers *(continued)*

(b) Loans and advances to customers analyzed by expected credit losses provisions are as follows:

	December 31, 2019			Total
	Stage 1	Stage 2	Stage 3	
Carrying amount of loans and advances measured at amortized cost	891,929,581	25,627,448	14,335,520	931,892,549
Less: ECL allowance of Loans and advances measured at amortized cost	(16,372,518)	(5,280,148)	(9,407,964)	(31,060,630)
Subtotal	875,557,063	20,347,300	4,927,556	900,831,919
Carrying amount of loans and advances at fair value through other comprehensive income	94,970,933	-	55,158	95,026,091
Fair value through other comprehensive income	212,265	-	51	212,316
Less: ECL allowance of Loans and advances at fair value through other comprehensive income	(135,199)	-	(42,450)	(177,649)
Subtotal	95,047,999	-	12,759	95,060,758
Total	970,605,062	20,347,300	4,940,315	995,892,677

	December 31, 2018			Total
	Stage 1	Stage 2	Stage 3	
Carrying amount of loans and advances measured at amortized cost	774,569,070	13,959,589	10,632,754	799,161,413
Less: ECL allowance of Loans and advances measured at amortized cost	(17,149,125)	(3,381,859)	(7,498,050)	(28,029,034)
Subtotal	757,419,945	10,577,730	3,134,704	771,132,379
Carrying amount of loans and advances at fair value through other comprehensive income	63,152,998	-	58,689	63,211,687
Fair value through other comprehensive income	146,823	-	83	146,906
Less: ECL allowance of Loans and advances at fair value through other comprehensive income	(91,748)	-	(35,997)	(127,745)
Subtotal	63,208,073	-	22,775	63,230,848
Total	820,628,018	10,577,730	3,157,479	834,363,227

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
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18 Loans and Advances to Customers *(continued)*

(c) Loans listed by staging for allowance:

December 31, 2019	ECL allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loans and advances to customers	986,900,514	25,627,448	14,390,678	1,026,918,640
– Corporate loans and advances	715,084,824	24,251,379	11,905,446	751,241,649
– Personal loans and advances	271,815,690	1,376,069	2,485,232	275,676,991
Allowance for impairment losses	(16,507,717)	(5,280,148)	(9,450,414)	(31,238,279)
Change in fair value	212,265	–	51	212,316
Accrued interest	2,952,640	87,418	–	3,040,058
Loans and advances to customers	973,557,702	20,434,718	4,940,315	998,932,735
December 31, 2018	ECL allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loans and advances to customers	837,722,068	13,959,589	10,691,443	862,373,100
– Corporate loans and advances	638,666,596	12,936,807	9,362,068	660,965,471
– Personal loans and advances	199,055,472	1,022,782	1,329,375	201,407,629
Allowance for impairment losses	(17,240,873)	(3,381,859)	(7,534,047)	(28,156,779)
Change in fair value	146,823	–	83	146,906
Accrued interest	2,668,146	44,517	–	2,712,663
Loans and advances to customers	823,296,164	10,622,247	3,157,479	837,075,890

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For the year ended December 31, 2019
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19 Financial Investments

(a) Financial assets at fair value through other comprehensive income

	December 31, 2019	December 31, 2018
Listed outside Hong Kong		
– Debt securities	51,233,320	40,301,644
– Interbank certificates of deposit	1,512,038	6,463,327
– Other debt instrument	29,539,223	44,207,936
Unlisted		
– Equity securities	689,500	275,000
Accrued interest	637,019	637,885
Total	83,611,100	91,885,792

Financial assets at fair value through other comprehensive income analyzed by issuer are as follows:

	December 31, 2019	December 31, 2018
By issuer:		
– Government	39,765,431	18,468,635
– Banks and other financial institutions	10,735,111	23,079,325
– Corporates	31,784,039	49,424,947
Subtotal	82,284,581	90,972,907
Equity securities	689,500	275,000
Accrued interest	637,019	637,885
Total	83,611,100	91,885,792

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19 Financial Investments *(continued)*

(b) Financial assets measured at amortized cost

	December 31, 2019	December 31, 2018
Listed outside Hong Kong		
– Debt securities	185,733,996	134,131,745
Unlisted		
– Trust plans and asset management plans	127,781,308	206,198,925
– Wealth management products	–	1,041,819
Accrued interest	4,811,525	3,955,239
Subtotal	318,326,829	345,327,728
Less: ECL allowance	(13,166,404)	(7,491,318)
Financial assets measured at amortized cost- Net	305,160,425	337,836,410

Financial assets measured at amortized cost analyzed by issuer are as follows:

	December 31, 2019	December 31, 2018
By issuer:		
– Government	102,965,281	94,674,004
– Banks and other financial institutions	52,261,388	35,275,604
– Trust plans and asset management plans issued by financial institution other than bank (i)	127,781,308	206,198,925
– Wealth management products issued by other banks	–	1,041,819
– Others	30,507,327	4,182,137
Accrued interest	4,811,525	3,955,239
Subtotal	318,326,829	345,327,728
Less: ECL allowance	(13,166,404)	(7,491,318)
Financial assets measured at amortized cost- Net	305,160,425	337,836,410

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For the year ended December 31, 2019
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19 Financial Investments *(continued)*

(b) Financial assets measured at amortized cost *(continued)*

(i) Trust plans and asset management plans can be analyzed by secured and unsecured as follows:

	December 31, 2019	December 31, 2018
Secured:		
Guaranteed by third-party companies	12,300,645	16,412,385
Pledged by certificates of deposit	2,069,420	2,818,743
Collateralised by properties	13,641,896	18,701,957
Subtotal	28,011,961	37,933,085
Unsecured:		
Financial institutions	3,799,250	40,834,106
Corporates	95,970,097	127,431,734
Subtotal	99,769,347	168,265,840
Total	127,781,308	206,198,925

20 Investment In Subsidiaries

The Bank invested RMB1.53 billion in cash to establish Zheyin Financial Leasing Co., Ltd. ("Zheyin Financial Leasing") with an entity interest of 51% in 2017. Zheyin Financial Leasing was co-funded by the Bank, Zhejiang Provincial Financial Holdings and Zhoushan Marine Comprehensive Development And Investment Co., Ltd. with a registered capital of RMB3 billion. Since the Bank has control over Zheyin Financial Leasing, the Bank included it in the scope of consolidated financial statements. The detailed information of Zheyin Financial Leasing is as follows:

Name of entity	Place of incorporation	Registered address	Principal activities	Registered capital (thousand)	Proportion of equity interest (direct)
Zheyin Financial Leasing Co., Ltd.	Zhejiang Province	Zhoushan	Finance industry	3,000,000	51%

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21 Property, Plant And Equipment

	Buildings and improvements	Equipment	Motor vehicles	Leased fixed assets in the operating leases	Construction in progress	Total
Cost						
At January 1, 2019	6,831,366	1,580,999	166,015	606,535	2,634,664	11,819,579
Additions	1,464,941	209,082	10,001	456,806	966,817	3,107,647
Transfer from Construction in progress	691,079	2,739	-	-	-	693,818
Transfer to Property, plant and equipment	-	-	-	-	(693,818)	(693,818)
Transfer to long-term prepaid expenses	-	-	-	-	(126,056)	(126,056)
Disposals	(1,943)	(41,237)	(21,153)	(5,904)	-	(70,237)
At December 31, 2019	8,985,443	1,751,583	154,863	1,057,437	2,781,607	14,730,933
Accumulated depreciation						
At January 1, 2019	(651,258)	(689,169)	(100,347)	(21,652)	-	(1,462,426)
Charge for the year	(324,551)	(263,897)	(19,015)	(44,315)	-	(651,778)
Disposals	1,110	36,601	18,222	628	-	56,561
At December 31, 2019	(974,699)	(916,465)	(101,140)	(65,339)	-	(2,057,643)
Net book value						
At December 31, 2019	8,010,744	835,118	53,723	992,098	2,781,607	12,673,290
Cost						
At January 1, 2018	4,145,786	1,106,166	174,972	347,120	1,855,733	7,629,777
Additions	1,372,244	518,700	12,725	259,415	2,355,930	4,519,014
Transfer from Construction in progress	1,360,968	-	-	-	-	1,360,968
Transfer to Property, plant and equipment	-	-	-	-	(1,360,968)	(1,360,968)
Transfer to long-term prepaid expenses	-	-	-	-	(216,031)	(216,031)
Disposals	(47,632)	(43,867)	(21,682)	-	-	(113,181)
At December 31, 2018	6,831,366	1,580,999	166,015	606,535	2,634,664	11,819,579
Accumulated depreciation						
At January 1, 2018	(480,636)	(441,573)	(99,625)	(5,240)	-	(1,027,074)
Charge for the year	(175,796)	(267,938)	(20,597)	(16,412)	-	(480,743)
Disposals	5,174	20,342	19,875	-	-	45,391
At December 31, 2018	(651,258)	(689,169)	(100,347)	(21,652)	-	(1,462,426)
Net book value						
At December 31, 2018	6,180,108	891,830	65,668	584,883	2,634,664	10,357,153

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22 Right-Of-Use Assets

	Land use rights	Buildings	Others	Total
Cost				
At December 31, 2018	N/A	N/A	N/A	N/A
Impact on accounting policy changes	633,294	3,298,396	17,207	3,948,897
At January 1, 2019	633,294	3,298,396	17,207	3,948,897
Additions	1,316,647	520,752	10,558	1,847,957
Less	-	(25,192)	-	(25,192)
At December 31, 2019	1,949,941	3,793,956	27,765	5,771,662
Accumulated depreciation				
At December 31, 2018	N/A	N/A	N/A	N/A
Impact on accounting policy changes	(99,102)	-	-	(99,102)
At January 1, 2019	(99,102)	-	-	(99,102)
Additions	(25,431)	(562,814)	(4,090)	(592,335)
Less	-	830	-	830
At December 31, 2019	(124,533)	(561,984)	(4,090)	(690,607)
Net book value				
At December 31, 2019	1,825,408	3,231,972	23,675	5,081,055
At January 1, 2019	534,192	3,298,396	17,207	3,849,795

For short-term leases and low-value asset leases, the Group chooses not to recognize the right-of-use assets and lease liabilities. As of December 31, 2019, 2019, the Group recognized short-term lease expenses and low-value asset lease expenses of RMB120,791 thousand.

As of December 31, 2019, the amount of lease contracts signed by the Group but the lease period has not yet started is not significant.

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23 Deferred Income Taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets against income tax liabilities and when the deferred income taxes are related to income taxes levied by the same taxation authority. The deferred tax assets and liabilities recognized are as follows:

	December 31, 2019		December 31, 2018	
	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference
Deferred income tax assets:				
ECL allowance and provisions	11,385,639	45,542,554	7,913,615	31,654,460
Staff salary and welfare payable	829,643	3,318,570	820,399	3,281,595
Unrealised losses of derivative instruments	248,248	992,992	59,876	239,505
Others	171,836	687,349	98,121	392,482
Subtotal	12,635,366	50,541,465	8,892,011	35,568,042
Deferred income tax liabilities:				
Depreciation of fixed assets	(87,461)	(349,843)	-	-
Unrealised gains of financial instruments at fair value through profit or loss	(411,832)	(1,647,329)	(404,568)	(1,618,275)
Unrealised gains of financial assets at fair value through other comprehensive income	(305,446)	(1,221,784)	(167,778)	(671,109)
Subtotal	(804,739)	(3,218,956)	(572,346)	(2,289,384)
Net deferred income tax	11,830,627	47,322,509	8,319,665	33,278,658

The movements for deferred tax assets and liabilities recognized are as follows:

	December 31, 2019	December 31, 2018
Balance at the end of the last year	8,319,665	7,366,808
Impact on accounting policy changes	-	72,876
Balance at beginning of the year	8,319,665	7,439,684
Charged to profit or loss(Note 12)	3,648,630	1,146,876
Charged to other comprehensive income		
– Fair value changes of financial assets at fair value through other comprehensive income (Note 34)	(137,668)	(266,895)
At end of the year	11,830,627	8,319,665

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24 Other Assets

	December 31, 2019	December 31, 2018
Finance lease receivables	25,233,549	16,209,801
Funds to be settled	1,895,312	589,643
Guaranteed deposits	832,254	787,066
Other receivables	829,882	3,459,190
Long-term prepaid expenses	723,576	870,749
Prepayment of land and building and deposit	707,909	1,903,780
Prepayment of improvements and equipment	488,824	728,185
Interest receivable	480,129	225,481
Intangible assets (i)	267,431	756,527
Others	740,249	498,552
Total	32,199,115	26,028,974

(i) Intangible assets

	Land use rights	Computer software	Total
Cost			
At December 31, 2018	633,294	433,019	1,066,313
Impact on accounting policy changes	(633,294)	-	(633,294)
At January 1, 2019	-	433,019	433,019
Additions	-	89,648	89,648
At December 31, 2019	-	522,667	522,667
Accumulated amortization			
At December 31, 2018	(99,102)	(210,684)	(309,786)
Impact on accounting policy changes	99,102	-	99,102
At January 1, 2019	-	(210,684)	(210,684)
Amortization for the year	-	(44,552)	(44,552)
At December 31, 2019	-	(255,236)	(255,236)
Net book value			
At December 31, 2019	-	267,431	267,431

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24 Other Assets *(continued)*

(i) Intangible assets *(continued)*

	Land use rights	Computer software	Total
Cost			
At January 1, 2018	633,294	372,857	1,006,151
Additions	–	60,376	60,376
Reduction	–	(214)	(214)
At December 31, 2018	633,294	433,019	1,066,313
Accumulated amortization			
At January 1, 2018	(82,833)	(169,757)	(252,590)
Amortization for the year	(16,269)	(40,987)	(57,256)
Reduction	–	60	60
At December 31, 2018	(99,102)	(210,684)	(309,786)
Net book value			
At December 31, 2018	534,192	222,335	756,527

25 Due to Banks and Other Financial Institutions

	December 31, 2019	December 31, 2018
Deposits from banks and other financial institutions	131,618,760	169,314,859
Securities sold under repurchase agreements	88,502,000	62,178,272
Placements from banks and other financial institutions	33,594,111	37,932,384
Notes sold under repurchase agreements	10,082,966	8,258,605
Accrued interest	3,072,184	2,314,961
Total	266,870,021	279,999,081

26 Financial Liabilities at Fair Value Through Profit or Loss

	December 31, 2019	December 31, 2018
Financial liabilities related to precious metal contracts	9,416,262	9,906,816
Short sell of borrowed securities	5,691,837	2,522,202
Accrued interest	35,248	54,195
Total	15,143,347	12,483,213

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27 Customer Deposits

	December 31, 2019	December 31, 2018
Corporate demand deposits	332,440,330	308,220,456
Corporate time deposits	637,177,814	555,965,785
Individual demand deposits	44,330,520	40,502,374
Individual time deposits	115,331,893	57,161,099
Other deposits	2,596,013	2,577,816
Accrued interest	11,864,033	10,342,873
Total	1,143,740,603	974,770,403
Including: Pledged deposits held as collateral	124,733,562	135,020,123

28 Provisions

	January 1, 2019	Provision for this year	Others	December 31, 2019
Off-balance sheet provisions	3,118,177	2,422,259	3,495	5,543,931
	January 1, 2018	Provision for this year	Others	December 31, 2018
Off-balance sheet provisions	3,103,790	(1,559)	15,946	3,118,177

29 Debt Securities Issued

	December 31, 2019	December 31, 2018
Fixed rate financial bonds – 2019 (i)	–	4,500,000
Fixed rate financial bonds – 2020 (ii)	5,000,000	5,000,000
Fixed rate financial bonds – 2021 (iii)	10,000,000	10,000,000
Fixed-rate offering-tier 2 capital bond – 2026 (iv)	10,000,000	10,000,000
Fixed-rate offering-tier 2 capital bond – 2028 (v)	15,000,000	15,000,000
Fixed rate financial bonds – 2021 (vi)	20,000,000	20,000,000
Fixed-rate green financial bonds – 2022 (vii)	5,000,000	–
Interbank certificates of deposit	140,149,527	180,268,577
Accrued interest	1,091,663	1,228,186
Total	206,241,190	245,996,763

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29 Debt Securities Issued *(continued)*

- (i) Fixed-rate financial bond of RMB4.5 billion was issued on March 10, 2014, with a maturity of 5 years and a fixed coupon rate of 5.70% per annum payable annually. The Bank has no option to redeem the bond before maturity, the bond matured on March 11, 2019.
- (ii) Fixed-rate financial bond of RMB5 billion was issued on December 24, 2015, with a maturity of 5 years and a fixed coupon rate of 3.88% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (iii) Fixed-rate financial bond of RMB10 billion was issued on February 24, 2016, with a maturity of 5 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (iv) Fixed-rate offering-tier 2 capital bond of RMB10 billion was issued on September 14, 2016, with a maturity of 10 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has an option to redeem all the debts at book value at the year end of 2021.
- (v) Fixed-rate offering-tier 2 capital bond of RMB15 billion was issued on June 13, 2018, with a maturity of 10 years and a fixed coupon rate of 4.80% per annum payable annually. The Bank has an option to redeem all the debts at book value at the year end of 2023.
- (vi) Fixed-rate financial bond of RMB20 billion was issued on August 27, 2018, with a maturity of 3 years and a fixed coupon rate of 4.39% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (vii) Fixed-rate green financial bond of RMB5 billion was issued on September 16, 2019, with a maturity of 3 years and a fixed coupon rate of 3.42%. The Bank has no option to redeem the bond before maturity.

As at December 31, 2019, there were no defaults on principal and interest or other breaches to the agreements with respect to issued bonds or interbank certificates of deposit for the Group.

30 Other Liabilities

	December 31, 2019	December 31, 2018
Salary and welfare payable (i)	4,439,393	4,005,720
Settlement fund	3,967,033	5,468,191
Security deposits from finance lease	1,823,728	1,156,966
Notes payable	928,341	1,210,427
Tax payable (ii)	703,408	710,366
Promissory notes and certified cheques issued	30,707	100,147
Deferred income	24,938	34,200
Dividends payable	5,517	10,000
Others	1,311,247	2,631,764
Total	13,234,312	15,327,781

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30 Other Liabilities *(continued)*

(i) Salary and welfare payable

	December 31, 2019	December 31, 2018
Salary, bonus, allowance and subsidies	4,355,484	3,933,705
Labor union fee and staff education expenses	83,909	72,015
Total	4,439,393	4,005,720

(ii) Tax payable

	December 31, 2019	December 31, 2018
Value-added tax payable	439,132	577,182
Others	264,276	133,184
Total	703,408	710,366

31 Share Capital and Capital Reserve

All shares of the Bank issued are fully paid ordinary shares, with par value of RMB1 per share. The Bank's number of shares is as follows:

	December 31, 2019	December 31, 2018
Number of shares authorised, issued and fully paid at par value (in thousands) (i)	21,268,697	18,718,697

- (i) According to the Bank's proposal of the board of directors on March 10, 2017 and the approval of the general meeting of shareholders on May 31, 2017, the Bank applied for the issuance of no more than 759,000,000 H shares to investors overseas. The application for the Bank's capital increase plan was approved by the China Banking Regulatory Commission (Yin Jian Fu [2018] No. 16 Document). With regard to this capital increase, as at March 29, 2018, the Bank received a total of RMB2,914,545 thousand from the shareholders, including an increase of RMB759,000 thousand in share capital and a capital reserve of RMB2,155,545 thousand.
- (ii) According to the "Reply for the Approval of the Initial Public Offering of Zheshang Bank Co., Ltd." (China Securities Regulatory Commission [2019] No.1846) issued by the China Securities Regulatory Commission on October 11, 2019, the Bank was approved to issue 2,550,000,000 RMB ordinary shares at a price of RMB4.94 per share. The above funds were in place on November 20, 2019, and verified by PricewaterhouseCoopers Zhong Tian LLP with a capital verification report of PwC ZT Yan Zi (2019) No. 0685. The total funds raised this time amounted to RMB12,597,000 thousand, the Bank's share capital increased by RMB2,550,000 thousand, and after deducting the issuing cost of RMB159,057 thousand, the remaining RMB9,887,943 thousand was included in the capital reserve (share premium).

As at December 31, 2019, the Group's capital reserve is shown as follows:

	December 31, 2019	December 31, 2018
Share premium (ii)	32,018,296	22,130,353

- (iii) The Bank recognized the share premium after deducting direct issuing costs (including underwriting fees and some other professional agency fees) as capital reserve.

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32 Other Equity Instruments

(a) List of preference shares issued

Equity instruments in issue	Issue date	Dividend rate	Original issuance price per share (USD)	Number (Share)	Total (USD in thousands)	Total (RMB in thousands)	Maturity date	Conversion condition
Offshore preference shares	March 29, 2017	The initial annual dividend rate is 5.45% and is subsequently subject to reset per agreement	20	108,750,000	2,175,000	14,989,013	No maturity date	No conversion during the period
					Minus: Issuance fee	(31,349)		
					Book value	14,957,664		

(b) Movement of preference shares issued

	December 31, 2018	Addition	Reduction	December 31, 2019
Number (share)	108,750,000	–	–	108,750,000
Total (USD in thousands)	2,175,000	–	–	2,175,000
Total (RMB in thousands)	14,957,664	–	–	14,957,664

(c) Main terms of preference shares

(i) Dividend

The offshore preference shares dividend will be calculated on following dividend yields:

- from and including the issue date to but excluding the first reset date, at the rate of 5.45% per annum; and
- thereafter, in respect of the period from and including the first reset date and each reset date falling thereafter to but excluding the immediately following reset date, at the relevant reset dividend rate.

The dividend for offshore preference shares is non-cumulative.

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32 Other Equity Instruments *(continued)*

(c) Main terms of preference shares *(continued)*

(ii) Conditions to distribution of dividends

On the premise of ensuring that the Bank's capital adequacy ratio meets regulatory requirements, the Bank has a distributable after-tax profit after making up previous years' losses, contributing to the statutory surplus reserve and making statutory general provisions (the distributable after-tax profit of the Bank comes from the retained earnings in the financial statements prepared in accordance with Chinese accounting standards or IFRSs, whichever is lower), and the Bank's board of directors has announced the distribution in accordance with the Bank's articles of association. In the case of the dividend resolution, the Bank may distribute such dividends to shareholders of overseas preference shares.

Subject to a resolution to be passed at the shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend otherwise scheduled to be paid on a dividend payment date in the manner set out in the conditions. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness that are due.

Under the circumstances where the Bank cancels a dividend in whole or in part, in accordance with such shareholders' resolution and the conditions, the Bank would not make any distribution or dividend in cash or otherwise on, and will procure that no distribution or dividend in cash or otherwise is made on, any ordinary shares or on any other class of shares or obligations that ranks or is expressed to rank junior to the offshore preference shares.

(iii) Conversion

If any trigger event occurs, the Bank shall (having notified and obtained the consent of the CBIRC but without the need for the consent of the offshore preference shareholders or the ordinary shareholders):

- 1) cancel any dividend in respect of the relevant loss absorption amount that is accrued but unpaid up to and including the conversion date; and
- 2) irrevocably and compulsorily convert with effect from the conversion date all or some of the offshore preference shares into such number of H shares as is equal to the loss absorption amount held by the offshore preference shareholders (as converted into Hong Kong dollars at the fixed exchange rate of USD\$1.00 to HK\$7.7544) divided by the effective conversion price rounded down (to the extent permitted by applicable laws and regulations) to the nearest whole number of H shares, and any fractional share less than one H share resulting from the conversion will not be issued and no cash payment or other adjustment will be made in lieu thereof.

The "trigger event" refers to an additional tier one capital instrument trigger event or a non-viability trigger event, as the case may be. The "additional tier one capital instrument trigger event" refers to the occasion where the Bank's core tier one capital adequacy ratio of the Bank has fallen to 5.125% or below. The "non-viability trigger event" is defined as the earlier of: (i) the CBIRC having decided that without a conversion or write-off, the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.

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32 Other Equity Instruments *(continued)*

(c) Main terms of preference shares *(continued)*

(iv) Order of distribution and liquidation method

Upon the winding-up of the Bank, the offshore preference shareholders shall rank: (a) junior to holders of all liabilities of the Bank including subordinated liabilities and obligations issued or guaranteed by the Bank that rank, or are expressed to rank, senior to the offshore preference shares; (b) equally in all respects with each other and without preference among themselves and with the holders of parity obligations; and (c) in priority to the ordinary shareholders.

On such winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the conditions have been made, be applied to the claims of the shareholders so that the claims of the offshore preference shareholders shall be *pari passu* with the claims of holders of any parity obligations and in priority to the claims of the ordinary shareholders.

(v) Redemption

The Bank may, subject to obtaining the CBIRC approval and compliance with the conditions to the distribution of dividends set out in the conditions and redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem all or some of the offshore preference shares on the first reset date and on any dividend payment date thereafter. The redemption price for each offshore preference share shall be the aggregate of an amount equal to its liquidation preference plus any declared but unpaid dividends in respect of the period from (and including) the immediately preceding dividend payment date to (but excluding) the date scheduled for redemption.

(d) Information related to the holders of the equity instrument

	December 31, 2019	December 31, 2018
Attributable to shareholders of the Bank	126,246,411	100,885,498
Equity attribute to ordinary shareholders of the Bank	111,288,747	85,927,834
Equity attribute to other equity holders of the Bank	14,957,664	14,957,664
Attributable to non-controlling interest	1,781,258	1,563,039

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33 Surplus Reserve and Statutory General Reserve

	Surplus reserve (i)	Statutory general reserve (ii)
Balance at January 1, 2019	6,024,739	18,461,991
Appropriation to the statutory surplus reserve	1,269,474	–
Appropriation to the statutory general reserve	–	992,253
Balance at December 31, 2019	7,294,213	19,454,244
Balance at January 1, 2018	4,882,975	17,243,730
Appropriation to the statutory surplus reserve	1,141,764	–
Appropriation to the statutory general reserve	–	1,218,261
Balance at December 31, 2018	6,024,739	18,461,991

- (i) Surplus reserve
Pursuant to the relevant PRC regulations, the Bank is required to transfer 10% of its net profit to the non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. Subject to the approval of general meeting of shareholders, the statutory surplus reserve can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserve amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserve after such capitalization is not less than 25% of the ordinary share capital before capitalization.
- (ii) Statutory general reserve
Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions"(the "Requirement"), effective on July 1, 2012, on the basis of impairment allowance, the Bank establishes a statutory general reserve within equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve is treated as profit distribution and is an integral part of shareholders' equity, which should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement.

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34 Investment Revaluation Reserve

	Pre-tax amount	Tax charge	Net of tax
Balance at December 31, 2018	1,557,133	(167,778)	1,389,355
Items that cannot be reclassified subsequently to profit or loss:			
Fair value changes in financial assets at fair value through other comprehensive income	164,500	(41,125)	123,375
Items that may be reclassified subsequently to profit or loss:			
Fair value changes in financial assets at fair value through other comprehensive income	1,843,676	(460,919)	1,382,757
Amounts previously recognized in other comprehensive income reclassified to profit or loss	(1,207,711)	301,928	(905,783)
ECL of financial assets at fair value through other comprehensive income	(249,791)	62,448	(187,343)
Exchange difference on translation of foreign financial statements	465,606	–	465,606
Balance at December 31, 2019	2,573,413	(305,446)	2,267,967
	Pre-tax amount	Tax charge	Net of tax
Balance at December 31, 2017	(2,071,756)	517,939	(1,553,817)
Impact on accounting policy changes	1,675,287	(418,822)	1,256,465
Balance at January 1, 2018	(396,469)	99,117	(297,352)
Items that may be reclassified subsequently to profit or loss:			
Fair value changes in financial assets at fair value through other comprehensive income	776,381	(194,095)	582,286
Amounts previously recognized in other comprehensive income reclassified to profit or loss	(229,989)	57,498	(172,491)
ECL of financial assets at fair value through other comprehensive income	521,187	(130,298)	390,889
Exchange difference on translation of foreign financial statements	886,023	–	886,023
Balance at December 31, 2018	1,557,133	(167,778)	1,389,355

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35 Dividends

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:

- Making up prior year's cumulative losses, if any;
- Appropriation to the non-distributable statutory surplus reserve of 10% of the net profit of the Bank.

In accordance with the 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 lesser of (i) the retained profits determined in accordance with the Chinese Accounting Standard and (ii) the retained profit determined in accordance with IFRS.

- (a) As approved by shareholders in 2018 Annual General Meeting on May 27 2019, the Bank didn't distribute dividends for ordinary shares in 2018.

As approved by shareholders in 2017 Annual General Meeting on June 27, 2018, the Bank declared a cash dividend of RMB1.7 (before tax) for each 10 ordinary shares, with total amount of RMB3,182,178 thousand.

- (b) On 18 March 2019, as approved by the resolution of the Board of Directors, the Bank would distribute dividends to overseas preference shareholders. A total dividend of USD132 million (tax inclusive) was distributed, calculated at a dividend rate of 5.45% (after tax) for overseas preference shares. The dividend issuance date was 29 March 2019.

36 Non-Controlling Interest

The Group's non-controlling interest is listed as follows:

	December 31, 2019	December 31, 2018
Zheyin Financial Leasing Co., Ltd.	1,781,258	1,563,039

As at December 31, 2019, the non-controlling interest of the Group is not material.

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37 The equity in other entities

37.1 Unconsolidated structured entities

(a) Unconsolidated structured entities managed by the Group

The unconsolidated structure entities issued and managed by the Group are wealth management products issued and managed by the Group as an agent. Based on the analysis and research of the potential target customers, the Group designs and offers wealth management products to meet the needs of the customers. The raised funds were invested in relevant financial markets or financial products in accordance with the contractual term of the product agreements. Investment returns would be allocated to investors according to contractual agreements. The Group receives commission income as the manager of these wealth management products.

The wealth management products sponsored and managed by the Group were mainly invested in bonds and money market instruments, non-standard debt assets and equity investment. The Group set admission principles for investment structures, underlying investments, withdrawing and security measures of these investments and managed them through pre-investment due diligence, business review, draw down approval and post-investment monitoring, etc.

As of December 31, 2019, the balance of unconsolidated wealth management products sponsored and managed by the Group is RMB330,480 million (December 31, 2018: RMB340,317 million). The Group's maximum exposure to these unconsolidated structured entities is presented by management fees receivable which is insignificant. As of December 31, 2019 the Group's intermediate business income from providing management services for the non-principal guaranteed wealth management products was RMB581 million (December 31, 2018: RMB1,390 million).

During the years ended December 31, 2019 and 2018, the Group did not provide financial or other support to these structured entities. The Group did not have any current intention to provide financial or other support to these structured entities, including intentions to assist these structured entity in obtaining financial support.

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37 The equity in other entities *(continued)*

37.1 Unconsolidated structured entities *(continued)*

(b) Unconsolidated structured entities invested by the Group

As at December 31, 2019 the Group invests in a number of unconsolidated structured entities mainly consisting of wealth management products, trust plans, asset-backed securities, funds and the asset management plans sponsored and managed by other independent third parties.

During the year ended December 31, 2019, the Group did not provide financial or other support to these structured entities.

The table below sets out the carrying value and the Group's maximum exposure (including accrued interest) to these unconsolidated structured entities.

	Carrying value	Maximum exposure to loss
At December 31, 2019		
Financial assets at fair value through profit or loss		
– Fund investments	86,142,785	86,142,785
– Trust plans and asset management plans	1,720,737	1,720,737
– Asset backed securitization	1,459,199	1,459,199
Financial assets at amortized cost		
– Trust plans and asset management plans	127,781,308	129,283,824
– Asset backed securitization	327	327
At December 31, 2018		
Financial assets at fair value through profit or loss		
– Fund investments	82,342,692	82,342,692
– Asset backed securitization	1,070,977	1,070,977
– Trust plans and asset management plans	2,078,695	2,078,695
– Wealth management products sponsored by other banks	2,010,739	2,069,689
Financial assets at fair value through other comprehensive income		
– Asset backed securitization	102,880	102,880
Financial assets at amortized cost		
– Asset backed securitization	31,429	31,429
– Wealth management products sponsored by other banks	1,041,819	1,079,080
– Trust plans and asset management plans	206,198,925	207,361,833

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38 Credit Commitments and Financial Guarantee, Other Commitments and Contingent Liabilities

(a) Credit commitments and financial guarantee

	December 31, 2019	December 31, 2018
Acceptances	283,046,635	235,898,843
Letters of credit issued	106,860,484	108,843,659
Letters of guarantee issued	24,718,510	28,335,149
– Letters of financial guarantee	15,603,321	18,950,459
– Letters of non-financial guarantee	9,115,169	9,381,471
– Letters of guarantee	20	3,219
Block chain confirmation	96,108,087	65,675,367
Corporate loan commitments	802,922	690,932
Unused credit card limit	14,578,100	17,648,356
Total	526,114,738	457,092,306

(b) Capital commitments

	December 31, 2019	December 31, 2018
Authorised but not contracted	5,505,017	5,673,455
Contracted but not yet incurred	687,352	1,996,036
Total	6,192,369	7,669,491

(c) Operating leasing commitments

The future minimum lease payments under irrevocable rental contract are listed as follows:

	December 31, 2019	December 31, 2018
Within one year	N/A	698,228
Between one year and five years	N/A	2,222,839
More than five years	N/A	1,318,208
Total	N/A	4,239,275

(d) Legal proceedings

In 2019 and 2018, the Group has certain legal proceedings in its normal business, but the management of the Group believes the legal proceedings initiated against the Group does not have material impact on the Group's financial position or operations.

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39 Assets Pledged

	December 31, 2019	December 31, 2018
Bonds	84,077,772	70,481,872
Bills	10,121,088	8,305,166
Corporate loans	107,657,000	66,370,000
Total	201,855,860	145,157,038

Assets above are pledged as collateral mainly for the repurchase agreements with other financial institutions, securities lending and medium-term lending facility.

40 Credit Risk-Weighted Amount of Financial Guarantees and Credit Related Commitments

	December 31, 2019	December 31, 2018
Financial guarantees and credit related commitments	98,193,584	99,307,827

The credit risk-weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBIRC and depends on the status of the counterparty and the maturity characteristics. The risk weightings used range from 0% to 100% for contingent liabilities and credit related commitments.

41 Cash and Cash Equivalents

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:

	December 31, 2019	December 31, 2018
Cash	527,636	519,035
Surplus deposit reserve with central bank	22,219,189	20,480,043
Due from banks and other financial institutions	24,197,189	16,639,735
Total	46,944,014	37,638,813

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42 Related Party Transactions

Related party transactions are proceeded in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties. Transactions with related party are as follows:

(a) Transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group

Name of Shareholders	Shareholding Ratio (%)	
	December 31, 2019	December 31, 2018
Zhejiang Provincial Financial Holdings Co., Ltd.	12.49	14.19

(1) Balance and relevant interest rate spectrum of transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group are as follows:

	December 31, 2019	December 31, 2018
Customer deposits	8,490,516	6,567,161
Loans and advances to customers	50,000	-
Provide guarantees or pledges for loans of giving-credit customers	3,426,732	5,489,062
Financial assets measured at amortized cost	2,500,000	4,246,750
Financial assets at fair value through profit or loss	1,840,678	1,868,938
Rate of loans and advances to customers	5.22%	-
Rate of customer deposits	0.35%-4.32%	0.35%-4.12%

(2) Transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group during the year are as follows:

	Year ended December 31,	
	2019	2018
Interest income	935	-
Interest expense	(541,595)	(249,368)
Net fee and commission income	9	9,768

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42 Related Party Transactions *(continued)*

(b) Transactions with other main shareholders and their related parties

Other major shareholders refer to those shareholders who hold or control more than 5% of the Group's shares or voting rights and corporations that has sent directors, supervisors or senior management to the Group (excluding Zhejiang Provincial Financial Holdings).

- (1) Balance and relevant interest rate spectrum of transactions with other main shareholders and their related parties are as follows:

	December 31, 2019	December 31, 2018
Customer deposits	1,431,644	730,186
Loans and advances to customers	3,156,759	811,650
Acceptances	9,660	2,114
Domestic letter of credit	417,000	1,521,000
Receivables commitment	1,459,610	2,043,171
Provide guarantees or pledges for loans of giving-credit customers	5,997,173	4,110,947
Financial assets measured at amortized cost	639,750	-
Financial assets at fair value through profit or loss	3,547,385	3,588,728
Rate of loans and advances to customers	3.10%-7.51%	3.00%-7.50%
Rate of customer deposits	0.01%-5.10%	0.35%-5.10%

- (2) Transactions with other main shareholders and their related parties during the year are as follows:

	Year ended December 31, 2019	2018
Interest income	114,815	88,051
Interest expense	(25,798)	(32,638)
Net fee and commission income	4,953	5,806

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42 Related Party Transactions *(continued)*

(c) Transactions with other corporations as related parties

Other corporations as related parties refer to those shareholders who hold or control less than 5% of the Group's shares or voting rights.

- (1) Balance and relevant interest rate spectrum of transactions with other artificial persons as related parties are as follows:

	December 31, 2019	December 31, 2018
Customer deposits	46,439	3,098,625
Loans and advances to customers	300,000	458,100
Acceptances	20	13,930
Domestic letter of credit	533,370	231,700
Receivables commitment	50,000	20,000
Letters of guarantee	-	33
Provide guarantees or pledges for loans of giving-credit customers	2,232,368	4,716,359
Financial assets measured at amortized cost	1,933,000	3,954,522
Financial assets at fair value through profit or loss	-	347,654
Financial assets at fair value through other comprehensive income	-	1,098,663
Rate of loans and advances to customers	3.92%-7.20%	3.00%-6.50%
Rate of customer deposits	0.01%-3.65%	0.35%-2.35%

- (2) Transactions with other artificial persons as related parties during the year are as follows:

	Year ended December 31, 2019	2018
Interest income	6,844	34,531
Interest expense	(8,180)	(42,224)
Net fee and commission income	3,606	1,458

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42 Related Party Transactions *(continued)*

(d) **The amounts and relevant interest rate spectrum of transactions with the Group's directors, supervisors and senior management and their family members are as follows:**

	December 31, 2019	December 31, 2018
Customer deposits	3,359	4,650
Loans and advances to customers	11,215	6,199
Provide guarantees or pledges for loans of giving-credit customers	-	4,163
Rate of loans and advances to customers	3.43%-6.75%	3.43%-8.96%
Rate of customer deposits	0.05%-3.25%	0.05%-3.25%

	Year ended December 31,	
	2019	2018
Interest income	550	245
Interest expense	(62)	(29)
Net fee and commission income	2	1

In addition, Yongli Properties Group Limited, which is under control of the Group's supervisor Zhou Yang's immediate family, provides two business occupancy rental services for Shaoxing Branch of the Group: 1) the lease term starts from December 1, 2016 until November 30, 2021, for a period of five years. The annual rent is RMB3,000 thousand for the first two years; for the third to the fifth year, the rent rises by 5% on the basis of the second year rental. 2) the lease term starts from May 1, 2016 until November 30, 2021, for a period of five years and seven months, with the annual rent of RMB650 thousand. On June 27, 2018, Mr. Zhou Yang retired from office and ceased to serve as a supervisor of the Bank.

(e) Government related entities

The transactions between the Group and the government authorities, agencies, affiliates and other state controlled entities proceed under normal commercial terms and conditions. These transactions mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency service, underwriting of bonds issued by government agencies, purchases, sales and redemption of securities issued by government agencies. Management considers that transactions with these entities are activities conducted in the ordinary course of business. The Group 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, agencies, affiliates and other state controlled entities.

(f) Transactions between the Bank and the subsidiary

Transactions between the Bank and the subsidiary are based on market prices with the normal business procedure or are performed according to the Bank's contractual obligations, and are reviewed by the corresponding decision-making body depending on the types of transactions and the contents of transactions. During the reporting period, transactions between the Bank and the subsidiary were not significant.

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42 Related Party Transactions *(continued)*

(g) Key management personnel remuneration

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group.

The Group enters into banking transactions with key management personnel in the normal course of business. For the year ended December 31, 2019 and the year ended December 31, 2018, the Group had no material banking transactions with key management personnel.

The remuneration of directors and other members of key management during the period were as follows:

	Year ended December 31,	
	2019	2018
Fees	2,100	1,900
Salaries and allowances and benefits	19,953	19,358
Discretionary bonuses	13,285	28,069
Contribution to pension	2,838	3,103
Total	38,176	52,430

The total pre-tax remuneration of some directors and other members of key management of the Bank performing their duties is still in the process of confirmation, and the rest will be disclosed separately after confirmation.

43 Segment Reporting

(a) Business segments

The Group manages its operations from both business and geographic perspectives. From the business perspective, the Group provides services through four main business segments listed below:

- Corporate banking – The corporate banking segment provides financial products and services to corporations, government agencies and other institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products and other types of corporate intermediary services, etc.
- Retail banking – The retail banking segment provides financial products and services to individual customers. The range of products and services includes personal loans and advances, deposit products, bank cards business and other types of personal intermediary services.
- Treasury business – The treasury business conducts money market and repurchase transactions, debt instruments investments, financial derivatives business for proprietary trading or on behalf of customers, financial products and services provided to other financial institutions.
- Others – Others comprise components of the Group that are not attributable to any of the above segments and the relevant business of subsidiaries.

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43 Segment Reporting *(continued)*

(a) Business segments *(continued)*

	Year ended December 31, 2019				
	Corporate banking	Retail banking	Treasury business	Others	Total
External interest income	43,502,577	15,445,322	18,738,656	1,801,800	79,488,355
External interest expense	(27,729,978)	(6,091,613)	(10,831,579)	(961,119)	(45,614,289)
Inter-segment net interest income/(expenses)	7,813,833	(1,913,383)	(5,900,450)	-	-
Net interest income	23,586,432	7,440,326	2,006,627	840,681	33,874,066
Net fee and commission income	2,736,005	1,097,060	712,389	33,528	4,578,982
Net trading gains	-	-	6,235,406	-	6,235,406
Net gains on financial investments	463,475	-	882,942	-	1,346,417
Other operating income	-	13	117,011	295,214	412,238
Operating income	26,785,912	8,537,399	9,954,375	1,169,423	46,447,109
Operating expenses	(7,173,443)	(2,734,715)	(2,592,324)	(363,998)	(12,864,480)
– Depreciation and amortization	(800,097)	(304,838)	(293,661)	(19,848)	(1,418,444)
Impairment losses on assets	(7,010,022)	(3,084,008)	(8,450,779)	(357,407)	(18,902,216)
Profit before income tax	12,602,447	2,718,676	(1,088,728)	448,018	14,680,413
Capital expenditure	2,309,222	764,519	1,532,238	76,660	4,682,639
	December 31, 2019				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	882,215,210	292,076,622	585,376,118	29,287,290	1,788,955,240
Unallocated assets					11,830,627
Total assets					1,800,785,867
Segment liabilities	(986,417,108)	(162,826,027)	(512,895,719)	(10,619,344)	(1,672,758,198)

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43 Segment Reporting *(continued)*

(a) Business segments *(continued)*

	Year ended December 31, 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
External interest income	36,236,227	9,883,588	25,174,799	956,983	72,251,597
External interest expense	(22,425,122)	(3,226,230)	(19,745,217)	(469,480)	(45,866,049)
Inter-segment net interest income/(expenses)	8,399,724	(2,209,004)	(6,190,720)	-	-
Net interest income	22,210,829	4,448,354	(761,138)	487,503	26,385,548
Net fee and commission income	2,131,907	599,962	1,443,486	76,568	4,251,923
Net trading gains	-	-	7,250,414	3,726	7,254,140
Net gains on financial investments	65,095	-	543,718	-	608,813
Other operating income	10,444	29,202	197,533	284,873	522,052
Operating income	24,418,275	5,077,518	8,674,013	852,670	39,022,476
Operating expenses	(6,922,843)	(2,173,487)	(2,855,917)	(190,173)	(12,142,420)
- Depreciation and amortization	(348,038)	(74,894)	(215,573)	(20,156)	(658,661)
Impairment losses on assets	(7,364,986)	(2,137,237)	(3,192,900)	(334,432)	(13,029,555)
Profit before income tax	10,130,446	766,794	2,625,196	328,065	13,850,501
Capital expenditure	2,954,253	636,488	1,291,312	86,973	4,969,026
	December 31, 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	806,955,409	209,874,881	597,074,987	24,469,802	1,638,375,079
Unallocated assets					8,319,665
Total assets					1,646,694,744
Segment liabilities	(884,840,540)	(99,390,810)	(550,604,487)	(9,410,370)	(1,544,246,207)

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43 Segment Reporting *(continued)*

(b) Geographical segments

Geographically, the Group mainly conducts its business in the four areas listed below in Mainland China.

- “Yangtze River Delta Region” refers to the head office, Zheyin Financial Leasing and the following areas serviced by the tier-one branches of the Group: Hangzhou, Ningbo, Wenzhou, Yiwu, Shaoxing, Shanghai, Nanjing, Suzhou, Hefei;
- “Bohai Rim Region” refers to the following areas serviced by the tier-one branches of the Group: Beijing, Tianjin, Jinan, Shenyang;
- “Pearl River Delta Region” refers to the following areas serviced by the tier-one branches of the Group: Shenzhen, Guangzhou, Hong Kong; and
- “Midwestern China” refers to the following areas serviced by the tier-one branches of the Group: Chengdu, Guiyang, Xi’an, Lanzhou, Chongqing, Wuhan, Zhengzhou, Changsha, Hohhot, Nanchang.

	Year ended December 31, 2019					Total
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region	Midwestern China	Elimination	
External interest income	47,768,469	12,482,798	5,292,158	13,944,930	-	79,488,355
External interest expense	(30,055,789)	(7,249,054)	(3,213,727)	(5,095,719)	-	(45,614,289)
Inter-segment net interest income/(expenses)	1,681,917	769,860	260,636	(2,712,413)	-	-
Net interest income	19,394,597	6,003,604	2,339,067	6,136,798	-	33,874,066
Net fee and commission income	1,651,888	1,151,045	559,738	1,216,311	-	4,578,982
Net trading gains	3,706,501	830,899	792,666	905,340	-	6,235,406
Net gains on financial investments	1,050,564	278,692	50,467	(33,306)	-	1,346,417
Other operating income	176,525	56,918	8,952	169,843	-	412,238
Operating income	25,980,075	8,321,158	3,750,890	8,394,986	-	46,447,109
Operating expenses	(7,643,875)	(1,956,171)	(1,021,299)	(2,243,135)	-	(12,864,480)
- Depreciation and amortization	(815,069)	(223,613)	(116,716)	(263,046)	-	(1,418,444)
Expected credit loss	(11,399,144)	(1,130,166)	(3,904,641)	(2,468,265)	-	(18,902,216)
Profit before income tax	6,937,056	5,234,821	(1,175,050)	3,683,586	-	14,680,413
Capital expenditure	3,507,709	696,506	30,217	448,207	-	4,682,639
Segment assets	1,679,324,756	292,764,405	164,450,176	270,155,588	(617,739,685)	1,788,955,240
Unallocated assets						11,830,627
Total assets						1,800,785,867
Segment liabilities	(1,572,594,854)	(289,448,431)	(163,681,309)	(264,773,289)	617,739,685	(1,672,758,198)

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43 Segment Reporting *(continued)*

(b) Geographical segments *(continued)*

	Year ended December 31, 2018					Total
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region	Midwestern China	Elimination	
External interest income	43,644,492	11,415,724	5,429,661	11,761,720	-	72,251,597
External interest expense	(32,126,106)	(5,638,917)	(3,038,344)	(5,062,682)	-	(45,866,049)
Inter-segment net interest income/(expenses)	1,564,530	(309,528)	(220,642)	(1,034,360)	-	-
Net interest income	13,082,916	5,467,279	2,170,675	5,664,678	-	26,385,548
Net fee and commission income	2,151,446	866,059	487,910	746,508	-	4,251,923
Net trading gains	5,432,424	489,774	985,525	346,417	-	7,254,140
Net gains on financial investments	314,391	174,110	48,589	71,723	-	608,813
Other operating income	320,104	34,522	13,809	153,617	-	522,052
Operating income	21,301,281	7,031,744	3,706,508	6,982,943	-	39,022,476
Operating expenses	(7,350,336)	(1,680,660)	(1,089,358)	(2,022,066)	-	(12,142,420)
– Depreciation and amortization	(501,438)	(50,574)	(16,706)	(89,943)	-	(658,661)
Expected credit loss	(6,685,502)	(3,109,925)	(1,468,653)	(1,765,475)	-	(13,029,555)
Profit before income tax	7,265,443	2,241,159	1,148,497	3,195,402	-	13,850,501
Capital expenditure	1,753,223	2,295,890	100,169	819,744	-	4,969,026
Segment assets	1,718,680,404	286,637,355	142,358,064	282,867,848	(792,168,592)	1,638,375,079
Unallocated assets						8,319,665
Total assets						1,646,694,744
Segment liabilities	(1,624,144,713)	(287,877,156)	(142,659,582)	(281,733,348)	792,168,592	(1,544,246,207)

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44 Financial Risk Management

Overview

The Group's 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 those risks are crucial to the financial business, and risks are an inevitable consequence of being in business operation. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and control programs, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Board of Directors is responsible for establishing the overall risk appetite of the Group, and reviewing and approving its risk management objectives and strategies. Management establishes and implements corresponding risk management policies and procedures according to the risk management objectives and strategies. Internal audit department is responsible for the independent review of risk management and the internal control.

The primary financial risks the Group is exposed to are credit risk, market risk (including interest rate risk, foreign exchange risk), and liquidity risk.

44.1 Credit risk

44.1.1 Credit risk measurement

The Group is exposed to credit risk, which is the risk that counterparty will be unable to or unwilling to meet its obligations under a contract. Credit risk increases when the counterparties are within similar geographical or industry segments. Credit exposures arise principally from loans and advances, debt instruments, and due from banks and other financial institutions. There is also credit risk arising from off-balance sheet credit exposure such as loan commitments. Management carefully manages its exposure to credit risks. The daily credit risk management and control are centralized in the risk management department of head office and reported to management regularly.

The Group performs standardized credit management procedures, including credit due diligence and proposal submission, credit review and approval, loan disbursement, post-lending monitoring and non-performing loan management. The Group enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading the credit management system.

Apart from the credit risk exposures from loan assets, the credit risk arising from treasury business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and by applying appropriate credit limits and by timely reviewing and adjusting those limit in credit system. In addition, the Group also provides off-balance sheet commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures as those of loans and advances.

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.2 Impairment assessment

(a) Loans and advances to customers, loan commitments and financial guarantees

Based on changes in external business environment, internal business conditions and risks, the Group formulated basic policies for credit business, and defined the policy orientation of the customer structure, industry structure, regional structure and key business areas of the Group's credit business. In addition, the Group regularly adjusted the credit policy on the basis of continuous tracking of macro and industry economic development trends.

The Group continued to strengthen the credit system, revised the unified credit management system for corporate customers, strengthened the overall management and unified control of the total credits of corporate customers, and improved the standard and standardized credit approval process, authorization system and risk responsibility mechanism, and timely adjust the credit policy and take effective measures to prevent credit risks.

The Group has established a credit risk limit framework system, formulated credit risk limit management plans and methods, and defined management mechanisms such as setting, adjusting, monitoring and processing quota indicators to effectively transmit risk preferences.

When the Group has performed all necessary procedures and still believes that it is not expected to recover the whole or part of the financial assets, it will be written off. Signs indicating that the recoverable amount cannot be reasonably expected include: (1) the enforcement has been terminated, and (2) the recovery method of the Group is to confiscate and dispose of the collateral, but it is still expected that the value of the collateral cannot cover the entire principal and interest.

(b) Bonds

The Group managed investment in bonds and other instruments based on the internal credit rating and credit rating of external rating agencies. Except financial instruments that have direct credit rating such as government debt, central bank bills, policy bank financial bonds and those have interbank credit rating such as commercial bank financial bonds, the acquisition requirements of other bond are: domestic credit rating mainly AA grade and above, and overseas credit rating reaches BB- (S&P and Fitch) or Ba3 (Moody); if the above acquisition requirements are not met, it was required to utilize group credit line to invest in. At the same time, the Group continued to pay attention to the credit rating, business development and changes in the industry of the issuers, and also continuously evaluated and managed the credit risk.

(c) Financial assets measured at amortized cost (except bonds)

Financial assets measured at amortized cost include interbank wealth management products and trust plans. The Group implemented a rating system for cooperating with trust companies and securities companies, and set credit lines for the trust underlying parties, inter-bank wealth management product issuers, and the ultimate financing party of the targeted asset management plans, and conducted risk management review on a regular basis.

(d) Due from banks and other financial institutions

The Group conducted regular review and management of the credit risk of individual financial institutions. The Group also set credit lines for individual banks or other financial institutions that have financial transactions with the Group.

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.3 Risk limit control and mitigation policies

The Group carefully managed and controlled credit risk, including single borrowers, groups, industries and regions. The Group has established mechanisms to develop credit risk limit that a single borrower can bear. These risks are continuously monitored and conducted at least once a year or more frequently for credit risk audits when it was necessary.

(a) Collateral and pledge

The Group has formulated a series of policies and adopted various measures to mitigate credit risks. The acquisition of collateral and margins and obtaining company or individual guarantees is one of the important means for the Group to control credit risk.

The Group implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral are as follows:

- Residential properties
- Business assets such as premises, inventory and accounts receivable
- Financial instruments such as debt securities and stocks

The fair value of collaterals and pledges should be assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan balances against fair value of collateral and pledge) for different collaterals and pledges. The principal types of collateral and pledge and maximum loan-to-value ratio for corporate and personal loans and advances are as follows:

Collateral and pledge	Maximum loan-to-value ratio
Time deposits(RMB)	100%
Time deposits(Foreign currency)	90%
PRC treasury bonds	90%
Financial institution bonds	80%
Residential property, commercial property, industrial plants and land use rights	70%
Vehicles	60%
General equipment	50%
Special equipment	30%

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations by the guarantor.

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.3 Risk limit control and mitigation policies *(continued)*

(b) Derivative financial instruments

The Group imposed strict restrictions on the trading of derivative financial instruments. The Group controlled the credit risks associated with derivative financial instruments by collecting margins or credits from counterparties.

(c) Credit commitments

The main purpose of the credit commitments is to ensure that customers can receive the funds they need. The letter of guarantee and the letter of credit is an irrevocable undertaking of the Group, that is, the Group will perform its payment obligations on behalf of its customers when they are unable to perform their payment obligations to third parties, and the Group bears the same credit risk as the loan. In the event that the credit commitments amount requested by the customer exceeds its original credit limit, the Group will collect deposit to reduce the credit risk of providing the service.

44.1.4 Measurement of expected credit losses

In accordance with IFRS 9, the Group divided 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. The Group developed the impairment model according to the new standard to calculate ECL. The top-down development method was used to establish a logistic regression model of risk parameters and macroeconomic indicators such as GDP, PPI and M2. A model that uses the forecast results of macro indicators to drive impairment calculations, enabling “forward-looking” calculations of impairment reserves

3 stage classification

According to IFRS 9, 3-stage classification criteria need to be clearly specified. For financial instruments, those 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 ECL for the entire life cycle. If the financial instrument is credit-impaired, the financial instrument will be moved to stage 3. 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, and ECL for the entire life cycle are recognized. The credit-impaired financial instrument will be moved to stage 3. The detailed classification criteria has been set up, and take into consideration probability of default, overdue days, credit rating, etc.

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

The specific criteria for the stage classification are as follows:

Financial assets with significant increase in credit risk:

The Group assesses at each financial reporting date whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition. The Group fully considers all reasonable and evidenced information, including forward-looking information that reflects significant changes in its credit risk. The main considerations are regulatory and operating environment, internal and external credit rating, solvency, operating capacity, loan contract terms, and repayment behavior. Based on a single financial instrument or a combination of financial instruments with similar credit risk characteristics, the Group determines the risk of default of financial instruments on the financial reporting date and the risk of default on the initial recognition date to determine changes in the risk of default in the expected duration of financial instruments.

The Group determines whether the credit risk of financial instruments has changed significantly since the initial confirmation by setting quantitative and qualitative criteria. The judgment criteria mainly include overdue days exceeding 30 days, changes in default probability, changes in credit risk classification and others indicate a significant change in credit risk.

Definition of credit impairment incurred:

In determining whether credit losses have occurred, the defined criteria adopted by the Group are consistent with the internal credit risk management goal for relevant financial instruments, taking into account both quantitative and qualitative indicators. When the Group assesses whether credit loss occurred on a debtor, the following factors are mainly considered:

- The principal or interest of the contract is overdue for more than 90 days
- For economic or contractual reasons related to the financial difficulties of the borrower, the borrower's lender gives the borrower a reluctance to make concessions
- Borrower has significant financial difficulties
- The borrower is likely to go bankrupt or other financial restructuring
- The active market for financial assets disappears

The ECL of financial assets may be caused by the joint action of multiple events, and may not be caused by separately identifiable events.

The above standards apply to all financial instruments of the Group; the definition of credit impairment incurred is consistently applied to the calculation of expected credit losses of the Group, including default probability (PD), exposure at default (EAD) and loss given default (LGD) modeling.

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

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 allowance is the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD) after discount. Related definitions are as follows:

Probability of default (PD) refers to the possibility that the borrower will not be able to fulfil his obligations in the next 12 months or throughout the remaining period of existence. The Group builds the migration matrix 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, the way of recourse and priority and the availability of collateral or other credit support. The LGD of different product types is also different.

Exposure at default (EAD) refers to the amount that the Group should pay when the default occurs in the next 12 months or throughout the remaining life. The Group'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 Group determines the exposure at default according to the repayment plan stipulated in the contract.

The Group determines the expected credit losses by forecasting the probability of default, loss given default and exposure at default of single debt. The Group multiplies the three items which 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.

Forward-looking information and management overlay included in the credit impairment model

The Group has established macro-economic forecast model, along with adjustments from external economy experts. The Group conduct forecasts regularly to establish three economic scenario, optimistic, neutral and pessimistic to ensure coverage of non-linear features for the main expected credit loss model 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 neutral scenario respectively. It can also be used as one of the sources of sensitivity testing.

The impairment model is established through a top down approach. The Group has developed regression models for different macro-economic indicators such as GDP, PPI, M2, etc. The Group uses forecasting results of macro-indicators to achieve "forward-looking" calculation of provision.

The management of the Group has considered external economic situation that have not been reflected by the model and increased the provision to enhance the risk compensation capability.

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

Sensitivity testing

The comparison of the impairment provision of financial assets in the neutral scenario and provision of the weighted average of the three scenarios on December 31, 2019 is listed follows:

	December 31, 2019	December 31, 2018
Provision considering the three scenarios weighted average	51,107,920	39,801,495
Provision using the neutral scenario	39,281,907	35,625,354
Difference amount	11,826,013	4,176,141
Difference ratio	23.14%	10.49%

On December 31, 2019, the impact of changes in macroeconomic indicators on impairment provision are as follows:

	December 31, 2019	December 31, 2018
GDP	Increased by 1%	(205,067)
	Unchanged	-
	Decrease by 1%	206,827
	(160,118)	160,250

The following table shows assumed significant changes in the credit risk, resulting in all of the financial assets in stage 2 move into stage 1, the change of ECL allowance recognized in the balance sheet that will become:

	December 31, 2019
Assume that all of the financial assets in stage 2 enter stage 1, ECL allowance amount	45,921,920
Total amount of ECL allowance recognized in the balance sheet	51,107,920
Difference amount	(5,186,000)
Difference ratio	-10.15%

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

December 31,
2018

Assume that all of the financial assets in stage 2 enter stage 1, ECL allowance amount	36,492,196
Total amount of ECL allowance recognized in the balance sheet	39,801,495
Difference amount	(3,309,299)
Difference ratio	-8.31%

The movements in book value of loans and advances to customers

	Book value			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Corporate loans and advances				
Book value as at December 31, 2018	640,851,260	12,978,085	9,362,151	663,191,496
Transfers				
Transfer from Stage 1 to Stage 2	(8,372,846)	8,372,846	-	-
Transfer from Stage 1 to Stage 3	(3,132,333)	-	3,132,333	-
Transfer from Stage 3 to Stage 1	13,500	-	(13,500)	-
Transfer from Stage 2 to Stage 3	-	(3,210,484)	3,210,484	-
Transfer from Stage 3 to Stage 2				
Financial assets terminated this year (except write-offs)	(70,048,050)	(4,540,692)	(974,532)	(75,563,274)
New financial assets (Note)	157,957,775	10,618,065	62,268	168,638,108
Write-offs	-	-	(2,798,655)	(2,798,655)
Change in fair value	65,624	(182)	(32)	65,410
Subtotal	717,334,930	24,292,658	11,905,497	753,533,085
Change of accrued interest	113,119	42,081	-	155,200
Book value as at December 31, 2019	717,448,049	24,334,739	11,905,497	753,688,285

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

	Book value			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Personal loans and advances				
ECL allowances at December 31, 2018	199,685,777	1,026,021	1,329,375	202,041,173
Transfers				
Transfer from Stage 1 to Stage 2	(568,191)	568,191	-	-
Transfer from Stage 2 to Stage 1	61,950	(61,950)	-	-
Transfer from Stage 1 to Stage 3	(1,849,659)	-	1,849,659	-
Transfer from Stage 3 to Stage 1	16,059	-	(16,059)	-
Transfer from Stage 2 to Stage 3	-	(263,713)	263,713	-
Transfer from Stage 3 to Stage 2	-	3,766	(3,766)	-
Financial assets terminated this year (except write-offs)	(36,920,531)	(361,277)	(53,460)	(37,335,268)
New financial assets (Note)	112,020,590	468,269	57,086	112,545,945
Write-offs	-	-	(941,316)	(941,316)
Subtotal	272,445,995	1,379,307	2,485,232	276,310,534
Change of accrued interest	171,375	820	-	172,195
ECL allowances at December 31, 2019	272,617,370	1,380,127	2,485,232	276,482,729

Note: New financial assets refer to the 2019 Year-end balance remained in the stage 1, stage 2 and stage 3 of financial assets newly added.

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For the year ended December 31, 2019
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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

Corporate loans and advances	Book value			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Book value as at January 1, 2018	522,103,765	9,238,918	7,603,594	538,946,277
Transfers				
Transfer from Stage 1 to Stage 2	(5,107,206)	5,107,206	–	–
Transfer from Stage 2 to Stage 1	122,646	(122,646)	–	–
Transfer from Stage 1 to Stage 3	(1,936,938)	–	1,936,938	–
Transfer from Stage 2 to Stage 3	–	(3,113,978)	3,113,978	–
Financial assets terminated this year (except write-offs)	(22,033,824)	(1,106,447)	(1,630,320)	(24,770,591)
New financial assets (Note)	144,049,530	2,932,838	8,800	146,991,168
Write-offs	–	–	(1,681,840)	(1,681,840)
Change in fair value	146,823	–	83	146,906
Others changes	1,468,623	916	10,918	1,480,457
Subtotal	638,813,419	12,936,807	9,362,151	661,112,377
Change of accrued interest	2,037,841	41,278	–	2,079,119
Book value as at December 31, 2018	640,851,260	12,978,085	9,362,151	663,191,496

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For the year ended December 31, 2019
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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

Personal loans and advances	Book value			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
ECL allowance as at January 1, 2018	132,339,669	713,891	879,097	133,932,657
Transfers				
transfer from Stage 1 to Stage 2	(446,533)	446,533	–	–
Transfer from Stage 2 to Stage 1	19,499	(19,499)	–	–
Transfer from Stage 1 to Stage 3	(725,171)	–	725,171	–
Transfer from Stage 2 to Stage 3	–	(159,616)	159,616	–
Financial assets terminated this year (except write-offs)	(50,896,604)	(374,307)	(368,688)	(51,639,599)
New financial assets (Note)	118,764,612	415,780	189,097	119,369,489
Write-offs	–	–	(254,918)	(254,918)
Subtotal	199,055,472	1,022,782	1,329,375	201,407,629
Change of accrued interest	630,305	3,239	–	633,544
ECL allowances at December 31, 2018	199,685,777	1,026,021	1,329,375	202,041,173

Note: New financial assets refer to the 2018 Year-end balance remained in the stage 1, stage 2 and stage 3 of financial assets newly added.

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For the year ended December 31, 2019
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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

Movements in ECL allowance on loans and advances to customers

Corporate loans and advances	Expected credit loss allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
ECL allowance as at December 31, 2018	13,934,625	3,211,021	6,772,168	23,917,814
New financial assets	6,905,154	2,505,605	38,383	9,449,142
Change in parameters	(2,034,241)	(500,563)	1,967,716	(567,088)
Termination (except write-offs and transfer out)	(6,025,441)	(1,101,717)	(456,305)	(7,583,463)
Transfers				
Transfer from Stage 1 to Stage 2	(379,848)	1,328,495	-	948,647
Transfer from Stage 1 to Stage 3	(69,758)	-	1,442,432	1,372,674
Transfer from Stage 3 to Stage 1	1,221	-	(7,425)	(6,204)
Transfer from Stage 2 to Stage 3	-	(549,292)	1,517,624	968,332
Transfer from Stage 3 to Stage 2	-	15,731	(42,035)	(26,304)
Subtotal	(1,602,913)	1,698,259	4,460,390	4,555,736
Write-offs (Note)	-	-	(2,798,655)	(2,798,655)
Transfer out	-	-	(947,568)	(947,568)
Recovery of loans and advances written off in previous years	-	-	254,085	254,085
Unwind interest	-	-	(66,482)	(66,482)
Impact of exchange rate changes and others	14	(129,601)	2,852	(126,735)
ECL allowance as at December 31, 2019	12,331,726	4,779,679	7,676,790	24,788,195

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

	Expected credit loss allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Personal loans and advances				
ECL allowance as at December 31, 2018	3,306,248	170,838	761,879	4,238,965
New financial assets	1,423,239	79,781	39,960	1,542,980
Change in parameters	515,030	254,699	564,605	1,334,334
Termination (except write-offs)	(1,017,318)	(96,381)	(30,114)	(1,143,813)
Transfers				
Transfer from Stage 1 to Stage 2	(15,666)	152,460	-	136,794
Transfer from Stage 2 to Stage 1	971	(21,049)	-	(20,078)
Transfer from Stage 1 to Stage 3	(36,610)	-	1,196,134	1,159,524
Transfer from Stage 3 to Stage 1	97	-	(9,881)	(9,784)
Transfer from Stage 2 to Stage 3	-	(40,773)	125,159	84,386
Transfer from Stage 3 to Stage 2	-	894	(1,229)	(335)
Subtotal	869,743	329,631	1,884,634	3,084,008
Write-offs (Note)	-	-	(941,316)	(941,316)
Recovery of loans and advances written off in previous years	-	-	88,823	88,823
Unwind interest	-	-	(20,396)	(20,396)
ECL allowance as at December 31, 2019	4,175,991	500,469	1,773,624	6,450,084

Note: In 2019, the outstanding contractual amount corresponding to assets written off by the Group was RMB3,739,971 thousand and the Group still tried to recover the legally entitled claims in full.

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

Corporate loans and advances	Expected credit loss allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
ECL allowance as at January 1, 2018	11,434,519	1,934,148	5,382,531	18,751,198
New financial assets	3,481,544	938,892	7,221	4,427,657
Change in parameters	(555,283)	(65,961)	855,937	234,693
Termination (except write-offs and transfer out)	(306,452)	(268,211)	(803,317)	(1,377,980)
Transfers				
Transfer from Stage 1 to Stage 2	(95,219)	1,533,163	–	1,437,944
Transfer from Stage 2 to Stage 1	4,811	(41,132)	–	(36,321)
Transfer from Stage 1 to Stage 3	(41,486)	–	1,242,332	1,200,846
Transfer from Stage 2 to Stage 3	–	(820,085)	2,335,483	1,515,398
Subtotal	2,487,915	1,276,666	3,637,656	7,402,237
Write-offs (Note)	–	–	(1,681,840)	(1,681,840)
Transfer out	–	–	(679,207)	(679,207)
Recovery of loans and advances written off in previous years	–	–	160,512	160,512
Unwind interest	–	–	(54,241)	(54,241)
Impact of exchange rate changes and others	12,191	207	6,757	19,155
ECL allowance as at December 31, 2018	13,934,625	3,211,021	6,772,168	23,917,814

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

Personal loans and advances	Expected credit loss allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
ECL allowance as at January 1, 2018	1,638,110	82,464	567,702	2,288,276
New financial assets	1,698,137	71,023	104,354	1,873,514
Change in parameters	534,056	5,345	49,340	588,741
Termination (except write-offs)	(541,620)	(38,527)	(254,492)	(834,639)
Transfers				
Transfer from Stage 1 to Stage 2	(7,565)	90,260	–	82,695
Transfer from Stage 2 to Stage 1	238	(3,587)	–	(3,349)
Transfer from Stage 1 to Stage 3	(15,108)	–	384,310	369,202
Transfer from Stage 2 to Stage 3	–	(36,140)	97,213	61,073
Subtotal	1,668,138	88,374	380,725	2,137,237
Write-offs (Note)	–	–	(254,918)	(254,918)
Recovery of loans and advances written off in previous years	–	–	87,863	87,863
Unwind interest	–	–	(19,493)	(19,493)
ECL allowance as at December 31, 2018	3,306,248	170,838	761,879	4,238,965

Note: In 2018, the outstanding contractual amount corresponding to assets written off by the Group was RMB1,936,758 thousand and the Group still tried to recover the legally entitled claims in full.

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

The movements of financial assets measured at amortized cost in book value are summarized as follows:

	Book value			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime CL	
Book value as at December 31, 2018	335,403,052	5,375,146	4,549,530	345,327,728
Transfers				
Transfer from Stage 1 to Stage 2	(9,024,804)	9,024,804	-	-
Transfer from Stage 1 to Stage 3	(8,972,432)	-	8,972,432	-
Transfer from Stage 2 to Stage 3	-	(2,959,803)	2,959,803	-
Financial assets terminated this year	(111,807,385)	(841,870)	(364,381)	(113,013,636)
New financial assets (Note)	86,397,330	1,755,450	-	88,152,780
Write-offs	-	-	(2,996,329)	(2,996,329)
Subtotal	291,995,761	12,353,727	13,121,055	317,470,543
Change of accrued interest	776,340	79,946	-	856,286
Book value as at December 31, 2019	292,772,101	12,433,673	13,121,055	318,326,829

Note: New financial assets refer to the 2019 Year-end balance remained in the stage 1, stage 2 and stage 3 of financial assets newly added.

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

	Book value			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime CL	
Book value as at January 1, 2018	458,709,142	1,316,588	798,592	460,824,322
Transfers				
Transfer from Stage 1 to Stage 2	(2,231,270)	2,231,270	–	–
Transfer from Stage 1 to Stage 3	(909,750)	–	909,750	–
Transfer from Stage 2 to Stage 3	–	(840,485)	840,485	–
Financial assets terminated this year	(218,440,927)	–	–	(218,440,927)
New financial assets (Note)	94,393,957	2,594,434	2,000,703	98,989,094
Subtotal	331,521,152	5,301,807	4,549,530	341,372,489
Change of accrued interest	3,881,900	73,339	–	3,955,239
Book value as at December 31, 2018	335,403,052	5,375,146	4,549,530	345,327,728

Note: New financial assets refer to the 2018 Year-end balance remained in the stage 1, stage 2 and stage 3 of financial assets newly added.

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.4 Measurement of expected credit losses *(continued)*

Movements in ECL allowance of financial assets measured at amortized cost are summarized as follows:

	Expected credit loss allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
ECL allowance as at December 31, 2018	2,399,820	1,510,540	3,580,958	7,491,318
New financial assets	1,201,498	617,105	–	1,818,603
Update on the model parameters	(570,438)	(17,194)	606,468	18,836
Termination (except write-offs)	(557,700)	(156,925)	(292,991)	(1,007,616)
Transfers				
Transfer from Stage 1 to Stage 2	(166,113)	2,161,755	–	1,995,642
Transfer from Stage 1 to Stage 3	(106,784)	–	5,269,432	5,162,648
Transfer from Stage 2 to Stage 3	–	(1,397,311)	2,079,227	681,916
Subtotal (Note 11)	(199,537)	1,207,430	7,662,136	8,670,029
Write-offs	–	–	(2,996,329)	(2,996,329)
Recovery of written offs	–	–	1,386	1,386
ECL allowance as at December 31, 2019	2,200,283	2,717,970	8,248,151	13,166,404

	Expected credit loss allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
ECL allowance as at January 1, 2018	4,285,706	155,474	349,292	4,790,472
New financial assets	564,876	846,869	1,338,182	2,749,927
Update on the model parameters	(529,551)	30,467	445,598	(53,486)
Termination (except write-offs)	(1,872,003)	–	–	(1,872,003)
Transfers				
Transfer from Stage 1 to Stage 2	(30,563)	632,304	–	601,741
Transfer from Stage 1 to Stage 3	(18,645)	–	696,401	677,756
Transfer from Stage 2 to Stage 3	–	(154,574)	751,485	596,911
Subtotal (Note 11)	(1,885,886)	1,355,066	3,231,666	2,700,846
ECL allowance as at December 31, 2018	2,399,820	1,510,540	3,580,958	7,491,318

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements

According to the characteristics of risk level, the Group classifies the risk level of financial assets included in the measurement of expected credit losses into “Risk level 1”, “Risk level 2”, “Risk level 3” and “default”. “Risk level 1” means that the asset credit quality is good, there is sufficient evidence to show that the asset is not expected to default; “Risk level 2” means that the asset quality is relatively good, there is no reason or there is no sufficient reason to suspect that the asset is expected to default; “Risk level 3” refers to the unfavorable factors that may cause or have caused an asset default, but no default event has occurred or no significant default has occurred; The criteria for “default” are consistent with the definition of credit-impaired assets.

The following table provides an analysis of the credit risk exposure of financial instruments applicable to the expected credit loss measurement, financial assets measured at amortized cost in stage 3 are trust plans and asset management plans. The book value of the following financial assets is the Group’s maximum exposure to credit risk for these assets.

	December 31, 2019			Total
	Stages of expected credit losses			
Corporate loans and advances	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Risk level 1	665,112,799	143,110	–	665,255,909
Risk level 2	49,972,025	2,750	–	49,974,775
Risk level 3	–	24,105,519	–	24,105,519
Default	–	–	11,905,446	11,905,446
Book balance	715,084,824	24,251,379	11,905,446	751,241,649
Change in fair value	212,265	–	51	212,316
Accrued interest	2,150,960	83,360	–	2,234,320
ECL allowance	(12,331,726)	(4,779,679)	(7,676,790)	(24,788,195)
Book value	705,116,323	19,555,060	4,228,707	728,900,090

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements *(continued)*

Corporate loans and advances	December 31, 2018			Total
	Stages of expected credit losses			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Risk level 1	591,673,603	3,699	–	591,677,302
Risk level 2	46,992,993	2,300	–	46,995,293
Risk level 3	–	12,930,808	–	12,930,808
Default	–	–	9,362,068	9,362,068
Book balance	638,666,596	12,936,807	9,362,068	660,965,471
Change in fair value	146,823	–	83	146,906
Accrued interest	2,037,841	41,278	–	2,079,119
ECL allowance	(13,934,625)	(3,211,021)	(6,772,168)	(23,917,814)
Book value	626,916,635	9,767,064	2,589,983	639,273,682

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements *(continued)*

Personal loans and advances	December 31, 2019			Total
	Stages of expected credit losses			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Risk level 1	271,444,290	561,616	–	272,005,906
Risk level 2	371,400	169,660	–	541,060
Risk level 3	–	644,793	–	644,793
Default	–	–	2,485,232	2,485,232
Book balance	271,815,690	1,376,069	2,485,232	275,676,991
Accrued interest	801,680	4,058	–	805,738
ECL allowance	(4,175,991)	(500,469)	(1,773,624)	(6,450,084)
Book value	268,441,379	879,658	711,608	270,032,645
	December 31, 2018			
	Stages of expected credit losses			
Personal loans and advances	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Risk level 1	198,824,710	568,109	–	199,392,819
Risk level 2	230,762	160,106	–	390,868
Risk level 3	–	294,567	–	294,567
Default	–	–	1,329,375	1,329,375
Book balance	199,055,472	1,022,782	1,329,375	201,407,629
Accrued interest	630,305	3,239	–	633,544
ECL allowance	(3,306,248)	(170,838)	(761,879)	(4,238,965)
Book value	196,379,529	855,183	567,496	197,802,208

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements *(continued)*

Financial investment: financial assets measured at amortized cost	December 31, 2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Risk level 1	265,672,813	–	–	265,672,813
Risk level 2	22,441,048	–	–	22,441,048
Risk level 3	–	12,280,388	–	12,280,388
Default	–	–	13,121,055	13,121,055
Book balance	288,113,861	12,280,388	13,121,055	313,515,304
Accrued interest	4,658,240	153,285	–	4,811,525
ECL allowance	(2,200,283)	(2,717,970)	(8,248,151)	(13,166,404)
Book value	290,571,818	9,715,703	4,872,904	305,160,425

Financial investment: financial assets measured at amortized cost	December 31, 2018			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Risk level 1	312,519,946	–	–	312,519,946
Risk level 2	19,001,206	50,833	–	19,052,040
Risk level 3	–	5,250,974	–	5,250,974
Default	–	–	4,549,530	4,549,530
Book balance	331,521,152	5,301,807	4,549,530	341,372,489
Accrued interest	3,881,900	73,339	–	3,955,239
ECL allowance	(2,399,820)	(1,510,540)	(3,580,958)	(7,491,318)
Book value	333,003,232	3,864,606	968,572	337,836,410

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements *(continued)*

Due from banks and other financial institutions	December 31, 2019			Total
	Stages of expected credit losses			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Risk level 1	55,149,773	–	–	55,149,773
Risk level 2	–	–	–	–
Risk level 3	–	–	–	–
Default	–	–	737,009	737,009
Book balance	55,149,773	–	737,009	55,886,782
Accrued interest	41,588	–	16,709	58,297
ECL allowance	(1,209)	–	(84,916)	(86,125)
Book value	55,190,152	–	668,802	55,858,954

The following table provides an analysis of the credit risk exposure of financial assets at fair value through profit or loss and derivative financial instruments which are not applicable to the expected credit loss measurement.

	Maximum exposure to credit risk	
	December 31, 2019	December 31, 2018
Financial assets at fair value through profit or loss	128,026,330	134,948,782
Derivative financial instruments	13,892,307	10,123,361
Total	141,918,637	145,072,143

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements *(continued)*

	December 31, 2019	December 31, 2018
Assets		
Balances with central bank	130,501,436	125,851,197
Due from banks and other financial institutions	55,858,954	55,383,174
Derivative financial assets	13,892,307	10,123,361
Loans and advances to customers	998,932,735	837,075,890
Financial investments		
– Financial assets at fair value through profit or loss	128,026,330	134,948,782
– Financial assets at fair value through other comprehensive income	82,921,600	91,610,792
– Financial assets measured at amortized cost	305,160,425	337,836,410
Other financial assets	30,761,457	23,316,906
Subtotal	1,746,055,244	1,616,146,512
Off-balance sheet exposures		
Acceptances	283,046,635	235,898,843
Letters of credit issued	106,860,484	108,843,659
Letters of guarantee issued	24,718,510	28,335,149
Block chain confirmation	96,108,087	65,675,367
Loan commitments	802,922	690,932
Unused credit card limit	14,578,100	17,648,356
Subtotal	526,114,738	457,092,306
Total	2,272,169,982	2,073,238,818

The above table represents a worst-case scenario of credit risk exposure to the Group as of December 31, 2019 and December 31, 2018, without taking into account of any related collateral or other credit enhancements. For on-balance-sheet assets, the exposures above are based on net book value as reported in the statement of financial position.

44.1.6 Due from banks and other financial institutions and derivative instruments

The Group's treasury business is exposed to the credit risk associated with the investment business and inter-bank business. The Group manages the credit risk exposures by setting credit limits to the internal credit ratings of its treasury business. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.7 Loans and advances to customers

(a) Analysis of loans and advances to customers by industry

	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Corporate loans and advances				
Leasing and commercial services	150,011,231	14.60	116,611,687	13.52
Real estate	148,341,568	14.45	118,527,240	13.74
Manufacturing	114,721,676	11.17	113,574,111	13.17
Wholesale and retail trade	82,824,306	8.07	80,961,514	9.39
Administration of water conservancy, environment and public facilities	53,253,087	5.19	54,183,720	6.28
Construction	45,432,115	4.42	45,329,965	5.26
Financing	19,785,025	1.93	16,865,207	1.96
Transportation, storage and postal service	10,579,639	1.03	9,233,210	1.07
Information transmission, computer services and software	9,719,508	0.95	9,521,037	1.10
Electricity, heat, gas and water production and supply	9,561,877	0.93	9,675,724	1.12
Accommodation and catering	8,857,459	0.86	5,624,076	0.65
Mining	6,721,696	0.65	5,286,317	0.61
Scientific research, technology service and geological prospecting	5,632,672	0.55	3,999,603	0.46
Culture, sports and entertainment	5,518,803	0.54	4,174,429	0.49
Agriculture, forestry, animal husbandry and fishery	3,916,698	0.38	5,246,144	0.61
Health, social security and social welfare	1,899,569	0.18	1,602,628	0.19
Household services and other services	1,648,323	0.16	1,632,902	0.19
Education	1,174,766	0.11	1,200,947	0.14
Public administration and social organizations	10,000	0.00	8,000	0.00
Total corporate loans and advances	679,610,018	66.17	603,258,461	69.95
Personal loans and advances	275,676,991	26.85	201,407,629	23.36
Discounted bills	71,631,631	6.98	57,707,010	6.69
Total	1,026,918,640	100.00	862,373,100	100.00

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.7 Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers by security type

	December 31, 2019 Amount	December 31, 2018 Amount
Collateralized loans	461,555,822	350,785,476
Guaranteed loans	193,199,290	208,182,269
Pledged loans	117,831,564	119,429,333
Unsecured loans	182,700,333	126,269,012
Discounted bills	71,631,631	57,707,010
Total	1,026,918,640	862,373,100

(c) Analysis of loans and advances to customers by geographical areas

	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Yangtze River Delta region	571,941,836	55.70	461,768,587	53.55
Midwestern China	198,548,174	19.33	170,822,059	19.81
Bohai Rim region	165,622,592	16.13	152,875,633	17.73
Pearl River Delta region	90,806,038	8.84	76,906,821	8.91
Total	1,026,918,640	100.00	862,373,100	100.00

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.7 Loans and advances to customers *(continued)*

(d) Loans and advances that is impaired

The Group closely monitors the collateral corresponding to the financial assets in which credit impairment has occurred, as the Group is more likely to confiscate these collaterals in order to reduce potential credit losses than other collateral. As of December 31, 2019, the Group's financial assets credit-impaired and the value of collateral held to reduce its potential losses are listed below.

	December 31, 2019			Fair value of holding collateral
	Book value	ECL allowance	Carrying value	
Credit-impaired assets				
Loans and advances to customers				
– Corporate loans and advances	11,905,497	(7,676,790)	4,228,707	7,673,407
– Personal loans and advances	2,485,232	(1,773,624)	711,608	1,015,167
Financial investments				
– Financial assets measured at amortized cost	13,121,055	(8,248,151)	4,872,904	4,829,552
Total	27,511,784	(17,698,565)	9,813,219	13,518,126

	December 31, 2018			Fair value of holding collateral
	Book value	ECL allowance	Carrying value	
Credit-impaired assets				
Loans and advances to customers				
– Corporate loans and advances	9,362,151	(6,772,168)	2,589,983	4,794,854
– Personal loans and advances	1,329,375	(761,879)	567,496	887,392
Financial investments				
– Financial assets measured at amortized cost	4,549,530	(3,580,958)	968,572	1,174,948
Total	15,241,056	(11,115,005)	4,126,051	6,857,194

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.7 Loans and advances to customers *(continued)*

(e) Overdue loans and advances by security type and overdue days

	December 31, 2019				
	up to 90 days	90 days to 1 year	1-3 years	over 3 years	Total
Unsecured	1,944,104	924,825	101,256	1,847	2,972,032
Guaranteed	5,810,662	2,420,845	1,340,664	45,867	9,618,038
Collateralized	1,091,123	2,305,044	1,392,159	72,301	4,860,627
Pledged	541,214	2,259,274	810,640	6,062	3,617,190
Total	9,387,103	7,909,988	3,644,719	126,077	21,067,887

	December 31, 2018				
	up to 90 days	90 days to 1 year	1-3 years	over 3 years	Total
Unsecured	302,374	259,522	371,209	607	933,712
Guaranteed	702,470	1,948,213	1,617,782	47,036	4,315,501
Collateralized	1,076,982	1,440,889	1,351,641	271,272	4,140,784
Pledged	254,113	574,054	418,777	14,192	1,261,136
Total	2,335,939	4,222,678	3,759,409	333,107	10,651,133

(f) Rescheduled loans and advances

Rescheduled loans are those loans that have revised repayment terms of loan contracts because of deterioration in the financial position of the borrower or of the inability to repay. The balance of the Group's rescheduled loans and advances is as follows:

	December 31, 2019	December 31, 2018
Rescheduled loans and advances	467,075	1,604,585
Less: ECL allowance	(227,228)	(1,289,509)
Rescheduled loans and advances, net	239,847	315,076

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44 Financial Risk Management *(continued)*

44.1 Credit risk *(continued)*

44.1.8 Trust plans and asset management plans analyzed by type of underlying assets

	December 31, 2019	December 31, 2018
Bond assets	52,946,862	86,268,971
Credit assets	50,536,957	78,419,738
Bill assets	19,822,129	35,634,856
Interbank assets issued by other banks	4,475,360	5,875,360
Total	127,781,308	206,198,925

44.1.9 Foreclosed assets

As of December 31, 2019, the net book value of foreclosed assets (non-financial instruments) held by the Group was RMB10 million (December 31, 2018: RMB36 million). Provision for impairment was RMB90 million (December 31, 2018: RMB28 million). As of December 31, 2019, the balance of foreclosed assets (financial instruments) held by the Group was RMB1,107 million (December 31, 2018: RMB0).

44.1.10 Concentration risk analysis for financial assets with credit risk exposure

As of December 31, 2019 and 2018, the majority of the Group's credit risk exposures rising from both on-balance sheet and off-balance sheet items is from Mainland China.

44.2 Market risk

44.2.1 Overview

Market risk refers to the risk of loss due to adverse changes in market prices (interest rates, exchange rates, stock prices, and commodity prices). The Group's exposures to market risk refers to the risk of fluctuations in the fair value or future cash flows of financial instruments held by the Group due to fluctuations in market prices.

Under the principle of unified management, the Group has basically formed a comprehensive market risk management framework, built a whole set of organizing system including the board reporting, management monitoring, independent management of risk management department and independent monitoring and reporting of risk monitoring officer from risk management department. The risk management policies and procedures of the Group are formulated based on the nature, size, complexity and risk characteristics of its business, and are consistent with Group's overall business development strategy, management capability and capital strength.

The Group implements limit management on market risks, establishes internal approval procedures and operation procedures for all types and levels of limits, and sets up periodic reviews and updates limits based on business nature, size, complexity and risk tolerance.

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44 Financial Risk Management *(continued)*

44.2 Market risk *(continued)*

44.2.1 Overview *(continued)*

Based on business nature and transaction purpose, the Group defines banking book and trading book comprehensively, and applies separate management, taking into account identification, measurement, monitoring and control of banking book and trading book's market risks.

The Group uses the Market Risk Management System (ALGO system) to conduct risk management for trading book, including valuation, sensitivity analysis, value at risk (VaR) analysis, portfolio managements, and other functions.

44.2.2 Market analysis measurement techniques

The Group adopts appropriate and market-recognized methods to evaluate exposure of market risk for financial instrument on its banking book and trading book respectively based on reasonable assumptions and parameters.

The Group uses sensitivity analysis, scenario analysis, value at risk (VaR) analysis, and other risk measurement methods to evaluate related market risk of trading book, and re-evaluates trading book position once a day. The market risk of banking book is evaluated mainly through sensitivity gap analysis and cash flow analysis. The Group has established a reporting system for the results of market risk measurement and monitoring, and reported the overall market risk to the board of directors and the management on a regular basis.

44.2.3 Interest rate risk

The Group's interest rate risk is mainly due to the possible adverse changes in market-related interest rates that will result in a decrease in net interest income and a decrease in the fair value of financial instruments, resulting in a decrease in the fair value of interest rate risk exposures.

Due to the fluctuation of market interest rates, the Group's interest rate spread may increase, or it may decrease or even cause losses due to unpredictable changes. The Group operates its business in accordance with the deposit and loan interest rate policies stipulated by the People's Bank of China. The People's Bank of China issued the People's Bank of China Announcement [2019] No. 15 on August 16, 2019, and decided to reform and improve the loan prime rate (LPR) formation mechanism, requiring banks to refer to the loan market quotation in newly issued loans Interest rate pricing, and the loan market quoted interest rate is used as the basis for pricing in floating rate loan contracts.

The Group evaluates interest rate risk mainly through sensitivity analysis, that is, it periodically calculates the difference (gap) between interest-generating assets and interest-paying liabilities that mature or require repricing within a certain period of time, and uses the gap data to perform interest rate sensitivity analysis., Assess the impact of interest rate changes on the Group's net interest income and net asset value. The Group mainly adopts methods such as adjusting and controlling the loan repricing period and the duration of bond investment business to actively adjust the interest rate sensitivity gap between assets and liabilities. At the same time, the Group paid close attention to the trend of local and foreign currency interest rates, followed closely the changes in market interest rates, conducted appropriate scenario analysis, adjusted the pricing method of local and foreign currency deposit and loan interest rates in a timely manner, and worked hard to prevent interest rate risks.

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44 Financial Risk Management *(continued)*

44.2 Market risk *(continued)*

44.2.3 Interest rate risk *(continued)*

The table below summarizes the Group's exposure to interest rate risks. It includes the Group's on-balance sheet assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
December 31, 2019						
Assets						
Cash and balances with central bank	130,444,291	-	-	-	584,781	131,029,072
Due from banks and other financial institutions	51,874,069	3,940,485	-	-	44,400	55,858,954
Derivative financial assets	-	-	-	-	13,892,307	13,892,307
Loans and advances to customers	216,707,598	469,747,426	205,972,758	103,557,080	2,947,873	998,932,735
Financial investments						
- Financial assets at fair value through profit or loss	4,692,687	12,084,939	18,865,530	6,240,181	87,382,490	129,265,827
- Financial assets at fair value through other comprehensive income	10,712,305	28,300,972	37,214,028	6,057,276	1,326,519	83,611,100
- Financial assets measured at amortized cost	38,895,945	62,070,858	167,780,767	31,601,330	4,811,525	305,160,425
Other financial assets	22,599,841	2,671,648	284,117	-	5,205,851	30,761,457
Total assets	475,926,736	578,816,328	430,117,200	147,455,867	116,195,746	1,748,511,877
Liabilities						
Due to other banks and financial institutions	(131,614,876)	(134,495,145)	(760,000)	-	-	(266,870,021)
Financial liabilities at fair value through profit or loss	-	-	-	-	(15,143,347)	(15,143,347)
Derivative financial liabilities	-	-	-	-	(14,911,116)	(14,911,116)
Customer deposits	(601,425,896)	(189,175,517)	(340,523,197)	(170,000)	(12,445,993)	(1,143,740,603)
Lease liabilities	(165,252)	(375,808)	(1,845,852)	(720,964)	-	(3,107,876)
Debt securities issued	(53,073,460)	(92,160,042)	(35,587,818)	(25,419,870)	-	(206,241,190)
Other financial liabilities	-	-	-	-	(7,225,231)	(7,225,231)
Total liabilities	(786,279,484)	(416,206,512)	(378,716,867)	(26,310,834)	(49,725,687)	(1,657,239,384)
Total interest sensitivity gap	(310,352,748)	162,609,816	51,400,333	121,145,033	66,470,059	91,272,493

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44 Financial Risk Management *(continued)*

44.2 Market risk *(continued)*

44.2.3 Interest rate risk *(continued)*

	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
December 31, 2018						
Assets						
Cash and balances with central bank	125,795,958	-	-	-	574,274	126,370,232
Due from banks and other financial institutions	31,676,355	23,604,825	-	-	101,994	55,383,174
Derivative financial assets	-	-	-	-	10,123,361	10,123,361
Loans and advances to customers	177,427,041	382,082,914	198,334,139	76,607,410	2,624,386	837,075,890
Financial investments						
- Financial assets at fair value through profit or loss	7,608,445	26,272,086	12,678,350	5,445,695	83,206,200	135,210,776
- Financial assets at fair value through other comprehensive income	9,224,058	55,584,167	21,250,263	4,914,419	912,885	91,885,792
- Financial assets measured at amortized cost	55,016,065	61,003,286	173,038,506	44,823,907	3,954,646	337,836,410
Other financial assets	2,847,547	5,756,584	9,378,607	509,325	4,824,843	23,316,906
Total assets	409,595,469	554,303,862	414,679,865	132,300,756	106,322,589	1,617,202,541
Liabilities						
Due to other banks and financial institutions	(111,409,293)	(168,333,068)	(256,720)	-	-	(279,999,081)
Financial liabilities at fair value through profit or loss	-	-	-	-	(12,483,213)	(12,483,213)
Derivative financial liabilities	-	-	-	-	(10,648,171)	(10,648,171)
Customer deposits	(600,682,840)	(174,832,965)	(187,187,862)	(300,000)	(11,766,736)	(974,770,403)
Debt securities issued	(35,736,617)	(150,260,146)	(50,000,000)	(10,000,000)	-	(245,996,763)
Other financial liabilities	(132,540)	(151,575)	-	-	(9,586,288)	(9,870,403)
Total liabilities	(747,961,290)	(493,577,754)	(237,444,582)	(10,300,000)	(44,484,408)	(1,533,768,034)
Total interest sensitivity gap	(338,365,821)	60,726,108	177,235,283	122,000,756	61,838,181	83,434,507

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44 Financial Risk Management *(continued)*

44.2 Market risk *(continued)*

44.2.3 Interest rate risk *(continued)*

The currency for the Group's majority of interest-earning assets and interest-bearing liabilities is RMB. The potential impact on net profit at each financial reporting date stated below with 100 bps changes along the yield curve is as follows:

	December 31, 2019	December 31, 2018
100 bps up along the yield curve	(1,579,350)	(2,049,734)
100 bps down along the yield curve	1,579,350	2,049,734

For the purpose of the sensitivity analysis, the Group adopts the following assumptions in determining business conditions and financial inputs:

- a. Analysis is based on static gap at each financial reporting date, regardless of subsequent changes;
- b. The fluctuations in interest rates of different interest-earning assets and interest-bearing liabilities are the same;
- c. All assets and liabilities are re-priced in the middle of relevant periods;
- d. No consideration of impact on customers' behavior resulting from interest rate changes;
- e. No consideration of impact on market price resulting from interest rate changes;
- f. No consideration of impact on off-balance sheet business from interest rate changes;
- g. No consideration of actions taken by the Group with regard to interest rate changes.

Therefore, the actual results on net profit due to changes in interest rates may differ from the analysis above.

44.2.4 Foreign exchange risk

The Group's business is mainly operated in China and settled in RMB. However, the Group's assets and liabilities as well as the transactions denominated in foreign currency are exposed to the foreign exchange risk. Foreign exchange risk refers to the risk caused by the changes in foreign exchange rates.

The main principle of the Group's control of exchange rate risk is to match the assets and liabilities in each currency as much as possible, and to control the exchange rate risk within the risk level that the Group can bear. The Group minimizes the currency mismatch of assets and liabilities by reasonably arranging the source and application of foreign currency funds in accordance with relevant regulatory requirements and management's assessment of the current environment. For foreign exchange exposure, the Group has established and strictly enforced trading limits, risk limits and stop-loss limits.

The tables show the Group's total assets and liabilities is carrying amounts in RMB, categorized by the original currency.

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44 Financial Risk Management *(continued)*

44.2 Market risk *(continued)*

44.2.4 Foreign exchange risk *(continued)*

	RMB	US Dollar (RMB equivalent)	HK Dollar (RMB equivalent)	Others (RMB equivalent)	Total
December 31, 2019					
Assets					
Cash and balances with central bank	128,319,025	2,698,786	4,401	6,860	131,029,072
Due from banks and other financial institutions	44,539,014	10,034,749	605,571	679,620	55,858,954
Derivative financial assets	13,450,695	433,381	7,647	584	13,892,307
Loans and Advances to customers	974,449,018	20,095,568	3,625,689	762,460	998,932,735
Financial investments					
– Financial assets at fair value through profit or loss	126,305,284	2,960,543	–	–	129,265,827
– Financial assets at fair value through other comprehensive income	70,918,044	9,668,828	3,024,228	–	83,611,100
– Financial assets measured at amortized cost	305,160,425	–	–	–	305,160,425
Other financial assets	30,172,657	484,758	104,042	–	30,761,457
Total assets	1,693,314,162	46,376,613	7,371,578	1,449,524	1,748,511,877
Liabilities					
Due to banks and other financial institutions	(242,514,247)	(24,158,553)	(179,012)	(18,209)	(266,870,021)
Financial liabilities at fair value through profit or loss	(15,143,347)	–	–	–	(15,143,347)
Derivative financial liabilities	(14,534,584)	(362,782)	(11,592)	(2,158)	(14,911,116)
Customer deposits	(1,117,189,541)	(23,772,277)	(1,702,560)	(1,076,225)	(1,143,740,603)
Lease liabilities	(3,005,864)	–	(102,012)	–	(3,107,876)
Debt securities issued	(205,893,238)	(347,952)	–	–	(206,241,190)
Other financial liabilities	(4,108,709)	(479,472)	(1,991,791)	(645,259)	(7,225,231)
Total liabilities	(1,602,389,530)	(49,121,036)	(3,986,967)	(1,741,851)	(1,657,239,384)
Net position	90,924,632	(2,744,423)	3,384,611	(292,327)	91,272,493
Financial guarantees and loan commitments	490,511,811	29,392,376	4,292,971	1,917,580	526,114,738

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44 Financial Risk Management *(continued)*

44.2 Market risk *(continued)*

44.2.4 Foreign exchange risk *(continued)*

	RMB	US Dollar (RMB equivalent)	HK Dollar (RMB equivalent)	Others (RMB equivalent)	Total
December 31, 2018					
Assets					
Cash and balances with central bank	123,881,016	2,469,096	14,212	5,908	126,370,232
Due from banks and other financial institutions	46,154,933	6,315,075	1,989,440	923,726	55,383,174
Derivative financial assets	10,123,361	–	–	–	10,123,361
Loans and Advances to customers	806,106,451	24,101,678	2,816,404	4,051,357	837,075,890
Financial investments					
– Financial assets at fair value through profit or loss	129,801,125	4,713,291	19	696,341	135,210,776
– Financial assets at fair value through other comprehensive income	82,913,593	6,869,046	2,103,153	–	91,885,792
– Financial assets measured at amortized cost	337,836,410	–	–	–	337,836,410
Other financial assets	22,531,699	784,087	1,120	–	23,316,906
Total assets	1,559,348,588	45,252,273	6,924,348	5,677,332	1,617,202,541
Liabilities					
Due to banks and other financial institutions	(260,024,111)	(19,738,421)	(228,028)	(8,521)	(279,999,081)
Financial liabilities at fair value through profit or loss	(12,483,213)	–	–	–	(12,483,213)
Derivative financial liabilities	(9,833,462)	(797,942)	(3,059)	(13,708)	(10,648,171)
Customer deposits	(943,267,418)	(27,094,178)	(368,100)	(4,040,707)	(974,770,403)
Debt securities issued	(245,928,108)	(68,655)	–	–	(245,996,763)
Other financial liabilities	(9,034,671)	(832,364)	(3,368)	–	(9,870,403)
Total liabilities	(1,480,570,983)	(48,531,560)	(602,555)	(4,062,936)	(1,533,768,034)
Net position	78,777,605	(3,279,287)	6,321,793	1,614,396	83,434,507
Financial guarantees and loan commitments					
	421,381,612	29,537,912	1,975,193	4,197,589	457,092,306

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44 Financial Risk Management *(continued)*

44.2 Market risk *(continued)*

44.2.4 Foreign exchange risk *(continued)*

As of December 31, 2019, for the Group's various USD and HKD financial assets and liabilities, other factors remain the same, the potential impact on net profit resulting from foreign currency translation gains/(losses) with 1% fluctuation of USD and HKD against RMB as follows:

	December 31, 2019	December 31, 2018
1% of appreciation of USD against RMB	3,290	2,627
1% of depreciation of USD against RMB	(3,290)	(2,627)
1% of appreciation of HKD against RMB	(4,625)	6,419
1% of depreciation of HKD against RMB	4,625	(6,419)

For the purpose of the sensitivity analysis, the Group has considered both spot foreign exchange exposure and forward foreign exchange exposure, and adopts the following assumptions in determining business conditions and financial inputs:

- a. Analysis is based on static gap at each financial reporting date, regardless of subsequent changes;
- b. No consideration of impact on customers' behavior resulting from exchange rate changes;
- c. No consideration of impact on market price resulting from exchange rate changes;
- d. No consideration of actions taken by the Group with regard to exchange rate changes.

Therefore, the actual results on net profit due to changes in exchange rates may differ from analysis above.

44.3 Liquidity risk

44.3.1 Overview

Liquidity risk refers to the risk that the Group cannot obtain timely or sufficient funds at a reasonable cost to repay due debts or other payment obligations, and to meet asset growth or other business development needs. The Group's liquidity risk is mainly due to mismatch in the maturity structure of assets and liabilities, and concentrated withdrawal of customers.

The match between maturity dates of assets and liabilities as well as a bank's ability to replace due liabilities with acceptable costs are all key factors when evaluating its exposure to liquidity risk.

The Group's assets and liabilities management department manages its liquidity risk through:

- Optimizing asset and liability structure;
- Making projections of future cash flows, and evaluating the appropriate current asset position;
- Maintaining reasonable level of liquidity reserve;
- Performing stress testing on a regular basis.

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44 Financial Risk Management *(continued)*

44.3 Liquidity risk *(continued)*

44.3.2 Analysis of the undiscounted contractual cash flows *(continued)*

	Overdue	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
December 31, 2018								
Non-derivative financial assets								
Cash and balances with central bank	-	104,909,168	21,517,104	80	-	-	-	126,426,352
Due from banks and other financial institutions	-	101,994	15,651,209	16,120,317	24,533,543	-	-	56,407,063
Loans and advances to customers	8,684,976	-	609,865	177,183,358	397,432,804	217,253,154	99,730,254	900,894,411
Financial investments								
- Financial assets at fair value through profit or loss	-	83,206,200	-	7,615,153	26,627,166	14,424,012	7,992,922	139,865,453
- Financial assets at fair value through other comprehensive income	-	912,885	-	9,228,979	55,758,063	23,089,433	7,471,722	96,461,082
- Financial assets measured at amortized cost	1,091,608	3,954,646	-	57,944,436	67,113,482	194,460,299	58,173,878	382,738,349
Other financial assets	305,791	6,168,609	-	3,216,563	6,362,039	10,452,449	586,521	27,091,972
Total non-derivative financial assets	10,082,375	199,253,502	37,778,178	271,308,886	577,827,097	459,679,347	173,955,297	1,729,884,682
	Overdue	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
December 31, 2018								
Non-derivative financial liabilities								
Due to other banks and financial institution	-	-	(22,135,166)	(91,042,814)	(173,392,022)	(256,347)	-	(286,826,349)
Financial liabilities at fair value through profit or loss	-	(2,522,202)	-	(1,715,212)	(8,245,799)	-	-	(12,483,213)
Customer deposits	-	-	(501,150,922)	(108,855,776)	(177,921,926)	(190,955,593)	(373,264)	(979,257,481)
Debt securities issued	-	-	-	(37,599,961)	(156,624,762)	(55,141,653)	(14,110,000)	(263,476,376)
Other financial liabilities	-	(9,586,288)	-	(605,000)	(1,048,523)	(865,449)	(189,678)	(12,294,938)
Total non-derivative financial liabilities	-	(12,108,490)	(523,286,088)	(239,818,763)	(517,233,032)	(247,219,042)	(14,672,942)	(1,554,338,357)
Net liquidity	10,082,375	187,145,012	(485,507,910)	31,490,123	60,594,065	212,460,305	159,282,355	175,546,325

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44 Financial Risk Management *(continued)*

44.3 Liquidity risk *(continued)*

44.3.3 Derivative financial instruments cash flow

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis include interest rate swaps.

The table below analyzes the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet as of December 31, 2019, to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
December 31, 2019						
Interest rate swaps						
– outflow	(2,579)	(9,576)	(109,372)	(3,414,731)	(3,689)	(3,539,947)
– inflow	2,055	9,081	116,573	3,328,802	4,279	3,460,790
Total	(524)	(495)	7,201	(85,929)	590	(79,157)
	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
December 31, 2018						
Interest rate swaps						
– outflow	(119,074)	(593,892)	(577,257)	(4,998,471)	(5,102)	(6,293,796)
– inflow	728,290	580,441	472,892	4,136,754	4,294	5,922,671
Total	609,216	(13,451)	(104,365)	(861,717)	(808)	(371,125)

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44 Financial Risk Management *(continued)*

44.3 Liquidity risk *(continued)*

44.3.3 Derivative financial instruments cash flow *(continued)*

(b) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include foreign exchange forwards, foreign exchange swaps and currency swaps.

The table below analyzes the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet as of December 31, 2019, to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Total
December 31, 2019					
Foreign exchange derivatives					
– outflow	(99,950,666)	(255,050,899)	(394,954,844)	(8,551,703)	(758,508,112)
– inflow	68,844,897	179,044,686	342,645,834	3,571,441	594,106,858
Total	(31,105,769)	(76,006,213)	(52,309,010)	(4,980,262)	(164,401,254)
	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Total
December 31, 2018					
Foreign exchange derivatives					
– outflow	(196,948,803)	(265,471,026)	(763,560,638)	(38,766,056)	(1,264,746,523)
– inflow	191,086,839	185,158,710	649,216,360	31,755,887	1,057,217,796
Total	(5,861,964)	(80,312,316)	(114,344,278)	(7,010,169)	(207,528,727)

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44 Financial Risk Management *(continued)*

44.3 Liquidity risk *(continued)*

44.3.4 Maturity analysis

The tables below summarize the maturity analysis of assets and liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting year.

	Over due	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
December 31, 2019								
Assets								
Cash and balances with central bank	-	108,241,652	22,787,339	81	-	-	-	131,029,072
Precious metal	-	21,251,360	-	-	-	-	-	21,251,360
Due from banks and other financial institutions	-	44,400	12,572,206	39,301,863	3,940,485	-	-	55,858,954
Derivative financial assets	-	-	-	5,438,064	5,066,269	3,383,695	4,279	13,892,307
Loans and advances to customers	11,058,597	-	5,490	200,837,128	474,306,808	208,138,143	104,586,569	998,932,735
Financial investments								
- Financial assets at fair value through profit or loss	-	87,382,490	-	4,692,687	12,084,939	18,865,530	6,240,181	129,265,827
- Financial assets at fair value through other comprehensive income	-	1,326,519	-	10,712,305	28,300,972	37,214,028	6,057,276	83,611,100
- Financial assets measured at amortized cost	18,508,078	4,811,525	-	20,387,867	62,070,858	167,780,767	31,601,330	305,160,425
Other assets, including deferred income tax assets	272,910	34,782,391	-	2,730,010	6,649,502	15,985,460	1,363,814	61,784,087
Total assets	29,839,585	257,840,337	35,365,035	284,100,005	592,419,833	451,367,623	149,853,449	1,800,785,867
Liabilities								
Due to other banks and financial institutions	-	-	(27,730,635)	(103,884,241)	(134,495,145)	(760,000)	-	(266,870,021)
Financial liabilities at fair value through profit or loss	-	(5,735,589)	-	(2,651,551)	(6,756,207)	-	-	(15,143,347)
Derivative financial liabilities	-	-	-	(5,976,318)	(5,351,161)	(3,579,948)	(3,689)	(14,911,116)
Customer deposits	-	-	(496,816,144)	(107,156,875)	(192,709,645)	(346,884,763)	(173,176)	(1,143,740,603)
Lease liabilities	-	-	-	(165,252)	(375,808)	(1,845,852)	(720,964)	(3,107,876)
Debt securities issued	-	-	-	(53,073,460)	(92,160,042)	(35,587,818)	(25,419,870)	(206,241,190)
Other liabilities, including deferred income tax liability	-	(11,019,955)	-	(9,777,690)	(266,814)	(1,396,042)	(283,544)	(22,744,045)
Total liabilities	-	(16,755,544)	(524,546,779)	(282,685,387)	(432,114,822)	(390,054,423)	(26,601,243)	(1,672,758,198)
Net liquidity gap	29,839,585	241,084,793	(489,181,744)	1,414,618	160,305,011	61,313,200	123,252,206	128,027,669

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44 Financial Risk Management *(continued)*

44.3 Liquidity risk *(continued)*

44.3.4 Maturity analysis *(continued)*

	Over due	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
December 31, 2018								
Assets								
Cash and balances with central bank	-	104,857,667	21,512,485	80	-	-	-	126,370,232
Precious metal	-	8,103,317	-	-	-	-	-	8,103,317
Due from banks and other financial institutions	-	101,995	15,651,210	16,025,144	23,604,825	-	-	55,383,174
Derivative financial assets	-	-	-	3,528,796	2,281,226	4,309,045	4,294	10,123,361
Loans and advances to customers	8,616,987	-	609,865	169,483,402	382,862,900	198,738,961	76,763,775	837,075,890
Financial investments								
- Financial assets at fair value through profit or loss	-	83,206,200	-	7,608,445	26,272,086	12,678,350	5,445,695	135,210,776
- Financial assets at fair value through other comprehensive income	-	912,885	-	9,224,058	55,584,167	21,250,263	4,914,419	91,885,792
- Financial assets measured at amortized cost	952,564	3,954,646	-	54,599,721	60,467,066	173,038,506	44,823,907	337,836,410
Other assets, including deferred income tax assets	291,762	24,836,946	-	2,979,542	5,840,294	10,247,923	509,325	44,705,792
Total assets	9,861,313	225,973,656	37,773,560	263,449,188	556,912,564	420,263,048	132,461,415	1,646,694,744
Liabilities								
Due to other banks and financial institutions	-	-	(22,135,166)	(89,274,127)	(168,333,068)	(256,720)	-	(279,999,081)
Financial liabilities at fair value through profit or loss	-	(2,522,202)	-	(1,715,212)	(8,245,799)	-	-	(12,483,213)
Derivative financial liabilities	-	-	-	(2,382,663)	(2,907,757)	(5,352,649)	(5,102)	(10,648,171)
Customer deposits	-	-	(500,440,069)	(108,117,908)	(176,711,207)	(189,197,997)	(303,222)	(974,770,403)
Debt securities issued	-	-	-	(35,736,617)	(150,260,146)	(50,000,000)	(10,000,000)	(245,996,763)
Other liabilities, including deferred income tax liability	-	(11,044,643)	-	(7,200,282)	(1,048,524)	(865,449)	(189,678)	(20,348,576)
Total liabilities	-	(13,566,845)	(522,575,235)	(244,426,809)	(507,506,501)	(245,672,815)	(10,498,002)	(1,544,246,207)
Net liquidity gap	9,861,313	212,406,811	(484,801,675)	19,022,379	49,406,063	174,590,233	121,963,413	102,448,537

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44 Financial Risk Management *(continued)*

44.3 Liquidity risk *(continued)*

44.3.5 Off-balance sheet items

December 31, 2019	Within 1 year	1-5 years	Over 5 years	Total
Acceptances	283,046,635	–	–	283,046,635
Letters of credit	106,722,360	138,124	–	106,860,484
Letters of guarantee issued	20,329,735	4,331,390	57,385	24,718,510
Block chain confirmation	94,991,020	1,117,067	–	96,108,087
Loan commitments	802,766	156	–	802,922
Unused credit limit	14,578,100	–	–	14,578,100
Total	520,470,616	5,586,737	57,385	526,114,738

December 31, 2018	Within 1 year	1-5 years	Over 5 years	Total
Acceptances	235,898,843	–	–	235,898,843
Letters of credit	108,781,839	61,820	–	108,843,659
Letters of guarantee issued	22,321,326	5,936,344	77,479	28,335,149
Block chain confirmation	65,675,367	–	–	65,675,367
Loan commitments	553,600	137,332	–	690,932
Unused credit limit	17,648,356	–	–	17,648,356
Total	450,879,331	6,135,496	77,479	457,092,306

44.4 Fair values of financial assets and liabilities

(a) Fair value hierarchy

IFRS 13 specifies a hierarchy of fair value measurement based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).
- Level 2: Using observable inputs other than quoted prices for assets or liabilities within Level 1, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes over-the-counter derivatives and debt instruments traded in interbank market. The input parameters like bond yield curve or counterparty credit risk are based on data from China Bond and Bloomberg.
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

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44 Financial Risk Management *(continued)*

44.4 Fair values of financial assets and liabilities *(continued)*

(b) Financial instruments not measured at fair value

Financial assets and liabilities in the statement of financial position which are not measured at fair value mainly include: balances with the central bank, due from banks and other financial institutions, loans and advances to customers measured at amortized cost, financial assets measured at amortized cost, due to banks and other financial institutions, customer deposits and debt securities issued.

The table below summarizes the carrying amounts and fair values of those financial assets and financial liabilities that are not measured at fair value, including financial assets measured at amortized cost and debt securities issued. For the other financial instruments not measured at fair value in the statement of financial position, their fair value approximates carrying amount.

	Carrying value	December 31, 2019			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– Financial assets measured at amortized cost	305,160,425	–	193,681,000	121,909,166	315,590,166
Financial liabilities					
Debt securities issued	206,241,190	–	204,920,960	–	204,920,960
	Carrying value	December 31, 2018			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– Financial assets measured at amortized cost	337,836,410	–	179,765,614	170,964,614	350,730,228
Financial liabilities					
Debt securities issued	245,996,763	–	242,477,490	–	242,477,490

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For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

44 Financial Risk Management *(continued)*

44.4 Fair values of financial assets and liabilities *(continued)*

(b) Financial instruments not measured at fair value *(continued)*

(i) Financial assets measured at amortized cost

Financial assets measured at amortized cost whose fair value is based on quoted market prices are included in level 1. If the quoted market prices are determined by reference to instruments with similar credit risk, maturity and yield characteristics where applicable, the fair value measurement will be included in level 2. When such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows model based on observable yield, the fair value measurement will be included in level 3.

(ii) Debt securities issued

If the fair value of debt securities issued is based on quoted market prices, it will be included in level 1. When the fair value of debt securities issued is determined by valuation techniques and all significant inputs required to calculate fair value are observable, it is included in level 2.

(c) Financial instruments measured at fair value

December 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities investment	–	40,162,600	–	40,162,600
– Fund investments	–	86,142,785	–	86,142,785
– Trust plans and asset management plans	–	1,720,737	–	1,720,737
– Wealth management products issued by other banks	–	–	–	–
– Other equity investment	–	–	1,239,497	1,239,497
Derivative financial assets	–	13,892,307	–	13,892,307
Loans and advances to customers	–	95,238,407	–	95,238,407
Financial assets at fair value through other comprehensive income				
– Debt securities investment	–	52,745,358	–	52,745,358
– Equity investment	–	–	689,500	689,500
– Other debt instrument	–	29,539,223	–	29,539,223
Total	–	319,441,417	1,928,997	321,370,414
Financial liabilities at fair value through profit or loss	–	(15,143,347)	–	(15,143,347)
Derivative financial liabilities	–	(14,911,116)	–	(14,911,116)
Total	–	(30,054,463)	–	(30,054,463)

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

44 Financial Risk Management *(continued)*

44.4 Fair values of financial assets and liabilities *(continued)*

(c) Financial instruments measured at fair value *(continued)*

December 31, 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
through profit or loss				
– Debt securities investment	–	47,915,143	–	47,915,143
– Fund investments	–	82,342,692	–	82,342,692
– Trust plans and asset management plans	–	2,078,695	–	2,078,695
– Wealth management products issued by other banks	–	2,010,739	–	2,010,739
– Other equity investment	–	–	261,994	261,994
Derivative financial assets	–	10,123,361	–	10,123,361
Loans and advances to customers	–	63,358,593	–	63,358,593
Financial assets at fair value through other comprehensive income				
– Debt securities investment	–	46,764,971	–	46,764,971
– Equity investment	–	–	275,000	275,000
– Other debt instrument	–	44,207,936	–	44,207,936
Total	–	298,802,130	536,994	299,339,124
Financial liabilities at fair value				
through profit or loss	–	(12,483,213)	–	(12,483,213)
Derivative financial liabilities	–	(10,648,171)	–	(10,648,171)
Total	–	(23,131,384)	–	(23,131,384)

The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available. The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are basically observable and obtainable from open market.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

44 Financial Risk Management *(continued)*

44.5 Capital management

The core of the Group's Capital Management is capital adequacy ratio and return on capital. The objective of capital management is to meet external regulatory requirements and shareholders' return, protect the interests of creditors to the best effort, stimulate expansion of assets and improve risk management.

The Group prudently determines the objectives of capital adequacy ratio which meets the regulatory requirements and coincides with its own risk exposure. By taking a variety of actions such as limit management, the Group ensures the realization of the management objectives. In addition, the Group proactively adjusts its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes modification of dividend distribution plan, raising new capital and issuance of new bonds.

The Group monitors the capital adequacy rate regularly based on regulations issued by the CBIRC. The Group reports the required capital information to the CBIRC on a quarterly basis.

Core tier-one capital includes paid-in capital, capital reserve, surplus reserve, general risk preparation, undistributed retained earnings, and non-controlling shareholders' capital that could be included in core tier-one capital. Other tier-one capital includes other tier-one capital instruments and their premiums, and non-controlling shareholders' capital that could be included in other tier-one capital. Tier-two capital includes tier-two capital instruments and their premiums, the allowable portion of excessive allowance for loan losses, and non-controlling shareholders' capital that could be included in tier-two capital. The primary regulatory deduction item in the calculation of the capital adequacy ratio is other intangible assets (excluding land use rights).

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

44 Financial Risk Management *(continued)*

44.5 Capital management *(continued)*

Effective from January 1, 2013, the Group started to implement the CBIRC's regulation of "Administrative Measures for the Capital of Commercial Banks (Trial Implementation)" which was issued on June 7, 2012. The capital adequacy ratio as of December 31, 2019 under the "Trial Implementation" is as follows:

	December 31, 2019	December 31, 2018
Total capital	166,020,426	139,250,771
Including: Core tier-one capital	112,506,386	87,264,309
Ot	15,097,839	15,063,441
Tier-two capital	38,416,201	36,923,021
Deduction: other intangible assets	(267,432)	(220,671)
Total capital, net of deductions	165,752,994	139,030,100
Total core tier-one capital, net of deductions	112,238,954	87,043,638
Total tier-one capital, net of deductions	127,336,793	102,107,079
Total risk-weighted assets	1,164,197,215	1,038,882,918
Core tier-one capital adequacy ratio	9.64%	8.38%
Tier-one capital adequacy ratio	10.94%	9.83%
Capital adequacy ratio	14.24%	13.38%

45 Fiduciary Activities

The Group provides custody and trustee services to third parties, and grants entrusted loans on behalf of third-party lenders. They are as follows:

	December 31, 2019	December 31, 2018
Entrusted loans	27,665,739	48,012,517
Entrusted investments	300,000	300,000

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

46 Subsequent Events

(a) Important non-adjustment matters

The Coronavirus Disease 2019 (the “COVID-19”, hereinafter referred to as “the epidemic”) broke out nationwide in early 2020. With the concerted efforts of the whole country, the situation of the national epidemic prevention and control continued to improve, the social production and living order accelerated recovery, and the efficiency of resumption of work and production increased. However, the epidemic has spread across the globe, with a major impact on the global economy. Affected by various factors at home and abroad, the downward pressure on China’s economy continues to increase, and industries such as accommodation and catering, logistics and transportation, and culture and tourism have been affected, which may impact on the asset quality or the asset yield of the Group’s credit assets and investment assets to a certain extent. The Group pays close attention to the development of the epidemic, reevaluates the forward-looking parameters and assumptions in the expected credit losses model, and the impact on the financial position and operating results will be reflected in the Group’s financial statements in 2020 in a timely manner.

(b) Description of profit distribution

On March 27, 2020, the Board of Directors of the Bank reviewed and approved the 2019 dividend distribution plan. This profit distribution was distributed to the A-share shareholders and H-share shareholders registered on the equity registration date, and a cash dividend of RMB2.40 per 10 shares (Including taxes), cash dividends totaling RMB5.10 billion. This plan is yet to be considered and approved by the Bank’s general meeting.

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

47 Statement of Financial Position of the Bank

	December 31, 2019	December 31, 2018
ASSETS		
Cash and balances with central bank	131,028,991	126,370,152
Precious metal	21,251,360	8,103,317
Due from banks and other financial institutions	55,380,212	55,056,694
Derivative financial assets	13,892,307	10,123,361
Loans and advances to customers	998,932,735	837,075,890
Financial investments		
– Financial assets at fair value through profit or loss	128,474,414	134,610,776
– Financial assets at fair value through other comprehensive income	83,894,100	92,311,192
– Financial assets measured at amortized cost	305,160,425	337,836,410
Investment in subsidiaries	1,530,000	1,530,000
Property, plant and equipment	11,679,556	9,770,511
Right-of-use assets	3,255,475	N/A
Deferred income tax assets	11,545,246	8,149,681
Other assets	8,289,260	7,300,132
Total assets	1,774,314,081	1,628,238,116
LIABILITIES		
Due to banks and other financial institutions	245,900,675	266,011,707
Financial liabilities at fair value through profit or loss	15,143,347	12,483,213
Derivative financial liabilities	14,911,116	10,648,171
Customer deposits	1,143,740,603	974,915,960
Income tax payable	3,939,109	1,759,158
Provisions	5,543,931	3,118,177
Lease liabilities	3,107,711	N/A
Debt securities issued	206,241,190	245,996,763
Other liabilities	9,866,847	12,516,306
Total liabilities	1,648,394,529	1,527,449,455

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

47 Statement of Financial Position of the Bank *(continued)*

	December 31, 2019	December 31, 2018
EQUITY		
Share capital	21,268,697	18,718,697
Other equity Instruments	14,957,664	14,957,664
Capital reserve	32,018,296	22,130,353
Surplus reserve	7,294,213	6,024,739
Statutory general reserve	19,454,244	18,461,991
Investment revaluation reserve	2,267,967	1,389,355
Retained earnings	28,658,471	19,105,862
Total equity	125,919,552	100,788,661
Total liabilities and equity	1,774,314,081	1,628,238,116

The financial statements were approved by the Board of Directors on March 27, 2020 and were signed on its behalf by:

Shen Renkang

Legal Representative,
Chairman of Board

Xu Renyan

Executive Director,
President

Notes to Consolidated Financial Statements

For the year ended December 31, 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

48 Statement of Financial Position of the Bank

	Share capital	Other equity instrument	Capital reserve	Surplus reserve	Statutory general reserve	Investment revaluation reserve	Retained earnings	Total
Balance at December 31, 2018	18,718,697	14,957,664	22,130,353	6,024,739	18,461,991	1,389,355	19,105,862	100,788,661
Net profit for the year	-	-	-	-	-	-	12,694,742	12,694,742
Other comprehensive income for the year	-	-	-	-	-	878,612	-	878,612
Total comprehensive income	-	-	-	-	-	878,612	12,694,742	13,573,354
Contribution of shareholders	2,550,000	-	9,887,943	-	-	-	-	12,437,943
Appropriation to statutory surplus reserve	-	-	-	1,269,474	-	-	(1,269,474)	-
Appropriation to statutory general reserve	-	-	-	-	992,253	-	(992,253)	-
Cash dividend	-	-	-	-	-	-	(880,406)	(880,406)
Balance at December 31, 2019	21,268,697	14,957,664	32,018,296	7,294,213	19,454,244	2,267,967	28,658,471	125,919,552
	Share capital	Other equity instrument	Capital reserve	Surplus reserve	Statutory general reserve	Investment revaluation reserve	Retained earnings	Total
Balance at December 31, 2017	17,959,697	14,957,664	19,974,808	4,882,975	17,243,730	(1,553,817)	14,705,517	88,170,574
Impact on Accounting policy changes	-	-	-	-	-	1,256,465	(1,475,093)	(218,628)
Balance at January 1, 2018	17,959,697	14,957,664	19,974,808	4,882,975	17,243,730	(297,352)	13,230,424	87,951,946
Net profit for the year	-	-	-	-	-	-	11,417,641	11,417,641
Other comprehensive income for the year	-	-	-	-	-	1,686,707	-	1,686,707
Total comprehensive income	-	-	-	-	-	1,686,707	11,417,641	13,104,348
Contribution of shareholders	759,000	-	2,155,545	-	-	-	-	2,914,545
Appropriation to statutory surplus reserve	-	-	-	1,141,764	-	-	(1,141,764)	-
Appropriation to statutory general reserve	-	-	-	-	1,218,261	-	(1,218,261)	-
Cash dividend	-	-	-	-	-	-	(3,182,178)	(3,182,178)
Balance at December 31, 2018	18,718,697	14,957,664	22,130,353	6,024,739	18,461,991	1,389,355	19,105,862	100,788,661

Unaudited Supplementary Financial Information

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

1 Liquidity ratios

	December 31, 2019	December 31, 2018
(Expressed in percentage)		
RMB current assets to RMB current liabilities	54.56	53.09
Foreign currency current assets to foreign currency current liabilities	110.58	49.06

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and CBIRC.

2 International claims

The Group is principally engaged in business operations within Mainland China, international claims are the sum of cross-border claims in local claims in foreign currencies and all currencies.

International claims include balances with central banks, due from banks and other financial institutions, financial assets at fair value through profit or loss, loans and advances to customers, financial assets at fair value through other comprehensive income, financial assets measured at amortized cost.

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

December 31, 2019	Bank	Official sector	Non-bank private sector	Total
Local claims in foreign currencies	12,261,460	-	19,208,049	31,469,509
Asia Pacific excluding Mainland China	5,496,276	-	11,249,836	16,746,112
—of which attributed to Hong Kong	5,482,781	-	11,249,836	16,732,617
Europe	1,088,354	-	2,663,691	3,752,045
North America	1,836,931	-	139,072	1,976,003
Oceania	734,345	-	-	734,345
Total	21,417,366	-	33,260,648	54,678,014

Unaudited Supplementary Financial Information

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

2 International claims *(continued)*

December 31, 2018	Bank	Official sector	Non-bank private sector	Total
Local claims in foreign currencies	9,495,496	170,311	35,957,503	45,623,310
Asia Pacific excluding Mainland China	7,658,510	175,398	1,904,681	9,738,589
—of which attributed to Hong Kong	6,453,772	175,398	1,698,927	8,328,097
Europe	249,479	—	—	249,479
North America	2,409,457	—	—	2,409,457
Oceania	71,908	—	—	71,908
Total	19,884,850	345,709	37,862,184	58,092,743

3 Currency concentrations

	Equivalent in RMB			Total
	US Dollars	HK Dollars	Others	
As at December 31, 2019				
Spot assets	46,376,613	7,371,578	1,449,524	55,197,715
Spot liabilities	(49,121,036)	(3,986,967)	(1,741,851)	(54,849,854)
Forward purchases	599,612,482	—	14,975,701	614,588,183
Forward sales	(572,199,899)	—	(17,120,045)	(589,319,944)
Net options position	1,112,897	—	(1,472,777)	(359,880)
Net long/(short) position	25,781,057	3,384,611	(3,909,448)	25,256,220
	Equivalent in RMB			Total
	US Dollars	HK Dollars	Others	
As at December 31, 2018				
Spot assets	45,252,273	6,924,348	5,677,332	57,853,953
Spot liabilities	(48,531,560)	(602,555)	(4,062,936)	(53,197,051)
Forward purchases	453,968,379	34,317	23,340,723	477,343,419
Forward sales	(484,930,588)	—	(27,775,284)	(512,705,872)
Net options position	2,708,010	—	1,237,886	3,945,896
Net long/(short) position	(31,533,486)	6,356,110	(1,582,279)	(26,759,655)

Unaudited Supplementary Financial Information

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

4 Overdue and rescheduled assets

(1) Gross amount of overdue loans and advances to customers

	December 31, 2019		December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 3 months	9,387,103	44.56	2,335,939	21.93
Between 3 and 6 months	4,526,030	21.48	1,447,054	13.59
Between 6 and 12 months	3,383,958	16.06	2,775,624	26.06
Over 12 months	3,770,796	17.90	4,092,516	38.42
Total	21,067,887	100.00	10,651,133	100.00

(2) Overdue and rescheduled loans and advances to customers

	December 31, 2019	December 31, 2018
Total rescheduled loans and advances to customers	467,075	1,604,585
Including: rescheduled loans and advances to customers overdue for not more than 3 months	-	52,244
Percentage of rescheduled loans and advances to customers overdue for not more than 3 months in total loans	-	0.01%

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